

**Western Cape Government
Provincial Treasury**

**Provincial Economic Review and
Outlook
2022/23**

Speech

**Minister of Finance and Economic Opportunities
Ms M Wenger**

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**Speech by Mireille Wenger,
Minister of Finance and Economic Opportunities,
Provincial Economic Review and Outlook
Our Pathway from Recovery to Growth**

20 September 2022

10:00

Honourable Speaker and Deputy Speaker

Honourable Premier and Cabinet Ministers

Honourable Leader of the Opposition

Honourable Members

People of the Western Cape

1. Strategic importance of the PERO

It is my privilege to table the Provincial Economic Review and Outlook in the Western Cape Provincial Parliament today.

I am impressed, as I am sure you will be, at the richness and depth of this review, which again sets out key data and insights on the impact of international and national developments on the provincial economy, as well as a detailed analysis on trends in the Western Cape, including within our key priorities of jobs, safety, and wellbeing.

Importantly, it also sets out opportunities for our province to take note of as we look to move forward - from recovery to growth.

In doing so, it gives effect, in the clearest way, to what we mean when we say that we are a data-driven, evidence-led government.

Because we know that the many tough decisions that face us in the months ahead can only be made if we fully understand what is happening in communities across our province.

That is precisely why we kick-off our budget process with this important analysis, so that its data can inform us as we deliberate on the policy interventions that will be needed to make a difference in the lives of our people.

2. Cape Confidence

Speaker,

This document also makes clear some of the challenges that face South Africa and, by extension, the Western Cape.

This week, those challenges are as stark as ever before – as we face an unprecedented energy crisis brought on by years of mismanagement and corruption at a national level.

We will not shy away from facing these challenges head-on, because only by doing so - with determination - can we really effect the change our people need and deserve.

And so, in this way, this document is a unique source of confidence and hope – a sober hope, if you will.

Because delivering hope does not require the absence of adversity, but in my view, the willingness and courage to respond to it and prevail.

That is what we continue to do here in the Western Cape.

From the drought to the COVID-19 pandemic, and now with load-shedding, we demonstrate that we are a place of resilience. A place that doesn't back off and never gives up.

We will continue to be that place in the years ahead.

I am reminded at this moment of the words of our beloved, late Archbishop Emeritus, Desmond Tutu, who said: “hope is being able to see that there is light despite all the darkness”.

Today, I will share with you why, even in the challenging times we face in South Africa and the world, there is a clear pathway before us – from recovery to growth.

A pathway that creates hope and confidence.

It is for us to now make the bold changes that we need to keep us on this road, together.

3. Growth

Speaker,

As we follow this path, from recovery to growth, we must take stock of the current state of our economy, in relation to South Africa and the rest of the world.

3.1 International Growth

The reality is what happens on one side of the globe can and does have implications for us here in the Western Cape.

Globally we are seeing high and rising inflation, increasing interest rates, the growing risk of stagflation, potential financial systemic risk for countries with a large exposure to US dollar denominated debt, and a possible global recession.

Just as we were recovering from the severe impact of two years of the COVID-19 pandemic, Russia's illegal invasion of Ukraine has exacerbated a rising cost of living, which we have felt here at home.

These soaring costs for fuel and food have hurt the poor the most, putting great strain on millions of households across the country.

It has also meant greater pressure on the fiscus, especially on the budgets of our frontline services.

Overall, it is projected that the Russian War will set back global economic recovery by 0.4 per cent this year and 0.7 per cent in 2023.

3.2 National Growth

In South Africa, as of the second quarter of this year, our national economy was 0.5 per cent smaller than it was in the first quarter of 2020, pushing back the recovery that had been recorded in the first quarter.

Over the past decade the national economy has only expanded by an average growth rate of 1.0 per cent, despite clear opportunities.

We also know that the ongoing impact of rolling blackouts is compromising economic growth and has led to an estimated 1 million fewer jobs. As of 2021, we produced 6.9 per cent less electricity than we did at the end of 2011, limiting our country's great potential.

As a result, we expect sluggish growth in South Africa to continue, with growth rates of 1.7 per cent in 2022 and 0.3 per cent in 2023.

It will require the rapid implementation of bold and urgent reforms to change this trajectory, so that we can grow our economy, create jobs, and lift millions of people out of poverty.

3.3 Provincial Growth

Speaker,

The Western Cape's economy is highly integrated with the South African economy, and national economic policies impact it.

The result is that our growth rate has largely mirrored that of the national economy, although historically performing better.

Our current outlook is therefore that the provincial economy will expand at a higher rate of 2.2 per cent in 2022, before dipping to the national growth rate of 0.3 per cent in 2023.

It is for this reason that it remains our top priority to de-couple our provincial growth rate from that of the country's, through achieving break-out economic growth in the Western Cape.

Economic growth is a powerful tool for taking people out of poverty, creating opportunities, and thereby improving the quality of life of our residents. I will turn to this point later.

While South Africa's growth trajectory is a cause for concern, there is a clear pathway ahead - from recovery to growth - in the Western Cape.

As the third largest economy in the country as of 2021, this province was one of only three that increased its contribution to the national GDP over the last decade.

As Minister Meyer will tell you, the agricultural sector's growth has outperformed all others over the last ten years.

Between 2012 and 2021, real exports in the Western Cape expanded by almost 40 per cent, with significant contributions from agriculture.

As a global destination of choice, tourism is expected to rebound this year, exceeding 2019 figures in 2023.

And our province is pushing ahead with bold plans to be energy resilient and attracting high levels of renewable energy investment.

4. Jobs

Speaker,

We will need to leverage these strengths, and the indomitable resilience of our province, to stay on this pathway from recovery to growth and claw-back the jobs that were lost during the COVID-19 pandemic.

4.1 Population growth

And we must do this in the context of a growing population, as South Africans from across the country move to the Western Cape in the search for a better future.

Between 2016 and 2021, for example, the Western Cape is expected to have gained 292 325 citizens, with net in-migration contributing 46.8 per cent of total population growth in the province. We expect this growth to continue.

While this makes our unemployment challenge complex, and adds pressures to our service platform, it is also a reason to hope. The diversity of our people, their drive to realise this better future, and their remarkable resilience, is an asset to be leveraged.

This is already evidenced in our higher labour participation rate when compared to the rest of country and significantly lower levels of discouraged job seekers in the Western Cape when compared to the national total.

The pressure, however, is to grow employment at a faster rate than population growth. The COVID-19 pandemic has in this way caused major disruption, with all sectors, save for finance and communications, recording job losses over the last few years.

4.2 Increasing fixed investment

Speaker,

To change this reality, and to stay on our pathway from recovery to growth, we must ensure that we improve productivity and efficiency in the province.

An important way to do this is through increased fixed capital formation.

Between 2012 and 2021, the Western Cape received 289 Greenfield Investments worth R122.270 billion, which created 17 303 employment opportunities.

Our data, as contained in the PERO, shows that due to the pandemic, we will need to attract much, much higher levels of fixed capital investment going forward to drastically increase employment.

A key focus will therefore be to substantially increase fixed investment in the province with a specific emphasis on social infrastructure investments.

This is precisely the reason why Premier Alan Winde has announced the creation of a dedicated Department of Infrastructure in his State of the Province Address. I know that Minister Simmers is already focussed on this challenge.

Infrastructure investments will be critical in creating construction jobs.

There are some hopeful signs emerging that we are moving from recovery to growth here too, with a notable increase in the value of building plans passed this year, and the Western Cape now responsible for nearly a third of all building plans passed in South Africa, measured by value, and surpassing Gauteng on this same measure.

This is an important leading indicator for construction down-the-line, and one that we must support through ensuring building plans convert into building sites, and through increases in our own public infrastructure spending.

4.3 Export growth

Speaker,

We will also need to learn from the significant export growth we have seen, including the performance of our agricultural sector, which is forecasted to grow at 8.8 per cent this year.

Its impressive growth provides hope and possible policy insights that will need to be applied to the rest of the economy.

Here too, there are reasons to have confidence, with notable improvements in the performance of the Port of Cape Town which has reduced the waiting time to berth to one day or less for 6 of the last 8 weeks.

This will need to be maintained through improved capital expenditure at the Port, and through enabling private sector participation.

According to our own research, an efficient Port of Cape Town with sufficient capacity and investment in key infrastructure has the potential to contribute an additional R6 billion in exports, roughly 20 000 additional direct and indirect jobs, over R1.6 billion in additional taxes by 2026, and an additional 0.7 per cent contribution to the Western Cape Gross Domestic Product.

Another key factor in enabling this export growth will be improved mobility and accessibility, and an important reason why a new Department of Mobility is being established, under the leadership of Minister Mitchell.

4.4 Tourism growth

Speaker,

This tourism month, I have had the privilege to travel the length and breadth of our beautiful province to meet with our tourism and hospitality sector.

From *!Kwa Ttu* in the West Coast, to Amazink dining theatre in Kayamandi, every tourism business I chat to has one common insight to share: this upcoming season is going to move the tourism and hospitality sector in the province from recovery phase to a new growth phase, as international visitors return in their numbers.

Forward bookings data confirm this trend, and new flight connections – such as through Air Belgium, which I welcomed to Cape Town yesterday – facilitate it, providing new impetus to our provincial economy, and one that we will need to leverage as an important opportunity to claw-back jobs that were lost during the pandemic.

It would be remiss of me not to mention the recovery of events and sporting events following the lifting of the Disaster Regulations. Two weeks ago, the Rugby World Cup Sevens in Cape Town shattered records with 105 000 spectators attending. And with the upcoming 2023 Netball World Cup, Minister Marais and her team are working hard to support sports development in our province.

4.5 Energy Resilience

These exciting opportunities all require an enabling environment for the private sector to get on with their job of creating jobs.

And there can be nothing more enabling for the economy than a stable supply of electricity.

Speaker,

I share the anger and frustration that so many South Africans are feeling this week, as they see opportunity squandered because the country is unable to keep the lights on.

The historic failures of Eskom, that have brought us to this point, remind me of the famous words of Benjamin Franklin, who said “by failing to prepare, you are preparing to fail.”

We know that under CEO Andre de Ruyter, hard work is going into changing this. Eskom is nevertheless a glaring reminder that we need to plan for the future we hope to have.

In the Western Cape, this is precisely what we have been doing, and why we have a Municipal Energy Resilience initiative that is doing pioneering work to assist develop, support and capacitate renewable energy projects in municipalities, as well as support municipalities, businesses and households to generate, procure and sell electricity.

A key focus area, for example, has been on supporting uptake in small-scale embedded generation, which will enable feeding back to the grid by households and the private sector.

So far, 22 Western Cape municipalities have SSEG frameworks, representing a third of all municipalities that have such a framework in South Africa. 21 Western Cape municipalities also now have SSEG feed-in-tariffs, representing nearly two thirds of all municipalities that have such a tariff in South Africa.

Another focus point has been on wheeling, which enables energy generated in one area to be traded across the grid to a consumer in another area. This will unlock significant private sector demand from independent power producers, if enabled.

We are therefore assisting 7 candidate municipalities in the province to develop wheeling frameworks and tariffs, and the City of Cape Town and George Municipality are already running wheeling pilot projects.

The City of Cape Town has also, this year, launched tenders to procure 200 MW of renewable energy directly.

Our pathway from recovery to growth will also be strengthened by the Western Cape being the Green Economy Hub of South Africa, attracting significant levels of renewable energy investment.

As set out in the PERO, this sector has contributed over 12 per cent of all greenfield investment in the province between 2011 and 2021.

It is increasingly clear that the future of power generation in South Africa will be in the three Cape provinces, and this will create new opportunities for our provincial economy that we are ready to take advantage of.

5. Safety

Speaker,

While this data-rich document has a primary focus on the economy, it also provides valuable insights on our government's other main priorities, namely, safety and wellbeing.

These three priorities are all inter-connected, and how we respond to one, has a very real impact on the other. This is particularly evident with safety, which is needed for both our economy to grow and for the wellbeing of our residents to be realised.

The PERO, for example, tells us that between the 2017/18 and 2021/22 financial years, sexual offences, robbery at residential premises, drug-related crime and driving under the influence of alcohol all declined in the Western Cape.

The Law Enforcement Advancement Plan (LEAP) is also working. An average hotspot to Western Cape crime ratio comparison between nine quarters of LEAP implementation with nine quarters prior to LEAP interventions shows a decline in murder of 2.3 percentage

points, a decline in attempted murder by 4.0 percentage points, and a decline in assault with the intent to inflict grievous bodily harm by 1 percentage point.

Overall, however, the increase in murder incidents province-wide and the prevalence of gender-based-violence, demonstrates the urgent need to replicate this LEAP model across the Western Cape, through greater devolution of policing powers to provincial and local government.

Because as Minister Allen has made clear, what we are doing is working, and what the national government is doing is not.

6. Wellbeing

Speaker,

The PERO also sheds light on our wellbeing priority, which is critical in realising the dignity that every person in the Western Cape deserves. Minister Fernandez is passionate about this being a guiding focus in everything we do.

A key insight from the document, for example, is that the Western Cape recorded an improvement in the human development index between 2012, 2016 and 2020, and that this increased across all districts of the province.

The Western Cape also scored higher than the rest of South Africa, pointing to an improvement in either education, health or income per capita, or a combination of all three.

As a result, our province has the highest life expectancy for both males and females in South Africa.

6.1 Municipal services

This may also be explained by the notable progress made in the Western Cape, between 2012 and 2021, in the provision of electricity and flush toilets to residents, despite population growth.

In 2021, for example, the Western Cape had a larger portion of dwellings with electricity including a generator, access to flush or chemical toilets, access to refuse removals at least once a week, and piped water inside a dwelling than the rest of South Africa.

This is a direct result of our record of good governance in the province, and a reason to have confidence and hope in the future as we now move from recovery to growth in the Western Cape.

Thank you, Minister Bredell and to the mayors and officials of our local governments.

6.2 Health recovery

Speaker,

A critical lever to ensure the wellbeing of our citizens is our province's healthcare platform.

I want to use this opportunity to acknowledge the healthcare teams across the province, who, despite all the pressures COVID-19 created, managed to provide life-saving care to our residents when they needed it.

The good news is that the COVID-19 pandemic has waned, and our response to it has normalised. I know Minister Mbombo and her team are now working hard to ensure a recovery in the services provided across our platform.

This is assisted through the increase in the ratio of doctors per 100 000 people in the Western Cape between 2012/13 and 2021/22, and the recent improvement in the ratio of nurses per 100 000 people between 2019/20 and 2020/21.

Overall, we must take cognisance of new pressures emerging, and that many of the leading causes of deaths in the province can be linked to lifestyle diseases, so that we continue to implement policies to respond to these trends.

6.3 Education recovery

Another key provincial service offering that was severely impacted by the COVID-19 pandemic, and the lockdowns that followed, is education.

While we have seen a very significant improvement in learner retention over the last decade, meaning more learners are staying in school in the Western Cape, our systematic tests show that learning outcomes have taken a knock due to repeated lockdowns and restrictions during the pandemic.

We therefore welcome the decisive steps that will be taken by the Western Cape Education Department over the third and fourth term to address learning losses in the Foundation Phase, by increasing time allocated to Reading and Mathematics each week.

Another challenge is that inward migration into the province means that the growth in learner numbers is exceeding the expansion of schools and teachers.

To address this, the largest share of new infrastructure assets budget over the 2022 Medium Term Expenditure Framework has been allocated towards the education department.

The PERO confirms this need for infrastructure investments, especially social infrastructure investments, and I know that this is top of mind for Minister Maynier.

7. Break-out economic growth

And this, Speaker, leads me to the point I made earlier.

As we move on this pathway from recovery to growth, we need to de-couple our province's economic growth trajectory from the country's by delivering break-out economic growth that creates jobs.

In doing so, we need to ensure that we prioritise, doing more with less, and use the policy levers that we have available to us to effect this rapid change. We also need to enable partnerships, especially with the private sector, and embrace innovation.

These will be key policy considerations that I look forward to sharing with you in the Medium Term Budget Policy Statement in November.

8. Spes Bona

Speaker, Honourable members,

When we are inducted as members of this house, we have an opportunity to reflect on our province's coat of arms which stands tall above us all.

It has been a constant, during changing times, and a reminder of what we stand for in the Western Cape.

It has on it an anchor, reminding us that we are a place of maritime trade – connected to the world and the opportunities it presents. The anchor also stands as symbol of hope, and steadfastness in trying times.

It also has on it a bunch of grapes, a reminder of our agricultural prowess, our wine industry, and our ability to process that into something more.

It has on it a clay pot, reminding of us of our manufacturing, and the diverse and resilient history of our people.

It has on it the outline of table-mountain, reminding of us our province's beauty, which attracts visitors from around the world to our shores.

And etched at the bottom, it has on it the words 'Spes Bona' – or Good Hope – reminding us that this is a place of resilience. A place that doesn't back-off and never gives up.

It strikes me just how much this year's PERO reminds of these very elements, and how we need to leverage them to continue delivering hope and confidence in the Western Cape.

And so, as we follow our pathway from recovery to growth, let us be reminded again that hope does not require the absence of challenge, but rather our willingness and courage to confront it, and to prevail.

We can and we will.

9. Tabling

Speaker,

It gives me pleasure to hereby table the Provincial Economic Review and Outlook 2022/23 for consideration and deliberation in the Western Cape Provincial Parliament.

I can assure Honourable Members that the PERO is a world-class research document which will be an invaluable resource to assist them in their duties in Parliament. I also look forward to listening closely to your comments and suggestions, as we now draft the MTBPS.

We also look forward to tabling further data with you, via the Municipal Economic Review and Outlook, so that we can continue these strategic conversations across the province and in our municipalities.

And finally, in conclusion, I would like to thank the visionary leadership of Premier Alan Winde, who leads us boldly on this pathway from recovery to growth. We follow him with courage.

I would also like to thank everybody who made contributions and who worked so hard to produce the PERO.

There are many names that deserve recognition, but a special word of mention must go to Head of Department, Mr David Savage and Deputy Director-General, Dr Roy Havemann, and their excellent team in the Provincial Treasury who made this document possible, including Ms Taryn van de Rhee and Mr Phillipus Prinsloo.

Their dedication to providing this valuable data on which we base our decisions, is to be applauded and is deeply appreciated.

Thank you.