



May 16, 2014 10:58 CAT

An efficient South Africa is capable of five percent per annum growth - Goldman Sachs

Addressing an audience of financial advisors at the Discovery Financial Planning Summit on Thursday 15 May, Colin Coleman "At the start of South Africa's democracy, we had no foreign reserves, high inflation, a broken national balance sheet, limited social grant support and an undeveloped JSE" says Colin Coleman, Head of Goldman Sachs' Investment Banking Division for Sub-Saharan Africa. "Twenty years later we can now boast a BBB investment grade country, posting average 3,2 % annual growth over the past two decades, inflation is under control, and there has been a massive increase in tax receipts."

Coleman pointed out that the JSE now has the highest multiple of market cap to GDP in the world, there is widespread economic participation, the middle class has transformed into an inclusive African middle class, we have seen rising incomes, and social grants have expanded to support 16 million people.

All of this has been achieved as South Africa went into its fifth democratic election, with the outcome showing that although its support has come down, the ANC still dominates the electoral landscape except in the Western Cape.

Despite the achievements of the last twenty years, Coleman highlights that we have huge unemployment and inequality.” The poor have got less poor – but the wealthy have got wealthier at a much faster rate. The overall picture is that Africans continue to remain poor and whites have done very well in the post-apartheid scenario.”

Another issue that has developed in democratic SA is the diminishing contribution of the mining sector. Productivity here has fallen while wage inflation has taken the other direction. And manufacturing has also declined in prominence while banking and financial services and retail are making up more of our national output. Coleman says the new government has to prioritise the stabilisation of the mining sector. “It plays a key role in South African exports which in turn support the local currency. Mining creates ten jobs in the manufacturing industry for every one job in the mining sector. The mining industry needs government’s full attention.”

Yet a further area which has been disappointing for the country is the low level of foreign direct investment levels. Coleman points to FDI which has been positive for other emerging markets such as Brazil and Turkey and urges SA to focus on attracting foreign investment.

He also analyses South Africa’s unique labour landscape. “Government has a strong alliance with Cosatu, and most interesting is that around 40% of Cosatu members are now civil servants. As a significant employer of labour, the ruling party must make serious progress in terms of fixing the labour dispensation in the country.”

Coleman says that our persistent high unemployment rate, at around 36% including those who no longer look for work, must be a priority for the new

administration. “We need to address this issue through the National Development Plan and consider what the ANC election manifesto indicated on this problem.”

Reflecting on the country’s dramatic departure from pre 1994 budgets when there was huge spend on defence and debt servicing costs, Coleman points to recent budgets where defence and interest are only small portions of state expenditure. “Health, education and public infrastructure are now the large items.”

Despite huge increases in state spend in these areas, Coleman points out some notable failures. “Although the health budget has grown enormously, there has been no impact on life expectancy; and public schools offer unacceptable education to two thirds of our school children. Also the Auditor General continues to report on high levels of wasteful expenditure in Public Works.”

“Where should we be in the next 20 years and can we achieve the 5% per annum growth rate that we are capable of?” asks Coleman. “It is possible if we simply do the basics. Our unemployment could halve, and we could achieve per capita GDP that is close to developed country levels. But we need a new cabinet with quality generals and foot soldiers. We need more ‘bang for our buck’ in public spending, and state owned enterprises should be liberated as seen in China. Most importantly the quality of the administration must improve.”

“Much progress has been made, but significant challenges remain” says Coleman. “These latest election results certainly focus the mind on the next twenty years.”

Discovery information

About Discovery Limited

Discovery Limited is a South African-founded financial services organisation that operates in the healthcare, life assurance, short-term insurance, savings and investment products and wellness markets. Founded in 1992 by the

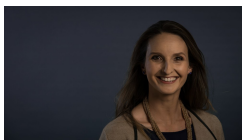
current Group Chief Executive Officer Adrian Gore, Discovery was guided by a clear core purpose – to make people healthier and to enhance and protect their lives. Underpinning this core purpose is the belief that through innovation Discovery can be a powerful market disruptor.

The company, with headquarters in Johannesburg, South Africa, has expanded its operations globally and currently serves over seven million clients across South Africa, the United Kingdom, the United States, China and Singapore. Vitality, Discovery’s wellness programme, is the world’s largest scientific, incentive-based wellness solution for individuals and corporates. The global Vitality membership base now exceeds 5.5 million lives in five markets.

Discovery is an authorised financial services provider. It trades on the Johannesburg Securities Exchange under the code “DSY”.

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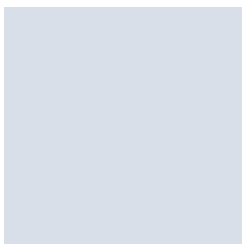
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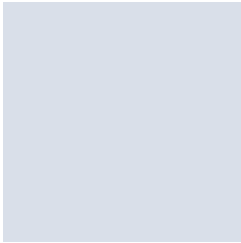
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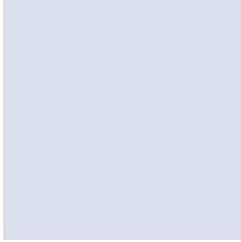
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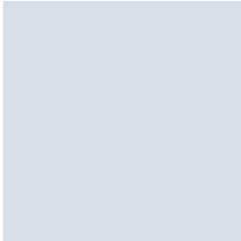
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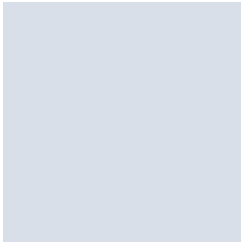
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