



South African Reserve Bank

The role of the Accounting and Auditing profession in South Africa's economic growth and development

Address by Francois Groepe, Deputy Governor of the South African Reserve Bank
at the SAICA Southern Region Trainee Accountant Society,
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Introduction

I wish to thank the Trainee Accountant Society from the Southern Region of SAICA for inviting me to speak this evening. It is always an honour and a great opportunity to engage with different sectors of society, in particular South Africa's young professionals who have a particularly important role to play in ensuring that this country realises its full potential, both socially as well as economically.

The global economy

There are signs that the global economy is recovering, however, the recovery at best remains fragile and weaker than what had been anticipated just a few months ago. The US recorded a quarter-on-quarter real GDP growth rate of 1.8% in the first quarter, somewhat lower than the earlier estimates of 2.5%, weighed down by the fiscal contraction. In addition to further fiscal consolidation, the debt ceiling debates, and the impact of rising long-term Treasury yields and mortgage interest rates in response to expectations of a tapering in asset purchases by the US Federal Reserve, also pose downside risks.

Peripheral Eurozone remains mired in recession. Consequently, the euro zone contracted by 1.1% year-on-year in the first quarter of 2013, following a contraction of 0.8% in the final quarter of 2012. The IMF has reduced its forecast for Eurozone growth in 2013, by 0.2 percentage points to -0.6%, with a weaker recovery than previously forecast in 2014.

The Japanese economy recorded strong quarter-on-quarter growth of 4.1% in the first quarter, but it remains too soon to assess the efficacy of the various stimulus measures that were adopted.

A number of the significant emerging market economies have witnessed a slowdown, and have contributed to the most recent downward revision by the IMF of global growth by 0.2 percentage points to 3.1% and 3.8% for 2013 and 2014, respectively.

Volatility in financial markets in recent days seems to have abated following the assurances given by the US Federal Reserve that it would continue to support the economy and that monetary policy would remain accommodative despite asset purchase tapering. The earlier turbulence seen, however, demonstrates that emerging and developing economies remain vulnerable to the spill-over effects of the reversal of the highly accommodative monetary policy by the advanced economies.

The domestic economy

The domestic economic growth outlook has weakened further following the disappointing first quarter annualised growth rate of 0.9%. Of some concern is the low growth in real gross fixed capital formation, which moderated from an annualised 4.3% in the final quarter of 2012 to 2.5% in the first quarter of 2013.

The Bank has recently revised its growth forecast for 2013 lower, from 2.4% to 2.0% and for 2014 from 3.5% to 3.3%. The risk to the growth outlook is assessed to be on the downside, particularly due to the electricity supply constraints, difficult labour market conditions, particularly in the mining sector, and weaker commodity prices. Unemployment levels continue to remain sticky and have risen in the first quarter of 2013 to 25.2%. Of particular concern is the increase in the youth unemployment rate to 52.9% in the first quarter.

Although targeted consumer inflation surprised on the down side in May 2013, decelerating from 5.9% in April to 5.6%, this easing in price pressures is assessed to be temporary. The Bank's latest inflation forecast has been revised upwards, and inflation is expected to average 5.9% and 5.5% in 2013 and 2014, respectively, with a temporary breach in the target during the third quarter of 2013 when inflation is expected to average 6.3%. The upward pressure on inflation is mainly due to the continued currency weakness and higher than expected fuel price increases.

The Role of the SARB

The South African Reserve Bank mandate as set out in the Constitution is to protect the value of the currency in the interest of balanced and sustainable economic growth in South Africa. Price stability is generally viewed as a critical element of the foundation of an economy and contributes towards achieving economic growth, development and employment creation.

The achievement of price stability, in the case of South Africa, is quantified by the setting of an inflation target by government that serves as a yardstick against which price stability is measured. The achievement of price stability is furthermore underpinned by the stability of the financial system and financial markets.

In pursuit of its mandate and purpose, the Bank performs the following functions:

- Formulating and implementing monetary policy;
- Promoting financial stability;
- Issuing banknotes and coin;
- Regulating and supervising the banking system;
- Ensuring the effective functioning of the national payment system (NPS);
- Managing the official gold and foreign-exchange reserves of the country;
- Acting as banker to the government;
- Administering the country's remaining exchange controls; and
- Acting as lender of last resort in exceptional circumstances.

In addition to these core functions, the Bank also has a number of initiatives aimed at training young professionals, in a variety of fields. In this regard, the Bank actively supports the training of chartered accountants and is a sponsor of the SAICA Thuthuka School camps. The Bank supports the camps both financially as well as through active participation with some of our staff members participating as speakers at these camps.

In addition we currently fund 10 students participating in the SAICA Thuthuka bursary scheme and the Bank is accredited with SAICA for the training of chartered accountants. In this regard, we currently have four (4) students completing their articles at the Bank.

The Role of Chartered Accountants

In the most recent World Competiveness Report, South Africa performed dismally, sliding in ranking to 52nd place out of 144 countries. The deteriorating state capacity was one of the areas that contributed to the slide in the country's ranking, and some of the more problematic areas identified included an inefficient bureaucracy, corruption and policy instability.

On the positive side, we can be proud to be recognised to be at the forefront of governance and was ranked number one in the following areas:

- Strength of Auditing and reporting;
- Regulation of securities exchange; and
- Efficacy of corporate Boards.

It is therefore evident that South Africa's auditing and accounting professionals are among the best in the world, and I do believe that accountants have an important role to play in ensuring that some of the structural challenges in this country are addressed effectively. The profession can for example make a tangible contribution in commerce and industry, but also towards the public sector by ensuring that our enterprises are capacitated to deal with the many challenges that are faced. Members can, by using the skills and aptitude that are acquired during their academic and practical training, and which include skills such as analytical ability,

professionalism, integrity, understanding complexity, etc. assist in solving complex problems and challenges but also ensure that the many opportunities for innovation and advancement are fully exploited.

I also would like to remind, especially the younger members of the profession, of a quote by John F. Kennedy which goes: *“To those whom much is given, much is expected.”* As trainees and newly qualified chartered accountants many of you have had the benefit of good schooling and tertiary education. You have further benefitted from the investment in you and opportunities created for you by this society. This privilege imposes upon you a moral obligation to plough back into both your immediate communities and our society at large by ensuring that you adhere to and promote the high ethical and professional standards of your profession.

It is in this context that it is appropriate that members and aspiring members of the profession respond positively to the call of public service and that members do not only become service providers to the private sector, but that they also join the ranks of the public service in order to address the shortage of skills within that sector. In this context they have much to contribute to root out corruption, design monitoring and early warning systems so as to ensure improved service delivery, institute controls that would minimise instances of wasteful and fruitless expenditure, design reports so that politicians and officials have access to accurate and timely information and which should contribute to improved decision-making and policy outcomes.

I wish to encourage members to think critically and to help shape the regulatory landscape, both locally and domestically, and to actively contribute to the debate and continuous improvement of the international standards and frameworks. Andy Haldane, Executive Director for Financial Stability at the Bank of England, in a speech to a conference in December 2011, hosted by the Institute of Chartered Accountants in England and Wales, for example, questioned the appropriateness of fair value accounting for the banking sector. He claimed that: *“historically, fair value accounting principles have gained ground when the going has been good, and lost it when it has got tough. ...During the downswing, fair value principles are rolled back.”* Similarly, Brenton Saunders, a Director at an asset management firm, in a recent

article in a local financial magazine questioned the appropriateness of full fair value accounting and the mark-to-market of reserves and resources of mining companies.

I shall refrain from expressing an opinion on the appropriateness of fair value accounting, as we know that other conventions such as amortised cost valuation also have their own shortcomings, particularly when it comes, for example, to the recognition of interest rate risk. I do, however, believe that both Andy Haldane and Brenton Saunders touch on issues that are worth debating and I would like to see far more robust public discourse by a wider range of stakeholders as to both the appropriateness but also the possible unintended consequences of some of the international reporting standards and frameworks.

Conclusion

As we enter the sixth year of the global crisis, with several factors pointing to a prolonged period of weak economic recovery, new and fresh thinking has become more critical than ever. Add to this our list of significant structural challenges that we need to overcome domestically, and it is essential that we have all hands on deck. I believe that Chartered Accountants through their unique skill set have a very important role to play in helping us to steer the country to exploiting its full potential.

I hope that you are not only up to the task but that you enthusiastically embrace the challenge.

I thank you.