AN ANALYSIS OF FINANCIAL INTERMEDIATION IN SOUTH AFRICA: EVIDENCE FROM THE SUPPLY AND USE TABLES

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ABSTRACT
South Africaâ€™s post-recession economy has persistently been characterised by a dual threat of a low growth path and rising inequality. This could suggest that governmentâ€™s priorities-based investment policy is not geared towards sectors that yield the optimal macroeconomic outcome. Given Chinaâ€™s pledge to invest US$14.7 billion in South Africa, this study uses a Dynamic SUT Leontief Multiplier Based Model to assess the impact of such investments on macroeconomic variables and, specifically on the financial intermediation sector, that plays a significant role in economic development and growth. Financial intermediation in South Africa has been pressurised by the global financial crisis, and has since further displayed events of bank failure. Data was collected from Statistics South Africaâ€™s Supply and Use Tables for the years 2005, 2010, 2014, 2015, and 2016, with the aim to display trend analyses of prior and post-recession, as well as changes in selected Type I and Type II Leontief multipliers. The most striking overall observation from the empirical results is the stagnation in gross value-added (GVA) and other multipliers over the 2010-2016 period. This implies that during the post-recession era, the effect of the average One Rand invested in the economy, although positive, yielded a smaller return in terms of economic growth. Empirical investment scenarios are provided, and the study recommends the scenario under which Chinaâ€™s investment will optimally impact South Africaâ€™s economic growth, especially in the financial intermediation sector.

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