The current economic situation in sa, india and germany assignment

Since the successful hosting of the roll cup football 2010 AS has sustained GAFF at Just under 20%. IN has been spending a large portion of its GAP on GAFF and this increased even more in 2004 to 2007 when they saw an increase from approximately 25% to 33%. GE has seen a gradual decline in GAFF however we expect to see this continue at the same rate as Germany continues to invest in renewable energy technology and infrastructure. Extrapolating IN and AS GAFF to 2020 we expect to see much the same ratio and a moving average extrapolation through to 2020 has been used for both countries.

Economic theory states that gross savings, made up from the surplus between income and expenditure of households, business and government, is used to finance GAFF. The assumption is that these savings are stored in financial institutions and these institutions lend the savings to entrepreneurs and businesses in order for them to invest in capital. We can see from Fig. A. 9 in Appendix A that the correlation between the proportion spent by the 3 countries on GAFF is proportional to the countries gross savings.

AS savings as a percentage of GAP is extremely low in comparison to both GE and IN. Although AS can lend money in order to fund GAFF which it does this is not an ideal situation. It is essential for a country to consistently spend on GAFF as it is the capital which grows and sustains any economy. The culture in AS is not to save and in order to consistently fund capital it is essential for the AS public to start to save. 12 Fig. A. II in Appendix A indicates human development index (HID) for AS, IN and GE for the period 1995 to 2020.

The HID is a measurement of life expectancy, educational attainment and income. The value expressed by HID is a value between O and 1 . The human development index is a measure of equality within a country and a value of 1 would mean perfect equality ND O would mean perfect inequality. As expected GE the developed country has the highest HID rating with an average of over 0. 9 since 2005. AS comes in second place with an average of 6. 19% from 2005 to 2014. AS has one of the world’s most progressive constitutions and is based on the belief that AS belongs to all who live in it.

AS is not without its equality challenges and unemployment, declining education system (WEFT global competitiveness report rates AS education as 46th out of 148 countries), high crime rates (rape in AS is the highest in the world), and widening gap twine rich and poor. IN score worst on the HID as a result of a large population many of whom live in abject poverty. It is however nice to see that things in IN are changing and they have come a long way since 1995 when they scored only 0. 4 HID and in 2014 they scored 0. 56 Just less than AS.

Extrapolating GE HID to 2020 we SE no reason for any change and expect to see consistent value Just above 0. 9 for the whole period 2014 to 2020. Extrapolating AS HID to 2020 we expect the effects of a less competitive education system coupled with increasing unemployment, growing crime ate and widening of the gap between rich and poor to stagnate any improvements and predict a possible decrease in the HID for AS over the period 2014 to 2020. Inequality in IN is still a problem and we predict moderate improvement in HID but until there is a fundamental change especially in inequality between gender IN is unlikely to exceed 0. On the

HID scale before 2020. 13 3. Conclusion 14 4. References 15 Appendix A 1 1. Introduction This assignment presents a range of economic variables from 1995 to present day and then extrapolates these variables to 2020. The economic variables are presented n three countries: South Africa (AS) India (IN) Germany (GE). The assignment explains trends and reasons for changes including the interrelationships between the economic variables, the countries presented, global economic forces and other socio-political economic factors within the specific country being described.

AS is an upper-middle-income, emerging market economy and has been so for over 50 years. AS has an abundant supply of natural resources and a diversified well developed economy which boasts a service sector which accounts for more than 65% of total economic activity. AS has shown impressive GAP growth since it was welcomed back onto the international stage after spending many years in economic isolation from the rest of the world. AS has a functional infrastructure which falls short predominantly in the shortage of energy which has contributed to slowing economic growth.

Eskimo, the AS parental power supplier, is building two new MAMMA coal fired power stations (Medium and Sessile) which were due to come on line in 2012 and when finally completed should relieve the energy crisis AS has faced since 2007. AS faces a number of other challenges which will be discussed in the odd of this assignment. If AS is to escape the middle income trap it needs to realism a GAP growth in excess of 6% for over 20 years. IN has a long history which includes British colonization.

After years of passive civil disobedience and resistance to British rule, by the likes of Mahatma Ghanaian, IN finally got its independence in 1947. Economic reforms in 1991 helped IN to average over 6% growth from 1998 to 2014. India has a rapidly developing economy that is well diversified specializing in the IT and business service sectors capitalizing on a highly educated and skilled workforce. IN has many challenges including a large population many of whom live in abject poverty, government corruption and pollution which has caused extensive damage to the environment.

GE in terms of purchasing power parity (POP) is the 5th largest economy in the world and boasts the largest economy in Europe. GE is considered a upper-income developed economy and is renowned as a leading machinery, car, chemical and technology exporter in the world market. GE has a highly productive, highly skilled, technical and well educated population which enables them to remain competitive on the European and global stage. In 1999 GE and 10 other European countries formed the European Union (EX.) and they introduced a common currency called the Euro.

GE has committed to decommission all its Nuclear power stations, which account for 25% of Gee's power supply, by 2022. GE is investing extensively in renewable resources and is emerging as a world leader in this sector. 2. Discussion Inflation 2. 1 There are many causes of inflation, we take a look at a few of the causes in the context of the countries in the spotlight: Demand factors Rise in production costs Exchange rate fluctuations The crude oil price The cost of labor. Fig. A. In Appendix A indicates the average annual inflation for AS, IN and GE from 1995 to present and extrapolated to 2020. From Fig. A. L, it can be noted that GE a developed country has a very stable inflation rate that is consistently low averaging 1. 56% for the period 1995 to 2014. The prevailing reason for this is that GE has a very strong stable currency and is not exposed to exchange rate fluctuations. GE also has a very low population growth with an average year on year of -0. 4% for the period 1996 to 2014 which means any increase in demand for goods from GE has to come room the global market and not within its own borders. The rise in production costs as a result of high labor costs in GE possibly accounts for the majority of the inflation. GE has to large extent countered inflation by mechanizing production and reducing labor inputs coupled with the fact they have a highly skilled, educated and productive workforce which counters the high cost of labor in GE.

Germany inflation is extrapolated, using a moving average calculation, to 2020. Consideration was given to GE stable inflationary history and the strict austerity measures the EX. has chosen since the global recession in 2008. In contrast to the stability of inflation in GE, inflation in AS and IN the two developing countries has been extremely volatile. Although AS and IN have positive population growth and a growing middle income population which feeds internal demand for goods and services the AS and IN economies remain heavily reliant on the rest of the world.

On the 18 July 2014, Gill Markus the SARA governor hiked interest rates by 25 basis points in an attempt to curb inflation. The hike in interest rates should have an effect on reducing inflation as the cost of credit increases and consumers tighten their belts. The extrapolation of the AS inflation data to 2020 is a mathematical moving average keeping within the targets set by the SARA of 3-6%. There is a growing risk that inflation is likely to exceed the SARA targets.

Due to pressure in terms of slow economic growth SARA is unlikely to hike interest rates by too much as this would stifle economic growth. Business in AS is coming under increased pressure from Labor. MIMIC and NINJA Strikes in the Platinum belt coupled with the current NASSAU strike will inevitably increase the cost of labor which in turn will have a knock on effect on increasing inflation. The NC government are considering alternate employment development incentives which if successful will help reduce the cost of labor, accelerate economic growth and reduce inflation.

AS is extremely exposed to crude oil price hikes and exchange rate fluctuations which cause the cost of imported goods to raise with a rise in exchange rates. SOLO has the potential to provide a buffer to the oil price and effects of exchange rate on landed oil price; however they operate on an import parity pricing model. The competitions commission has handed down heavy nines on SOLO and the regulation of the SOLO import parity pricing model is highly likely.

This will roll out to the Plastics industry in AS and should have a positive effect on Job creation, lower input costs and effectively lower inflation. 2. 2 Economic Growth Fig. A. 2 in Appendix A indicates the gross domestic product (GAP) of three countries AS, IN and GE for the period 1995 to 2020. On the primary vertical axis is billions of international dollars the measure using purchasing power parity (POP) theory which enables us to negate the effects of exchange rates between countries and compare GAP in real terms.

The GAP POP measure is interesting in that it shows the relative size of the 3 economies to each other. We can see Just how small AS is in terms of the bigger players and although this may be disconcerting it is important to remember that AS has the 23 largest economy in the world. On the secondary vertical axis (Fig. A. 2 in Appendix A) we can see the percentage change year on year in GAP. Between 1995 and 2007 AS and IN experienced 3. 6% and 6. 9% growth year on year. GE was not as successful with average growth of only 1. 6% over the same period.

Then came he great recession or economic meltdown of 2008/2009 where all 3 countries saw a downturn in GAP especially AS and GE who registered a negative GAP growth in 2009. Inn’s GAP growth only dipped to Just over 5% in 2009 showing a resilient economy not overly exposed to the rest of the world. In the recovery phase all three countries recovered well however a second dip in 2011 to 2012 hit IN the hardest and IN dipped to Just under 4% GAP growth in 2012. AS hosted the 2010 FIFE world cup soccer which created large scale infrastructural spending by the government through the recession period helping to boost the AS economy.

Extrapolating GAP growth into 2020 for IN there is likely to be sustained albeit slower GAP growth. IN has a burgeoning youth who are very well educated, are willing to work for very little and can converse extremely well in English giving IN a competitive advantage on the global market in the business service sector. IN is however coming under a lot of pressure from the Philippines who are competing in similar global markets in the business service and IT support sectors. IN needs to look to new industries in order to sustain its GAP growth.

Extrapolating GE GAP growth to 2020 we note that GE has a eclipsing population however with their commitment to renewable resource energy technology and the growing emphasis in the world on green initiatives it is likely that Germany will capitalist on this advantage in order to sustain very moderate GAP growth. GE has a responsibility to other EX. countries and the poor performance of other EX. players could curb economic growth in GE. AS has a lot of challenges it needs to overcome in order to achieve sustained growth and escape the middle- income economy trap that has been its nemesis for the last 50 years.

AS needs to address its labor issues and overcome the growing gap between rich and poor. The world economic forum competitiveness report indicates a host of positive factors which AS can build on however there are a number of shortcomings and AS needs to address these if it wants to continue to grow its economy. Extrapolating AS growth to 2020, it is difficult to foresee the current AS government under its leadership making any major inroads to solving the macro economic problems that will allow AS to realism larger GAP growth.

Coupled to this the fact that AS is highly dependent on China and Europe for economic growth, the outlook for AS is moderate and we could e stagnation or even a decline in GAP over the next few years. Extrapolating IN growth to 2020, we perceive continued high GAP growth which exceeds 6% annually possibly coming under pressure if the world market does not accommodate this growth and as it comes under increasing pressure from global competition I. E. Philippines. 2. 3 Unemployment Fig. A. In Appendix A indicates the unemployment rates as a percentage of the economically active population in AS, IN and GE. IN has the smallest reported unemployment rate of the three countries with an average over the period 1995 to 2014 of Just under 4%. GE which also boasts a very low unemployment rate has an average of 8. 3% for the same period. AS has an alarmingly high unemployment rate with an average of Just over 24% over the same period. What is most disconcerting is in spite of the fact that AS has shown relatively consistent GAP growth the unemployment rate has continued to grow.

The AS government (the NC) is part of a tripartite alliance with COATIS (trade union) and the ASAP (communist party). Until this alliance is broken it is unlikely AS will review labor regulations which would make it easier for business to employ more people. According to Eddie Rood, AS does not have an unemployment problem it has an employment problem. In other words it is too difficult for business to employ people and until regulations are focused more in favor of the employer than the employee the unemployment rate in AS is likely to consistently increase until 2020.

In GE and IN there is likely to be very little change in the unemployment rate shown in the extrapolation which is a weighted moving average extrapolated through to 2020. 2. 4 Exchange Rates Fig. A. 4 in Appendix A indicates the average annual exchange rates for AS, IN and GE or the period 1995 to 2020. The primary vertical axis indicates IN Rupees exchange rate to the US dollar (USED) and the secondary vertical axis indicates Rand's and German Marks to the USED. GE which is a developed upper-income country has the least volatile exchange rate and has yielded an average of 0. 3 German Marks and Euro from 2002 to the USED. The IN Rupee and the AS rand, although depicted on different scales, have followed very similar trends indicating the volatility and dependence of developing countries currency on external global economic factors. The AS Rand is under a lot of pressure at present with regular service delivery protests and wildcat strikes like the platinum belt strike and the current NASSAU metal workers strikes followed by the ASIATIC strike due to commence on Thursday 24 July 2014.

Coupled to this poor GAP growth, corruption, lack of service delivery and lackluster leadership from the ruling party is promoting uncertainty and possibly long term negative sentiment. Extrapolation of the exchange rate data for all 3 countries was carried out based on the MIFF projections on GAP in national currency vided by GAP in dollars. This extrapolation was double checked against factors that might influence the exchange rate in the form of Inflation, Gold Price, supply and demand for USED and SARA monetary policy.

In the case of AS the possibility that AS becomes less attractive to foreign investors and the inflow of USED reduces is highly likely. The net effect of fewer dollars inflow into AS can result in a weaker rand. The SARA has a very strict fiscal policy which pegs the targeted inflation rate in AS at 3 to 6%. Under the watchful eye of Gill Markus the SARA attempts to curb inflation by easing the Report Rate which is the rate at which the SARA lends money to other banks.

By raising the Report rate the cost of credit is increased which in turn should reduce demand and with less money there should be less demand for goods forcing the price of goods to come down subsequently reducing Inflation. If inflation is lowered then the risk of AS goods becoming too expensive, (as a result of inflation increasing production costs), on the export market is reduced. AS is the world's 5th largest Gold producer and gold production and exports account for a large percentage of the inflow of SAID. A change in the price of gold has a large effect on the inflow of dollars which can subsequently lead to a depreciation of the rand.

Although the USED is one of the most sought after and used currencies in the world fluctuations in the USED with specific reference to the appreciation of the USED can mean the Rand will depreciate. IN is subject to the same forces as AS with respect to exchange rates and the sum of these forces account for the volatility of the two currencies. A weaker exchange rate promotes local manufacturing due the opportunities to gain higher margins on the international markets. The volatility of the developing countries currencies counteracts a large portion of potential growth, due to relative uncertainty and high risk.

It would be better if the exchange rate was consistently weak or even if it was consistently strong it would allow for less risk in investments into capital. Extrapolating GE exchange rate to 2020 is easier as the variability is small and we do not expect to see much change in exchange rates from GE as shown on Fig. AAA in Appendix A. In the case of AS and IN extrapolated to 2020 we expect to see a rise in exchange rates and a tapering off towards 2020. Both IN and AS will remain exposed to world economic forces and inflows and outflows of portfolio foreign investment. 2. 5 Interest Rates Fig. A. In Appendix A indicates the Interest rates for AS, IN and GE for the period 1997 to 2020. Interest rate refers to a rate which is charged for the use of or loan of money. The interest rate which is depicted in Fig. A. 5 in Appendix A refers to the rate at which the reserve bank lends to other banks. The interest rate is one of a number of tools used by the reserve banks (central banks) to tighten or relax the monetary policy. The general trend for all three countries is a relaxing of their respective monetary policy in terms of interest rates as we see a big decline in interest rates for the period 1997 to 2014.

The expectation with a lower interest rate is that credit is cheaper and money supply would grow quickly driving economic growth as the demand for goods and services increases and producers scramble to catch up with demand. Fig. A. L in Appendix A indicates that all three countries have been experiencing positive GAP growth barring the 2008/2009 world economic recession. The effect of pressure on supply of goods and services tends to drive the price up as odds and services become scarcer and consumers are willing to pay more this drives inflation up.

The SARA has set targets of 3 to 6% on Inflation as it is a proportional measure of the effects of hiking or lowering interest rates. The 2008/2009 recession has caused a slower demand for credit and lower interest rates from all 3 countries especially GE with interest rates of well below 1% is an attempt by the Deutsche Bundestag to fuel the GE economy. In AS, the SARA has raised interest rates (tightened fiscal policy) in an attempt to curb inflation and keep it within the 3 to 6% targets. The data for the 3 countries is extrapolated to 2020 based on a moving average.

In AS the Interest Rate trend from 2014 to 2020 is predicted upwards to as high as 9% in 2020 as AS inflation and exchange rates remain under pressure and the SARA attempts to control the inflation within its targets. In IN the interest rates are predicted to continue to reduce to 2020 to stimulate the IN economy to grow. The pressure on food sources in India could drive Inflation upwards causing an increase in the interest rates. Similarly in GE the interest rates are expected to remain low with a gradual rise from 2014 to 2020.

Contrary to the economic recovery plan adopted in USA (economic stimulus plan), GE and its EX. partners have opted for a more conservative approach and austerity measures have caused a slowdown in private spending. In order to fuel the economy and provide cheap credit the interest rates are extremely low yet GAP growth remains slow. Until there is an upturn in the economy interest rates in GE are likely to remain very low from 2014 to 2020. 2. 6 Trade Balance and Current Account Balance Fig. A. 6. 1 in Appendix A indicates the trade balance in AS, IN and GE for the period 995 to 2020.

The trade balance is calculated by subtracting total import payments from total export earnings including gold and non-gold products. AS and GE are shown in USED on the secondary vertical axis and IN is shown on the primary axis. Trade balances for all 3 countries follow similar trends to the current account balance. The platinum strikes which lasted 5 months will have a negative effect on the balance of trade and subsequently the current account balance. Fig. A. 6. 2 in Appendix A indicates the current account balance in AS, IN and GE for the period 1995 to 2020.

The current account includes trade balance and service, income and transfer receipts less service, income and transfer payments. Fig. A. 6. 2 primary vertical axis indicates the IN and AS current account balance in USED. The secondary vertical axis indicates the GE current account balance in USED. We can see that up until 2001 GE was running a marginal current account deficit and how they have turned this deficit into a large current account surplus. Germany is a leading technology supplier and has developed strong trade relations with China and the rest of the world.

On the back of the Chinese and world economic growth the Germans have been able to capitalist and show a growing current account surplus. IN and AS who were pretty much break even on current account balance up until 2004 have embarked on development strategies. As can be seen in Fig. A. 6. 2 in Appendix A, IN has been a lot more aggressive in borrowing money and growing the current account deficit than AS. AS is often accused by world investors for not borrowing enough to boost development and economic growth.

Extrapolating the data on to 2020 1 have taken the MIFF projections to 2018 and extrapolated to 2020 using a moving average calculation. AS would be expected to grow the current account deficit as they spend more on infrastructure in an attempt to stimulate the economy. AS imports a large variety of goods and services and exports predominantly natural resources. It would be wise for AS to develop industry that can add value to the natural resources in order to add value and ultimately increase its export value whilst simultaneously decreasing the need to import. . 7 Money Supply and Credit Growth Money growth is shown on the primary vertical axis and credit growth as a percentage of GAP is shown on the secondary vertical axis for all three countries. The creation of money is largely dependent on bank deposits which when this money is leant out by the bank triggers the money creating process. The balance of payments and government finances are both major contributing factors to the creation of money. Gross savings, credit growth are also triggers for money growth as they contribute to the amount of bank deposits.

Fig. A. 7. 1 in Appendix indicates MM annual money growth and credit growth as a percentage of GAP growth. Although there is considerable offset between the 3 countries the money growth trends year on year between all three countries are very similar. In the years preceding 2008 AS and IN showed consistent annual MM money growth of above 10%. In the global recession of 2008/2009 AS was hardest hit and dropped down to a money growth of just over 2% but has recovered to Just over 5% and is expected to be sluggish in money growth extrapolating to 2020.

IN managed to remain less effected by the global recession and has retained annual money MM growth in excess of 10%. IN is expected to show more conservative money growth figures to 2020 as the world economy remains sluggish. GE has shown a reduced money MM growth and is even wowing negative money growth since 2009. The trend extrapolated to 2020 is expected to remain much the same. In AS credit growth as a percentage of GAP is extremely high at an average of over 185% of GAP since 2004. In comparison to GE (129%) and IN (67%) for the same period.

The growth in credit does not result in bank deposits and subsequently an increase in credit growth has a negative impact on money growth. 2. 8 Budget Deficit and Government Debt Fig. A. 8 in Appendix A indicates the budget deficit and government debt as a percentage of GAP for AS, IN and GE for the period 1995 to 2020. The budget deficit for all three countries is shown on the primary vertical axis and the government debt for all 3 countries is shown on the secondary vertical axis. As a general rule of thumb the budget deficit should not exceed 3%.

Since the late sass's AS has managed to consistently achieve budget deficits lower than 3% and in 2006 even managed to achieve a budget surplus. Since 2007 the budget deficit for AS and IN has increased with the AS budget consistently above the illusive 3% value. Since the 2008 and 2009 recession the AS government has, in similar fashion to the USA government's tumulus plan, understandably been spending more in an attempt to fuel the economy and stimulate much needed economic growth. Similar to AS IN has increased government debt and is slowly bringing their budget deficit down from deficit in excess of 10% to below 9% and trending downwards.

GE has decreased its government debt as a percentage of GAP and has firm control of its budget deficit showing consistent budget surpluses since 2012. Extrapolating the budget deficits to 2020 we can expect GE to remain in a surplus situation with AS stabilizing and remaining at Just above 4% with a possibility of returning to below 3% budget deficit. IN is expected to perform well and reduce their budget deficit to below 7% consistently to 2020. In terms of Government debt, GE is expected to consistently reduce government debt in line with the conservative economic plan and in line with EX. guidelines.

AS is expected to increase government debt up to 2020 as it needs to stimulate economic growth through government spending. IN will continue to reduce government debt to 2020 as indicated in Fig. A. 8 in Appendix A. 2. 9 Gross Fixed Capital Formation the AS public to start to save. The Gross savings for all three countries has been extrapolated based on a moving average. . 10 Human Development Index Fig. A. II in Appendix A indicates human development index (HID) for AS, IN and GE for the period 1995 to 2020.

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