



# Platform

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Independent Insight in an Uncertain World

# PLEXUS

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## WHY WE SHOULD CARE ABOUT EUROPE

As South Africans, we started this week down in the dumps after the embarrassing display by Bafana Bafana in Nelspruit, and the unfortunate way the Springboks were booted out of the Rugby World Cup. From an economic point of view things have also been miserable.

With all the attention remaining firmly on Europe, and more specifically Greece, why should we care about them? The quick answer is global growth. For prosperity to prevail all over the world and in South Africa, global growth needs to be increasing. Imports and exports need to be thriving, as employed consumers are able to buy goods from across the globe. For too long global growth has been sustained by 'wealthy' developed-world governments borrowing money, running deficits and artificially keeping economies thriving.

Eventually the debt needs to be repaid. The difficulty Greece is facing is that it is struggling to repay its existing debts. Its expenditure simply exceeds its income. It has received bail-out packages from the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF), yet it still owes vast amounts to banks in Germany, France, Italy and many others. These banks will in turn be out of pocket, and therefore become more risky, if Greece is unable to service its debts or if it can only pay back a portion of what was borrowed.

But Greece does not owe South Africa any money, so why do its struggles affect us? Even though there is no direct lending between South Africa and Greece, there are strong economic connections between South Africa and the major European countries like Germany and France. A slowdown in Europe has a knock-on effect on the rest of the world, including South Africa. Europe has a large base of wealthy consumers who purchase goods from around the world, including South Africa. As Eurozone governments cut back on expenditure, business conditions deteriorate globally, which increases unemployment in trading partner countries. This results in less demand from historically strong countries and dampens the level of trade around the world. For example, the South African farmer who was exporting fruit to Europe experiences a decline in prices, volumes and demand, and profitability declines. This in turn affects the farmer's ability to employ workers and might increase the rate of unemployment in South Africa.

Recently there have been some utterances by the finance minister about the possibility of using some of our foreign reserves to provide aid to the European Union. However, this thinking was recently quashed by Reserve Bank governor Gill Marcus. But at the very least this illustrates our government's concern about the contagion effect for South Africa if the Eurozone enters a protracted recession.

In these times of worry, we perhaps should have shown more respect to the Dalai Lama, especially in a week when we were in need of some good karma on the sports fields.