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Opportunities Created by the Global Recession:

A Positive Outlook

The global financial crisis has presented itself with much doom and gloom affecting various markets, segments, sectors, governments and international economies. But with it also comes opportunities that can turn into a number of positives that can be explored. This paper serves to look at these positive factors that have risen from such a global economic catastrophe.

Economic Analysis Directorate
Gauteng Department of Finance
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"Innovate. Improve those things that already exist and sell them. The crisis exists only for those who cry and buy tissues."

By - Frank Coelho de Alcantara

1. Introduction

The global financial crisis created an unprecedented level of turbulence not seen since the Great Depression in the 1930's. The root cause of the financial crisis was manifested in the subprime lending crisis in the United States (US) whereby loans were granted to high risk borrowers. With interest rates steadily climbing, the resultant massive defaults in the mortgage market spiralled across the globe, diminishing both business and consumer confidence. This paper will identify some of the opportunities that have arisen as a result of the global economic meltdown. Although there have been widespread negative effects from the recession, it is important to identify the positive opportunities that can be leveraged in order to recover from the crisis. If there are losers (layoffs and companies in the red), there must also be winners somewhere, i.e. individuals or companies actually benefiting from the crisis (Scilla Alecci, 2009). The post-crisis period has presented an opportune time to consolidate one's debt, take advantage of low interest rates, adjust corporate strategies and identify investment opportunities in a buyer's market. By changing one's perspective about this crisis, which it is said happens only once every hundred years, it can be seen as a chance that only comes along once every hundred years (Chikara Ueki, 2009).

2. History Repeats Itself

'Why did the Mongol, the British and the Soviet empires collapse? Some historians argue it was because they became too big for their own good (diseconomies of scale). When an organisation (whether it's a country or a firm) becomes TOO big, it begins to experience inefficiencies' (Jason Welker, 2010).

Historians as far back as the Roman Empire have attempted to explain the process of 'globalisation' and 'de-globalisation'[1]. Financial globalisation is a historical process with two dimensions. One is the growing volume of cross border financial transactions; the other is the sequence of institutional and legal reforms implemented to liberalize and deregulate international capital movements and national financial systems (Roberto Frenkel, 2003).

[1] Globalisation describes an ongoing process by which regional economies, societies and cultures have become integrated through a globe-spanning network of communication and trade. The term is sometimes used to refer specifically to economic globalisation: the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration and the spread of technology. De-globalisation describes the opposite process.

The contraction of trade and Gross Domestic Product (GDP) brought about by the global financial crisis could lead to disintegration (de-globalisation) of national economies. Similarities can be seen and studied between the so called de-globalisation of the Roman Empire and today's global financial crisis. The Roman Empire started around 27 BC. As the empire got bigger and bigger, it was becoming impossible to manage from Rome and eventually the Empire split into two, the Occidental and Oriental Roman Empires (Western and Eastern blocks) around 395 AD (J. Welker, 2010). It made sense for the Roman Empire to expand its borders, absorbing neighboring tribes and land due to economies of scale. An explanation of economies of scale at a firm level means as this firm first begins to grow and open new factories, it becomes better and better at what it is producing, is able to get more output per unit of input and thus experiences lower and lower average total costs as it grows larger[2]. However, at some point (395 AD Rome split into two halves), expansion became unsustainable as it was too costly, this, coupled with a number of other factors such as the invasion of Germanic tribes from the North (Odoacer who disposed Western Rome in 476 AD) and Ottomun Turks from the east (captured Constantinople in 1476 AD to dispose Eastern Rome), thus the Empire started contracting. Similarly, a global catastrophe could possibly create an opportunity for one nation or corporation to rise above the others and become the next so-called 'Empire' of the global world, such as the rise of the Chinese economy. The Cobb-Douglas production function provides a theoretical illustration of the law of diminishing marginal returns, whereby the marginal product that is derived from the production of the first few units of output are subject to increasing returns. However, after a certain point, increasing resources will no longer increase returns due to economies of scale. The financial crisis has caused a number bubbles[3] to burst from over expansion and the greed of international bankers which led to an inevitable economic contraction globally.

> *'The menu of investment options is constantly shifting and expanding; financial innovation, i.e. creating and selling new varieties of securities, is an inexpensive process, requiring little more than a clever idea, a computer programmer, and a lawyer. Such innovation allows banks and other financial institutions to escape from old, regulated markets into new, ill-defined, and unregulated territory, potentially boosting their profits'.*
>
> (Ackerman F, 2008)

[2] Example of economies of scale - two shoe companies: Nike and Luigi's Fine Italian Shoes. Nike makes shoes in giant factories in Indonesia, ships them in giant containers to all corners of the world in shipments containing 100,000 shoes each. Luigi makes shoes in his basement in Milan, has two employees, and ships shoes one at a time to customers around Europe. Nike clearly has a lower average total cost curve for producing shoes (J. Welker, 2010)

[3] An economic cycle characterized by rapid expansion followed by a contraction. A surge in equity prices, often more than warranted by the fundamentals and usually in a particular sector, followed by a drastic drop in prices as a massive selloff occurs. A theory that security prices rise above their true value and will continue to do so until prices go into freefall and the bubble bursts. (Invesotopedia, 2010).

The global financial crisis started in August 2007, but signs could be seen as early as 2005 in the United States of America (USA) where the property market started its downward trend. Defaults in the subprime mortgage market widened, due to interest rate increases, resulting in banks repossessing such a large amount of properties that the subsequent attempts to re-sell pushed the price down due to over supply in the property market. In August 2007 French Bank BNP Paribas temporarily suspended redemptions from some of its investment funds that were holding assets secured by US subprime mortgage debt. BNP Paribas had difficulty in assigning a value to the complex structured assets. As a result, their investors began massive withdrawals from asset based markets. From the months preceding August 2007 and September 2008 where on the 15th of September Wall Street Bank, Lehman Brothers filed for bankruptcy, a process of re-intermediation occurred. This is a process whereby intermediaries from a supply chain are removed, in other words, loans or assets that were transferred off the balance sheets of banks to other institutions (intermediaries) through securitisation re-emerge on the balance sheets of banks as they are obliged, as originators, to accept them. Banks were forced to deleverage (reduce capital gearing) by selling assets and cutting back on loans that were primarily granted to other banks. This generated the pro-cyclical pattern of deleveraging or the vicious cycle of liquidity destruction. On the 13th and 14th of September 2008, Wall Street Bank's Lehman Brothers collapsed due to excessive gearing or leverage in the financial sector whereby more capital was required to support their gearing but it became difficult to secure new capital (Strydom PDF, 2009). It became clear that high levels of credit growth and risk-taking had become unsustainable through debt-led growth spreading globally.

3. Threats Created by Global Financial Crisis

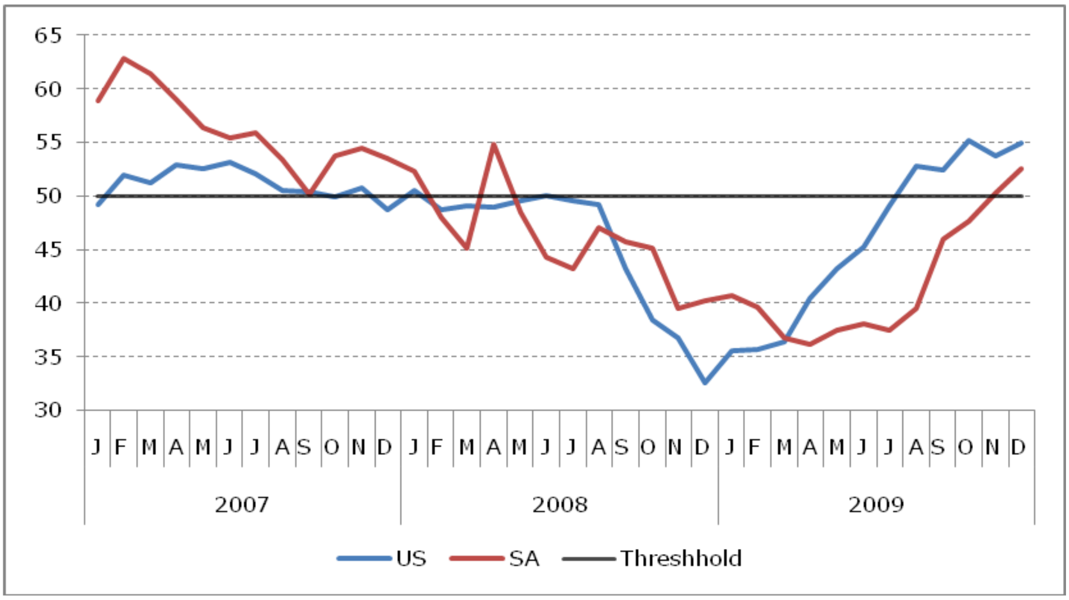
Table 1: Economic Growth and Unemployment during the Global Financial Crisis, 2008-2009

		2008					2009				
		Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
World Output		-	-	-	-	**3.0%**	-	-	-	-	**-0.8%**
GDP	USA	-0.7%	1.5%	-2.7%	-5.4%	**0.4%**	-6.4%	-0.7%	2.2%	5.7%	**-2.4%**
	SA	2.2%	5.8%	1.3%	-0.5%	**3.7%**	-7.6%	-2.0%	1.8%	3.8%	**-1.5%**
Unemployment	USA	5.0%	5.3%	6.0%	7.0%	**5.8%**	8.2%	9.3%	9.6%	10.0%	**9.3%**
	SA	23.5%	23.1%	23.2%	21.9%	**22.9%**	23.5%	23.6%	24.5%	24.3%	**24.0%**

Source: Bureau of Labour Statistics (BLS), IMF & Stats SA, 2010

Table 1 illustrates the economic contraction and rise in unemployment caused by the global financial crisis in the USA and SA as well as world GDP output. World output contracted from 3% in 2008 to -0.8% in 2009. The largest GDP contraction for both the USA and South Africa was in the first quarter of 2009. GDP growth in the USA contracted by 6.4% and in SA by 7.4%. The impact of reduced output could be felt by the rising unemployment rates in the USA and SA. Unemployment in the USA approximately doubled from 5% in the first quarter of 2008 to 10% in the fourth quarter of 2009. Unemployment in SA peaked in the third quarter of 2009, increasing to 24.5% from 21.9% in the fourth quarter of 2008. Some emerging markets remained positive although at a slower rate, such as China whose GDP growth declined from 9.6% in 2008 to 8.7% in 2009.

Figure 1: Purchasing Managers Index, US & SA, 2007-2009

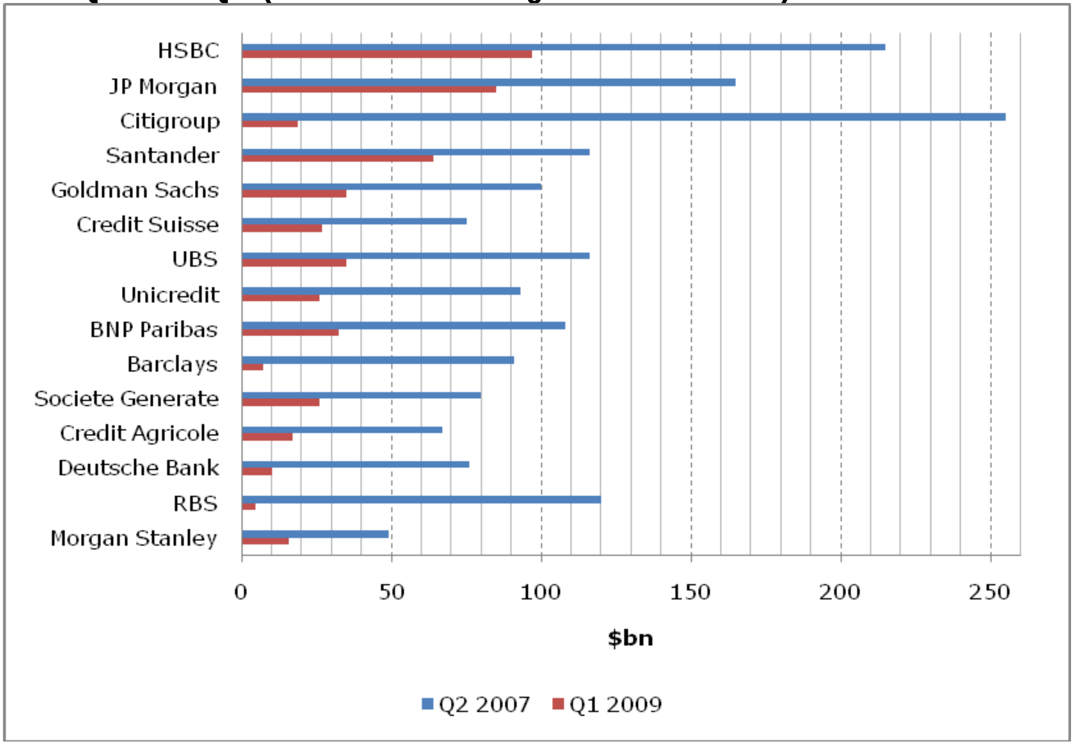


Source: Institute for Supply Management (ISM) & Bureau of Economic Research (BER), 2010

Figure 1 shows the Purchasing Managers Index (PMI)[4] for the US and SA between 2007 and 2009. The PMI in the US hovered around the 50 point mark in 2007 and for most of 2008 until dropping steeply in September 2008 to a low of 32.5 in December. Only in August 2009 did the PMI exceed the 50 point mark as the US emerged from recession. SA's PMI displayed a declining trend from 2007 to a low of 36.1 points in April 2009 before exceeding 50 points in November 2009. This PMI clearly shows the negative impact the global financial crisis had on the manufacturing sector, reducing global and domestic demand, which negatively impact trade levels.

[4] The PMI surveys the manufacturing sector by assessing monthly changes to business conditions. The PMI takes into consideration, variables such as production, new sales orders, employment, supplier deliveries and inventories. A value of 50 indicates no change in activity, a value above 50 indicates increased activity and a value below 50 indicates decreased activity.

Figure 2: Market Value of Corporations Before & During Financial Crisis ($bn), 2007Q2-2009Q1 (Before and during Financial Crisis)



Source: Econometrix, 2009

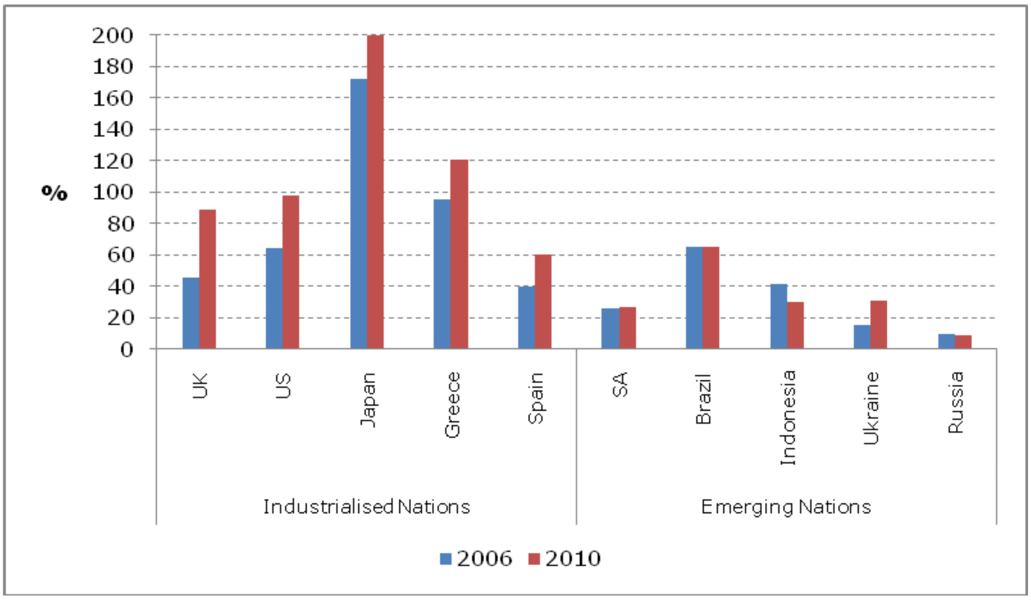
Figure 2 shows the extent of the harmful effect the global financial crisis had on large corporations, essentially reducing their market value significantly from the second quarter of 2007 (before the global financial crisis began) to first quarter of 2009 (height of global financial crisis). Citigroup exhibited the largest decline in market value from US$ 255 billion before the financial crisis to US$ 19 billion by first quarter of 2009. Its value had declined by 93% (US$236 billion) over the review period. Royal Bank of Scotland (RBS) and Hong Kong and Shanghai Banking Corporation (HSBC) both declined by over $US 110 billion each. This would have left many investors and particularly those who are about to go on pension, in a state of panic.

4. Opportunities Created by the Global Financial Crisis

This section looks at the opportunities created during and after the global financial crisis. The section identifies opportunities that the South African Reserve Bank (SARB), households, corporations, investors and countries can leverage as a result of the financial crisis.

4.1. Public Debt & SARB

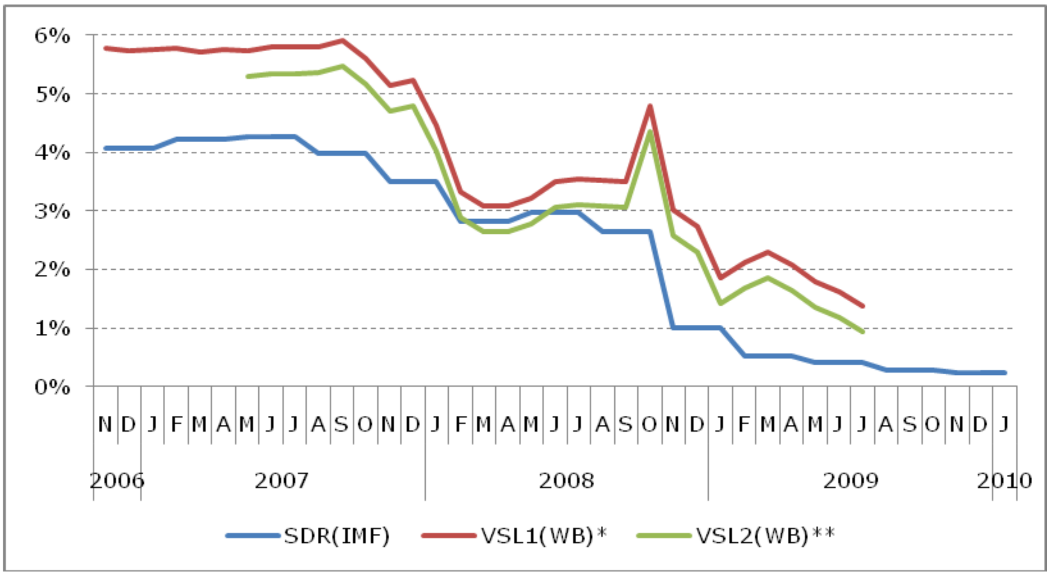
Figure 3: Gross Public Debt as a Percentage of GDP, Industrialised & Emerging Countries, 2006 & 2010



Source: Econometrix, 2010

Figure 3 shows total public debt as a percentage of GDP in 2006 and at the beginning of 2010 for industrialised and emerging countries. In comparison to industrialised nations, emerging countries have far lower debt levels. SA has managed to reduce its debt significantly (relative to other countries) between 2004 and 2007 during which, relatively high rates of economic growth were recorded. It is expected that debt will increase slightly in 2010 for SA due to the financial crisis, but not to levels comparable to the industrialised countries. Japan is an excellent example of the public debt challenges experienced by developed nations. This country had a debt level of around 172% of GDP in 2006 and which has subsequently increased to almost 200% in 2010. In addition to this, the United Kingdom (UK) debt levels practically doubled from 46% to 89.3% under the review period. As the USA and other industrialised countries reduced their interest rates, it provides an opportunity for other countries to reduce government and public debt even further by paying back any forms of debt a country may have with these countries or from the International Monetary Fund (IMF) and the World Bank (WB).

Figure 4: IMF & WB Interest Rates Charged, November 2006- January 2010



Source: IMF & WB, 2010

Note: SDR – Special Drawing Rights from IMF

* VSL1- Variable Spread Loans from WB in US$(For Loans to Which Invitation to Negotiate Was Issued on or After July 31, 1998 and Signed Before September 28, 2007)

** VSL2- Variable Spread Loans from WB in US$(For Loans Signed on or After September 28, 2007)

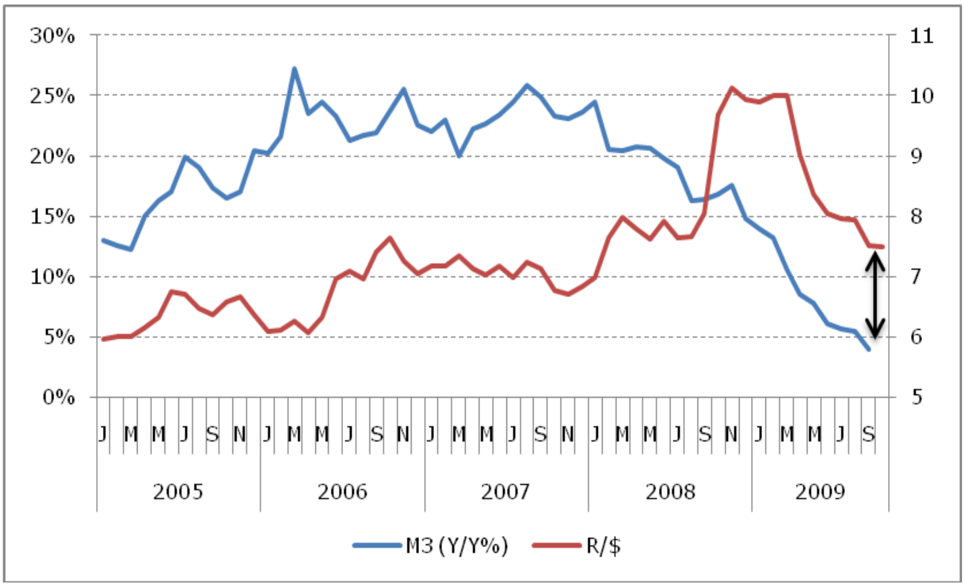
Figure 4 illustrates lending rates charged by the IMF and the WB before and after the global financial crisis. Special Drawing Rights (SDRs) are used by nations to bolster their reserves of foreign currency which can be purchased from the IMF. Variable Spread Loan interest rates in which case the US$ is illustrated above, is based on lending rates based on the London Inter-Bank Offer Rate (LIBOR)[5]. Both the IMF and the WB lending rates have decreased significantly since August 2007, providing relief for indebted nations and an opportunity to reduce debt during this period. Recently, electricity utility Eskom applied for $3.75 billion (approximately R27 billion) in loans from the WB in order to build power plants. This is the first time South Africa has requested a loan from the WB.

According to Econometrix (2010) Pty (Ltd), South Africa is characterised by a chronic dependence on foreign capital inflows to finance one of the largest current account deficits amongst emerging markets. However most of these capital inflows are comprised

[5] The LIBOR is the world's most widely used benchmark for short-term interest rates. It's important because it is the rate at which the world's most preferred borrowers are able to borrow money. It is also the rate upon which rates for less preferred borrowers are based. For example, a multinational corporation with a very good credit rating may be able to borrow money for one year at LIBOR plus four or five points. Countries that rely on the LIBOR for a reference rate include the USA, Canada, Switzerland and the U.K (Investopedia, 2010).

of more short term relatively flexible portfolio flows as opposed to more long term stable direct investment, which is the case with most emerging markets. This renders the Rand particularly vulnerable to sudden changes in the market climate. As a result, global events are the main determinant of movements in the Rand exchange rate. The SARB only has approximately three days worth of trading reserves, which amounted to approximately US$ 35 billion in February 2010; this renders the SARB relatively powerless to adequately intervene in exchange rates.

Figure 5: Money Supply & Rand / US$ Exchange Rate, SA, 2005-2009



Source: SARB, 2010

Figure 5 illustrates a window of opportunity to increase foreign reserves during conditions of Rand strength and low money supply (M3)[6]. As money supply decreases concurrent with a strong Rand against the Dollar, an opportunity for the SARB to build up foreign exchange reserves occurs. Creating Rands to sell into the market in exchange for other currencies will increase money supply and inflationary pressures. However, the slow growth in money supply, as shown in the above figure, should cushion inflationary

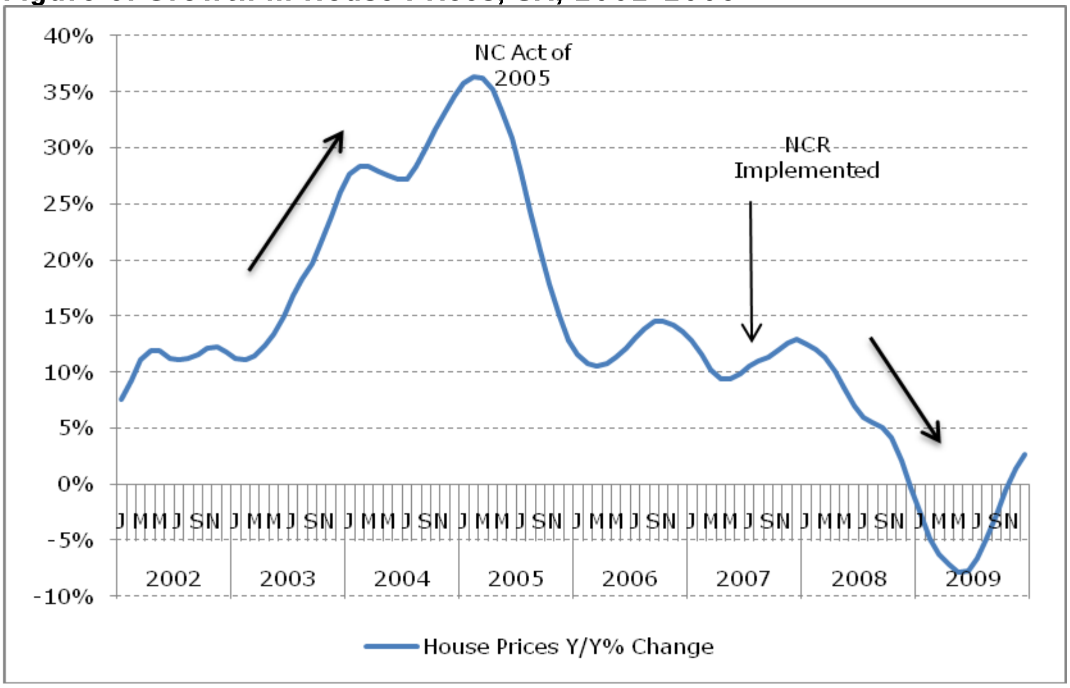
[6] The total amount of money in the country. There are various methods for measuring the money supply, itemised under "M1, M2 and M3".

M1A	Bank notes and coin in circulation outside the monetary sector plus cheque and transmission accounts of the domestic private sector with monetary institutions
M1	M1A plus demand deposits held by the domestic private sector
M2	M1 plus other short- and medium-term deposits held by the domestic private sector with monetary institutions
M3	M2 plus long-term deposits held by the domestic private sector with monetary institutions

pressures. Since January 2008 growth in money supply has decreased from 24.5% to 4% in September 2009. In conjunction with this, the Rand has strengthened against the dollar from R10/$ in February 2009 to R7.52/$ in September 2009. Exploiting the situation by building up reserves should be a means to reduce the volatility of the Rand and through this, increase the scope for foreign investment as argued by Econometrix Pty (Ltd).

4.2 Household Debt & Residential Property Prices

Figure 6: Growth in House Prices, SA, 2002-2009



Source: First National Bank (FNB) House Price Index, 2010

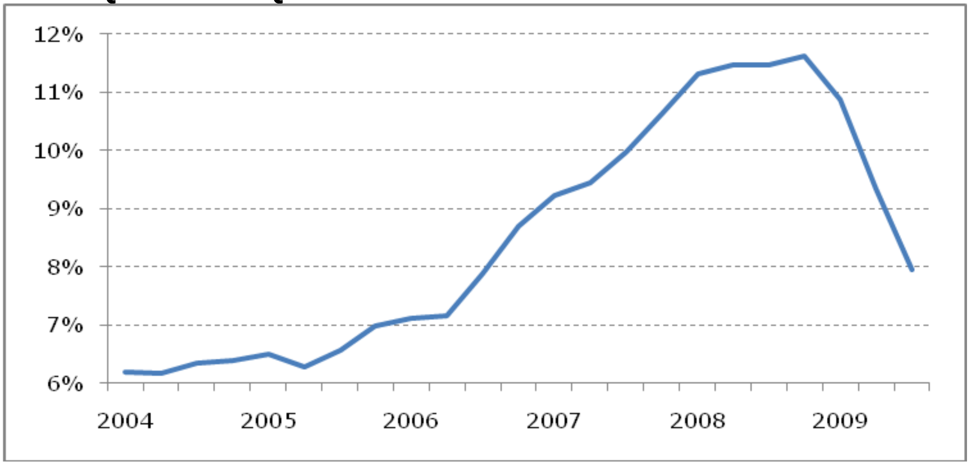
Note: National Credit Act No. 34 of 2005 (NCA)

National Credit Regulator (NCR)

Figure 6 shows the annual growth rate of house prices in SA from 2002 to 2009. The National Credit Act No. 34 of 2005 (NCA) and the National Credit Regulator (NCR) which came into effect in June 2007 sought to regulate the credit industry in the country. The NCR was established to ensure compliance with the NCA for all credit stakeholders and to protect those involved. In 2005 residential housing prices increased at an annual rate of 36.3%. This would mean a house costing R 500,000 in one year would cost R 681,500 in the following year; this amounted to an increase of R 181,500. This of course doesn't factor in the inflation rate, which further diminishes a household's purchasing power. In December 2007 house prices grew at 12.9%, going into 2008 where the rate continued to decline to a low point of -7.7% in June 2009.

Property investors, first time homeowners and households seeking to upgrade their current dwellings have an opportunity to enter the property market without needing to supplement their income substantially to meet the needs of house price increases. This is of course assuming that they meet the tight credit requirements provided by the banks during the recession. In addition property buyers also can take advantage of much repossession in a buyers market by being in a position to negotiate good deals. This could also include repossessed vehicles and household contents.

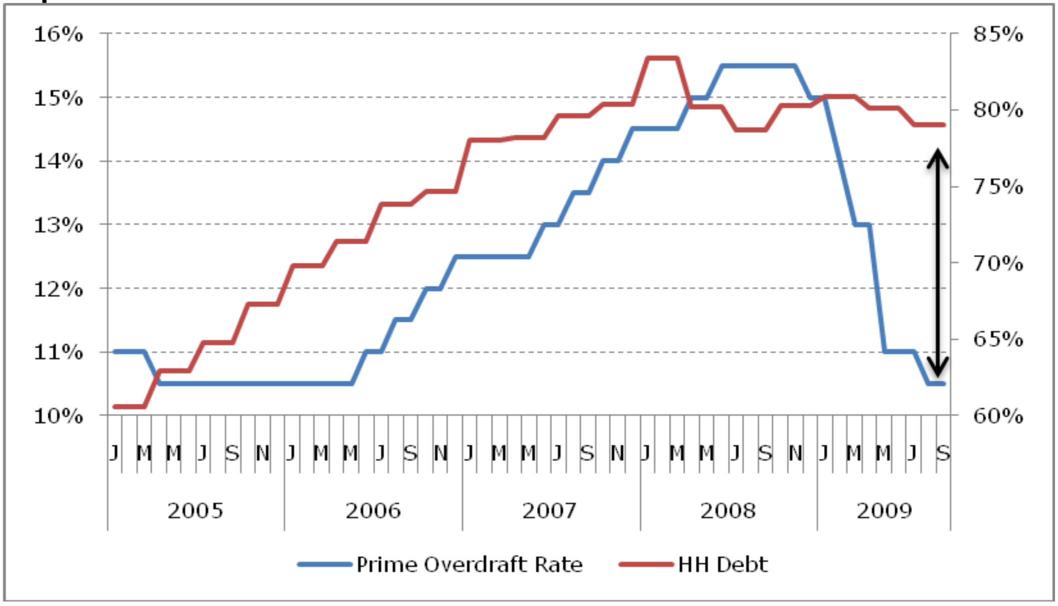
Figure 7: Debt-Service Costs to Disposable Income (Seasonally Adjusted), SA, 2004/Q1 - 2009/Q3



Source SARB, 2010

The relationship between interest rates and household debt is very clear. As interest rates increase, interest payments on household debt rise thereby increasing the household debt servicing ratio. Thus increasing monthly payments to the credit provider keeping the time frame constant. Figure 7 illustrates how debt servicing costs to disposable income increased significantly under the review hovering above 11% for most of 2008 when the prime overdraft rate was at its highest. The decline in interest rates after 2008 subsequently led to the decline in higher servicing costs.

Figure 8: Household Debt Ratio* & Interest Rates, SA, January 2005 – September 2009



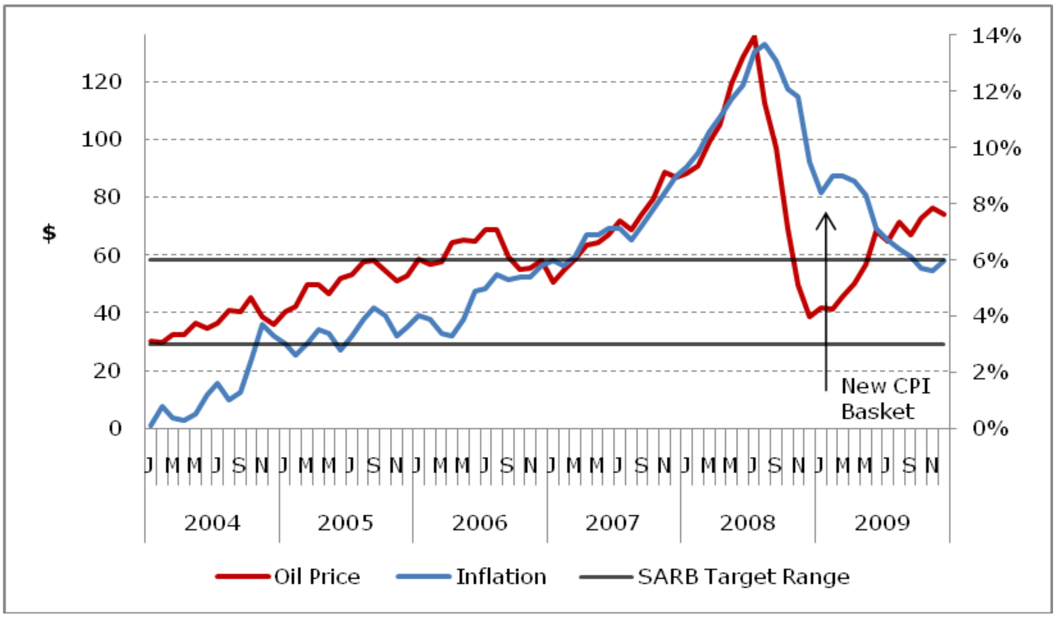
Source: SARB, 2010

*Note: Ratio of household debt to disposable income

Figure 8 delves further into the opportunities to enter the housing market and for consolidating debt by taking advantage of lower interest rates. Household debt had increased from 60.6% in the first quarter of 2005, to peak at 83.4% in the first quarter of 2008. By 2009 household debt (HH) remained around 80%. Subsequently the prime overdraft rate, which credit institutions use as a basis for the commercial lending rate, began increasing consecutively from 10.5% in May 2006 to 11.0% in June 2006, peaking at 15.5% for six months starting June 2008 to combat high inflation. From November 2008 interest rates dropped to 10.5%, a level last experienced in 2005. The gap between a relatively low interest rate and household debt starting in August 2009 provides an opportunity to consolidate debt.

4.3 Price Level

Figure 9: Inflation Rate & Price of Brent Crude Oil per Barrel, 2004-2009



Source: SARB, 2010

Figure 9 shows the inflation rate for SA and global oil price per barrel between 2004 and 2009. Prices overheated in 2008 forcing the SARB to increase the repurchase rate[7] (repo rates). The SARB has a target range of 3% to 6% for inflation. In March 2007, the inflation rate went above 6% peaking at 13.7% in August 2008. Thus the SARB during this period increased the repo rate in an attempt to reduce inflation to its target range. The global financial crisis significantly reduced demand for goods and services, aiding in the reduction of the Consumer Price Index (CPI) and bringing the inflation rate to within the SARB target range of between 3-6%.

The increase in oil prices fuelled the increase in the general price level as shown in Figure 9. Brent crude oil increased from US$ 50.8/barrel in January 2007 to US$ 135.6 in June 2008, 18 months later. The global demand for oil contracted, forcing prices down and bottomed out in December 2008 at US$ 38.6/barrel. This provided countries with the opportunity to stock up oil inventories during the early parts of 2009. Countries such as China relished the opportunity to the point where it had no more storage space and was forced to store oil in tankers at sea.

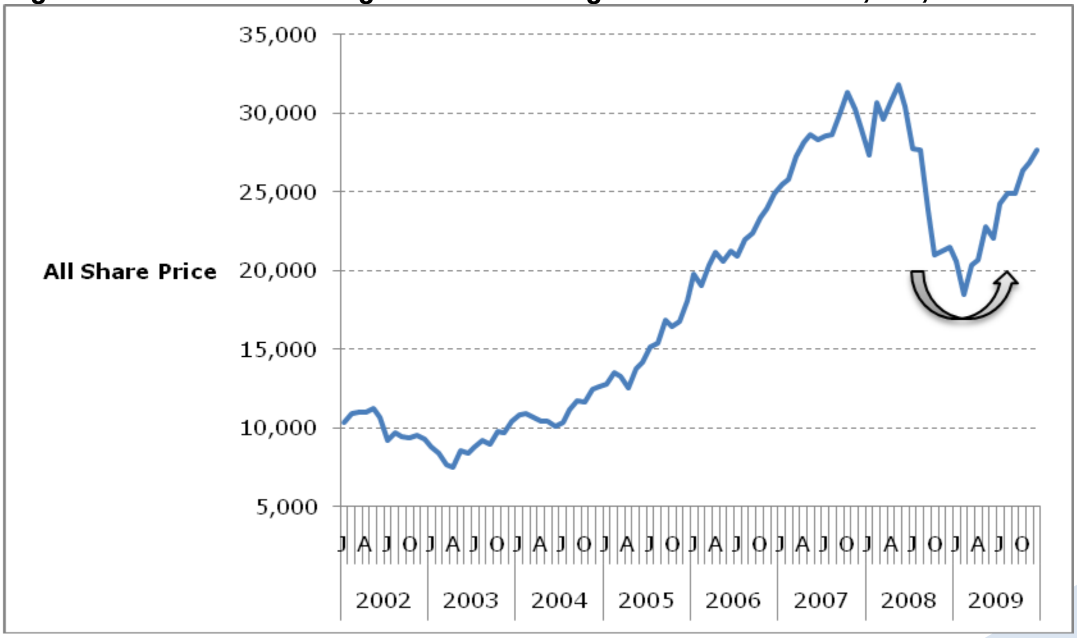
[7] Discount rate at which a central bank repurchases government securities from the commercial banks that largely depends on the level of money supply it decides to maintain in the country's monetary system.

4.4 Financial Markets

'The process of financial innovation will continue to challenge any simple attempts to curtail the flight of capital. The ultimate answer to this problem is not only to regulate existing financial markets and institutions, but also to create new, socially useful opportunities for investment – to steer capital toward better purposes, as well as policing its attempts to steal away. With such an effort, there will be a reliable set of investment opportunities in the production of real, socially useful goods and services, as well as a much-strengthened government empowered to regulate and prevent dangerous forms of speculation and undesirable financial "innovations".'

(Ackerman F, 2008)

Figure 10: Johannesburg Stock Exchange All Share Index, SA, 2002-2009



Source: JSE, 2010

Figure 10 shows the All Share Index (ASI) at the Johannesburg Stock Exchange (JSE) from 2002 to the end of 2009. The slight dip in 2003 was due to the war against Iraq by the USA and British forces. Since then the JSE has experienced bullish[8] gains until second half of 2007 where speculation over the global financial crisis started mushrooming, causing shares prices to become volatile. The ASI peaked in May 2008 at 31,841.27 which subsequently declined on bearish grounds to 18,465.33 in February 2009 creating a buyer's market for investors.

[8] The use of "bull" and "bear" to describe markets comes from the way the animals attack their opponents. A bull thrusts its horns up into the air while a bear swipes its paws down. These actions are metaphors for the movement of a market. If the trend is up, it's a bull market. If the trend is down, it's a bear market. (Investopedia, 2010)

Timing of the market is important as it determines the ability to turn trading into a profitable gain by selling at high levels and buying at low levels. Table 2 below illustrates the quick recovery in 2009 to reach 27,666.45 points in December where net portfolio inflows for 2009 almost reached levels experienced in 2006.

Table 2: Net Portfolio Inflows (R bn), SA, 2006-2009

	Equities	Gilts	Total
2006	76,133	36,101	111,647
2007	67,460	2,519	69,979
2008	-57,342	22,418	-34,923
2009	76,536	25,925	102,461

Source: Econometrix, 2010

In 2009 capital flows in the form of equities and gilts (risk-free type of government bond/debt instrument) amounted to approximately R 103 billion. Investors took advantage of the weak Rand in the first half of 2009 and speculative movements in the South African market. According to Econometrix Pty (Ltd)[9], the markets had created a speculators paradise where investors would invest in anything that moved. South Africa is regarded as an emerging market where potential profitable gains could be made for investors.

Table 3: Money Market Interest Rates, 8th February 2010

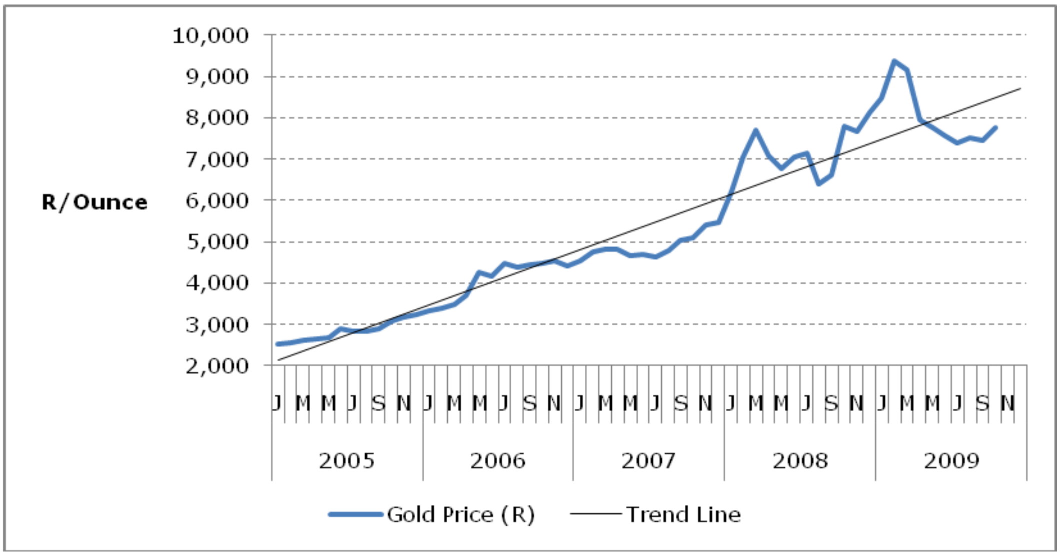
Emerging Markets Money Market Interest rates		Emerging Markets Real Money Market Interest rates	
Russia	8.8	Brazil	4.4
Brazil	8.7	Indonesia	3.4
South Africa	**7.1**	Mexico	0.9
Turkey	7.1	**South Africa**	**0.8**
Indonesia	7.1	Hungary	0.4
Hungary	6	Philippines	0.2
Philippines	4.6	Russia	-0.1
Mexico	4.5	Turkey	-1.1

Source: Econometrix, 2010

Table 3 shows the money market interest rates in emerging markets. Many investors had jumped at the opportunity at investing in what is referred to as the 'carry trade'. The so called carry trade means that investors could borrow money at virtually zero interest from USA and European banks and invest it in emerging markets in the form of deposits at higher returns due to higher interest rates. Money market interest rates in SA for emerging markets were the third highest behind Russia and Brazil. Real interest rates (interest rates minus inflation) were 0.8% for SA showing a positive return for investors.

[9] Outlook for the International & South African Economies Presented by Chief Economist Dr. Azar Jammine, 1st Quarter of 2010

Figure 11: Gold Price, SA, 2005-2009



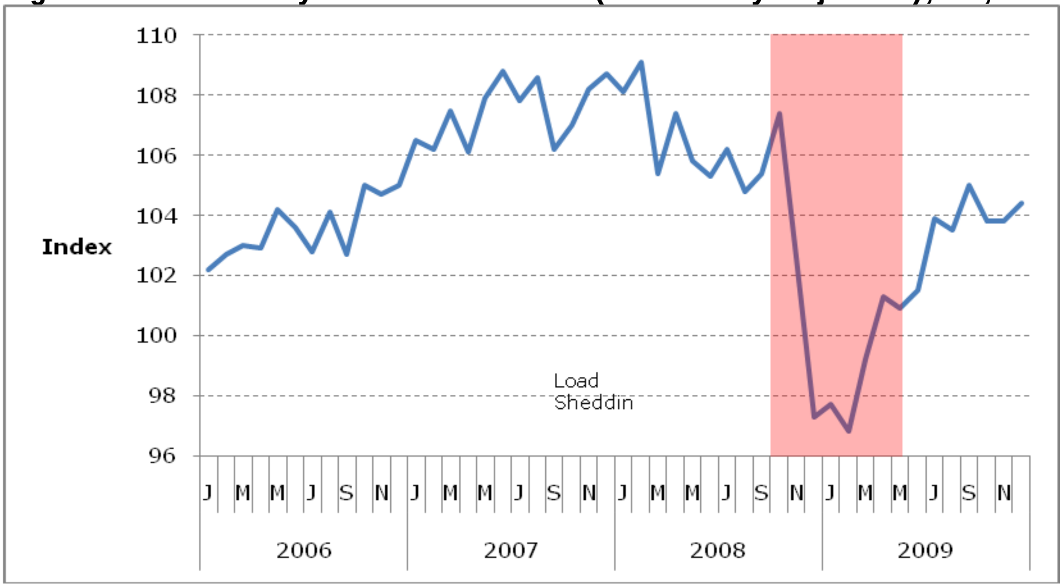
Source: SARB, 2010

Figure 11 shows the movement in the price of gold from 2005 to the end of 2009. Throughout the global financial crisis and any global economic catastrophe, gold remains the investor's safe haven and a reliable store of value. Gold has managed to maintain an upward trend in value throughout the period of global economic contraction, peaking at R 9,380.23 in February 2009. Gold producing countries such as SA should benefit from such high price opportunities.

4.5 Corporate Re-structuring

The recession has provided companies with the opportunity to restructure their corporate strategies in order to enhance productivity, align themselves competitively, enter new domains, innovate, create new cost-cutting measures and restructure employee packages in order to enhance profitably. Companies have redrafted performance contracts to reward those in difficult economic times who strive for improved work productivity (for example, meeting sales targets). There has been a process of enhancing efficiencies and therefore certain business activities and outputs have been outsourced to more efficient companies. Unfortunately companies have also seen the recession as an excuse to lay-off employees as a cost cutting measure.

Figure 12: Electricity Production Index (Seasonally Adjusted), SA, 2006-2009



Source: Stats SA, 2010

Figure 12 shows the electricity production in SA from 2006 to end of 2009. Between late 2007 and early 2008, South Africa experienced what was termed ‘load shedding’ where electricity demand outstripped supply resulting in blackouts and power outages to conserve electricity usage. While the heated debate over Eskom’s inability to supply sufficient electricity continued throughout much of 2008 into 2009, the impact of the recession reduced electricity demand significantly as shown in the highlighted area, therefore allowing Eskom some breathing space for stakeholders to resolve the issue.

4.6 Commercial Sector

Until recently, it was extremely difficult to break into the global banking sector. In addition to the relatively large amount of capital required and the strict regulatory procedures, there was the simple fact that the banking sector was dependent on the trust that banking customers have in well established banks. Old banks had both the financial advantage of the capital they had accumulated over the years, as well as the advantage of being well-known and well-trusted over a long period of time. These factors contributed to people’s perceptions of safety and security with the status quo in the banking sector.

This proved to be a false sense of security, as illustrated when the financial and housing markets took the fall that precipitated a global recession. Risky lending using increasingly arcane financial instruments finally collapsed in on itself. As a result of the financial crisis, a number of huge, well-established banks are no more and the safety and security that characterised the banking sector prior to the crisis has been completely eroded. These circumstances have created new opportunities in a previously staid sector of the economy. New banks do not have to worry about many of the problems that established banks made for themselves, like trying to sort out loans gone bad and investments gone under.

Time magazine recently published an article entitled “While the Giants Reel, Many Small Banks Are Thriving”. The article examined opportunities for new banks in the present economic environment, which has been shaped by the global financial crisis. One of the crucial points included is the fact that old banks have reduced their rate of credit extension as they are trying to improve their existing balance sheets that are currently heavy with bad debts and toxic assets that were acquired during the pre-recession lending spree. The article also mentions customers’ unhappiness with the existing banks’ recent history, most notably their contribution to the world’s latest economic recession and the motivation this gives some of them to look for alternatives. New banks can take advantage of these openings to snap up good customers that are having a hard time finding finance for worthwhile projects.

At the moment, entry costs are also lower in the banking industry. The challenges faced by old banks mean that their assets can be bought relatively cheaply by new banks (Simon Wilson, 2010). In addition, the relatively low interest rates set by most central banks have reduced debt servicing costs that emanate from money that they borrow from their reserve bank, making borrowing cheaper for any bank.

Entrepreneurs are starting to notice this gap in the market. Time Magazine and Moneyweek report that there are already many applications for new banking licenses in the USA and Britain, respectively. Exact numbers are unavailable as the applications are confidential, with the names of those applying only being released if and when the license is granted. In the U.K., British supermarket giant Tesco was recently approved for a banking licence and Virgin Enterprises will soon follow suit with Virgin Money.

It is important to note however, that while setting up a new bank has become more viable, it by no means became an effortless undertaking. Large sums of capital remain necessary, daunting amounts of paperwork must still be filled in and regulatory officials, frightened by the recent financial crisis, are making all requirements more onerous. However, an enterprising business person that manages to overcome these obstacles could stand to make a handsome profit in an economic sector that previously seemed almost completely barred to new entrants.

Table 4: Top Rich Gainers & Losers during 2008, SA

Top Rich in SA 2009 (Worth)	Gainers ⇑	Chip Goodyear	R411.6M	Brett Levy	R50.38M	Stephen Kosoff	R49.52M
	Losers ⇓	Lakshmi Mittal	R16.95bn	Patrice Motsepe	R14.25Bn	Nicky Oppenheimer	R5.36Bn

Source: Sunday Times, 2010

Of the top 100 South African rich list, a total of R 56.1 billion was lost during 2008. Not all tycoons made a loss as illustrated in Table 5. Brett Levy made R15.9 Million in 2007 increasing to R 50.38 Million in 2008. According to Forbes World's Billionaires' list, only 12% of global billionaires saw their fortunes declined in 2009. For the third time in three years the world has a new richest man, Carlos Slim Helu followed by Bill Gates and Warren Buffet. 'Most of the richest people on the planet have seen their fortunes soar in the past year' (Forbes Worlds Billionaires, 2010).

4.7 Other Opportunities

The following provides a list of other potential and real opportunities arising from a global recession.

- Opportunity to diversify economy and not be reliant on a single trade or industry. A document written by D-3 Enterprises Insurance Agency named '*Opportunities for the Caribbean Provided by the Global Recession*' identified a number of opportunities. Firstly, socio-economic opportunities such as diversifying their economy and not be solely reliant on tourism. 'The Region (Caribbean) is known for its great sunshine (great weather), hospitable people – resources that can be employed to develop an industry that is more sustainable than the traditional tourism.' Secondly, political opportunities arise whereby different people come together to fight a common 'cause' or 'enemy'. In this case, the recession has brought all heads together.

In the case of the Caribbean this brought government heads together from the different islands to serve one cause to fight against the problems associated with the global financial crisis. Thirdly, trade opportunities, a skewed balance of trade whereby a significant amount of financial capital flows out of the region could be halted allowing for greater intra-regional trade.

- According to Yoshihiro Kawai, the Secretary General of the International Association of Insurance Supervisors, in the economic meltdown an estimated 25 institutions created 75% of the total loss. And of the 35 largest international institutions, 14 were insurance companies or insurance conglomerates. The meltdown showed how one institution could create systemic risk for the entire world (B. Cameron, 2010). A call for increased regulation and the rethinking of macro-economic policy by the IMF, WB, central banks and main stream economic thought. 'The current moment of financial crisis and the prospect of deep recession offer a historic window of opportunity for change in economics and in economic policy. The combination of crisis and accumulated popular resentments following two decades of wage restraint, widening income inequality and increased economic insecurity makes for a political atmosphere conducive to change' (I.P Thomas, 2009). The IMF has published a paper *'Rethinking Macroeconomic Policy'* as part of a series of policy papers to reassess macroeconomic and financial policy framework in the wake of the financial crisis.

- Environmental economists might see this as an opportunity for global environmental recovery[10]. "What if the crisis of 2008 represents something much more fundamental than a deep recession? What if it's telling us that the whole growth model we created over the last 50 years is simply unsustainable economically and ecologically and that 2008 was when we hit the wall — when Mother Nature and the market both said: "No more" " (Thomas L. Friedman, 2009). Environmentalists suggest that the world is facing a natural resources crisis which is far worse than the financial crisis. A list of 12 most serious environmental problems facing past (and future) societies, problems that often have led to the collapse of historical societies, lists human consumption as one of the problems. "The Global Recession presents an opportunity and a necessity to change, break our addictions to the "growth at all costs" economic model, to fossil fuels, and to over-consumption" (Robert Costanza, 2009).

[10] Presentation by Robert Costanza titled '*The Global Recession: an opportunity to create a sustainable and*

- Unfortunately, the recession also provides the opportunity for criminal activity in the form of fraud and corruption. Workers laid off are tempted into corrupt activities, financial planners offer false advice and internal business fraud is aggravated by pressure to meet performance targets and keep access to funding. 'At its worst, the process of financial innovation provides ample opportunity to cheat, knowingly selling new types of securities for more than they are worth' (Frank Ackerman, 2008). A survey conducted by PricewaterhouseCoopers showed that out of 3,000 senior executives in 54 countries fraud had grown to 38% of the economic crimes in 2009, up from 27% in the firm's 2007 survey (Reuters).

5. Opportunities for Gauteng

The Gauteng economy has a relative high correlation with that of SA, which in turn has a high correlation with the rest of the global economy. Therefore the same opportunities that arise globally may present themselves to the province during and after the global recession. Gauteng has opportunities to explore new industries and diversify its economy even further.

Small to Medium enterprises (SMEs) may be able to gain an increase in market share further curbing Gauteng's high unemployment rate. According to the SME Survey 2009[11], of the 2,500 SMEs surveyed only 5% indicated that they were unprofitable. Five sectors reported that they were strongly profitable namely; agriculture, communication, financial services, IT software & services and wholesale trade. Factors that lead to curbing the pressures from the recession according to the survey are maintaining good cash flow and sound business administration and financial systems. Each of these two factors were rated 93% by SMEs as key in supporting their survival. When the SMEs were asked whether those depressed by the recession would do something about it, 31% agreed strongly, 25% agreed, 21% neutral, 7% disagreed, 15% strongly disagreed. Many respondents were optimistic about the future despite the recession with 62% strongly accepting the recession and wanting to move on by beating the recession through business basics.

[11] Presented by Arthur Goldstuck titled *'SMEs and the Recession'*, October 2009.

The recession caused revenue collection by provincial governments to decline thereby changing spending patterns to a more conservative approach. The first savings process was actual money surrendered by various provincial departments. According to the Provincial Adjustment Appropriation Bill (2009/10) for the Gauteng Provincial Government, an amount of R87.6 million was surrendered as savings realised after embarking on spending reprioritisation to the Provincial Revenue Fund (PRF). This was actual money saved. A reprioritisation process involved shifting limited financial resources from non-core to core functions to re-align with the provincial priorities. The second savings method was a review process of provincial contracts. Unnecessary contracts were cancelled, although some involve penalties, over the long run should benefit the province. An amount of R 8 billion is expected to be saved by reviewing contracts between provincial government, agencies and other parties. An example would be the motorsport contract which would save the Gauteng Department of Economic Development about R 700 million.

Table 5: GDP, Credit Ratings, 2003-2008

			2003	2004	2005	2006	2007	2008
GDP	SA		3.2%	4.8%	5.0%	5.2%	5.1%	3.2%
	Gauteng		3.3%	5.4%	5.3%	6.1%	5.7%	3.5%
			Previous Rating		**Current Rating**		**Progress**	
Financial Institutions (Credit Ratings)	Absa	*	Apr-07	C	Nov-09	C-	Downgrade	⇓
		**	Jan-05	Baa1	Jul-09	A3	Upgrade	⇑
		***	Jul-09	Aa3	Nov-09	A1	Downgrade	⇓
	FNB	*	Mar-98	C	Nov-09	C-	Downgrade	⇓
		**	Jan-05	Baa1	Jul-09	A3	Upgrade	⇑
		***	Dec-01	A1	Nov-09	A2	Downgrade	⇓
	Nedbank	*	Mar-04	C	Nov-09	C-	Downgrade	⇓
		**	Jan-05	Baa1	Jul-09	A3	Upgrade	⇑
		***	Mar-09	A1	Nov-09	A2	Downgrade	⇓
	Standard Bank	*	May-01	C+	Nov-09	C	Downgrade	⇓
		**	Jan-05	Baa1	Jul-09	A3	Upgrade	⇑
		***	Jul-09	Aa3	Nov-09	A1	Downgrade	⇓
Gold Production	2008		**Gauteng**	**North West**	**Free State**	**Mpumalanga**	**Limpopo**	**SA**
		t	102.5	53.0	44.7	9.7	2.8	212.7
		%	48%	25%	21%	5%	1%	100%
Location Quotient (2008)	Main Adv Sector		**Manufacturing**	**Construction**	**Finance**	**Trade**	**Community Services**	
	Gauteng		1.23	1.3	1.13	1.05	1.07	

Source: Stats SA (2010), Moody's (2010), IHS Global Insight, 2010 and Department of Mineral Resources 2010

Note: See Appendix for credit rating definitions.

*Bank Financial Strength
**Long Term Rating (Foreign)
***Long Term Rating (Domestic)
+ & - represent upper and lower ends of the generic rating system. E.G A+, A, A-
t - Tons

Table 4 shows a number of SA and Gauteng economic and financial indicators. The Gauteng and SA economies are closely inter-linked, illustrated by the facts that the Gross Domestic Product by Region (GDPR) growth rate of Gauteng closely matches that of South Africa and similarities in opportunities presented to both. The head offices of the four major banks in South Africa reside in Gauteng thereby giving the province a high competitive advantage in and hence a location quotient of 1.13, for finance. Previously in figure 11, the upward trend in the gold price was shown. Gauteng produces most of the country's gold, approximately 48% (102.5 tons) followed by North West at 25% (53 tons). The credit rating of the four major banks shows a relatively adequate credit rating and a stable environment of the banking sector still after the recession. Although the bank financial strength and long term domestic rating declined, long term foreign deposits credit rating improved to A which is above average relative to other domestic issuers.

6. Conclusion

The recession has in many respects brought about hardship and despair to many pensioners, governments, corporations, employees, banks and investors. Much of the sentiment about the contraction in the world economy created by the global recession has been negative, but such a global catastrophe may bring about opportunistic elements for a more prosperous future. It takes some ingenuity and vision to 'sell tissues while others cry'.

Global organisations such as the IMF and WB, as well as industrialised nations such as the USA and UK, have lowered interest rates to near zero creating opportunities for countries to repay debt, borrow at lower rates and for investors to invest in the carry trade. During conditions of low money supply growth in conjunction with a strong Rand, the SARB has the opportunity to increase its reserves with minimal threat of increased inflationary pressure. Residential house prices have declined from December 2008 to October 2009, creating a property buyers market. Falling global demand for goods and services subsequently led to significant drop in oil prices, allowing emerging nations such as China to stock up inventories at lower prices.

Capital inflows in the form of equities and gilts flowed into South Africa in 2009, almost reaching levels of that in 2006 (before the year the global financial crisis started). New and/or smaller banks have the opportunity to gain market share by winning over clients who mistrust the older banks and purchasing considerable stakes in the old banks who have to sell themselves or assets thereof due to difficulties caused by the financial crisis. To understand the current economic crisis we have to look at both economic history and the history of economic thought. The rethinking of macro-economic thought and regulation, to prevent future recession, has been put on the table by the IMF. To return to usual business as quickly as possible without lessons learnt will ultimately lead to another global economic catastrophe.

Appendix

Bank Financial Strength Rating Definitions by Moody's

A	Banks rated A possess superior intrinsic financial strength. Typically, they will be institutions with highly valuable and defensible business franchises, strong financial fundamentals, and a very predictable and stable operating environment.
B	Banks rated B possess strong intrinsic financial strength. Typically, they will be institutions with valuable and defensible business franchises, good financial fundamentals, and a predictable and stable operating environment.
C	Banks rated C possess adequate intrinsic financial strength. Typically, they will be institutions with more limited but still valuable business franchises. These banks will display either acceptable financial fundamentals within a predictable and stable operating environment or good financial fundamentals within a less predictable and stable operating environment.
D	Banks rated D display modest intrinsic financial strength, potentially requiring some outside support at times. Such institutions may be limited by one or more of the following factors: a weak business franchise; financial fundamentals that are deficient in one or more respects; or an unpredictable and unstable operating environment.
E	Banks rated E display very modest intrinsic financial strength, with a higher likelihood of periodic outside support or an eventual need for outside assistance. Such institutions may be limited by one or more of the following factors: a weak and limited business franchise; financial fundamentals that are materially deficient in one or more respects; or highly financial fundamentals that are materially deficient in one or more respects; or a highly unpredictable or unstable operating environment.

Note: + & - represent upper and lower ends of the generic rating system.

Long Term Foreign and Domestic Ratings Definitions by Moody's.

Aaa.n	Issuers or issues rated Aaa.n demonstrate the strongest creditworthiness relative to other domestic issuers.
Aa.n	Issuers or issues rated Aa.n demonstrate very strong creditworthiness relative to other domestic issuers.
A.n	Issuers or issues rated A.n present above-average creditworthiness relative to other domestic issuers.
Baa.n	Issuers or issues rated Baa.n represent average creditworthiness relative to other domestic issuers.
Ba.n	Issuers or issues rated Ba.n demonstrate below-average creditworthiness relative to other domestic issuers.
B.n	Issuers or issues rated B.n demonstrate weak creditworthiness relative to other domestic issuers.
Caa.n	Issuers or issues rated Caa.n are speculative and demonstrate very weak creditworthiness relative to other domestic issuers.
Ca.n	Issuers or issues rated Ca.n are highly speculative and demonstrate extremely weak creditworthiness relative to other domestic issuers.
C.n	Issuers or issues rated C.n are extremely speculative and demonstrate the weakest creditworthiness relative to other domestic issuers.

Note: n - represents a numerical modifier. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

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