Economics

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South Africa Macro View

The 2010 Soccer World Cup – A “Ballpark” Assessment

- Hosting the 2010 FIFA Soccer World Cup probably will bring tangible but small economic benefits to the SA economy. While stadium and transportation infrastructure construction provided the main boost prior to 2010, we expect World Cup-related tourism inflows to boost this year’s real GDP by up to 0.5%.

- In addition to boosting GDP, the World Cup probably will trigger a temporary improvement in the current account in Q2 which may support the rand. By contrast, we see no lasting impact from the event on inflation and consequently no influence on the monetary policy outlook for 2010.

- Successfully hosting the World Cup could prove a “marketing success” that helps improve South Africa’s image on the global scale. In turn, this could prove beneficial to longer-term expansion (especially in tourism). Yet, potential gains are, in our view, too uncertain to be factored into present expectations of future financial asset prices.

Jean Francois Mercier
+27-11-944-0813
jean.mercier@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

Executive Summary

- South Africa will be hosting the 2010 FIFA Soccer World Cup from June 11 to July 11 – the first time that a sporting event of such magnitude will be held in the country, or indeed on the whole African continent. The debate as to whether SA would have the proper infrastructure and logistics ready in time for the event now appears by and large successfully resolved, at least as far as stadium readiness is concerned. Nonetheless, the debate about the economic benefits of the World Cup for SA remains open, and this is the discussion theme of the present report.

- In the years prior to the World Cup, infrastructure spending by the public sector – to build new stadiums and upgrade existing ones, but also to expand the transportation and communication network – accounted for the bulk of the boost to overall activity. Much academic research has shown that, when including the indirect "multiplier" effects on other sectors of activity, the total impact on the overall economy may have been worth as much as 1.0%-1.2% of GDP, spread over several years. Such an impact, however, is small compared to that of the public sector's overall infrastructure build program – especially in the field of power generation.

- In the present year, most of the economic benefit from the World Cup is likely to come from travel, accommodation and entertainment expenses by visiting supporters. We tend to agree with both private and public estimates that this impact could be around 0.5% of GDP, though we see downside risks to that figure if, for example, fewer fans travel to SA or they spend less than generally assumed. Historical experience calls for caution – as ex-post economic studies of previous World Cups tend to suggest a lesser economic impact than ex-ante analyses, which often are commissioned by event sponsors or organising committees.

- The macro impact of the World Cup is likely to be concentrated in Q2, with GDP potentially growing by 5% or more on a seasonally-adjusted, annualised QQ basis in that quarter. Equally, travel receipts should meaningfully reduce the current account deficit in Q2, while some services prices may accelerate relative to the overall CPI. Tax revenues also should benefit from heightened activity. However, these macroeconomic effects are expected to be transitory and therefore have no implication on monetary policy – and probably not on fixed-income markets as a whole. The rand could temporarily benefit from the concentration of travel receipts in Q2, though these flows probably would not be large enough to prevent rand depreciation if a change in sentiment triggered meaningful capital outflows out of SA.

- The medium- to long-term impact of the World Cup is harder to quantify. A lasting "feel-good" factor is a possibility but we doubt that it would have a major medium-term economic impact. A potentially more tangible benefit could be a boost to tourism growth into SA – an industry that has expanded fast in the past 15 years but has yet to reach its full potential. By contrast, getting a lasting return on stadium investments is more of a challenge, unless these stadiums are frequently used for major spectator events or become "iconic buildings" that boost the profile of host cities.

The World Cup – A "Ballpark" Assessment

The World Is Coming to South Africa

32 national soccer teams will take part in Africa's first World Cup.

The much-hyped (at least judging by comments from the media and politicians alike) 2010 Soccer World Cup is nearly upon us. From June 11 to July 11 2010, 32 national teams will be competing in a total of 64 matches, including 48 "round-robin" matches and 16 "sudden-death" matches including – and leading up to – the final. Thirteen out of these 32 teams herald from Europe (with six of the nine largest economies of the continent represented, excluding Poland, Turkey and Russia), eight from the Americas (including Brazil, Mexico and the US), six from Africa and five from Asia and Oceania. Nine cities will host the event in ten different stadiums, with total capacity of 575,700 seats (see Figure 1). The event is similar in size to the World Cups hosted from 1998 to 2006, in France, Japan/Korea and Germany, respectively.[1] Equally important from a political and social point of view, this is the first time that the event – or for that matter, an event of that stage – will be held on the African continent, although it had been held before in an emerging country (Brazil, Mexico, Argentina, Uruguay and Korea hosted or co-hosted the World Cup before).

Figure 1. List of World Cup stadiums, date of completion, seating capacity and matches to be held per stadium

Name of Stadium	Host City	Date of completion	Capacity	Matches held
Soccer City	Johannesburg	1987 (upgrade 2009)	94,700	8 (incl. final)
Ellis Park	Johannesburg	1982 (upgrade 2009)	61,000	7
Green Point	Cape Town	2009	70,000	8 (incl. opening ceremony)
Moses Mabhida	Durban	2009	70,000	7
Free State	Bloemfontein	1952 (upgrade 2008)	48,000	6
Nelson Mandela Bay	Port Elizabeth	2009	48,000	8
Mbombela Stadium	Nelspruit	2009	46,000	4
Peter Mokaba	Polokwane	2010	46,000	4
Royal Bafokeng	Rustenburg	1999 (upgrade 2010)	42,000	6
Loftus Versfeld	Pretoria	1906 (upgrade 2008)	50,000	6

Source: FIFA (*Fédération Internationale de Football Association*).

The public debate on holding the World Cup in SA has not been without controversy.

Our goal is not to predict who will perform well in and eventually win the World Cup – we leave that task to football pundits. What we will try to do in the current piece is to assess the economic implications of the event for South Africa. And this topic has generated (from the moment that SA was chosen as the host country in 2004) almost as much discussion and controversy as the identity of the eventual winning team. The whole spectrum has ranged from "Afro-pessimists" who claimed that SA would never be ready in time – and that the World Cup would have to be shifted to another host country – to possibly "over-eager" real estate professionals who touted the event as an opportunity to realise significant capital gains in the local property market.

Both the extreme pessimists and optimists should be proved wrong.

The reality lies in-between, in our view. It is now a done deal – barring a major natural catastrophe or an unlikely military conflict – that SA will stage the event. No later than on March 2, FIFA President Sepp Blatter insisted that SA was ready to host Africa's first World Cup, while the federation's secretary general, Jerome Valcke, commented after visiting the ten stadiums to be used during the event that "we are on track".[2] But at the same time, one has to remember that hosting a major sporting event – even in the case of an emerging country like SA – accounts for only a small share of an economy's total activity, and is very limited in time – barely the kind of event that would normally generate structural shifts in a country's real estate market.

[1] World Cups staged from 1982 to 1994 only had 24 participating teams.

[2] See "Blatter: Let's Have This Soccer World Cup", AFP/News24, 2 March 2010

Where the Main Economic Opportunities Lie

FIFA generally benefits more in relative terms from a World Cup than the host nation.

We first feel it is useful to point out the specific benefits that can occur to the host country of a World Cup – and in particular, how proceeds from such an event are shared between the host nation and the event organiser, in this case FIFA. As pointed out in Du Plessis and Maennig (2006), FIFA – as the monopoly organiser – generally stands to benefit the most financially (in relative terms) from a World Cup. In particular, the host nation carries a disproportionate share of the cost burden, with FIFA only responsible for prize money awarded to the participating teams, and compensation for their travel and preparation costs (in Germany in 2006, the latter only accounted for EUR222 million). By contrast, the main direct benefits of the event – television and marketing rights – accrue to FIFA, which also cashes in the proceeds from sales of VIP tickets. In the case of the 2006 World Cup in Germany, FIFA's profit amounted to about EUR1.4 billion, or 0.7% of SA GDP in that year.

Benefits to the host nation can accrue over three different phases.

Second, it is important, in our view, to separate the different time periods over which the benefits of a World Cup can accrue to the host nation. Following the approach of Bohlmann and Van Heerden (2005), we identify three phases:

- **The five years prior to the World Cup** (which in the case of SA have now come to a close). During that period, the country benefits from spending on stadium building and upgrading of other infrastructure necessary to the organisation of the event;
- **The year of the event**, where the main benefits occurs from the holiday and ticket spending by spectators, as well as participating teams, FIFA officials and other visiting VIPs;
- **The years following the World Cup**, when the country can draw benefit from a successful staging of the event in the form of higher tourism inflows, and other intangibles such as international reputation and even political clout.

The bulk of our analysis is on current-year effects.

In the following sections, we will try to assess the economic benefits in these three different phases, using among other thing, experience of previous events and published literature on the subject. As investors are particularly interested in 2010 economic and market variables, we focus the bulk of our analysis on the second phase (the year of the event).

Pre-World Cup Investment – A Moderate Boost to Capex

Direct spending consisted mainly of stadium building.

The bulk of SA investment towards the preparation of the World Cup has resided in the construction of five new stadiums, and the upgrading of five existing ones (see Figure 1). The SA Treasury estimated in 2006 that the cost of stadium building amounted to about R8.4 billion (0.4% of 2008 South African GDP), though some of the municipalities subsequently revised the numbers upwards.[3] The government also committed, as highlighted by Mabugu and Mohamed (2008), funds for the upgrading of information and communication technology (ICT), security and ports of entry for World Cup-related visitors (see Figure 2).

[3] For instance, the cost of Cape Town's Green Point Stadium, initially estimated at about R2.9 billion, seems to have been closer to R4.0-4.5 billion.

Figure 2. Initial estimate of major costs of hosting the 2010 FIFA World Cup (Rand in billion and percent of GDP)

Project	Cost (R in billion)	% of 2008 SA GDP
Stadiums	8.40	0.37%
Transport	9.00	0.39%
ICT	2.50	0.11%
Ports of Entry	1.57	0.07%
Safety and Security	0.67	0.03%

Source: Business Unity SA (2006) as quoted in Mabugu and Mohamed (2008)

The World Cup's strict deadline also probably accelerated spending on transport infrastructure.

A less direct, but nonetheless significant, impact of World Cup preparations on fixed capital spending occurred in transportation infrastructure. It is enough to have traveled the main highways of Gauteng province and used OR Tambo and Cape Town International Airports in the past three years to be aware of the construction works in that sector. While these investments (airport expansion, additional lanes on highways, the Gautrain high-speed rail link between Johannesburg, Pretoria and OR Tambo Airport) are projects which probably would have taken place anyway as the economy grows, we believe that the unmovable World Cup deadline forced an acceleration of these projects, and subsequently prompted a greater amount of capex over a shorter time frame.

Academic research estimated the direct and indirect effect of pre-World Cup spending at 1% of GDP or higher.

Economic theory also suggests that the impact on a country's economy of such infrastructure spending is not limited to direct outlays, but gets magnified via the "multiplier effect" (whereby the income earned by workers and contractors involved in the infrastructure projects is spent on other goods and services, spurring activity, income expectations and potentially fixed investment in sectors other than construction and transport). Two academic papers have attempted to measure the multiplier effect of World Cup-related infrastructure spending on the SA economy:

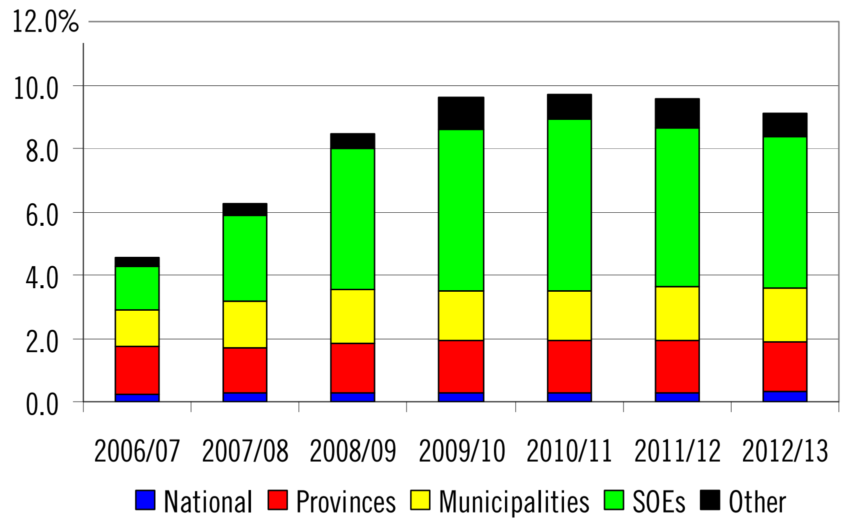
- Mabugu and Mohamed (2008) used an input-output/social accounting matrix (IO-SAM) approach, similar to what has been used in the past to assess the impact of many other sporting events. Their conclusion was that public spending related to the World Cup is likely to have raised real GDP by about R16.3 billion (or 1.2% of base-year GDP). Manufacturing, business/financial services and internal commerce are sectors that would have benefited indirectly from the outlays. However, they also concluded that imports rose by a similar percentage – pointing to some evidence of a "crowding out" from the extra infrastructure spending.

- Bohlmann and Van Heerden (2005), using a Computable General Equilibrium (CGE) model, also concluded that World Cup-related spending was likely to extend its benefits beyond the construction and transportation sectors. By adding the potential boost from both the increase in the overall capital stock and from investment in technology, they estimated an impact on real GDP of over R10 billion, creating more than 50,000 jobs. However, they warned that most of these jobs would probably be short-term contracts and thus not make a meaningful dent in SA's high structural unemployment.

The impact is, however, small compared to other major public infrastructure projects.

On balance, though, it appears that while non-negligible, the impact on the economy of World Cup-related investments should not be exaggerated. In particular, the size of these investments pales in comparison with the overall infrastructure build programme implemented in the public sector since 2006, the bulk of which is carried out by the State and state-owned electricity utility Eskom (see Figure 3). Equally important is the fact that this infrastructure build will continue after 2010 – and hence, risks of a sudden drop in construction and related activities now that pre-World Cup building is nearly over, are rather limited. In our view, the risks to the economy from a sudden halt in the construction of one of Eskom's two planned new power stations would be significantly greater than those attached to "post-World Cup blues". At the end of the day, the fact that the World Cup preparation phase is now over should only have marginal implications for the SA business cycle.

Figure 3. Actual and budgeted public infrastructure spending, 2206/07-2012/13 (percent of GDP)



Source: National Treasury (2010/11 Budget). SOEs: State-owned enterprises.

The year of the event – some divergence of views

Not all analysts agree on the likely impact of the World Cup on 2010 activity.

There appears to be some divergence of views about the likely impact of the event itself on the SA economy in 2010. Some projections point to a tangible impact, but other observers argue that ex-post assessments of the economic effects of major sporting events generally yield lesser results than ex-ante ones (often commissioned by the event organisers and therefore potentially biased towards optimism). In the case of South Africa, the major study conducted about the potential impact of the World Cup – by Grant Thornton consulting group in 2008 – estimated that the event could draw a total of 480,000 overseas visitors to SA (about 12%-14% more than would normally visit SA at that time of the year). Assuming that these visitors would stay for an average of about 15 days, the study concluded that overall spending by these visitors could amount to about R14-15 billion, including R6 billion on ticket sales and the remainder on accommodation, catering and entertainment. Were these expectations to be realised, the direct impact on SA GDP growth could be about 0.5 percentage points – notwithstanding potential indirect effects.

The main downside risk is related to the number of visiting fans and how much they will spend.

Could that report be over-optimistic? The main downside risks to its conclusions are that: (1) fewer overseas fans travel to SA than the study assumed, either because of financial constraints (the impact of last year's recession) or safety concerns (terrorism risks on international flights, crime in SA); and (2) travelers end up spending their holiday in SA on a "tighter budget" than projected. While it is difficult to give an ex ante answer to the second issue, there are also some indications relative to the first one, and they are mixed. On November 16, for instance, Business Day reported that even with more than eight months to go till kick-off, many long-haul airlines were already booked to capacity on flights to SA. By contrast, in its January 7 edition, the weekly Financial Mail talked about a "*spectre of empty seats*" at World Cup matches. And while the first three rounds of ticket applications appear to have been successful, FIFA noted in a statement on January 27 that 79% of applications in the third phase came from the host country. Hence, there is a risk that fewer overseas fans will come compared with expectations.[4]

The 2006 World Cup in Germany resulted in fewer revenues than initially anticipated.

What can the experience of previous, similar events tell us? The German Soccer World Cup of 2006 had the same number of matches and participating teams as this year's event. But conclusions about its economic impact diverge. Du Plessis and Maennig (2006) pointed out that, prior to the event, Postbank – one of the major sponsors – had projected an overall effect of €9-10 billion (about R80 billion at the time, or 0.5% of German GDP). Yet ex-post analyses were generally more downbeat.[5] The authors quoted data from the Federal Employment Office as saying that the event had created 25,000-50,000 jobs, but most of them on a temporary basis. In November 2006, the Bundesbank estimated, based on balance-of-payments data, that travel receipts had increased by a bit less than €1.5 billion thanks to the World Cup – adding no more than 0.25% to GDP growth in the second quarter. A report by the DIW institute (2007) found no significant effects from the World Cup on the German business cycle. Preuß, Schütte and Kurscheidt (2007) estimated that about 300,000 people came to Germany especially for the World Cup, spending about €229 per person per day, with ticket sales accounting for a large share of expenditures.

Analysis of earlier events generally corroborated the German experience.

Studies about earlier sporting events also generally do not point to sizable economic impacts. Kim, Gursoy and Lee (2004) found that that the 2002 World Cup – shared jointly by Korea and Japan – was unsatisfactory for Korea from an economic point of view, especially compared with an ex-ante estimate from the Korea Development Institute (KDI) which had projected an impact as high as KRW11.5 trillion (2.2% of GDP). Szymanski (2002) found little macro impact from earlier World Cups or Olympic Games, including no obvious boost to tourism inflows from France's 1998 World Cup. Studies of other events point to somewhat more tangible implications. For instance, URS Finance and Economics (2004) estimated that the 2003 Rugby World Cup in Australia brought in 65,000 international visitors, who spent about A$410 million (R1.8 billion at 2003 exchange rates) on tickets and holiday outlays. And last November, SA Rugby released the conclusions of a study showing that the 2009 British and Irish Lions tour brought in about 37,000 visitors, resulting in a boost of R1.47 billion (0.06% of GDP), directly and indirectly, for the SA tourism and travel industry.

[4] An interesting feature of the third phase of applications was that the largest number of foreign applications came from the US (50,217) followed by the UK, Australia, Mexico and Germany. Major football nations like Italy, France or Spain did not feature in the top five according to the application count.

[5] The authors also indicated that prior to the 2006 event, a survey by the German Association of Chambers of Commerce and Industry had shown that 15% of their members expected positive effects, versus 83% who expected no effects.

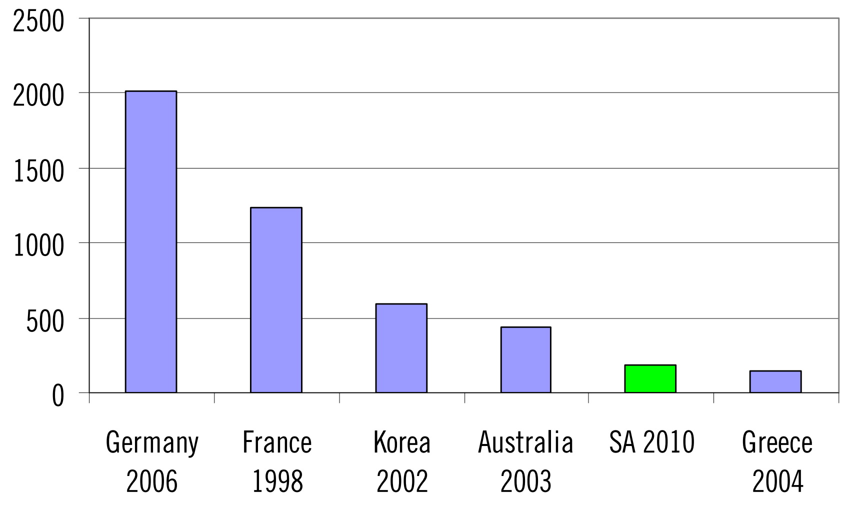
The relative impact should be larger on SA as it is a smaller economy.

Of course, SA is a smaller economy than the previous hosts of the World Cup or other events were at the time (see Figure 4). Consequently, were the same amount of money that was spent by fans in Germany in 2006 to be spent in SA, the impact on the local economy would be 11 times bigger than on German GDP. However, such a calculation is simplistic; it does not account, for example, for the differences in the cost of travel and accommodation between the two countries. If one uses the Economist's Big Mac index as a benchmark, the gap could be as high as 250%.[6] The World Bank's PPP adjustment factors would suggest a gap of about 200%. Anecdotal evidence – from comparing hotel and restaurant prices in SA versus Europe – does indeed suggest a 2:1 price ratio when converting into a common currency. So, if that rule holds, it would suggest the average fan would spend about half in SA of what he or she would have spent in Germany.

Experience of rugby tours is encouraging but could prove misleading.

Using the Lions tour, and the Australian Rugby World Cup, as a benchmark for outlays per traveler would point to expenditure of about R30,000-35,000 per person which, if one assumes fans stay on average for two to three weeks[7], implies spending per day around R1,500-R2,000. This would be somewhat higher than the implicit estimate in Grant Thornton's calculations. However, comparisons with these two events could be misleading; rugby is mostly popular with spectators from higher socio-economic groups in developed economies, so the average rugby fan might be willing to spend more money on a sporting holiday than the average soccer supporter. A positive for SA, though, may be its tourism diversity – which may prompt many travelers to combine soccer matches with country discovery trips, perhaps more than in Germany or in Korea.

Figure 4. Relative size of selected economies in the year when they hosted a major sporting event (in billions of 2000 US dollars)



Source: World Bank. SA data are Citi forecasts. Note Korea only hosted half of the 2002 World Cup, which was shared with Japan. Greece hosted the 2004 Olympics.

[6] We compare the Big Mac index for South Africa to that of the euro area, as there is no specific index for Germany.

[7] URS Economics and Finance (2004) found that the average stay in Australia of supporters during the Rugby World Cup was about three weeks.

A moderate impact but concentrated in 2Q10

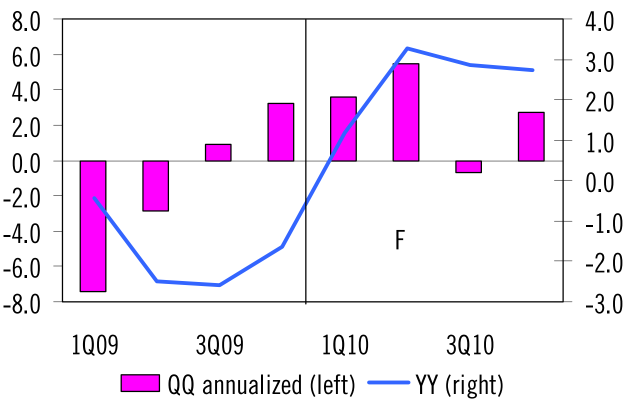
We expect an impact worth about 0.5% of GDP, but with genuine downside risks.

In view of all these arguments, we assume in our base-case scenario, that the World Cup will boost SA's real GDP growth by about 0.5 percentage point this year, a non-negligible amount – and close to the Treasury's estimate as expressed by Minister Pravin Gordhan in his February 17 budget speech – but nonetheless somewhat smaller than what the Grant Thornton study implies. The main reason is that, in our view, the total number of foreign supporters travelling to SA may fall short of 480,000. In addition, as Preuß and Kurscheidt (2009) pointed out using the example of the 2008 European soccer championship in Austria, there is a risk that World Cup-related tourism could "crowd out" normal tourism – with travelers not interested in soccer effectively deciding not to come to SA because of either high prices, or worries about transport and accommodation. Some of the traveling fans could also prove to be people who would have visited SA anyway. In that case, they would not add to overall tourism inflows on a net basis.

We expect most of the economic boost from the event to occur in Q2.

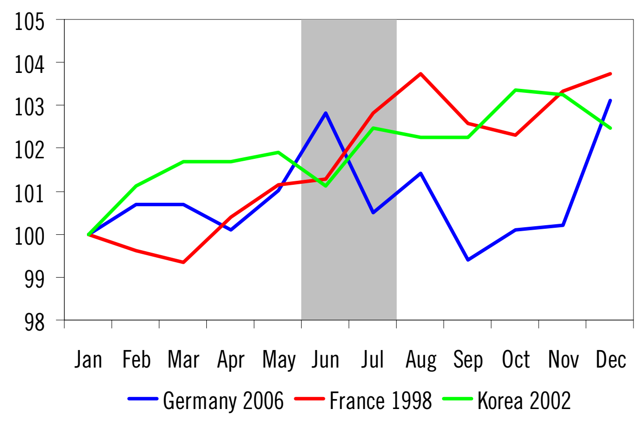
Of course, the economic impact of the event will not be spread equally over the year, but mainly concentrated before and at the time of the event – which runs from June 11 to July 11. While spending on catering and entertainment will take place during the World Cup, much of the payments for travel and accommodation will probably occur in the months prior to the start of the event. Consequently, we project that most of the increment to economic activity and income growth will be seen in Q2 GDP data, and consequently project a jagged profile for QQ GDP changes in the current year (see Figure 5).

Figure 5. Actual and projected growth in real GDP, 2009-10F (percent)



Source: Stats SA and Citi Investment Research and Analysis forecasts.

Figure 6. Retail sales volume in Germany, France and Korea in the years when they hosted the World Cup (January = 100)



Source: INSEE, *Destatis* and Ecowin. The shaded area indicates the timing of the World Cup.

Historical experience is ambiguous as to the impact on retail sales.

Looking at the demand split, we expect that Q2 GDP is likely to show stronger-than-trend consumer demand and net export performance. However, the impact on fixed investment should be marginal and de-stocking could contribute negatively to growth in Q2, as retailers, caterers and merchandise store owners probably will build up inventories ahead of the event. Judging by the experience of Germany in 2006, retail sales could increase more than usual in June-July – although developments in Korea in 2002 or France in 1998 suggest that such an outcome is not guaranteed (see Figure 6).

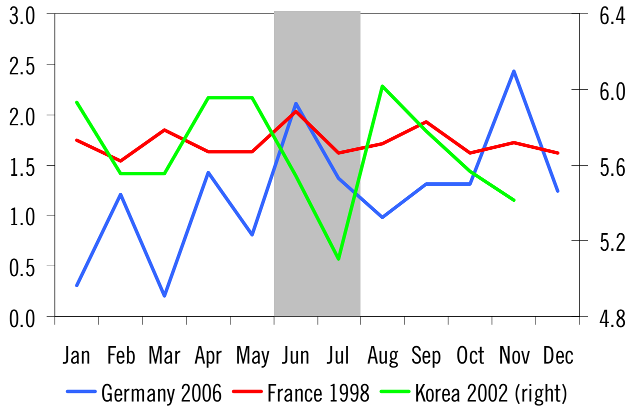
A price spike may occur in the hotel and catering industry but is likely to prove transitory.

Implications for other macro-economic aggregates are likely to be equally transient, but may introduce distortions in Q2 and early Q3. We do not expect the World Cup to have a durable impact on consumer price inflation, but prices of some goods and especially services (hotels, catering and air travel) probably will rise in June-July. Media reports have already claimed that several hotels are charging unusually high rates for that period, though this has been denied by professional bodies. Experience of previous events suggests that inflation in the hotels and restaurants sector can indeed move moderately higher for a while, as was the case in Germany in 2006 – though in Korea in 2002, the increase happened earlier, and it was barely noticeable in France in 1998 (see Figure 7).

Travel receipts should allow for an improvement in the current account in 2Q10.

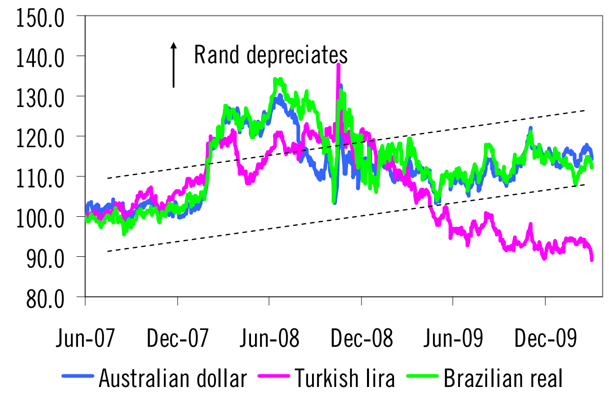
With respect to the current account, we would expect a temporary surge of tourism and travel receipts in Q2 – as most payments for flights, road transportation and accommodation are made – which could reduce (ceteris paribus) the annualised current account deficit by 1.0% of GDP or more in that quarter. In 2006, Bundesbank data showed that travel receipts in Germany increased to €2.94 billion in June of that year, well above the average of €1.87 billion in the previous five months and also of the €2.31 mean of the following six months. Equally, we would expect heightened activity to boost tax receipts around the time of the World Cup, resulting in a temporary decline in monthly budget deficits below their trend (adjusted for seasonal factors).

Figure 7. YY change in prices of hotels and restaurant in selective countries in the year they hosted the World Cup (percent).



Source: *Destatis*, INSEE and Ecowin. Data for South Korea are accommodation prices only.

Figure 8. Exchange rate of the rand versus the Australian dollar, the Brazilian real and the Turkish lira, 2007-Mar 4, 2010 (Jan 1, 2007=100)



Source: Ecowin.

Impact more likely on the rand than on interest rates

The World Cup is unlikely to have an impact on monetary policy.

As the World Cup is likely to have only a transitory impact on either real economic variables or inflation, its impact on monetary policy should only be marginal at most. The Reserve Bank will, in our view, continue to set policy in a forward-looking fashion, and should therefore not respond to the economic impact of the World Cup unless: (1) it kicks off additional growth dynamics; or (2) the acceleration in prices of some goods and services proves permanent and/or permanently raises inflation expectations. We have argued above that the former is unlikely. With respect to the latter, it is true that a one-off event can sometimes have lasting consequences on the public perceptions' of price trends.[8]

[8] For example, the introduction of euro notes and coins in January 2002 led to a rise in euro-area households' perceptions of inflation (and especially in Germany) that seemed out of proportion with the actual rise in inflation. It is important to note, however, that it did not affect expectations of future inflation.

However, we think it is unlikely to occur in SA in 2010 as the output gap is wide and core inflation has been declining of late – limiting the risk of a pass-through from one-off shocks.

Ceteris paribus, the potential tourism-related foreign currency inflow could be high enough to boost the rand.

The greatest financial market impact is likely to be on the currency, considering that the travel-related inflows into SA could – assuming they reached up to R14-15 billion as per the Grant Thornton calculations – amount to about 9% of average quarterly current accounted-related inflows seen over the past year. One can argue that, to some extent, the currency market has already anticipated these inflows, and that they explain the strength of the trade-weighted rand in recent months. Were that the case, then the risk would be strong that the rand could actually *weaken* in coming months if ticket sales do indeed disappoint. However, a comparison of the rand versus other "commodity" or EM currencies in recent months does not point to unusual out-performance (see Figure 8). Thus, our view remains that rand solidity in recent months was much more related to global appetite for risk, higher commodity prices and (up to end-January) general US dollar weakness than to anticipation of exceptional tourism revenues.

However, a change in capital market sentiment could still trigger rand depreciation.

Citi's base case remains that the rand will stay relatively strong on a trade-weighted basis for most of 2010, and trade close to R7.50/US$ as the World Cup kick-off approaches. However, we see the currency as remaining vulnerable to downside corrections throughout the next few quarters. First, we think that other macroeconomic developments – the turnaround in the inventory cycle, some possible rebound in final demand – will generate a deteriorating trend in the current account, potentially neutralising the boost from World Cup-related tourism revenues. Second, were global sentiment towards emerging markets to change abruptly, it could trigger capital outflows out of SA that might easily dwarf the size of the tourism inflows. For example, in 1Q08 and 4Q08, net portfolio outflows out of SA amounted to R20.6 billion and R60.6 billion, respectively. In turn, sudden weakness of the rand at any stage in 2010 could bring forward expectations of tightening by the SARB, and trigger a sell-off in all maturities across of the yield curve, irrespective of the macro impact of the World Cup.

After-effects – maybe, but they are harder to quantify

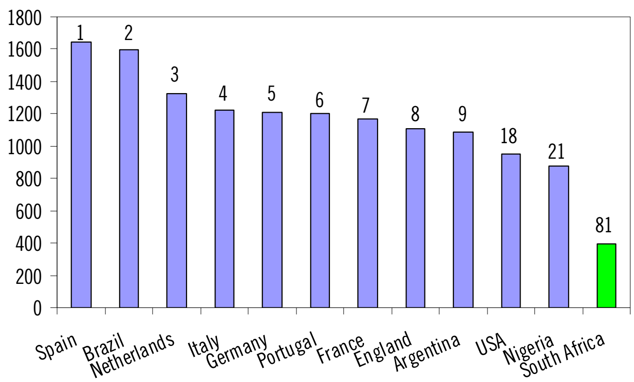
The post-event economic impact is probably the hardest to quantify.

The impact from the World Cup that may be hardest to quantify is the post-event one – how a successful hosting of the event, if indeed this is the case, can raise SA's international profile as a tourist and investment destination, as well as generate greater "feel-good" factor at home. Expecting a significant impact on potential economic growth in SA would probably be illusory. Optimists may point to the fact that the 1998 World Cup in France coincided with a jump in household sentiment, which did not subside in ensuing months but heralded the start of a consumer boom. However, what helped a jump in sentiment was probably the fact that the French soccer team had actually *won* the World Cup – and a similar outcome this year of the host-nation winning the event appears unlikely, if present FIFA team rankings are a guide to go by (see Figure 9). More seriously, the 1998 World Cup coincided with the start of a phase of above-par growth in the whole of the EU, and indeed in most industrial countries – despite the Asian crisis – that was the real cause of the acceleration in consumer spending.

The most obvious potential is for a successful World Cup to boost the rising trend in inbound tourism.

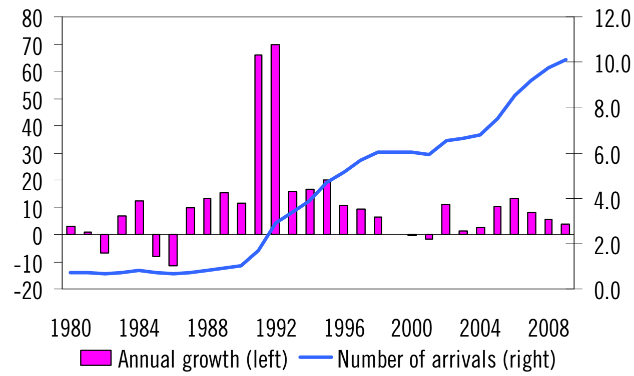
One area where long-term effects from the World Cup could be the most tangible are in tourism – provided that the sporting event effectively plays its role as a major "marketing effort" for the country as a whole and the industry in particular. Media reports often tout the 1992 Barcelona and 2000 Sydney Olympics as successful "branding" events that increased the global profile of the respective cities. In the case of SA, tourism already has been a high-growth industry over the past decade and a half, with the annual number of tourism-related arrivals into the country about ten times higher than in the "isolation years" of the 1980s (see Figure 10). The Ministry of Tourism estimates that the sector already accounted for more than 8% of total GDP in 2009. To some extent, this pre-existing pattern could help generate benefits from the World Cup as tourism professionals do not have to reverse a trend, but merely build on it. The conventional wisdom, which appears to be backed with data, is also that the tourism industry in SA is far from having reached its full potential – hence the issue of "capacity constraints" is unlikely to be a factor even in the medium term.[9]

Figure 9. FIFA ranking of selected national soccer teams as from March 3, 2010 (in number of points)



Source: FIFA. The numbers over the bars indicate the countries' ranking.

Figure 1. Number and annual percent growth of foreign arrivals into South Africa, 1980-2009 (in millions)



Source: Stats SA.

Crime and logistics problems are the biggest pitfalls to avoid.

Nonetheless, just like a successful World Cup can succeed in improving the SA brand overseas, highly-publicised incidents can equally have a damaging effect, considering the likely extent of the global media and TV viewer focus on SA come June-July. As we argued above, the risks of a major last-minute organisational crisis – which would jeopardise the ability of SA to hold the event – appear by now to be very low. Rather, we see the risks of "negative publicity" as primarily linked to: (1) foreign fans falling victim to crime; (2) failing transport logistics preventing supporters getting to matches in time or creating last-minute chaos at stadium entrances; and (3) accommodation shortages resulting in some fans being forced to "sleep rough". The risk of power outages during the World Cup appears lower as Eskom no doubt will make it a priority to see that stadiums are probably supplied. To keep all these risks in perspective, though, one needs to recall that previous sporting events held in SA – the 1995 Rugby World Cup, the 2003 Cricket World Cup and the 2009 Confederations Cup – occurred without high-profile incidents.

[9] Statistics compiled by the World Tourism Organization showed that for example, in 2008, South Africa received about US$7.6 billion in international tourism receipts, compared with US$15.3 million for Malaysia, US$18.2 billion for Thailand, and US$24.7 billion for Australia – which are also "far-away" destinations for travelers from Europe or the United States.

Returns on stadium building post the event are more uncertain.

Apart from the long-term impact on tourism, the other question frequently asked is what kind of return can be expected from the physical capital invested prior to the World Cup – and, specifically, how effectively will the new, "state of the art" stadiums be used after the event. In that respect, historical experience is not particularly convincing – and raises fears that stadiums could end up being "white elephants" with poor long-term returns. In fact, some would argue that the World Cup may even have negative long-term consequences, as stadium investment may have "crowded out" other projects with better long-term economic and social returns.[10] Since soccer is not generally a high-attendance, high ticket-price sport in SA – unlike for example in the UK, Spain or Italy – the ability of municipalities to boost revenues from new stadiums may largely depend on using them for other, higher-profit events. This could be the case, for example, if the new complexes built in Cape Town or Durban are used for rugby matches, or for regular concerts and rallies. Finally, Du Plessis and Maennig (2006) have argued that thanks in part to their architectural value, three of the new stadiums – in Cape Town, Durban and Port Elizabeth – could become "iconic buildings" which help get the cities' names more prominently on the global map. Quantifying such an effect, however, is highly difficult.

[10] See for example Campbell (2007).

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Appendix A-1

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