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'LATEST HIGHLY NEGATIVE GROWTH FIGURES FOR 1Q 2019 CONFIRM NEED FOR SA TO URGENTLY IMPLEMENT PRO-GROWTH REFORMS TO TURN THE ECONOMY AROUND AND REBUILD INVESTOR CONFIDENCE', SAYS NWU BUSINESS SCHOOL ECONOMIST PROF RAYMOND PARSONS.

'The much higher-than-expected negative GDP growth figures for 1Q 2019 reflect a large contraction in the economy in that quarter, ranking as probably the highest quarterly growth setback experienced in a decade. It again raises a big red flag about SA's growth prospects and the economy's capacity to create jobs. It confirms that SA cannot expect more than about 1% growth for 2019 as a whole and perhaps even less than 1%. Load-shedding and policy uncertainty were obviously underestimated as the main culprits in 1Q 2019, having probably shaved about 0.6% off expected growth for this year.

As recent economic trends in 2Q 2019 have been mixed, including a less supportive global economy, there is now a higher risk of the SA economy drifting into a 'technical recession' in 1H 2019. Business and consumer confidence remain at low levels and will need to be strengthened to drive economic recovery. On the most favourable economic and political assumptions the outlook for growth next year could still now be about 1.6% which, while positive, remains well below what SA requires.

The most damaging impact of load shedding has been on capital formation as a key driver of renewed economic growth and employment. Successfully boosting investor confidence depends on a reliable and cost-effective supply of electricity to encourage the strong recovery in fixed investment which SA requires. This again underscores the imperative need to stabilize Eskom, especially with the recent resignation of its latest CEO, and more widely to ensure security of power supply. SOEs, and especially Eskom and SAA, continue to be the focal point of serious economic concerns raised by many analysts, including the rating agencies.

A much weaker growth performance also has implications for tax revenues and deteriorating debt ratios in SA's public finances. The 2019-2020 Budget projections in February 2019 were predicated on an official 2019 growth forecast of 1.5%, which is clearly no longer likely to be realized. If SA is to avoid further downgrades of its investment ratings, the Medium-Term Budget Policy Statement (MTBPS) in October will need to reflect a revised fiscal plan to manage shifting economic realities. In the meantime, the new Cabinet needs to be seized with a priority-led action agenda to turn the economy around, reduce policy uncertainty, and rebuild confidence.'

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