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'POLICY AND POLITICAL UNCERTAINTY REMAINS THE BIGGEST SINGLE CHALLENGE TO GROWTH PROSPECTS IN THE SA ECONOMY' SAYS NWU SCHOOL OF BUSINESS AND GOVERNANCE ECONOMIST PROF RAYMOND PARSONS

'The SA economy will emerge from recession this year, but policy and political uncertainty remains the biggest single challenge to better growth prospects' said Prof Raymond Parsons of the NWU School of Business and Governance in Port Elizabeth today. Addressing the Nelson Mandela University Business School on 'Where does policy uncertainty fit into SA's economic prospects?' Prof Parsons said that the on-going factionalism in the governing ANC inevitably meant that policy and political uncertainty would be the 'new normal' in SA, at least until the ANC's elective conference in December. Business strategies had to be adapted to the new realities accordingly. Structural reforms and policy certainty were unlikely to prevail in the current deeply polarized and distracted political environment. The NWU-SBG's quarterly Policy Uncertainty Index had been developed to calibrate levels of policy uncertainty in SA, said Prof Parsons.

He said that, while he expected the economy to come out of recession during the course of the year, his forecast for growth in 2017 as a whole was still only about 0.5%. The growth outlook for next year was now about 1.1% and job losses were still steadily rising. These growth rates were well below population growth and were simply inadequate to cater for SA's job creation and poverty challenges. The combination of a weak economy, high unemployment and deep poverty also generated social tensions. The problem with persistent policy and political uncertainty remained the extent to which it had had a highly corrosive impact on both business and consumer confidence. In particular policy uncertainty had inhibited the investment needed to drive inclusive growth. This harmed SA's economic performance and had strongly contributed to the emergence of a 'low growth trap' in the economy, he said.

'Although the economy still has intrinsic strengths and big business has reaffirmed its commitment to SA's future, confidence in SA's economic steersmanship in recent years has been badly damaged and a trust deficit has developed', said Prof Parsons. The governance issues arising out of state capture and institutionalised corruption had imposed severe costs on the economy. It was necessary to terminate what he called 'the Faustian bargains' which drove most of the state capture and corruption. Additionally, the governance and financial vulnerabilities of key state-owned enterprises still posed a high risk to fiscal sustainability at a time of weak growth and declining tax revenues.

With only a few weeks to go to the next Medium Term Budget Policy Statement (MTBPS) in October, falling tax revenue now looked likely to leave a fiscal gap of about R50 billion, compared with the original Budget targets in February, he said. This would raise the Budget deficit, as well as the risk of a further downgrade in SA's credit rating. Although Finance Minister Gigaba was committed to fiscal consolidation, the changed economic circumstances posed a serious challenge to existing revenue and deficit targets, similar to the shock fiscal shortfall in the aftermath of the global financial crisis.

Referring to Finance Minister Gigaba's hint at the possibility of SA calling in external help, such as the IMF, to stabilise the economy, Prof Parsons said this option should be avoided as far as possible. 'Be careful what we wish for', he said. SA needed to get its house in order and retain control of its economic destiny by making the right choices. But he emphasized that if the forthcoming MTBPS and the main Budget in March next year failed to pass the test of fiscal credibility, SA might indeed eventually find itself facing a 'financial Dunkirk', which could well necessitate outside assistance to restore confidence.

Looking ahead Prof Parsons said that critical times in SA required above-average and effective leadership to ensure sound socio-economic policies were pursued and implemented. Teamwork with the private sector presupposed that constant leadership. In a mixed economy it remained necessary for the public and private sector to find a workable basis for collaboration and cooperation. It lay in the domain of government to rebuild trust and confidence among key stakeholders and to close the 'trust deficit'. 'If we are to get the political and economics 'right' in SA, we must recognise that, while business and labour do not govern the country, they are indispensable to keeping it governable', he concluded.

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