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'SOUTH AFRICA WILL NEED TO MAKE MUCH MORE STRENUOUS EFFORTS TO BREAK OUT OF THE 'LOW GROWTH TRAP' INTO WHICH A RECESSION HAS NOW PUSHED IT', SAYS PROF RAYMOND PARSONS, ECONOMIST AT THE NORTH WEST UNIVERSITY BUSINESS SCHOOL

'The extent to which the latest GDP figures for 2Q 2018 confirm that the SA economy is in a 'technical recession' is bad news for business confidence and employment prospects. There are fortunately still several pockets of strength in the economy. But it is clear that SA has greatly underestimated the economic damage of the past decade, on how long it will realistically take to turn the economy around, and the negative impact of persistent levels of policy uncertainty - such as around issues like land reform. Boosting business and consumer confidence remains a major key if SA is to break out of the 'low growth trap' into which the recession has now pushed it.

President Ramaphosa again rightly reiterated in Beijing recently that the government needs to provide not just 'policy certainty but policy consistency' for investors. The economic situation now badly needs some lines to be drawn in sand to assert leadership and for uncertainty around key processes like land reform and the mining charter to be minimized. This is now essential if the official commitment to rebuilding a favourable investment climate is to be concretized and for the economy to move ahead again.

The emergence this year of an economic recession and lower expected growth prospects also have negative implications for the Medium Term Budget Policy Statement due next month, through their likely impact on tax revenues. There must be no renewed lapses in fiscal consolidation. These growth and fiscal developments will be critically monitored by the credit rating agencies when they again reassess SA's investment rating towards the end of 2018. And when the MPC meets later this month it will need to leave interest rates unchanged again in view of the weak economy, the MPC having at its July meeting presciently cut its 2018 growth forecast from 1.7% to 1.2%.

The initial positive response to recent political changes has now evaporated but must be replaced by a realistic grasp of what is needed to build a bigger, stronger and better economy. The latest growth figures and the present economic outlook therefore put the forthcoming investment summit into sharper focus as one platform that could be used to change economic perceptions for the better.

If SA is to recalibrate its messages to investors there will need to be frank speaking by all participants at the investment summit, as well as more visible collaboration from key stakeholders on what has to be done. This will require forging greater consensus among major decision-makers in the economy on how to break out of the 'low growth trap' in which SA now finds itself and to reach a higher growth trajectory.'

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