NATIONAL ASSEMBLY

QUESTION FOR ORAL REPLY

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Mr L S Ngonyama (Cope) to ask the Minister of Finance:

With reference to the Reserve Bank forecast of 3,1% economic growth and the World Bank's forecast of 2,5%, (a) what growth rate does his department project for the same period and (b) why?

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REPLY:

(a) National Treasury publishes two macroeconomic forecasts each year, one at the time of the Budget in February and one for the Medium Term Budget Policy Statement (MTBPS) in October.

In Budget 2012, the National Treasury forecast economic growth to slow from 3.1 per cent in 2011 to 2.7 per cent in 2012 before accelerating to 3.6 per cent in 2013 and 4.2 per cent in 2014. This remains the official forecast and will only be updated at the Medium Term Budget Policy Statement in October.

(b) The National Treasury's Budget forecast for economic growth in 2012 was comparable to many growth forecasts for South Africa from domestic and international institutions that are published around the time of tabling the budgets. These include the IMF's July 2012 World Economic Outlook update (2.6 per cent), the World Bank's June 2012 Global Economic Prospects publication (2.7 per cent), and the Reserve Bank's most recent Monetary Policy Statement made following the Monetary Policy Committee meeting in July (2.7 per cent).

The forecast, as outlined in the 2012 Budget Review, is based on moderate domestic growth but weak external demand. The main contributor to growth is expected to be household consumption, which will be supported by rising investment and government consumption. Investment by government and by state owned enterprises, such as Eskom and Transnet, will play a key role in sustaining demand and reducing supply constraints within the economy. In the first quarter of 2012, fixed capital formation by general government grew by 9.3 per cent on an annual basis, while public corporation investment expanded by 13.1 per cent.

National Treasury continually evaluates the state of the economy in between the published forecasts to determine how global and domestic economic trends will impact our economic and tax forecasts.

In the period since the Budget, global growth has been slower than previously expected, while domestic consumer inflation, which decelerated relatively sharply in May and June, has been lower.

The Eurozone debt crisis continues, with little sign of near-term resolution. In the Budget forecast, it was assumed that the Eurozone crisis would be settled sometime in 2012 but this is looking increasingly less likely. While trade patterns have been shifting over the past decade, Europe remains South Africa's largest regional trade partner, making exports susceptible to falling external demand as global growth slows. Financial linkages and declining confidence will also affect growth, domestic demand and job creation prospects in South Africa.

Despite these developments, South Africa's economy is showing some resilience. Mining output expanded significantly during the second quarter of 2012, public sector fixed capital formation is growing strongly, private credit extension and corporate credit growth remains robust, inflation pressures have declined, and low interest rates provide a favourable environment to fund investment.