NATIONAL ASSEMBLY
QUESTION FOR ORAL REPLY
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★2. Ms S J Nkomo (IFP) to ask the Minister of Finance:

What immediate steps are the National Treasury taking and implementing to avert a recession to which the economy is dangerously close in view of Moody's second warning within two weeks of low economic growth for 2016, the under 1% growth forecasts of the International Monetary Fund and the downward revision by the World Bank?

NO449E

REPLY:
A recession is not our central case scenario. Further deterioration in already poor confidence levels could weaken investment and consumption and result in recession.

Although South Africa faces much slower growth in 2016, Government's focus is not on short term demand management, but rather on releasing long term structural growth constraints. Several of these were amended in the 2016 Budget.

Government has made bold decisions to restore confidence in the economy.

- National Treasury is committed to achieving its fiscal objective of stabilising debt and reducing the primary balance. Spending has been reprioritised to reduce immediate pressure, and to create the time required to build capacity to boost investment spending. Government has taken decisive steps to stabilise SOE's.

- Government is also making progress in the implementation of the Medium Term Strategic Framework and the 9-point plan. Actions include addressing infrastructure bottlenecks, improving policy coordination, making it easier to do business, improving labour relations and encouraging private investment.

It is important to note that SA's macro-economic framework is designed to help absorb shocks. The inflation targeting framework creates a predictable framework for interest rate changes and helps anchor inflation expectations, while the flexible currency allows local profit margins to adjust in response to shocks, which then also reduces the pressure on local wages to adjust to shocks.