

NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

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Mr N Singh (IFP) to ask the Minister of Finance:

Whether the country is on track to meet his recently projected growth path goal of 7% GDP growth despite the current Public Service strike and associated loss of production; if not, why not; if so, what are the relevant details?

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REPLY:

No, as the 7% GDP growth is a target that we aspire to, not one that we have projected as a forecast. In the 2010 Budget, National Treasury forecasts expected the economy to grow by 2.3 percent in 2010, 3.2 percent in 2011 and 3.6 percent in 2012. These forecasts will change when the Mid-Term Budget Policy Statement is delivered on 27 October 2010. The economy performed slightly better than our projections in the first two quarters of the year so the actual growth outcome for 2010 may be moderately higher than our Budget forecast. However, growth is not expected to reach 7 percent over the medium term.

While we do not expect South Africa to achieve or be able to sustain growth of 7 percent any time soon, I believe that the goal of 7 percent growth is something that we should aspire to so that poverty can be reduced more quickly and the living standards of all South Africans can be improved. Modelling work by the National Treasury shows that if South Africa is able to sustain 7 percent growth for 10 years, national income would double and the economy would generate roughly 5.5 million jobs. As a result, there would be a very large reduction in poverty.

Although the Public Service strike caused disruptions to service delivery and economic activity, we do not expect our forecasts to have been materially affected. There will be a modest effect on consumption as workers who lost income during the strike cut back on spending, but the longer term impact of the higher wage settlement on the fiscus will be much more serious as interest costs rise in response to higher government borrowing and the wage bill crowd out investment spending. If large real wage settlements for public

servants are not matched with higher productivity, the outcome of the strike could also fuel inflationary pressures. The less tangible effects of the strike on local and foreign confidence in South Africa, coming as it did so quickly after our success during the 2010 FIFA World Cup, are much more difficult to measure.