NATIONAL COUNCIL PROVINCES

QUESTION FOR WRITTEN REPLY

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Mr K A Sinclair (COPE-NC) to ask the Minister of Finance:

Whether the Government has taken any additional measures to shield the South African economy from a double dip when it occurs; if not, why not; if so, what are the relevant details?

CW454E

REPLY

No, the risks of a double-dip recession appear to be receding. The pace of global growth has improved markedly this year supported by stimulatory fiscal and monetary policies adpted by most countries in 2009. In the first half of this year, global manufacturing and trade activity rebounded as inventories were rebuilt and private sector investment responded positively to rising confidence. However, growth momentum in the world economy has slowed since mid-year giving rise to concerns about the sustainability of the recovery and probability of a "double-dip recession". Employment remains depressed in many countries, particularly the US where the impact of fiscal stimulus measures adopted earlier is fading. In the Euro Area, major fiscal austerity measures to stabilise debt levels in countries like Greece, Portugal, Spain, Ireland and Italy are likely to weigh on growth in the region despite the relatively strong recovery in Germany so far. In China, the authorities have tightened policy somewhat to prevent the economy from overheating, but the country is likely to remain the most important engine of global growth in the foreseeable future, along with other fast-growing countries like Brazil and India.

While the probability of a "double-dip" has increased recently, we have not factored this into our base case scenarios for the global or domestic economies. Additional stimulus measures are therefore not considered necessary at this stage. In July, the IMF forecast global growth of 4.6% in 2010 and 4.3% in 2011, which is a relatively positive outlook. Members of the G-20 also remain committed to implementing appropriate policies to support the recovery including growth-friendly fiscal consolidation packages and structural reforms to improve productivity and reduce imbalances in the global economy. Coordinated efforts in this regard will help to achieve a stronger and more sustainable recovery.

Central banks in most countries have responded to the risk of a “double-dip” by keeping monetary policy very accommodative, particularly in advanced countries where quantitative easing measures have been maintained and stepped up where needed. In emerging markets some central banks have delayed raising interest rates in response to increased uncertainty. In South Africa, improved inflation dynamics allowed the Reserve Bank to further reduce the repo rate by 50 basis points in August to an historic low of 6%, which will provide further support to the domestic recovery.

We will constantly monitor economic developments and ensure that appropriate policy responses are formulated, whatever the risk or opportunity.