NATIONAL ASSEMBLY

QUESTION FOR ORAL REPLY

QUESTION NUMBER 95 [NO2405E]

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

What steps have been taken by the National Treasury to ensure that South Africa remains as insulated as possible from the effects of the current debt crisis in the United States and the pending possible global economic downturn?

NO2405E

REPLY:

The debt crisis in the United States was resolved on 1 August 2011 after theHouse of Representatives approved legislation to raise the debt ceiling by at least US$2.1 trillion and cut federal spending by US$2.4 trillion or more. A day later, the Senate also approved the legislation.

Despite the immediate relief provided by the lifting of the debt ceiling, there has been considerable turmoil and uncertainty across global financial markets. In part this was as a result of Standard & Poor's decision on 5 August 2011 to downgrade their rating on United States long-term debt from AAA to AA. More broadly there remains a lack of confidence in the United States and Euro zone about government efforts to address the structural problems that underpin weak growth, high unemployment and unsustainable fiscal and financial imbalances and banking system.

With the global economy still emerging from the global financial and economic crisis, there remain many sources of uncertainty and many risks to the economic outlook. For these reasons, government will continue to implement a package of policies that improves our resilience to global crises, whatever the source.

South Africa is connected to the global economy as the 2008 crisis demonstrated. Whilst we cannot "insulate" South Africa, we have certainly taken a number of measures to monitor various potential transmission mechanisms and act where appropriate.

Government is committed to the fiscal consolidation path set out in this year's Budget. Even though our budget deficit and debt levels are much lower than many countries in the developed world, the events in the euro zone illustrate the dangers associated with allowing large fiscal imbalances to develop.

Sustainable debt management requires a combination of policies that include fiscal prudence and improved efficiency of government expenditure, but also faster and sustained economic growth. It is important to achieve productivity improvements, undertake structural reforms to support accelerated growth and build the necessary social and political consensus around reducing debt.

We have systematically increased the level of our foreign exchange reserves to provide protection against global shocks to the economy. Over the past 18 months, together with the Reserve Bank, we have accumulated US$11.2 billion (R80.8 billion) in foreign exchange reserves raising the level of gross reserves to US$50 billion. In an extreme crisis, government is in a position to use these funds, although the liquidity implications would also have to be considered.

South Africa needs to maintain its attractiveness as an investment destination. Over the last 12 months South Africa's positive position has been affirmed by ratings agencies Standard & Poor's, Fitch, Moody's and R&I.

The National Treasury and the Reserve Bank will continue to actively monitor the situation to mitigate any financial stability risks and any adverse short term and long term effects on the broader economy. We remain confident in the growth forecast and fiscal projections outlined at the time of the Budget. These will be updated in October at the time of the Medium Term Budget Policy Statement. Government will continue to implement measures to accelerate economic growth and stimulate faster job creation.