SA's GDP expected to slow - Manuel

By Michael Appel

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While South Africa was hoping to maintain its 5% economic growth rate in 2008 and 2009, global economic conditions have forced the downward revision of expected growth.

“Projections for South Africa's output growth in 2008 and 2009 have been revised downward to 3.7% and 3% respectively.

“Depending on international developments, Gross Domestic Product [GDP] growth is expected to recover, [however], to above 4% in 2010 and beyond,” said Finance Minister Trevor Manuel, delivering the Mid-Term Budget Policy Statement (MTBPS) in Parliament on Tuesday.

The minister told Parliament, global economic growth would slow for several years which will negatively impact on South Africa's export earnings.

Economic growth in the seven richest countries, which make up half of world economic output, may well be zero or negative next year, he indicated.

Drop in growth expected

Growth globally is expected to fall from 5% in 2007 to 3.9% this year and could even drop as low as 3% in 2009.

The Consumer Price Index, excluding interest on mortgage bonds, (CPIX), used to measure inflation, has consecutively been outside the South African Reserve Banks inflation target band for over 15 months.

The high inflationary environment has forced the Reserve Bank to raise interest rates which has also had a measured effect on economic growth.

Cost of electricity debacle

Further pressurising GDP growth is the Eskom debacle which cost the South African economy billions of Rands in lost revenue after scheduled and unscheduled blackouts forced business and mine operators to close shop for those hours.

The GDP plunged to 2.1% in the first quarter of 2008 following Eskom's excessive load shedding countrywide which significantly disrupted mining and mineral operations in the country.

Budget

Delivering his Budget Speech in February, Manuel predicted a budget surplus of about 0.6%, but this figure is likely to drop in the face of decreasing consumer demand for goods and the resultant decrease then in Valued Added Tax (VAT) revenue for government.

"The South Africa economy has grown by an average of 5% a year for the past six years. During this period investment increased from about 15% of GDP to more than 22%.

"The unemployment rate declined from about 29.3% in 2003 to 23% today.

"Nevertheless, employment is still unacceptably high, and a critical objective of an economic policy over the next five years is to create work opportunities," he said.

Refocus

For the creation of jobs, however, the South African economy needs to grow and needs to refocus a lot of attention on developing more labour intensive projects, Manuel said.

In order to foster greater GDP growth, government is committing itself to the promotion of funds to improve South Africa's competitiveness globally.

"It is important to recognise the causes and consequences of South Africa's aging physical infrastructure and poor skills base.

"Decades of underinvestment in physical infrastructure, from electricity generation to water supply, roads and rail have constrained the economy's ability to grow more rapidly," the minister explained to Parliament.

Generations of Apartheid education and limited progress in improving the quality of post-1994 education have reinforced skills shortages that inhibit the needed growth of the economy.

The 2009 budget, he said, will see further resources allocated to employment intensive programmes in the public sector, as well as incentive programmes for private employers and non-governmental organisations to use more labour intensive methods.

Navigating the way through such a changed economic environment will be a tough challenge, the minister said, adding that government will continue to expand and improve public services, and invest in infrastructure needed for future growth.

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