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1% or less growth for SA for whole of 2019

THE much higher-than-expected negative GDP growth figures for 1Q 2019 reflect a large contraction in the economy in that quarter, ranking as probably the highest quarterly growth setback experienced in a decade. It again raises a big red flag about South Africa's growth prospects and the economy's capacity to create jobs.

It confirms South Africa cannot expect more than about 1% growth for 2019 as a whole and perhaps even less. Load shedding and policy uncertainty were obviously underestimated as the main culprits

in 1Q 2019, having shaved about 0.6% off expected growth for 2019.

As recent economic trends in 2Q 2019 have been mixed, including a less supportive global economy, there is now a higher risk of the South African economy drifting into a "technical recession" in 1H 2019. Business and consumer confidence remain at low levels and will need to be strengthened to drive economic recovery.

On the most favourable economic and political assumptions the outlook for growth next year could still now be about 1.6% which remains well below what South Africa requires.

The most damaging impact of load shedding has been on capital formation as a key driver of renewed economic growth and employment. Successfully boosting investor confidence depends on a reliable and cost-effective supply of electricity to encourage the strong recovery in fixed investment which South Africa requires.

A much weaker growth performance also has implications for tax revenues and deteriorating debt ratios in South Africa's public

finances. The 2019-2020 Budget projections in February 2019 were predicated on an official 2019 growth forecast of 1.5%, which is clearly no longer likely to be realised.

If South Africa is to avoid further downgrades of its investment ratings, the Medium-Term Budget Policy Statement in October will need to reflect a revised fiscal plan to manage shifting economic realities.

In the meantime, the new Cabinet needs to be seized with a priority-led action agenda to turn the economy around, reduce policy uncertainty and rebuild confidence.

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