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IMMEDIATE RELEASE

**BUSA EMPHASISES IMPORTANCE FOR BUSINESS
CONFIDENCE OF FORTHCOMING MEDIUM TERM
BUDGETARY POLICY STATEMENT (MTBPS) ON 25
OCTOBER 2011.**

Given the uncertain global economic outlook the forthcoming Medium Term Budget Policy Statement by the Minister of Finance on 25 October must reinforce what SA can do to cushion and adapt to the negative impact of actual and potential developments in the world economy. Reviewing the latest economic and business trends here and abroad, the BUSA Economic Policy Committee today said that, while it was encouraged by the recent more positive trends such as in manufacturing output, the purchasing managers' index and civil construction, it nonetheless emphasized that overall household spending remains weak, business and consumer confidence are at low levels and private fixed investment is slow. BUSA does not yet see overwhelming evidence of a sustainable recovery in economic activity.

With world growth forecasts being regularly revised downward - and although emerging markets are expected to do better - the SA economy has thus also experienced a loss of momentum. Hence the previous decision by BUSA to revise its earlier real growth forecast for 2011 from 3.4% to 3.1%. This does not augur well for large scale employment creation and SA will have to revisit some of the steps it took in response to the



global crisis of 2008/9 on the employment front. Our resources and strategic focus must therefore remain concentrated on strengthening the domestic economy and reducing the costs of doing business in SA

The MTBPS therefore comes at a difficult time this year when markets remain nervous over government budgets worldwide. The key factor for business confidence is credibility. There need to be credible forecasts in the MTBPS for the economic outlook, as well as a continued clear path to fiscal health. A balance has to be kept between a necessary counter cyclical fiscal stance on the one hand, and fiscal prudence on the other. BUSA believes that debt to GDP needs to stabilise under 45% of GDP during this MTBPS period and then decline in the second half of the decade.

This should ideally not be at the expense of capital spending but rather as a result of better control over current expenditure, including the State's wage bill. Fiscal policy should be growth-enhancing, with emphasis on enterprise and job creation, and state spending must be made more effective. This will need to be a tough but essential message in the MTBPS given the weak global and domestic economic climate - but is necessary for predictability and sustainability in the fiscal outlook. SA's excellent reputation to date for fiscal discipline will stand the country in good stead in this challenging period.

On monetary policy, it implies that interest rates will need to stay low for longer, probably well into 2012, and a further cut in the repo rate may become necessary soon. If SA inflation is seen as mostly target-bound and driven by exogenous factors, and taken together with slow global growth, interest rate trends elsewhere, as well as SA's sub-optimal growth and employment performance, there could be a case for another interest rate cut in November. Other appropriate policy interventions may have to be considered depending on global and internal developments in the near future.



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