

OMIGSA Comment – Rian Le Roux, Chief Economist: Economic Research

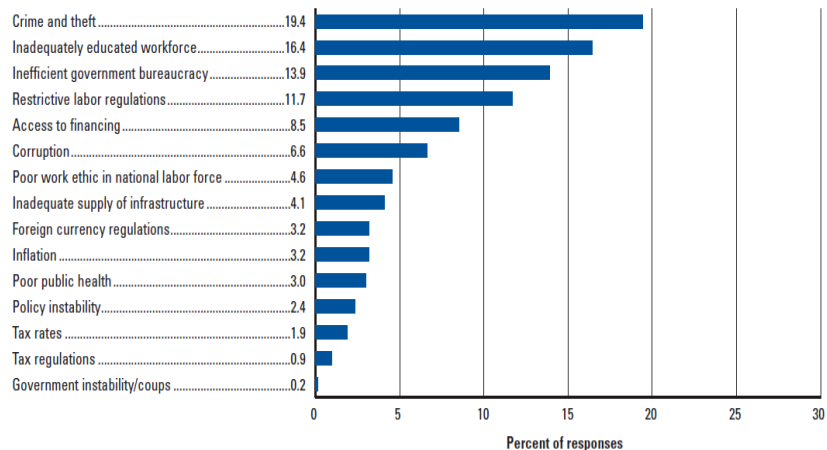
Structural reforms vital to achieve 7% economic growth rate



In the aftermath of a highly successful Soccer World Cup, South Africans now need to replicate this excellent performance and

dedicate themselves to implementing the difficult structural reforms necessary to achieve the 7% annual economic growth rate the Minister of Finance recently said is required over 20 years to reduce unemployment and poverty meaningfully.

WEF: Global Competitiveness Report
The most problematic factors for doing business



Looking at the global picture, slow growth prospects in most developed countries over the next five to 10 years means that South Africa will have to rely largely on its own policy initiatives to achieve its economic goals. Yet past experience has shown that 3% to 4% growth is the best we can achieve without further structural reforms, and this will not boost employment significantly. Currently we are forecasting GDP growth of only 3.5% for this year, 3.8% for 2011 and 4.0% for 2012.

In order to boost economic growth, government, labour and business should all agree to a “package approach” comprising the following measures:

- The government needs to put to rest any lingering investor fears over maintaining macroeconomic stability – reaffirming inflation targeting, rejecting nationalisation and committing to maintaining low budget deficits;
- Maintain a strong anti-inflation focus;
- Sustain the SWC anti-crime drive and gear up the anti-corruption drive; and
- Shift the policy mix towards a tighter fiscal policy and a more expansionary monetary policy, among others.

Importantly, the latter will allow for lower interest rates (and therefore lower borrowing and investing costs for individuals and companies) plus a weaker rand (to encourage exports), all of which will push economic growth levels higher without sparking inflationary pressures. I’m convinced that if the government takes decisive steps along these lines, we can come closer to achieving the 7% growth rate we need in the next decade to set us on the path to achieving low levels of poverty and unemployment.

23 - 29 July 2010 in a nutshell

Global: The bulls advanced this week on positive macro-economic news from the US, sending most global equities into the black. The S&P 500 in the US climbed 0.73%, while the European market stocks rose 1.44% and emerging market shares were 2.16% higher.

South Africa: The local bourse tracked Wall Street higher this week, with the JSE/All Share Index rising 0.98%. The winners were resources, gaining 1.41%.

Markets and Economics - Highlights

Global

- Sales of new homes in the US rebounded from a record low in June, offering hope that the housing market's stimulus-induced hangover may have subsided. New home sales surged by almost 24% last month to an adjusted annual rate of 330 000. That easily surpassed economists' forecasts of a modest uptick but left sales down by 16.7% from the same month a year ago.
- Euro-zone mortgage borrowing grew last month at the fastest pace in almost two years in a sign that bank lending across the region might be coming back to life. Lending for house purchases rose at an annual rate of 3.4% in June – the fastest since September 2008, according to European Central Bank data.
- India's economy is expected to grow at a rate of 8.5% in 2010-11, according to the revised forecast of the Reserve Bank of India in its First Quarter Review of Monetary Policy 2010-11, up by 0.5% from its earlier forecast made in April.

South Africa

- SA's unemployment rate edged further up in the second quarter of this year. The official unemployment rate rose to 25.3% from 25.2%, a new five-year peak, led by formal job losses, particularly in manufacturing – the economy's second-biggest sector, Stats SA said.
- Positive news on the inflation front has provided ammunition for those who believe the South African Reserve Bank should cut its repo rate from its present level of 6.5%. Statistics SA reported that consumer inflation came in at an annual 4.2% in June, down from 4.6% in May and better than the 4.5% median estimate of 21 economists polled by Bloomberg.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 29.07.2010	% Performance Return
United States	S & P 500 (US\$)	0.73%	1,102	-1.17%
Europe	Euro Stoxx 50 (Euro)	1.44%	2,753	-7.19%
Emerging Mkts	MSCI Emerg Mkts (US\$)	2.16%	994	0.46%
South Africa	FTSE/JSE All Share (ZAR)	0.98%	28,550	3.19%
Global	MSCI (US\$)	1.62%	1,128	-3.42%
ZAR/Dollar	Rand/US \$ (ZAR)	-1.48%	7.32	-0.95%
ZAR/Pound	Rand/£ (ZAR)	0.71%	11.41	-3.79%
ZAR/Euro	Rand/Euro (ZAR)	-0.21%	9.56	-8.87%
JSE	Industrials	1.41%	26,222	3.87%
JSE	Financials	0.87%	21,356	10.50%
JSE	Resources 20	1.42%	48,797	-4.48%
JSE	Small Companies	0.37%	28,737	3.05%
JSE	Listed Property	1.39%	365	13.00%
JSE	RAFI@ ALSI	1.11%	5,993	4.19%
JSE	RAFI@ 40	1.49%	5,781	3.38%
JSE	SWIX	0.67%	6,032	5.18%

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