Press Release

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South African Institute of Race Relations

The power of ideas

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IRR report warns on growth, incomes, and disposable income and calls for return to GEAR

A report released by the IRR last week warned that South Africa is likely to enter a long-term period of low economic growth. The report features long-term trends for major economic indicators together with forecasts of GDP growth, per capita GDP, inflation, interest rates, the rand, and household disposable income levels up to 2019.

The IRR's CEO, Dr Frans Cronjé, said: "The African National Congress did particularly well in driving growth rates upwards after the adoption of the Growth, Employment, and Redistribution (GEAR) policy in 1996. Between 2004 and 2007, South Africa even averaged growth in excess of 5% of GDP as unemployment fell sharply. However, in the current policy climate, which is hostile to investment-led growth, the picture is very different. GDP growth levels are likely to average below 2% to 2019, even as interest rates begin to rise. This will preclude any reduction in the unemployment rate and will begin to exert growing pressure on household disposable income, which will in turn reduce domestic consumption levels. Policies on labour and empowerment make any export-driven manufacturing recovery impossible – despite the benefits to exporters of a currency that we expect to run to beyond R17.50/$US. The current commodities slump will also run for much longer than many other analysts predict and this will preclude a mining export recovery. Policies on migration, foreign exchange control, and intellectual property will hobble a recovery driven by the service industry. It is extraordinary that in the broader policy field, the current Cabinet has effectively hemmed in every potential avenue of economic expansion in South Africa."

Dr Cronjé added: "The obvious solution to the coming crisis is for the Government to return to the liberal conservatism of GEAR. Whether the political pressure that will grow out of South Africa's anticipated weak economic performance will prompt such a reversal is difficult to say. The risk is that economic underperformance will prompt further state intervention and regulation, therefore exacerbating and prolonging the economic crisis."

Watch IRR CEO Frans Cronjé speaks on South Africa's low economic growth here.

Ends.