South Africa

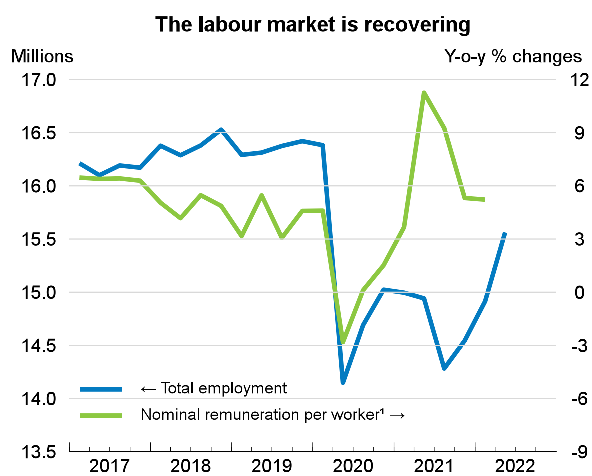
GDP is projected to grow by 1.7% in 2022, 1.1% in 2023, and 1.6% in 2024. Private consumption and investment will remain the main drivers of growth. Household spending remains supported by social transfers and an improving labour market. Private investment will rise as companies replace an increasingly obsolete capital stock. Inflation is projected to slowly fall in response to tighter monetary policy. Risks to growth include prolonged electricity shortages and more persistent inflationary pressures than expected, potentially delaying the reduction of policy rates.

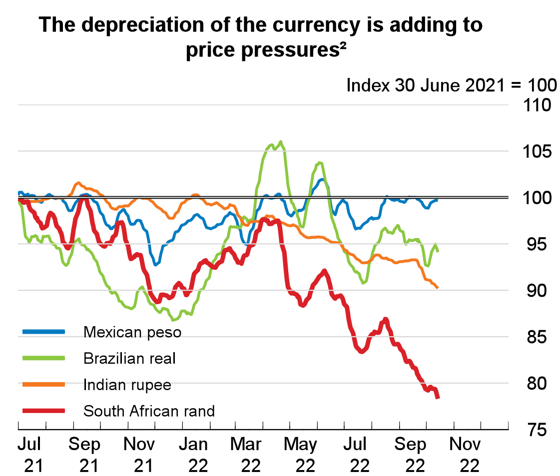
Fiscal risk has eased thanks to a favourable commodity cycle, but debt-servicing costs are rising. Efforts to rein in the public sector wage bill and to address weaknesses in the management of public procurement and state-owned enterprises should continue. Redesigning tax exemptions would lower distortions, increase revenues, and improve equity. Monetary policy should continue to tighten until inflation comes close to the South African Reserve Bank mid-point target. The planned split of the national power company should proceed to allow other producers to compete and complement capacity, while also bringing prices down.

Power outages weigh on the economic recovery

After two quarters of positive real GDP growth, flooding in KwaZulu Natal and extensive electricity outages contributed to a contraction of 0.7% (quarter-on-quarter) in the second quarter of 2022. The flooding damaged factories and disrupted supply chains. Power outages affected trading hours in services, mining, manufacturing and agriculture. Lower fuel prices contributed to an easing of consumer price inflation to 7.5% in September, down from a peak of 7.8% in July. The unemployment rate fell close to 34% and job creation increased to its highest level since 2020. However, nominal wage growth is still lower than the inflation rate.

South Africa





1. Non-agricultural public and private sectors.
2. Nominal US dollar exchange rate, 7-day moving averages.
Source: Statistics South Africa; South African Reserve Bank; Refinitiv; and OECD calculations.

StatLink https://stat.link/pts40b

South Africa: Demand, output and prices

South Africa	2019	2020	2021	2022	2023	2024
	Current prices ZAR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	5 613.7	-6.3	4.9	1.7	1.1	1.6
Private consumption	3 588.9	-5.9	5.6	3.1	1.7	1.8
Government consumption	1 104.5	0.8	0.6	1.2	0.9	1.4
Gross fixed capital formation	865.5	-14.6	0.2	4.5	4.2	7.0
Final domestic demand	5 558.9	-5.9	3.8	2.9	1.9	2.4
Stockbuilding[1]	24.5	-1.8	0.9	0.7	0.1	0.0
Total domestic demand	5 583.3	-8.0	4.8	3.7	2.0	2.4
Exports of goods and services	1 532.4	-11.9	10.0	7.3	1.9	3.3
Imports of goods and services	1 502.1	-17.4	9.5	15.0	4.9	5.9
Net exports[1]	30.3	1.8	0.1	-2.0	-0.9	-0.9
Memorandum items						
GDP deflator	_	5.7	6.2	4.7	4.5	3.6
Consumer price index	_	3.3	4.6	6.6	5.9	4.9
Core inflation index[2]	_	3.4	3.1	4.5	5.8	5.0
General government financial balance (% of GDP)	_	-11.3	-6.6	-6.3	-6.1	-5.7
Current account balance (% of GDP)	_	2.0	3.7	0.1	-0.6	-0.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 112 database.

StatLink https://stat.link/itlmwq

As the fleet of coal-fired generators ages, falling energy generation capacity has prompted further electricity cuts, and weak governance in the state power company has pushed up the cost of electricity. Movements in the international price of crude oil have contributed to rising domestic fuel prices, exacerbated by currency depreciation. To cushion the impact of higher fuel prices, the government reduced the fuel levy from April to July 2022, at a fiscal cost of around 0.1% of GDP.

Fiscal and monetary policy are turning contractionary

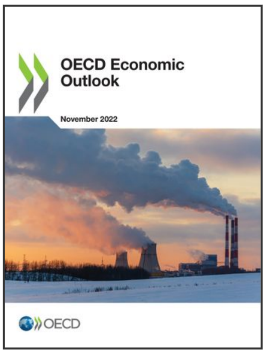
The commodity cycle boom has boosted tax revenues. These windfall revenues have allowed the government to prolong the Social Relief Distress grant until March 2024 and to introduce temporary measures to cushion the impact of inflation, without adding pressure on public finances. The fiscal balance this year should outperform budget forecasts. However, debt remains above 70% of GDP and rising debt-service costs already represent 15% of government spending. The fiscal stance is expected to be contractionary in 2023 and 2024 to consolidate public finances, achieved mostly by containing the public sector wage bill. The central bank increased the policy rate by 75 basis points to 6.25% in September 2022. Monetary policy is expected to continue tightening, with the policy rate reaching 7.25% in early 2023 and staying at that level until core inflation falls close to 5%, anchoring inflation expectations and limiting pressures on the exchange rate.

The challenging global outlook worsens domestic growth prospects

Growth will continue to be driven by the recovery of private consumption and investment. Social transfers, better employment prospects and falling saving rates should sustain private consumption, although attenuated by high inflation and tighter financial conditions in 2023-24. Private investment will continue its recovery to pre-pandemic levels despite less favourable financial conditions, as capital stocks need replacement. Nonetheless, the price of South Africa's commodity exports is expected to fall in 2023-24, leading to a deterioration in the terms of trade and the current account balance. Lower global growth will also weigh on exports in the near term. Core inflation is likely to continue increasing until early 2023, when rents and medical insurance premiums are set to increase. Tighter monetary policy will slowly bring inflation down in 2023-24. Downside risks to growth include electricity supply which will remain tight with a high risk of prolonged outages. Pushback against public-sector wage restraint and financially distressed state-owned enterprises are major fiscal risks. Additional tightening of global financial conditions and the potential volatility of capital flows are risks to the exchange rate. On the upside, if the recovery of international tourism outpaced expectations, this would provide additional support to growth.

Boosting productivity and strengthening the tax system are key priorities

Allowing private providers of renewable energy to feed power into the grid would help reduce electricity shortages, while creating incentives for private investors to develop clean and cost-effective electricity generation capacity. Broadening the base of corporate and personal income taxes, by redesigning tax exemptions, and raising property and environmental taxes, would create fiscal space to finance growth-enhancing reforms, while also improving the efficiency and equity of the tax system. The fiscal space should be used to improve the quality of energy, transport and telecommunications infrastructure, which would give a boost to productivity growth and living standards.



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