South Africa

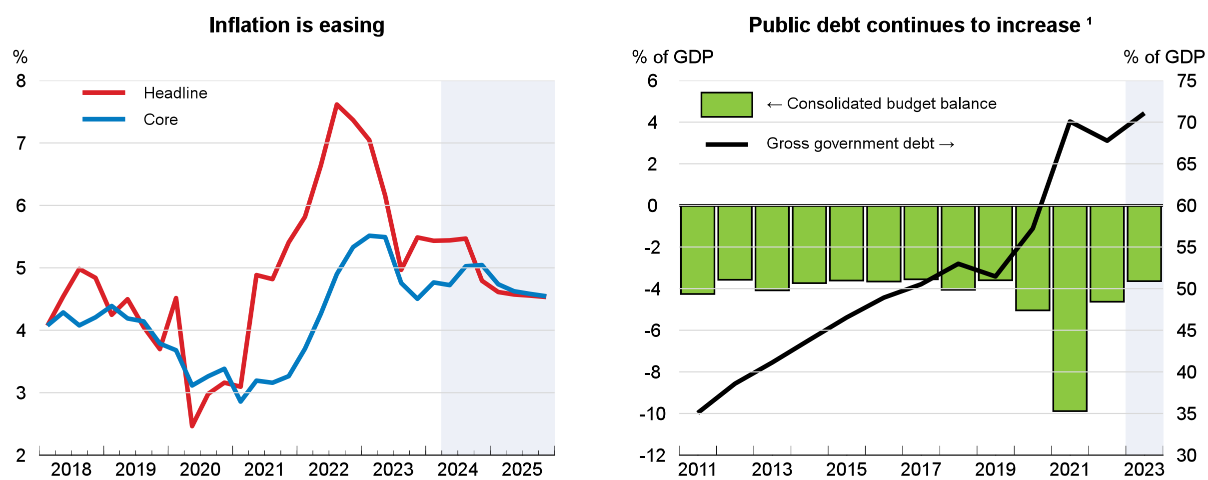
Real GDP will increase by 1% in 2024 and 1.4% in 2025. Supply constraints will diminish through fewer power outages and rail freight and port bottlenecks. Lower lending rates will support a modest rise in investment. Declining energy and food prices will drive a further reduction in inflation. Increasing purchasing power, real wages and employment will support a gradual increase in consumption growth. Parliamentary elections scheduled for late May have heightened uncertainty.

Conditional on a further decline in consumer price inflation, monetary policy can be eased gradually over 2024 and 2025, which would support growth. The planned fiscal consolidation is welcome but insufficient to prevent a further increase in the public debt burden. Stronger potential growth and fiscal sustainability would benefit from an increased use of public-private partnerships for infrastructure investment and further reforms to state-owned enterprises, especially with regard to energy availability and logistics bottlenecks.

Economic activity remains constrained

Economic growth slowed to 0.6% in 2023. Power shortages and port and rail freight bottlenecks limited domestic activity and exports, though with some easing in recent months. Export prices continued to decline in 2023. The manufacturing purchasing managers' index has signalled a contraction in recent months. Investment is subdued and business confidence remains below its historical average. Household consumption stagnated over the second half of 2023. Employment increased by over 6% in 2023, but the unemployment rate remains elevated. Annual headline consumer price inflation reached 5.3% in March. Core inflation, at 4.9% in March, has declined more slowly.

South Africa



1. Data refers to fiscal years.
Source: OECD Economic Outlook 115 database; and National Treasury.

StatLink https://stat.link/jfge0c

South Africa: Demand, output and prices

South Africa	2020	2021	2022	2023	2024	2025
	Current prices ZAR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	5 568.0	4.7	1.9	0.6	1.0	1.4
Private consumption	3 481.1	5.8	2.5	0.7	0.8	1.3
Government consumption	1 145.6	0.5	1.0	2.1	-0.6	-0.2
Gross fixed capital formation	768.8	0.6	4.8	4.2	1.4	4.2
Final domestic demand	5 395.5	4.0	2.5	1.5	0.6	1.4
Stockbuilding[1]	- 70.8	0.7	1.2	-0.7	-0.2	0.0
Total domestic demand	5 324.8	4.8	3.9	0.8	0.4	1.4
Exports of goods and services	1 532.7	9.1	7.4	3.5	3.3	3.6
Imports of goods and services	1 289.5	9.6	14.9	4.1	1.2	3.4
Net exports[1]	243.2	-0.1	-2.0	-0.2	0.6	0.0
Memorandum items						
GDP deflator	_	6.5	4.8	4.5	3.4	4.5
Consumer price index	_	4.6	6.9	5.9	5.3	4.6
Core inflation index[2]	_	3.1	4.6	5.1	4.9	4.6
General government financial balance (% of GDP)	_	-6.4	-4.8	-7.2	-5.2	-6.0
Current account balance (% of GDP)	_	3.7	-0.5	-1.6	-2.3	-2.6

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 115 database.

StatLink https://stat.link/eq7g05

The current account deficit widened to 1.6% of GDP in 2023, amid declines in the terms of trade, a weak domestic currency and constrained exports due to electricity shortages and freight bottlenecks. Electricity shortages, which peaked at 287 days in 2023 due to insufficient maintenance and development of new capacity, are weighing on the currency as well as domestic activity. Elevated debt levels and low growth are pushing up the risk premium demanded by foreign investors, adding to government debt-servicing costs.

Debt levels remain elevated and risks around fiscal consolidation are high

The fiscal deficit is projected to ease further in 2024, helped by a consolidation in expenditure and a boost to revenue through freezing income tax thresholds and increasing excise taxes. Fiscal consolidation should narrow the elevated sovereign bond spread. However, consolidation will be insufficient to prevent further increases in public debt, despite a transfer from the central bank to government accounts (via the Gold and Financial Contingency Reserve Account) over the next two fiscal years estimated at around 1.7% of GDP. Consolidation is being limited by ongoing debt relief for state electricity operator, Eskom, estimated at around 2.3% of GDP in the next two fiscal years, and further transfers risk compromising efforts to reduce debt. As inflation approaches the mid-point of the target range, the central bank is expected to start easing the policy rate from 8.25% in the second half of 2024 to around 7.5% in 2025.

Easing power shortages allow for a modest recovery

As power shortages and bottlenecks in freight rail and in ports ease, growth will increase gradually to 1% in 2024 and 1.4% in 2025. Monetary policy easing will support investment. Declining inflation, increasing real incomes, and employment growth will gradually increase household consumption growth. A pension-system reform, expected to take effect in late 2024 will enable more people to access a portion of their pension contributions and support household consumption. Export growth will increase gradually as transport bottlenecks are reduced. However, the current account deficit will continue to widen, reflecting lower commodity export prices. As food and energy price inflation continues to ease, and reduced power shortages and logistics bottlenecks lower operating costs, inflation is projected to moderate from 5.9% in 2023 to 4.6% in 2025. Delayed progress in reforms to state-owned enterprises, especially those that are reducing key supply constraints, pose a risk to the recovery. Economic policy uncertainty may ease following national elections planned for late May, supporting activity.

Accelerating fiscal consolidation would boost investor confidence

Elevated public debt is limiting fiscal space for growth-enhancing measures, social spending and carbon mitigation and adaptation policies, whilst increasing financial risks. Maintaining a strategy of fiscal consolidation would help to bring debt back on a sustainable path, including through improving the efficiency of public services, reducing the size of the government's wage bill, and reforming state-owned enterprises (SOEs), alongside increasing government revenues. Improving the performance of SOEs and establishing an effective governance framework that ensures transparency and accountability would reduce the risks that SOEs pose to debt sustainability, improve their effectiveness and support competition. Continuing reforms to increase electricity availability would increasingly reduce outages whilst supporting the uptake in renewable energy production and strengthening energy security. Reducing regulatory policies would reduce the cost of doing business and support the entry and growth of SMEs.

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