South Africa

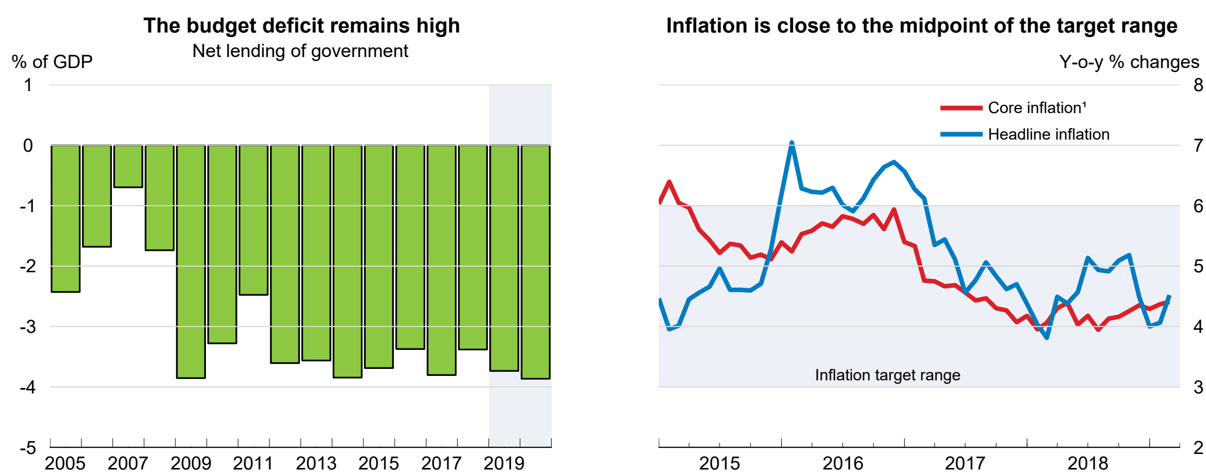
Economic growth will remain sluggish throughout 2019 and 2020. Private consumption will expand on the back of moderate increases in real wages and disposable household income. Policy uncertainty around the land reform is assumed to fade with a clarification of the reform agenda following the general election, and investment is projected to pick up as confidence recovers. Exports will improve, benefitting from the recovery in international commodity prices. Inflation will pick up moderately due to rising food and electricity prices.

Despite the recent slowdown in inflation and only moderate upward risks, the Reserve Bank has left the policy rate unchanged to anchor inflation closer to the midpoint of the inflation target range (3-6%). If inflation expectations continue to be anchored, the Reserve Bank could consider adjusting monetary policy. The government budget remains constrained due to relatively high public debt, limiting fiscal policy room to manoeuver. Structural policy reforms that reduce barriers to competition and boost job creation are key to support growth.

Weak investment hampers growth

The economy slowed down in 2018. Investment declined on the back of policy uncertainty around the land reform and unstable electricity supply. Business confidence continued to deteriorate at the beginning of 2019 but is expected to improve following the recent election. Investment will pick up modestly throughout the year and should accelerate in 2020. Exports and household consumption are the main drivers of growth. An increase in commodity prices boosted exports during the second half of 2018 and should further contribute to growth in 2019. However, constrained electricity supply, if continued, will weaken production in 2019. Wage growth should remain modest as inflation expectations are anchored and unemployment continues to be high.

South Africa



1. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 105 database; and Statistics South Africa.

StatLink https://doi.org/10.1787/888933934907

South Africa: Demand, output and prices

South Africa	2015	2016	2017	2018	2019	2020
	Current prices ZAR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	4 042.6	0.4	1.4	0.8	1.2	1.7
Private consumption	2 420.1	0.6	2.1	1.8	1.6	1.9
Government consumption	828.4	2.2	0.2	1.9	0.8	1.0
Gross fixed capital formation	822.6	-3.5	1.0	-1.4	0.0	3.0
Final domestic demand	4 071.1	0.1	1.5	1.2	1.1	1.9
Stockbuilding[1]	24.6	-1.0	0.4	-0.2	-1.4	0.0
Total domestic demand	4 095.7	-0.9	1.9	1.0	-0.3	1.9
Exports of goods and services	1 221.2	0.4	-0.7	2.6	5.8	3.0
Imports of goods and services	1 274.3	-3.9	1.0	3.3	0.7	3.6
Net exports[1]	- 53.1	1.3	-0.5	-0.2	1.5	-0.2
Memorandum items						
GDP deflator	_	7.1	5.6	3.3	4.3	4.5
Consumer price index	_	6.3	5.3	4.6	4.8	4.9
Core inflation index[2]	_	5.7	4.6	4.2	4.3	4.5
General government financial balance (% of GDP)	_	-3.4	-3.8	-3.4	-3.7	-3.9
Current account balance (% of GDP)	_	-2.9	-2.5	-3.6	-3.4	-3.8

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 105 database.

StatLink https://doi.org/10.1787/888933935800

The tight fiscal space calls for structural reforms

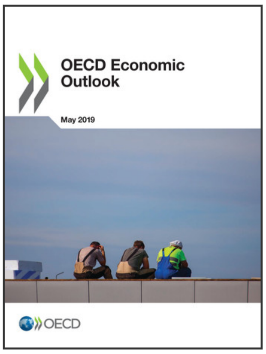
Inflation has trended down since 2016. The Reserve Bank is committed to anchoring inflation at the mid-point of the 3-6% target range and has therefore maintained rates. Rising food and electricity prices put moderate upward pressure on inflation. If inflation expectations continue to be moderate, the Reserve Bank could consider slightly increasing the degree of monetary accommodation to support growth.

The government's fiscal deficit is set to increase slightly from its 2018 level. Despite important efforts to prevent a deterioration of the primary balance, increasing interest payments are weighing on debt and fiscal space. Fiscal policy has to focus on increasing spending efficiency to reduce high government debt. The government should strengthen its efforts to contain the wage bill. High government exposure to underperforming state owned enterprises (SOEs) is threatening debt sustainability. Reforms have been launched to improve the governance of key SOEs. These have to continue focussing on implementing an effective governance framework that clearly sets company-specific objectives in terms of profitability, capital structure and non-financial results.

A strategy is needed to increase job creation and growth. It should focus on investment in infrastructure and implementation of structural reforms such as strengthening and broadening competition. Developing labour intensive sectors like tourism can further support job creation. Providing employment opportunities for young people is critical, as they are especially vulnerable to unemployment. Income and economic opportunities remain highly unequal. Building a comprehensive social system that protects against risks and shocks can provide more confidence, boost saving and strengthen productivity. While the creation of such a system involves substantial fiscal costs, it is crucial for creating a more inclusive society.

Growth is projected to remain fragile

Growth is projected to pick up slowly but will remain vulnerable to policy uncertainty and external shocks. Household consumption continues to be an important driver of growth, despite low employment growth. Investment is projected to pick up progressively, albeit from historically low levels, as a clarification of the reform agenda following the recent general election is expected to support confidence. On the external side, the economy will remain vulnerable to increasing oil prices, escalating global protectionism, global financial tightening and negative investor sentiment towards emerging market economies.



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