South Africa

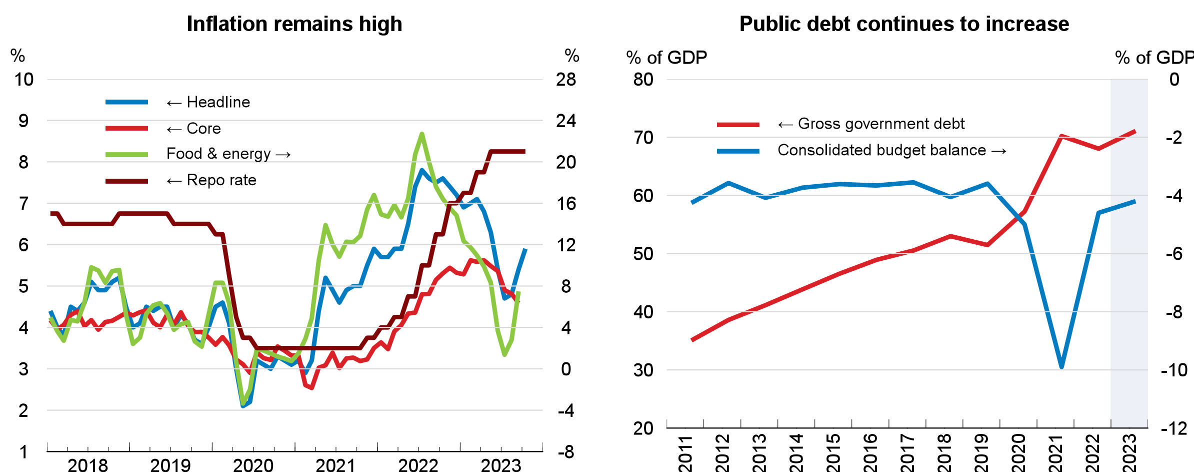
GDP growth is projected to slow to 0.7% in 2023 before increasing by 1% in 2024 and 1.2% in 2025. Investment in machinery and equipment for energy production will remain strong, despite tighter financing conditions. Net exports will weigh on growth as most machinery and equipment are imported and external demand has weakened. Private consumption growth will ease amid still high inflation and lower household purchasing power but will remain positive, helped by employment returning to its pre-COVID-19 level. Inflation will gradually return to the target range, although risks remain to the upside.

The fiscal balance is expected to deteriorate this year, setting back the pace of fiscal consolidation. Higher external financing needs imply greater risk of exposing the government to increasing borrowing costs. Strengthening the medium-term fiscal framework would help to put public debt on a declining path and rebuild fiscal buffers. The central bank should be vigilant and not ease monetary policy until inflation approaches the mid-point of the target range. Improving access to childcare facilities would increase female labour force participation and durably raise employment levels.

Economic activity surprised positively in the first half of the year

GDP expanded by 0.4% and 0.6% in the first two quarters of 2023, driven by investment in infrastructure, machinery and equipment, including renewable energy products to address longstanding electricity shortages. Despite this expansion, the recovery from the downturn at the end of 2022 is not yet complete. In the second quarter of 2023, household consumption contracted for the first time since 2021. Consumer confidence continues to deteriorate, and annual credit growth slowed from a 15 year high of 10.5% last year to 6.4% in July 2023. At the same time, employment increased 5% in the year to June 2023, marginally surpassing its pre-COVID-19 level. Annual consumer inflation increased again in October, rising to 5.9%.

South Africa



Note: Data refer to fiscal years.
Source: Statistics South Africa; CEIC; OECD Consumer Price Indices database; National Treasury; and OECD calculations.

https://stat.link/fobcp4

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	0.7	1.0	1.2
Private consumption	3 481.1	5.8	2.5	0.6	0.7	1.5
Government consumption	1 145.6	0.5	1.0	2.3	1.5	1.0
Gross fixed capital formation	768.8	0.6	4.8	7.1	5.5	3.9
Final domestic demand	5 395.5	4.0	2.5	1.9	1.6	1.8
Stockbuilding[1]	- 70.8	0.7	1.2	0.3	0.1	0.0
Total domestic demand	5 324.8	4.8	3.9	2.2	1.7	1.8
Exports of goods and services	1 532.7	9.1	7.4	4.2	2.9	2.1
Imports of goods and services	1 289.5	9.6	14.9	9.1	4.9	3.7
Net exports[1]	243.2	-0.1	-2.0	-1.5	-0.7	-0.6
Memorandum items						
GDP deflator	_	6.5	4.8	4.6	4.8	4.5
Consumer price index	_	4.6	6.9	5.9	5.0	4.6
Core inflation index[2]	_	3.1	4.6	5.4	5.0	4.6
General government financial balance (% of GDP)	_	-6.4	-4.8	-6.4	-6.3	-6.0
Current account balance (% of GDP)	_	3.7	-0.5	-1.9	-1.8	-2.1

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 114 database.

The external balance continues to deteriorate amid declines in the terms of trade, lower export volumes, higher import volumes, and a weak domestic currency. The current account deficit rose to 2.3% of GDP in the second quarter of 2023. Severe electricity rationing, due to poorly maintained and ageing power stations that are not able to meet demand, continues to weigh on domestic activity and on the currency. The availability of electricity has been deteriorating since 2018. The level of power cuts experienced in 2023 already exceeds that in 2022.

The fiscal outlook has deteriorated, keeping borrowing costs elevated

Tax revenue collection declined substantially in the first half of the year and the public sector wage settlement was higher than budgeted in March 2023. The fiscal deficit is therefore expected to deteriorate significantly this year, after 2 years of fiscal consolidation. The debt-to-GDP ratio continues to increase, together with debt servicing costs. In August, interest payments had already reached 4.9% of GDP and 20% of fiscal revenues. The sovereign bond spread also remains above its pre-pandemic average. The fiscal balance is projected to improve slightly in 2024 and 2025 as the fiscal stance becomes contractionary again. The government is expected to implement cost-cutting measures to lower spending, including a hiring freeze. Although inflation returned to the target range of 3-6% in June, the central bank has kept the policy rate at 8.25% since May, its highest level in fourteen years. Monetary policy is expected to start easing slowly in mid-2024, once inflation converges to the mid-point of the target range, with the policy rate reaching 6.5% by the end of 2024.

Investment in power generation is driving the recovery

Investment will be the main driver of growth in the near term. Power cuts are expected to ease gradually in 2024 and 2025 as investment in energy generation progressively expands capacity. Weaker global economic activity is expected to reduce demand for South Africa’s exports, while investment in energy infrastructure, machinery and equipment will keep import growth elevated. Private consumption will remain subdued amid still high inflation and will only pick up gradually as employment continues its recovery and monetary policy eases. Inflation will gradually fall closer to the mid-point of the target range as supply disruptions alleviate. Political uncertainty around the upcoming presidential elections could reduce investor confidence and slow progress in addressing the energy crisis. In contrast, a stronger expansion of energy supply from private sources would strengthen the recovery. Disinflation is subject to significant risks. Dry weather conditions in the context of El Niño could severely impact crop yields and push up domestic food inflation. Prolonged energy and logistical constraints could increase the cost of doing business and consumer prices even further.

Accelerating fiscal consolidation efforts would boost investor confidence

Elevated public debt leaves limited fiscal space to mitigate potential adverse shocks, exposes the government to increasing borrowing costs, and contributes to a higher country risk premium and long-term interest rates. Accelerating fiscal consolidation, through a combination of expenditure and revenue-based measures, is essential to put public debt on a declining path, rebuild fiscal buffers, and mitigate financial risks. Fiscal space should be used to reduce poverty, step up carbon mitigation efforts, adapt to climate change, and respond to an ageing population. Strengthening the medium-term fiscal framework, by anchoring the expenditure ceiling with a debt ceiling, would help restore its credibility, boost investor confidence, and strengthen the recovery. Reforms that continue to facilitate access to the power grid for private providers using renewable sources would reduce power outages and strengthen growth, while at the same time making it more sustainable. Further combining competition policy and economic regulation would help foster productivity growth in key network sectors.

From:
OECD Economic Outlook, Volume 2023 Issue 2

Access the complete publication at:
https://doi.org/10.1787/7a5f73ce-en

Please cite this chapter as:

OECD (2023), “South Africa”, in *OECD Economic Outlook, Volume 2023 Issue 2*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/7a5e0149-en

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at http://www.oecd.org/termsandconditions.

OECD