South Africa

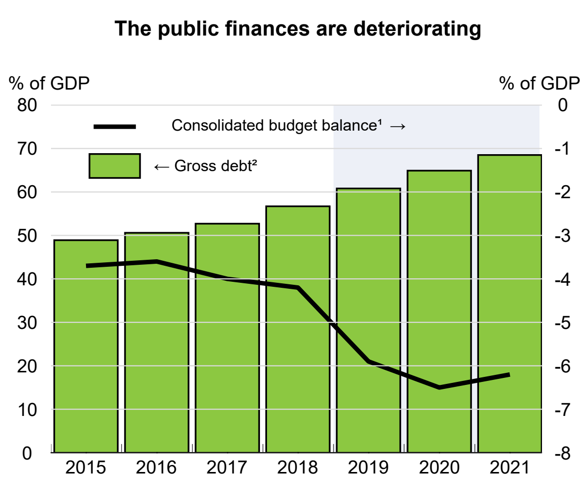
Economic growth remains weak and is projected to pick up to only 1¼ per cent in 2020-21. Confidence is low on the back of continuing policy uncertainty, which hampers investment. Unemployment will remain high, weighing on private consumption. Trade is currently held down by global trade tensions, but export growth should pick up in line with the recovery of world trade. Inflation will increase moderately in 2020 due to rising electricity, food and fuel prices.

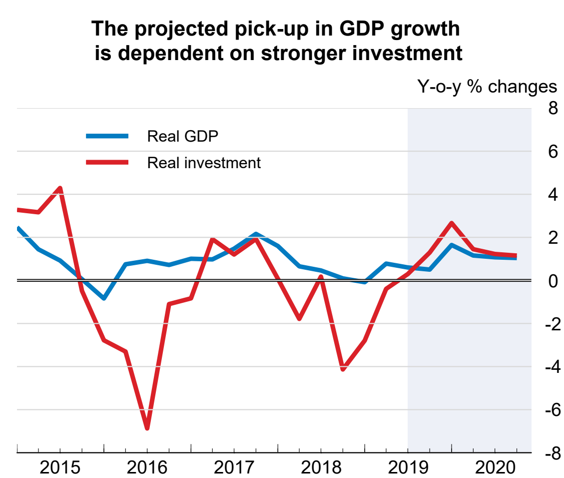
The fiscal deficit has increased, driven by a rising government wage bill, increasing interest payments and bailouts of state-owned enterprises. Government debt exposure to under-performing state-owned enterprises (15% of GDP) is high, posing a risk to debt sustainability. Implementing an effective governance framework for state-owned enterprises and reducing the wage bill are needed to create fiscal space. The slowdown in inflation and the anchoring of inflation expectations could provide room to ease monetary policy.

Falling exports and low domestic demand are weakening growth

Growth has been volatile and low in 2019 due to weak domestic demand. Replacement and maintenance of machinery and equipment will boost investment somewhat, as confidence is not expected to improve strongly. Mining and manufacturing production are slowing. Though improving in the second half of the year, net exports will not contribute to growth.

South Africa





1. National and provincial government, social security funds and public entities. Fiscal year beginning on the 1st of April.
2. Debt of the central government, excluding extra-budgetary institutions and social security funds. Fiscal year beginning on the 1st of April.
Source: National Treasury, Budget Review 2019, Medium Term Budget Policy Statement 2019; and OECD Economic Outlook 106 database.

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South Africa: Demand, output and prices

South Africa	2016	2017	2018	2019	2020	2021
	Current prices ZAR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	4 348.8	1.4	0.7	0.5	1.2	1.3
Private consumption	2 584.4	2.1	1.8	1.3	1.4	1.5
Government consumption	906.3	0.2	1.9	1.6	1.2	1.1
Gross fixed capital formation	846.6	1.0	-1.4	-0.4	1.6	1.7
Final domestic demand	4 337.3	1.5	1.2	1.1	1.4	1.5
Stockbuilding[1]	- 11.3	0.4	-0.3	0.6	0.3	0.0
Total domestic demand	4 325.9	1.9	0.9	1.7	1.7	1.5
Exports of goods and services	1 333.0	-0.7	2.6	-2.6	1.8	2.3
Imports of goods and services	1 310.2	1.0	3.3	1.7	3.3	2.7
Net exports[1]	22.8	-0.5	-0.2	-1.3	-0.5	-0.2
Memorandum items						
GDP deflator	_	5.7	3.4	4.3	4.8	4.3
Consumer price index	_	5.3	4.6	4.2	4.6	4.5
Core inflation index[2]	_	4.6	4.2	4.2	4.4	4.5
General government financial balance (% of GDP)	_	-3.8	-3.4	-5.9	-6.6	-6.3
Current account balance (% of GDP)	_	-2.5	-3.6	-3.6	-3.6	-3.6

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 106 database.

StatLink https://doi.org/10.1787/888934046855

Reforms are needed to stimulate the economy

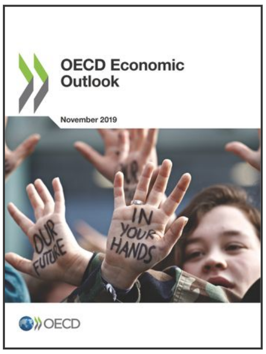
Inflation has receded markedly in 2019, but it will pick up moderately in 2020 and 2021 to slightly above the Reserve Bank's target of 4.5%, driven by increases in electricity, food and fuel prices. Inflation expectations should continue to moderate progressively toward the inflation target. Risks to inflation are balanced. Demand side pressures are low, as food prices and wages are expected to grow modestly. Given ample spare capacity and the anchoring of inflation expectations, there could be room for easing monetary policy, particularly in 2021.

Rising compensation of government employees and increased bailouts of state-owned enterprises are putting pressure on public finances. Wage negotiations have systematically granted above-inflation increases. The government has announced an early-retirement plan to reduce employment levels, but early-retirement schemes are costly in the short run, with limited benefits. The government could consider indexing public sector wages below inflation for three years. Slow reform of state-owned enterprises is weighing on the economic climate and confidence. The underperformance of these enterprises is widespread due to mismanagement, corruption, overstaffing and an uncontrolled wage bill. An effective governance framework for state-owned enterprises needs to be established, setting clear company-specific goals in terms of profitability, capital structure and non-financial objectives.

Developing tourism and boosting transport infrastructure investments would contribute to growth in the short run and to job creation. Regulatory restrictions are still relatively high. This includes a high level of government involvement in the economy, barriers to domestic and foreign entry, complex rules for licences and permits, and protection of existing businesses from competition. Giving more independence to regulators in the energy, transport and telecom industries and accelerating the adoption and implementation of the Transport Regulation Bill are necessary.

Persistent low growth is set to continue

Growth is projected to pick up modestly in 2020 and 2021. Investment will be the main driver of growth aided by government spending. Stronger exports should also contribute to growth. Household consumption growth will remain low. Domestic near-term risks to GDP growth include load-shedding (rolling blackouts) by power utilities and higher-than-expected electricity prices. Moreover, the level of investor confidence in the economy remains fragile and vulnerable to policy developments. A stronger-than-anticipated slowdown of growth in China – South Africa's largest trading partner – would negatively affect the price and demand for South Africa's export commodities.



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