SOUTH AFRICA

Table 1	2019
Population, million	58.6
GDP, current US$ billion	351.4
GDP per capita, current US$	5997.6
International poverty rate ($1.9)[a]	18.7
Lower middle-income poverty rate ($3.2)[a]	37.3
Upper middle-income poverty rate ($5.5)[a]	56.9
Gini index[a]	63.0
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	63.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2018)

With the most cases in Africa and a very strict lockdown that brought the economy to a standstill, South Africa has been hard hit by COVID-19. Growth is projected to contract by 7.2 percent this year and to rebound moderately in 2021 as pre-existing structural constraints – such as electricity shortages - become binding again. Public debt is expected to reach 82.3 percent in 2020, raising concerns over debt sustainability. Poverty is expected to rise in 2020.

Key conditions and challenges

The COVID-19 crisis hit South Africa when its economy was already weak. GDP growth averaged 1.7 percent annually over 2010-19, 2 percentage points below the previous decade's average. Per capita real GDP growth has been contracting since 2014. Business confidence is low and manufacturing and mining activities have been hard-hit by electricity shortages as Eskom faces protracted supply challenges. Fiscal balances have deteriorated as a result of rising expenditures, especially transfers to public corporations, public sector wage bill, and debt service payments. At the same time, high and stable revenue collection has suffered from weak economic growth. On the background of deteriorating macroeconomic indicators, South Africa lost its last investment grade rating last March. Nonetheless, the country benefits from large and deep domestic financial markets. Most of the public-sector debt is Rand-denominated.

There is high uncertainty around the outlook. A longer global health crisis and economic downturn, long-lasting disruptions in global supply chains, or longer and deeper COVID-19 pandemic in South Africa could prolong the recession and delay and weaken the recovery.

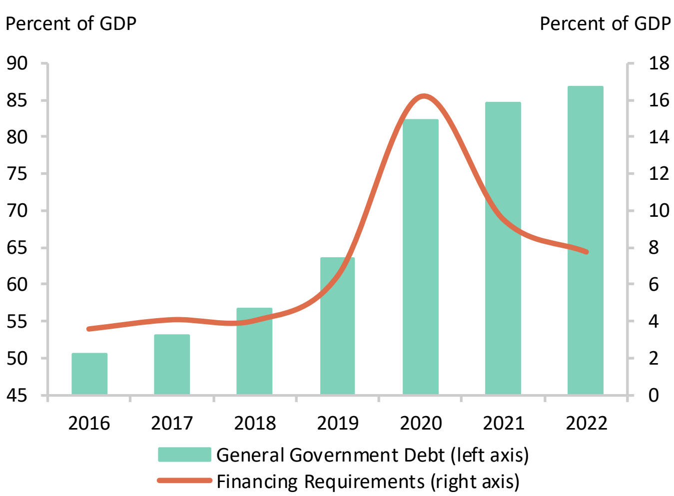
Delivering on structural reforms to restart the economy and put growth on a higher trajectory than pre-COVID-19 and reducing unproductive expenditures is critical to restore debt sustainability and improve confidence. A worsening of investors' sentiment could raise South Africa's borrowing costs, putting additional pressure on the budget and the domestic banking sector to fund a growing share of the large borrowing requirements.

Persistently depressed economic growth combined with low job creation could revert past progress towards poverty reduction and widen inequalities, already among the highest in the world.

Recent developments

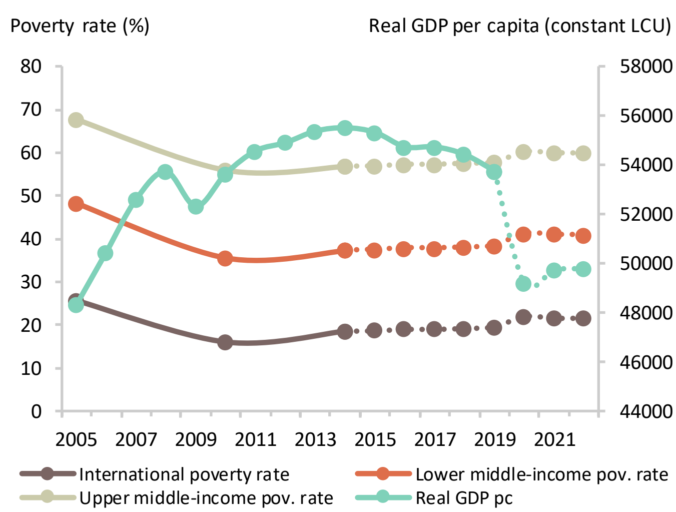
GDP growth entered a technical recession in Q4 2019. As domestic COVID-19 cases rose, a strict lockdown in place from end-March to end-April brought activity to a standstill. GDP contracted by 8.7 percent y-o-y over January-June driven by mining (-19.8 percent y-o-y), manufacturing (-18.3 percent y-o-y) and retail and wholesale trade, hotels and restaurants (-12.7 percent y-o-y). On the demand side, households' consumption fell by 7.5 percent y-o-y, gross capital formation plunged by 28.7 percent y-o-y. The external sector contributed positively to GDP growth (by 0.8 percent) as imports contracted more than exports. Inflation decelerated, hovering around the lower bound of the Reserve Bank's target band (3-6 percent) at 3.4 percent on average up to July. The current account deficit decreased from 3 percent of GDP in 2019 to 0.9 percent of GDP over H1. Amid global and domestic uncertainty, South Africa experienced significant

FIGURE 1 South Africa / Public debt and financing requirements



Sources: National Treasury and World Bank staff.

FIGURE 2 South Africa / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see table 2.

portfolio outflows that resulted in the rand depreciating by close to 20 percent since the beginning of 2020. Government 10-year bond yields increased to 13.1% in end-March before stabilizing around pre-COVID-19 levels since June. The banking sector remains stable but bank-sovereign nexus risks are rising, especially for banks exposed to financially-weak SOEs.

The South African authorities reacted decisively to the COVID-19 shock. The Central Bank eased the monetary policy stance, reducing the repo rate by a cumulative 300 basis points since January. It also took measures to provide market liquidity, including government bonds purchases on the secondary market. It purchased Rand 21.6 billion over April-May (US$ 1.3 billion) and subsequently lowered its purchases to Rand 7.6 billion over June-July (US$ 460 million) as market stress subsided. The government launched a stimulus package of 10 percent of GDP to support the health sector, vulnerable households and small businesses.

The economic and social impact of the pandemic is high. The unemployment rate, which stood at 29 percent before COVID-19 is expected to have increased significantly in 2020. Households' survey results suggest that up to a third of income earners may have lost their income source between February and April, with a disproportionate impact on the poorest, translating into heightened vulnerabilities, notably to hunger.

Outlook

The impact of the COVID-19 pandemic will translate into a significant economic downturn in 2020. As some activities remain constrained into H2 (such as tourism), the economic impact of COVID-19 will be long, and the recovery moderate during the second half of 2020. As economic activity restarts, pre-existing structural constraints are becoming binding again, such as electricity shortages . GDP growth is expected to contract by 7.2% in 2020 and to rebound to 2.6% in 2021.

The fiscal situation has weakened further. The deficit is expected to more than double – to 16.2 percent of GDP in 2020/21 – and public debt is projected to reach 82.3 percent of GDP. Debt service is estimated to rise to 5.1 percent of GDP in 2020/21, the fastest growing budget expenditure, crowding-out poverty-reducing and growth-enhancing public spending. The government is committed to restoring fiscal sustainability and to reach a primary surplus by 2023/24. Specific reforms to achieve this outcome are expected to be announced in the Medium-Term Budget Policy Statement in October. In the face of rising gross borrowing requirements, the authorities have contracted about US$ 5.6 billion in external financing from IFIs. Further support may be needed to fill the financing needs over the coming years.

The COVID-19 crisis is likely to increase poverty. Unemployment is expected to increase significantly. Vulnerable people such as workers in the informal sector and those with low levels of education are more likely to be unemployed as they disproportionately work in sectors that will remain affected by containment measures (e.g. hospitality, retail trade). About 2 million South Africans could fall into poverty, bringing the poverty rate - measured at the upper-middle-income country poverty line ($5.5/person/day in 2011PPP) - to 60.2 percent in 2020.

TABLE 2 South Africa / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	1.4	0.8	0.2	-7.2	2.6	1.5
Private Consumption	2.1	1.8	1.0	-13.4	3.8	2.3
Government Consumption	0.2	1.9	1.5	3.5	-1.5	1.0
Gross Fixed Capital Investment	1.0	-1.4	-0.9	-8.5	6.1	1.5
Exports, Goods and Services	-0.7	2.6	-2.5	-10.5	11.6	0.9
Imports, Goods and Services	1.0	3.3	-0.5	-16.4	13.4	2.2
Real GDP growth, at constant factor prices	1.5	0.7	0.2	-7.2	2.6	1.5
Agriculture	21.1	-4.8	-6.9	-1.0	3.3	3.0
Industry	1.1	-0.1	-1.5	-7.1	2.5	2.0
Services	1.0	1.3	1.2	-7.4	2.6	1.2
Inflation (Consumer Price Index)	5.2	4.5	4.1	3.0	3.9	4.3
Current Account Balance (% of GDP)	-2.5	-3.5	-3.0	-1.8	-2.1	-2.5
Net Foreign Direct Investment (% of GDP)	-1.5	0.4	0.4	0.0	0.1	0.2
Fiscal Balance (% of GDP)	-4.1	-4.0	-6.4	-16.2	-9.5	-7.7
Debt (% of GDP)	53.0	56.7	63.5	82.3	84.6	86.7
Primary Balance (% of GDP)	-0.4	-0.1	-2.3	-11.1	-4.1	-2.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	19.1	19.3	19.7	21.9	21.6	21.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	37.9	38.1	38.5	41.3	41.0	41.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	57.3	57.6	57.8	60.2	60.0	60.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2014-LCS. Actual data: 2014. Nowcast: 2015-2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2014) with pass-through = 0.87 based on GDP per capita in constant LCU.