SOUTH AFRICA

Table 1	2020
Population, million	59.3
GDP, current US$ billion	301.9
GDP per capita, current US$	5090.7
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]	98.5
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) Most recent WDI value (2018).

South Africa has started to recover but momentum remains fragile as uncertainty about the pace of vaccination and vaccine effectiveness to the local COVID-19 variant persist. Pre-existing structural constraints also weigh on the recovery. GDP contracted by 7 percent in 2020 and is projected to rebound by 3.0 percent this year. Public finances deteriorated significantly, and fiscal consolidation will be critical to preserve macroeconomic stability. An additional 1.9 million people fell into poverty in 2020 and poverty risks increasing further.

Key conditions and challenges

South Africa's economy has started to recover from the crisis, but growth will remain hampered by pre-existing structural constraints. GDP growth averaged 0.8 percent annually over 2015-19. Business confidence has been low for several years, driven by a deteriorating fiscal outlook and a weakening business environment, and recurrent electricity shortages. This and high uncertainty around the evolution of the pandemic are likely to result in persistently weak private investment. Long-term damage from the pandemic could also limit South Africa's growth potential as the future of sectors like tourism remains highly uncertain. Inequalities in terms of access to quality education and health services, jobs and decent living conditions have been further exposed by the pandemic.

The COVID-19 crisis has put additional pressure on public finances which have been on a deteriorating trajectory for several years and has made restoring fiscal sustainability more urgent. Revenue collection – which is relatively high as a share of GDP – has suffered from weak economic growth. At the same time, government's expenditures have increased, leading to growing deficits and debt. Interest payments have been the fastest growing budget expenditure. Political consensus on expenditure consolidation has proved difficult to achieve, especially on public sector compensation and transfers to SOEs.

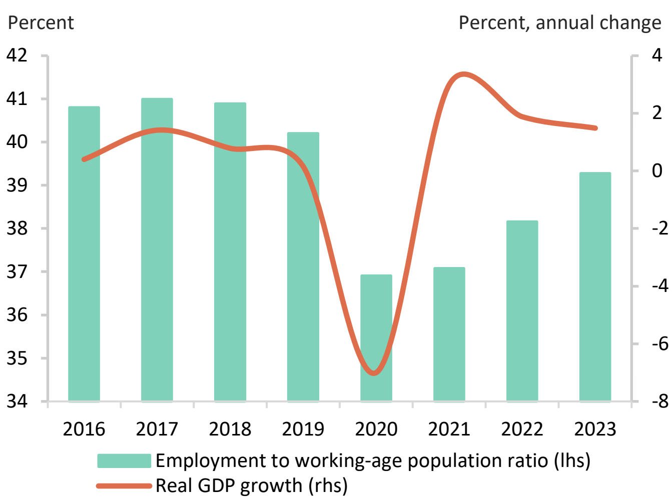
South Africa witnessed a second wave of infections over December-January 2020/21. Daily cases were brought under control rapidly allowing the government to ease restrictions to their lowest level since the start of the pandemic end-February. However, the death toll of the second wave was significant: more than half of total COVID-19-related deaths have happened since early-December.

There is uncertainty around the outlook. Repeated infection waves and longer than expected vaccination timelines globally and domestically will weigh negatively on the global and domestic recovery. The strength and sustainability of the recovery will depend on these evolutions as well as domestic policies and their implementation.

Recent developments

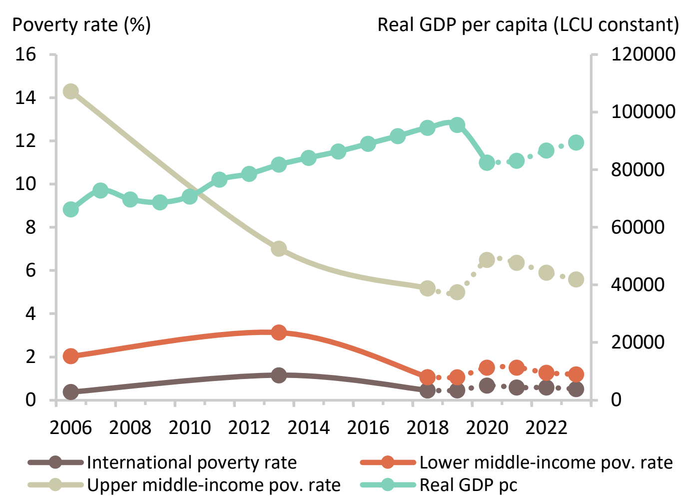
The economy contracted by 7 percent in 2020. All sectors contracted except agriculture and government services. Manufacturing, trade and hospitality, and transportation services sectors had the largest negative contributions to growth (-1.4, -1.3 and -1.3 percent respectively). PMI releases early-2021 have stayed above but close to 50, signaling that the recovery continues but is moderate. Although fiscal outcomes are set to outperform mid-year forecasts on the back of higher revenue, the fiscal situation remains very weak. The deficit is expected to reach 14 percent

FIGURE 1 South Africa / Real GDP growth and employment to working-age population ratio



Sources: Stats SA 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.

of GDP and public debt 80.5 percent of GDP at the end of 2020/21.

Inflation slowed to 3.3 percent last year allowing the Reserve Bank to adopt an accommodative monetary policy stance, lowering the key repo rate to a historical low of 3.5 percent last July. Amid unprecedented global liquidity and decreasing risk aversion, the rand has been resilient and government bond yields have been hovering close to pre-pandemic levels. However, after having recorded portfolio outflows throughout 2020, South African financial markets have remained volatile and affected by shifts in risk sentiment at the global level. In a context of depressed domestic demand and favorable export prices (gold, platinum), the current account registered a surplus – the first since 2002 – at 2.2 percent of GDP.

The economic and social impacts of the pandemic are high. The unemployment rate reached 32.5 percent in 2020. Real GDP per capita is back to its 2005 level and 60.2 percent of the population is estimated to live in poverty, with less than $5.5 daily (2011 PPP). The number of poor in the past year increased by 1.9 million people. In response to the severe social impact of the crisis and the persistence of the global pandemic, the government extended the Special COVID-19 grant and the Temporary Employer-Employee Relief Scheme benefit until April.

Outlook

The persistence of the pandemic at the global and domestic levels will continue to constrain economic recovery during the first half of 2021. In addition, as economic activity restarts, pre-existing structural constraints, such as electricity shortages, are becoming binding again. GDP growth is expected to rebound to 3.0 percent in 2021 driven by the easing of restrictions on economic activity and favorable base effects. This moderate recovery will be insufficient to counter the social impact of the crisis as job creation is likely to remain muted.

South Africa does not have a lot of room for maneuver to provide additional stimulus to the economy. While monetary policy is likely to remain accommodative as long as inflationary pressures are contained, the overall policy mix will be constrained by the deteriorated fiscal position. The government will continue to face spending pressures related to the persistence of the pandemic, the public service compensation triennial agreement negotiation and financially weak SOEs. With some containment of these pressures, the deficit is expected to reach 9.6 percent of GDP in 2021/22 and public debt is projected to increase to 83.4 percent of GDP. Interest payments are estimated to rise to 5.4 percent of GDP this year.

Accumulated cash balances and favorable global liquidity conditions, if they persist, will reduce the pressure on the government's high financing requirement. However, sound implementation of planned reforms – in particular much-needed reforms to boost growth – will be key to maintain investors' confidence in the government's ability to restore debt sustainability. In addition, given the social toll of the pandemic, preserving social spending and improving its effectiveness in the context of a constrained budget envelope will be necessary to mitigate the risk of additional increases in poverty and inequalities.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	0.8	0.2	-7.0	3.0	1.9	1.5
Private Consumption	1.8	1.0	-5.4	2.5	3.5	3.0
Government Consumption	1.9	1.5	0.5	-0.5	-2.2	-1.8
Gross Fixed Capital Investment	-1.4	-0.9	-17.5	5.5	5.0	4.1
Exports, Goods and Services	2.6	-2.5	-10.3	5.0	1.0	1.0
Imports, Goods and Services	3.3	-0.5	-16.6	13.2	3.5	3.5
Real GDP growth, at constant factor prices	0.7	0.2	-6.8	3.0	1.9	1.5
Agriculture	-4.8	-6.9	13.1	3.3	3.0	3.0
Industry	-0.1	-1.5	-12.0	3.0	1.5	1.0
Services	1.3	1.2	-5.4	2.9	2.0	1.6
Inflation (Consumer Price Index)	4.5	4.1	3.3	4.0	4.5	4.5
Current Account Balance (% of GDP)	-3.5	-3.0	2.2	-1.0	-2.0	-2.5
Net Foreign Direct Investment (% of GDP)	0.4	0.4	0.2	0.2	0.3	0.4
Fiscal Balance (% of GDP)	-4.0	-6.4	-14.0	-9.6	-7.8	-6.8
Debt (% of GDP)	56.7	63.5	80.5	83.4	87.3	90.2
Primary Balance (% of GDP)	-0.1	-2.4	-9.3	-4.2	-2.2	-1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	19.3	19.7	21.9	21.4	21.3	21.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	38.1	38.5	41.3	40.7	40.5	40.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	57.6	57.8	60.2	59.8	59.6	59.4

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: 2015-2020. Forecast are from 2021 to 2023.

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