

SOUTH AFRICA

The global crisis has pushed South Africa into recession. Growth will likely be negative in 2009 before recovering in 2010, when policy stimulus, global recovery and the staging of the soccer World Cup will boost activity. The output gap will help keep inflation moving downward, returning to the target range in 2010. Current account deficits will shrink somewhat on account of lower domestic demand, but will remain sizeable, unless capital inflows weaken again, forcing even greater import compression.

A key policy challenge is to maintain the confidence of international financial markets, given the financing needs associated with the large current account deficit. Continued fiscal prudence, which need not exclude additional stimulus if demand contracts further, will be critical. The inflation targeting regime should be left in place, as it underpins monetary policy credibility and has already shown substantial flexibility. The absence of protectionist responses to the crisis is welcome, and should be maintained.

South Africa: Macroeconomic indicators

	2006	2007	2008	2009	2010
Real GDP growth	5.4	5.1	3.1	-2.0	2.5
Inflation	5.8	7.1	11.0	7.2	5.6
Fiscal balance (per cent of GDP)	0.2	1.0	-1.2	-4.5	-3.4
Current account balance (\$ billion)	-16.3	-20.7	-20.5	-15.0	-17.0
Current account balance (per cent of GDP)	-6.3	-7.3	-7.4	-5.3	-5.5

Source: National sources and OECD projections.