

Chapter summaries

Chapter 1. Moving beyond the crisis and finding a new sustainable growth path

The global crisis turned what might otherwise have been a mild slowdown in South Africa into a recession. However, thanks to moderately countercyclical macroeconomic policies, and in the absence of a banking crisis, South Africa was only about averagely affected by the global downturn. Given the losses in employment that ensued, pushing up the already very high unemployment rate, the short-term priority is to get the economy growing strongly on a sustainable basis. Once a private-sector-led recovery takes hold, fiscal policy should be tightened and monetary policy will have to protect the credibility of the inflation target in the face of stubbornly high inflation expectations. Beyond the crisis and its aftermath, South Africa needs to improve its trend growth performance to meet the material and social aspirations of its people. Among the areas to focus on to that end, this chapter picks out improving framework conditions for business, higher savings, increasing the contribution of exports to growth and strengthening efforts to tackle climate change.

Chapter 2. Strengthening the macroeconomic policy framework

South Africa's macroeconomic framework has served the economy well, but should be strengthened to make the economy more resilient to external shocks. Enhancing credibility of the inflation target would provide the monetary authorities with more space for flexibility in the face of exogenous shocks. To ease the pressure on the exchange rate emanating from high commodity prices and sentiment-driven surges in capital inflows, the accumulation of foreign exchange reserves by the central bank should be more rapid, and the removal of remaining controls on capital outflows should be accelerated. Fiscal policy has been generally sound, but should be made tighter and more countercyclical during the economic upswings to prevent a structural deterioration of the fiscal balance and to create more room for manoeuvre during downturns. A fiscal rule that institutionally constrains discretionary fiscal policy may facilitate this task and ensure that strong public commitment to address major social challenges, improve access to public services and promote long term growth by investing in physical infrastructure and human capital are met on a sustainable basis. In conjunction with a greater effort to identify and tax economic rents from natural resource extraction, consideration should be given to establishing a mechanism to manage commodity price windfalls.

Chapter 3. Closing the labour utilisation gap

South Africa suffers from extremely low labour utilisation, which interacts with other economic and social problems such as inadequate education, poor health outcomes, and crime. The causes are complex, and a range of policies looks to be required to reduce unemployment decisively. In some areas, OECD experience may point to promising approaches, such as on reducing the restrictiveness of product market regulation, increasing the degree of co-ordination of wage negotiations, weakening legal extension of collective bargaining agreements, and facilitating school-to-work transitions. In other areas the specific context of South Africa may call for additional or different approaches. In particular, rapid employment growth is unlikely to happen without improvement in overall economic growth, and it would help if that growth were more labour-intensive than in recent years. South Africa also needs to make particular efforts to improve basic education, and to continue to redress the spatial misallocation of the population, although these measures will not make a big difference to employment outcomes in the near term.