

## SOUTH AFRICA

- Growth in incomes has stalled since the 2008 crisis. GDP per capita remains at around 30% of the average level of the most advanced OECD countries. Total factor productivity has been the main drag on growth compared to the pre-crisis years. However, labour utilisation has also weighed on growth since the crisis.
- Inequality and poverty have remained particularly high, with entrenched barriers to social mobility difficult to overcome despite increases in social spending.
- Significant progress has been made with social partners in the work on labour relations. Unions and business representatives agree that there is a need to better handle wage negotiations and avoid violent strikes. The government and leading unions have endorsed the 3500 Rand per month national minimum wage proposed by the expert panel. The government has also engaged with the private sector to boost investment, ease access to finance for SMEs and strengthen state-owned enterprises. However, most of the *Going for Growth 2015* recommendations still stand.
- Removing barriers to competition and lifting regulatory restrictions in many sectors would boost the economy. In particular, more competition in network industries would bring prices down, increase access and stimulate productivity growth and firms' competitiveness. Also, improving the management and governance of state-owned enterprises and, in addition, strengthening the regulation of these sectors is crucial to lift supply-side bottlenecks. Reducing red tape and barriers to entrepreneurship would bolster employment and productivity growth. Improving equity and quality of education would boost human capital accumulation and reduce the high levels of inequality.

### Going for Growth 2017 priorities

**Finalise the reform of the wage bargaining system.** Building a wage bargaining framework based on trust and transparency would ease wage negotiations and help avoid costly strikes.

**Actions taken:** Significant progress has been made with social partners on labour relations during 2015-16. The panel of experts recommended a minimum wage of R3 500 per month or R20 per hour (EUR 240 monthly or EUR 1.37 hourly at current rates). The panel recommended lower wages for the agriculture and domestic services sectors where a large proportion of workers are very low-paid. The proposal has been endorsed by the government and the main union alliance, COSATU, paving the way for agreement and adoption by the parliament during 2017. Also, the introduction of the minimum wage is expected to be accompanied by measures to improve industrial relations (secret ballots before strike).

**Recommendations:** Weaken administrative extension of collective bargaining in sectors covered by bargaining councils. Provide indicative guidelines for wage settlements at a centralised level consistent with inflation targets and sectors' productivity growth. After the national minimum wage is introduced, ensure regular reviews of the minimum wage are independent and transparent.

**Reduce barriers to entrepreneurship.** Stimulation of entrepreneurship would bolster employment and productivity growth.

**Actions taken:** A Red Tape Impact Assessment bill dedicated to reducing red tape is with parliament and the authorities are assessing the ease of doing business across various municipalities to improve the business environment, especially for SMEs. Also, the InvestSA initiative, launched in January 2016, will include one-stop shops at national and provincial

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## Growth performance and inequality indicators

## A. Growth

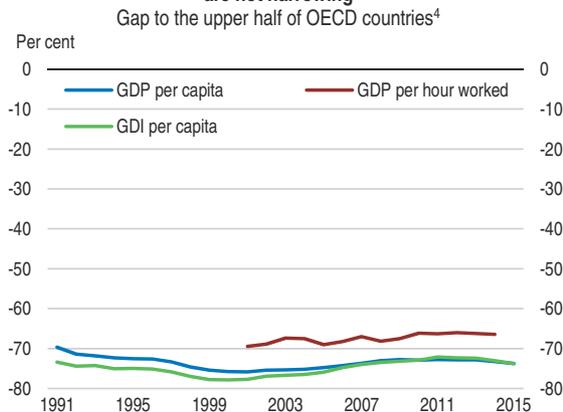
Average annual growth rates (%)	2003-09	2009-15
GDP per capita	2.3	0.8
Labour utilisation	0.5	-0.1
of which: Labour force participation rate	-0.1	0.3
Employment rate <sup>1</sup>	0.6	-0.4
Employment coefficient <sup>2</sup>	0.0	0.0
Labour productivity	1.5	0.5
of which: Capital deepening	-0.5	0.2
Total factor productivity	1.9	0.3
Dependency ratio	0.4	0.3

## B. Inequality

	Level	Annual variation (percentage points)
	2011	2008-11
Gini coefficient <sup>3</sup>	63.4 (31.7)*	0.1 (0)*
Share of national disposable income held by the poorest 20%	2.5 (7.7)*	0 (0)*

\* OECD average

## C. The large gaps in GDP per capita and productivity are not narrowing



1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

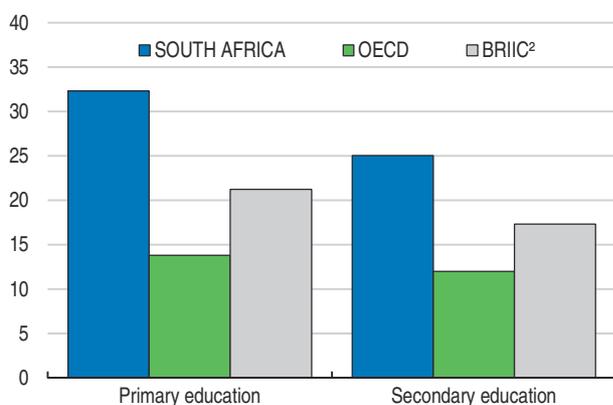
Source: Panel A: OECD calculations based on OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution and World Bank, World Development Indicators (WDI) Databases*; Panel C: OECD, *National Accounts and Productivity Databases*; World Bank, *World Development Indicators (WDI) Database*.

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## Policy indicators

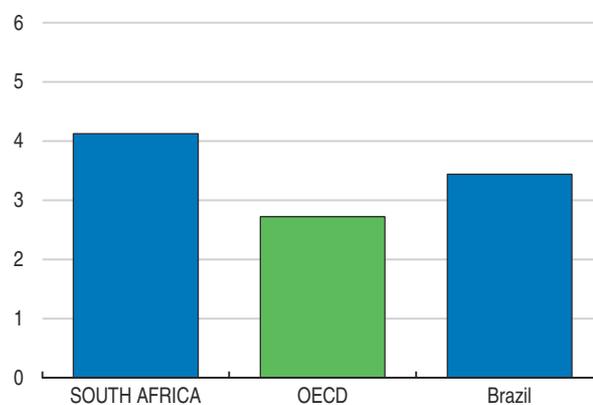
A. The pupil-teacher ratio is very high<sup>1</sup>

2014



## B. Competition in network industries is weak

Index scale of 0-6 from least to most restrictive, 2013



1. The pupil-teacher ratio is calculated by dividing the number of students at the specified level of education by the number of teachers at the same level of education. For secondary education, data refer to 2009 for South Africa.
2. Average of Brazil, the Russian Federation, India, Indonesia and China.

Source: Panel A: World Bank, *World Development Indicators database*; Panel B: OECD, *Product Market Regulation Database*.

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level to help investors with the procedures required to start up and run a business, and provide streamlined access to registration and authorisation processes.

**Recommendations:** Significantly reduce red tape and other administrative burdens on business operations. Reduce the severity of bankruptcy rules, in particular severance payments, to facilitate second chances for entrepreneurs. Undertake regulatory impact assessments systematically for all new legislation and review existing legislation with a view to reducing regulatory burden.

**Enhance competition in network industries.** More competition in network industries would bring prices down, increase access and stimulate productivity growth and firms' competitiveness.

**Actions taken:** From May 2016, legislative amendments to criminalise cartel conduct became effective.

**Recommendations:** Rule out granting state-owned enterprises exemptions from the competition laws. Secure effective separation of generation, transmission and distribution of electricity. Strengthen the independence of network regulators. Unbundle the divisions of the state-owned transport conglomerate Transnet and open access to public infrastructure to private service providers.

**Raise efficiency and equity in education.** Improving equity and quality of education would boost human capital accumulation and reduce the high levels of inequality.

**Actions taken:** In 2016, additional funding for infrastructure under the Education Infrastructure Grant and Accelerated Schools Infrastructure Delivery Initiative were decided along with acceleration in programmes to upgrade school infrastructures. Also, the financing of National Education Collaboration Trust (NECT), a public-private partnership devoted to improve the school system performance, has been scaled up.

**Recommendations:** Improve teacher training, enhance accountability and increase monitoring of school leadership. Teach English as a second language earlier, while maintaining mother-tongue instruction for longer. Upgrade infrastructure. Gradually phase out school fees in the public primary school system. Expand vocational education and training.

**Strengthen active labour market policies to tackle unemployment.** High youth unemployment threatens social cohesion and erodes human capital.

**Actions taken:** The employment tax incentive was introduced in 2014 with a sunset clause in 2016. Work to quantify the exact impacts – particularly on employment and labour market outcomes of youth – was completed in 2016 and the employment tax incentive has been extended up to February 2019.

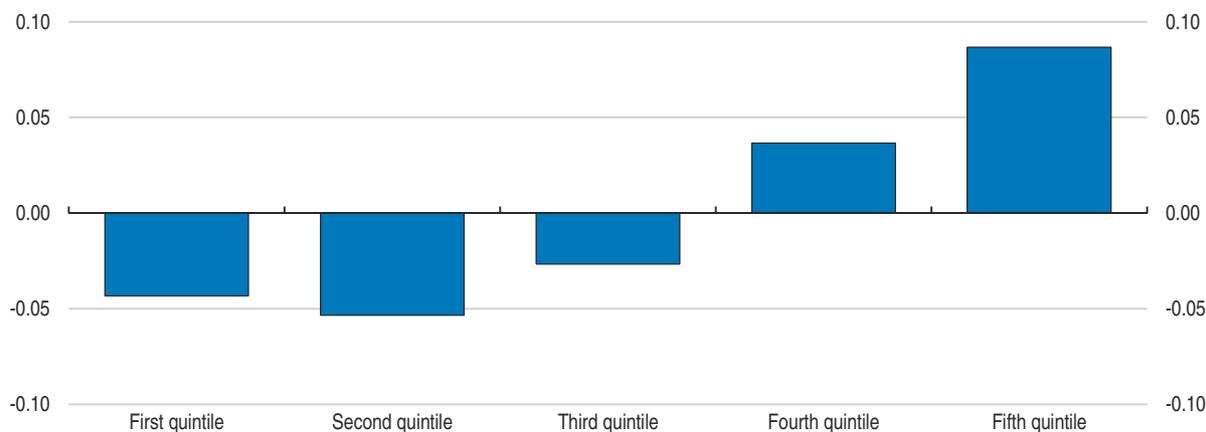
**Recommendations:** Expand placement assistance for young job-seekers and support for young entrepreneurs focused on management training. Establish a public employment service as a one-stop shop for job seekers to lower the cost of job search and hiring costs for employers, which would improve the matching of workers to jobs.

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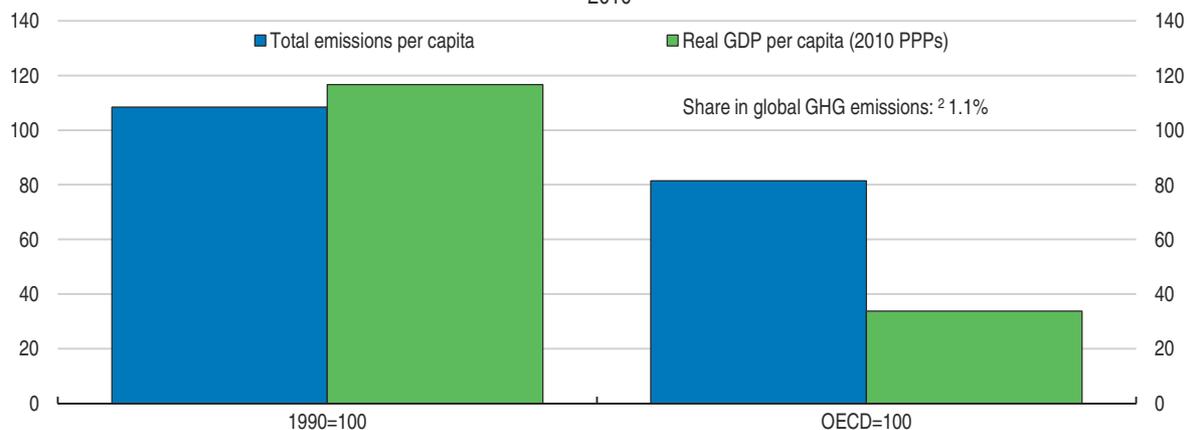
## Beyond GDP per capita: Other policy objectives

## A. The poor and the lower middle class lost ground

Annualised percentage points growth in quintile shares between 2008 and 2011



## B. Emissions per capita are above the 1990 level

2010<sup>1</sup>

1. Total GHG emissions in CO<sub>2</sub> equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.

2. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: World Bank, *World Development Indicators database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, United Nations Framework Convention on Climate Change (UNFCCC) Database.

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