# SOUTH AFRICA

**Economic growth is projected to pick up slowly in 2019-20, driven by exports. Private consumption will also expand as wages increase moderately. Unemployment will remain high, however, weighing on demand and confidence. Investment is set to recover as policy uncertainty is assumed to ease gradually. High oil prices and the weak currency will drive inflation to the upper part of the 3-6% target range.**

**Monetary policy will need to address upward pressures on inflation while growth is low. It should remain accommodative to support growth, but tighten moderately in case inflation continues to rise. The government budget deficit is set to remain high relative to GDP. Credible structural policy reforms are necessary to broaden competition and economic opportunities in order to support growth.**

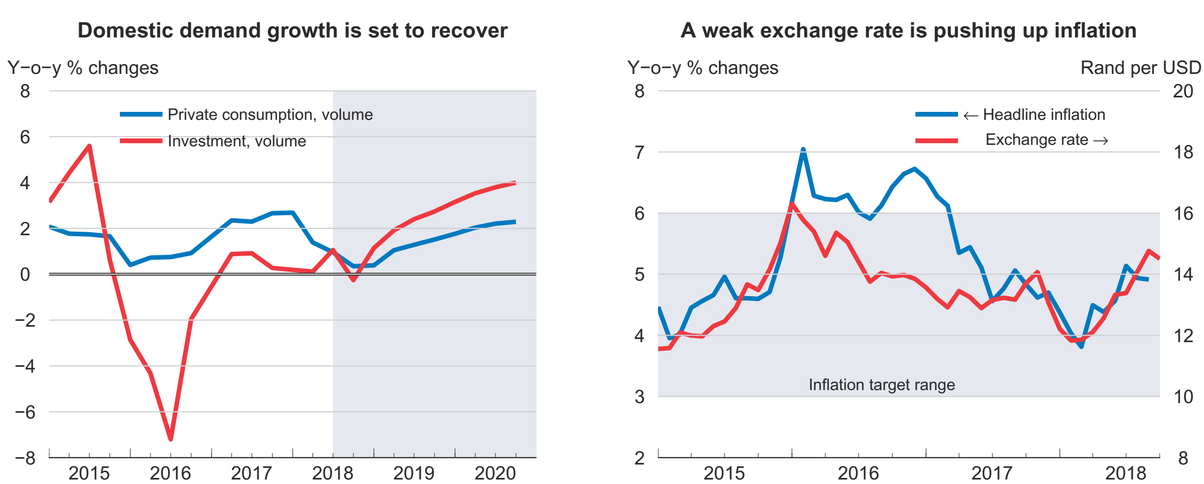
### *Subdued domestic demand has weakened growth*

The economy slowed in 2018. A temporary boost in business and consumer confidence at the beginning of the year gave way to growing policy uncertainty that weakened investment. Private consumption has been constrained due to recent tax changes and slow credit growth. Despite a stabilisation of food prices and moderate wage growth, household consumption is being held back by higher oil prices. Job creation has been insufficient and unemployment remains high at almost 28% of the labour force, contributing to persistent inequalities in income and economic opportunities.

### *Progress on structural reforms is needed*

High oil prices and a weak exchange rate following the emerging market sell-off are pushing inflation to the upper half of the 3-6% target range of the Reserve Bank. Monetary policy is operating in a difficult environment of low growth and upward inflationary pressures. While monetary policy remains accommodative to support investment, the Reserve Bank is committed to gradual increases in the policy interest rate if price pressures increase.

**South Africa**




*Source:* OECD Economic Outlook 104 database; and Statistics South Africa.

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South Africa: **Demand, output and prices**

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| | Current prices ZAR billion | Percentage changes, volume (2010 prices) | | | | |
| **GDP at market prices** | 4 044.0 | 0.6 | 1.3 | 0.7 | 1.7 | 1.8 |
| Private consumption | 2 417.3 | 0.7 | 2.2 | 1.3 | 1.1 | 2.1 |
| Government consumption | 828.9 | 1.9 | 0.6 | 1.2 | 1.0 | 1.0 |
| Gross fixed capital formation | 828.2 | -4.1 | 0.4 | 0.3 | 2.0 | 3.6 |
| Final domestic demand | 4 074.5 | 0.0 | 1.5 | 1.1 | 1.2 | 2.1 |
| Stockbuilding[1] | 21.7 | -0.8 | 0.3 | -0.2 | -0.2 | 0.0 |
| Total domestic demand | 4 096.2 | -0.9 | 1.8 | 0.8 | 1.1 | 2.1 |
| Exports of goods and services | 1 221.7 | 1.0 | -0.1 | 2.0 | 5.9 | 2.9 |
| Imports of goods and services | 1 273.9 | -3.8 | 1.6 | 2.3 | 3.8 | 4.1 |
| Net exports[1] | - 52.2 | 1.5 | -0.5 | -0.1 | 0.6 | -0.4 |
| *Memorandum items* | | | | | | |
| GDP deflator | _ | 7.2 | 5.7 | 4.3 | 5.6 | 5.4 |
| Consumer price index | _ | 6.3 | 5.3 | 4.5 | 5.6 | 5.5 |
| Core inflation index[2] | _ | 5.7 | 4.6 | 4.2 | 5.0 | 5.1 |
| General government financial balance (% of GDP) | _ | -3.5 | -4.0 | -3.7 | -3.7 | -3.7 |
| Current account balance (% of GDP) | _ | -2.8 | -2.4 | -3.5 | -3.5 | -3.8 |

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
*Source:* OECD Economic Outlook 104 database.

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Fiscal space is tight. Additional revenues from broadening the tax base have been offset by higher public sector wages, investment in free higher education and social benefits. Within the budget, a reprioritisation of spending towards job creation and infrastructure was announced in the economic stimulus and recovery plan in September 2018. To strengthen employment, inclusiveness and tax revenues in the medium to long term, job creation needs to be accompanied by investments that increase productivity, such as improving the quality of education. This is particularly important as 39% of the 15-34 year olds are neither in education, training nor employment, contributing to severe skill shortages.

Advancing structural reforms and reducing policy uncertainty are necessary to support growth in the medium to long term. The economic stimulus and recovery plan includes important structural reforms proposed in the budget, such as reducing barriers to competition in several network sectors. Timely implementation would increase investor confidence and investment.

### *Growth will remain fragile*

Growth is projected to pick up slowly, but will remain vulnerable to policy uncertainties and external shocks. Exports will be the main driver of growth on the back of a weak exchange rate. Investment is expanding, albeit only moderately due to policy uncertainties around the land reform debate and the governance of state-owned enterprises. Stronger investment growth could provide a positive stimulus if policy uncertainties ease and structural reforms progress. Stronger-than-expected job creation could further support growth through increased household consumption. On the external side, the economy will remain vulnerable to faster-than-expected normalisation of US and European monetary policy, escalating global protectionism, global financial tightening and negative investor sentiment towards emerging-market economies. As dependence on foreign financial inflows is relatively high compared to other emerging-market economies, a potential slowdown could threaten growth.