

South Africa

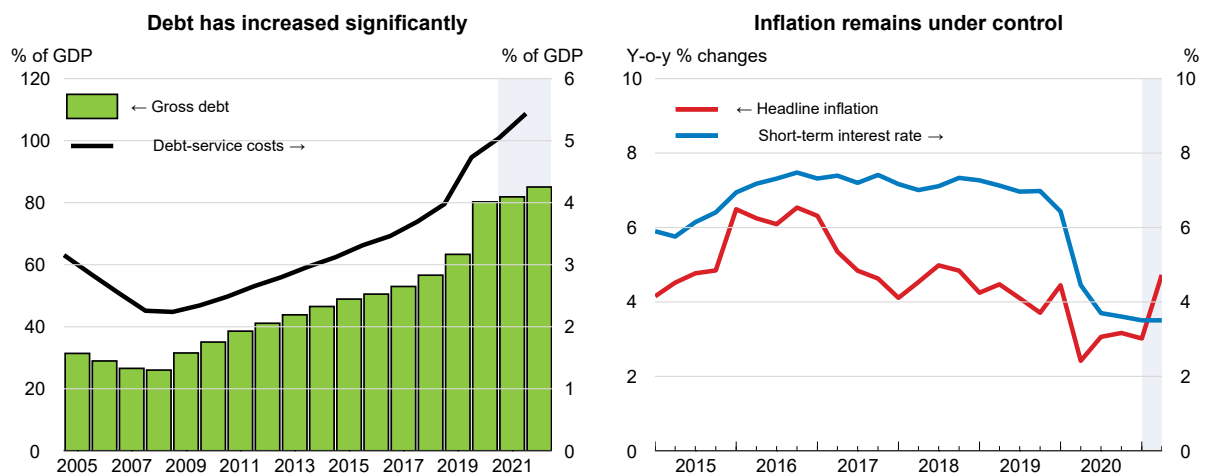
The economy is projected to rebound by 3.8% in 2021 and 2.5% in 2022. The strong rebound at the end of 2020 has slowed in the first half of 2021 due to a protracted second wave of the virus that has held back economic activity. However, growth is projected to pick up in the second half of the year, driven by domestic demand and commodity exports. Household consumption will contribute significantly to growth as the economy opens up and exceptional savings last year are spent at least partially. Private investment will progressively strengthen.

Inflation is increasing, but will remain below the Reserve Bank's target, allowing the monetary policy authorities to maintain current policy interest rates until the end of 2021. Fiscal policy will continue to be constrained to limit debt growth. However, implementing the government's infrastructure investment plan is essential to lift growth potential, requiring better prioritisation of spending. Unlocking electricity production will be key to lifting production bottlenecks and restoring confidence.

The spread of the virus has slowed down

The spread of the virus has slowed significantly since the peak of the third wave in mid-January. In February, the first phase of the vaccination programme started, targeting over 1.5 million healthcare workers. By mid-May, around 400 thousand people, less than one per cent of the population, had been vaccinated. The rollout of the vaccination programme has started slowly, affected by the abandonment of a key vaccine. However, the government has secured around 60 million doses of alternative vaccines, which should allow vaccination of the targeted 14 million adults between mid-May and October. Since 1 March, South Africa has been easing restrictions and returned to the lowest alert level, which establishes an overnight curfew, a closure of restaurants and recreation activities from 11 pm and mandatory face mask wearing in public.

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Source: National Treasury; and OECD Economic Outlook 109 database.

StatLink  <https://stat.link/rs126d>


South Africa: Demand, output and prices

	2017	2018	2019	2020	2021	2022
	Current prices ZAR billion	Percentage changes, volume (2010 prices)				
South Africa						
GDP at market prices	4 659.2	0.8	0.2	-7.0	3.8	2.5
Private consumption	2 756.5	1.8	1.0	-5.4	5.1	3.3
Government consumption	967.9	1.9	1.5	0.5	0.5	0.6
Gross fixed capital formation	873.2	-1.4	-0.9	-17.5	1.6	5.4
Final domestic demand	4 597.7	1.2	0.8	-6.3	3.5	3.0
Stockbuilding ¹	1.9	-0.2	0.0	-2.3	-0.7	0.0
Total domestic demand	4 599.6	1.0	0.7	-8.9	2.8	3.2
Exports of goods and services	1 378.7	2.6	-2.5	-10.3	12.7	6.3
Imports of goods and services	1 319.1	3.3	-0.5	-16.6	9.2	8.8
Net exports ¹	59.6	-0.2	-0.6	2.1	1.0	-0.6
Memorandum items						
GDP deflator	—	3.3	4.2	5.5	4.3	4.0
Consumer price index	—	4.6	4.1	3.3	4.1	4.4
Core inflation index ²	—	4.2	4.1	3.4	4.0	4.4
General government financial balance (% of GDP)	—	-3.1	-4.6	-10.4	-9.0	-7.6
Current account balance (% of GDP)	—	-3.6	-3.0	2.2	1.7	0.3

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 109 database.

StatLink  <https://stat.link/3vbj0o>

The economy is recovering

The recovery is uneven across sectors though economic activity rebounded strongly in the last quarter of 2020. Household consumption increased by 7.5%, with spending mainly rising on restaurants and hotels. Investment also contributed strongly to the rebound, growing by 12%. The agriculture sector has already recovered to pre-crisis levels boosted by favourable rainfall conditions. Mining activity is also high, strongly supported by robust foreign demand and high commodity prices. However, manufacturing and construction remain subdued, affected by low demand, destocking and persistent bottlenecks to production. The service sector is still impacted, held back by the low level of tourism, transport and trade.

Fiscal policy remains supportive despite limited resources

Monetary policy remains accommodative. Despite a slight increase in long-term inflation expectations, the Reserve Bank has maintained the repurchasing rate at 3.5% since March 2020 and is expected by market participants to maintain a supportive position until the end of the year. The government remains committed to support firms and households despite limited fiscal space. The COVID-19 loan guarantee scheme (ZAR 18.1 billion or 0.4% of GDP guaranteed by the end of March) has been extended for three months up to July 2021. The special COVID-19 social relief of distress grants for low-income households and the temporary employment relief scheme have been extended for an additional three months. Spending of the public employment initiative has been increased by ZAR 11 billion (0.2% of GDP) in 2021/22.

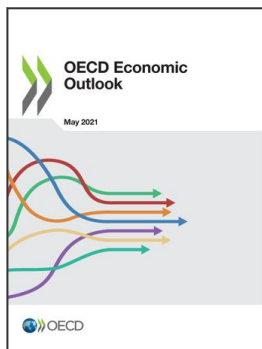
Vaccination needs to accelerate for a sustained economic rebound

As the spread of the virus has receded, GDP growth is projected to rebound significantly in the rest of the year. Household consumption will be leading growth thanks to continued government financial support to households and workers, and the use of exceptional savings accumulated last year. Investment driven by foreign demand for exports will pick up over the projection period and become the main engine of growth from the end of 2021 onwards.

The global recovery and high commodity prices are supportive of growth. On the downside, the inability to control public debt increases could trigger a loss of confidence from markets and associated higher premiums, escalating the cost of borrowing in the economy. Domestic banks are exposed to government bonds as they substituted for foreign investors, with their share of bond holdings rising from 16.8% to 22% during 2020. Adopting the freeze of wages of civil servants during ongoing wage negotiations in the public sector is crucial for the credibility of the commitment to limit public spending increases. Moreover, persistent shortages in electricity production would hold back the economy. Finally, a fast rollout of vaccination would lift business confidence and investment but failing to do so would harm the economy.

Implementing structural reforms is key for the recovery

A progressive winding down of policy support to firms and employment is necessary to ensure that solvent firms do not go bankrupt due to liquidity shortages. Keeping the Reserve Bank liquidity support to the banking sector will be necessary until at least next year. Support schemes in hard-hit sectors such as tourism should not be withdrawn too early. Implementing the government's infrastructure plan and reforms to reduce the cost of doing business are key to lift potential growth. In addition, restoring the financial sustainability of state-owned enterprises can contribute to investment and boost confidence. An employment policy incentivising job creation will be needed as the pandemic retreats, to help regain the 1.4 million job losses since the beginning of the COVID-19 that have disproportionately affected low-skilled workers.



From:
OECD Economic Outlook, Volume 2021 Issue 1

Access the complete publication at:
<https://doi.org/10.1787/edfbca02-en>

Please cite this chapter as:

OECD (2021), "South Africa", in *OECD Economic Outlook, Volume 2021 Issue 1*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/13935bd4-en>

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