SOUTH AFRICA

Table 1	2021
Population, million	60.0
GDP, current US$ billion	421.2
GDP per capita, current US$	7015.8
International poverty rate ($2.15)[a]	20.5
Lower middle-income poverty rate ($3.65)[a]	40.0
Upper middle-income poverty rate ($6.85)[a]	61.6
Gini index[a]	63.0
School enrollment, primary (% gross)[b]	98.4
Life expectancy at birth, years[b]	64.4
Total GHG emissions (mtCO2e)	560.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

The South African economy continues to recover, albeit more slowly than expected, with growth estimated at 1.9 percent in 2022. Employment growth picked up in the first half of 2022, but the labor market situation remains challenging. Poverty has reached levels not seen for more than a decade, while inflation has increased to a 13-year high. The outlook is clouded with risks, and sustained reforms and investments are required to support better growth outcomes and poverty reduction.

Key conditions and challenges

South Africa's economy only expanded by an average of 1.0 percent between 2012 and 2021, leading to a contraction of income per capita of 5.6 percent during this period. GDP rebounded 4.9 percent in 2021 but remained below pre-Covid levels. The country's long-standing weak performance has been rooted in persistent structural constraints, especially in the energy sector, and in low and uneven human capital development. Low investment has been a significant drag on economic performance, exacerbating the decline in potential output amid weak business confidence and limited competition in several priority sectors.

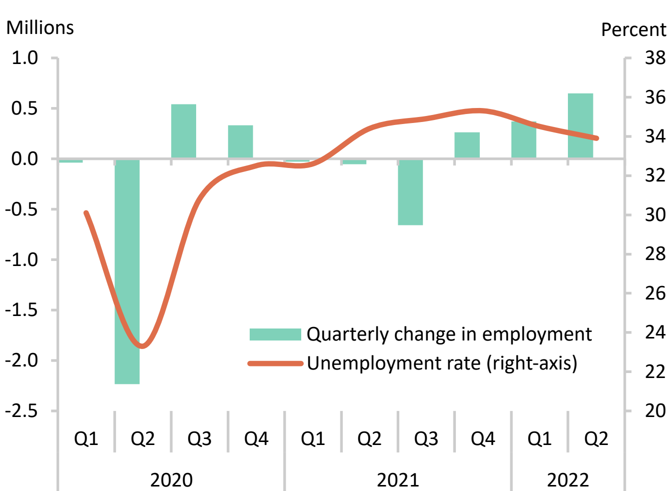
The adverse welfare effects of the pandemic remain visible. In April, South Africa ended a two-year National State of Disaster related to COVID-19. However, the virus has left significant scarring on the economy since around 821 thousand fewer people were employed in Q2-2022 compared to pre-COVID levels. The absence of pro-job growth explains that only 38.7 percent of the working-age population is employed. Job losses have been higher for the more vulnerable, exacerbating inequality, which was already among the highest in the world (Gini Index of 67 in 2018). As a result, it is estimated that poverty rates (63.1 percent in 2021 based on the upper middle-income poverty line) have climbed back to levels of more than a decade ago, and an additional 1.5 million people are poor relative to 2019.

South Africa's growth recovery is fragile as it is not broad-based and exposed to the negative impacts associated with the energy crisis on businesses and households. External and fiscal accounts have benefited from the recent upswing in commodity prices but the country's heavy trade reliance on commodities and the government's high debt level continue to make them vulnerable to shocks, including weaker global growth and climate risks. Today, real GDP per capita resembles the levels seen over a decade ago. A lack of improvement in living standards would threaten social stability and put additional pressure on public finances, which are already strained.

Recent developments

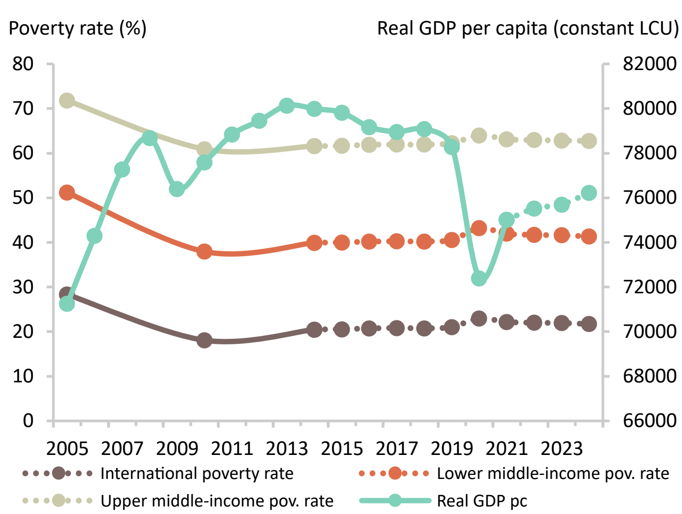
South Africa's economy began 2022 on a positive note but a multiplicity of shocks subsequently hit economic momentum. Real GDP increased by 1.7 percent QoQ in the first quarter, driven by manufacturing, trade, and financial services. However, the economy contracted in Q2 by 0.7 percent because of the devastating flooding in the KwaZulu-Natal province, and the intensification of electricity supply shortages, which hurt confidence and restrained industrial output and activity in other sectors. Price pressures also increased due to the effects of the Ukraine war. The escalation of load shedding drove the government to launch a new energy plan in July to end the power crisis in the medium-term. While growth momentum was disrupted, the unemployment rate declined

FIGURE 1 South Africa / Employment growth and unemployment rate



Sources: Statistics South Africa and World Bank.

FIGURE 2 South Africa / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

to 33.9 percent in Q2, albeit still above the elevated pre-pandemic levels.

The war-induced spike in commodity prices boosted South Africa's export prices but also raised input costs. The current account surplus improved to 3.7 percent of GDP in 2021 but deteriorated in the first half of 2022. Higher mineral prices provided a windfall for tax revenues as miners' earnings remained firm, leading to a lower than expected fiscal deficit of 5.0 percent of GDP in FY2021/22. Public debt as a share of GDP was equal to 67.4 percent at the end of FY2021/22, lower than in FY2020/21 due the relatively rapid GDP growth rate.

The shock from the Ukraine war propelled the rise in domestic energy and food prices, underpinning the increase in headline inflation to a 13-year high of 7.8 percent YoY in July. To counter inflation risks and contain the rise in inflation expectations, the South African Reserve Bank accelerated monetary tightening in recent months, taking its cumulative hikes to 275 basis points thus far in the current cycle.

Outlook

GDP growth is expected to ease to 1.9 percent in 2022 and average below this rate in 2023 and 2024. The outlook is in the context of strong realized growth in the first quarter, the full reopening of the economy, planned infrastructure spending, and the partial rebound from the direct shocks which hindered growth in Q2, particularly severe flooding. In the absence of reforms, structural bottlenecks will continue to hamper growth outcomes, including the extent of electricity shortages and logistical constraints. Investment is expected to slightly improve from low levels.

The economic outlook is clouded with risks, concerning slowing global growth, persistent spillovers from the war in Ukraine on input costs, and a further tightening in global financial conditions.

South Africa's expected growth remains insufficient to address socio-economic challenges. The unemployment rate is expected to remain elevated over the medium run, hindering progress in reducing poverty and inequality. The poverty rate is estimated to hover around 63 percent between 2022 and 2024. Headline inflation is projected to average 6.8 percent in 2022, heavily affecting the most vulnerable and eliciting further monetary tightening.

Revenue overperformance has mitigated the deterioration in public finances over the last two years, but significant vulnerabilities persist. The revenue windfall associated with higher global commodity prices is considered temporary, and limiting fiscal slippages remains critical. The acceleration in inflation has fueled demand for wage increases. Nevertheless, keeping the growth of the wage bill under control, limiting transfers to financially distressed SOEs, and containing the expansion of social protection programs (beyond the SRD grant) will be essential to protect fiscal sustainability. Public sector financing needs are expected to remain large, and higher interest rates will impact the pace of fiscal consolidation.

TABLE 2 South Africa / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	0.3	-6.3	4.9	1.9	1.4	1.8
Private Consumption	1.2	-5.9	5.6	2.6	2.2	2.0
Government Consumption	2.1	0.8	0.6	0.4	-1.7	0.8
Gross Fixed Capital Investment	-2.1	-14.6	0.2	4.2	4.8	4.8
Exports, Goods and Services	-3.4	-11.9	10.0	6.7	2.3	3.0
Imports, Goods and Services	0.4	-17.4	9.5	11.9	4.9	4.5
Real GDP growth, at constant factor prices	0.2	-5.9	4.7	1.9	1.4	1.8
Agriculture	-6.4	14.9	8.8	0.9	2.0	2.0
Industry	-1.5	-12.5	6.1	-2.5	1.5	1.1
Services	1.1	-4.4	4.1	3.3	1.3	2.0
Inflation (Consumer Price Index)	4.1	3.3	4.6	6.8	5.7	4.6
Current Account Balance (% of GDP)	-2.6	2.0	3.7	0.2	-1.6	-2.1
Net Foreign Direct Investment Inflow (% of GDP)	0.5	1.5	9.7	0.5	0.6	0.6
Fiscal Balance (% of GDP)	-5.0	-10.0	-5.0	-5.8	-5.7	-5.3
Debt (% of GDP)	57.2	70.2	67.4	71.8	74.9	77.4
Primary Balance (% of GDP)	-1.5	-5.8	-0.8	-0.9	-0.5	0.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	21.0	23.0	22.2	22.0	21.9	21.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	40.6	43.2	42.0	41.7	41.6	41.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	62.3	64.0	63.1	63.0	62.9	62.8
GHG emissions growth (mtCO2e)	1.0	-1.0	0.7	0.6	0.3	0.5
Energy related GHG emissions (% of total)	78.3	78.0	78.2	78.0	77.7	77.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2014-LCS. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2014) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.