

## SOUTH AFRICA

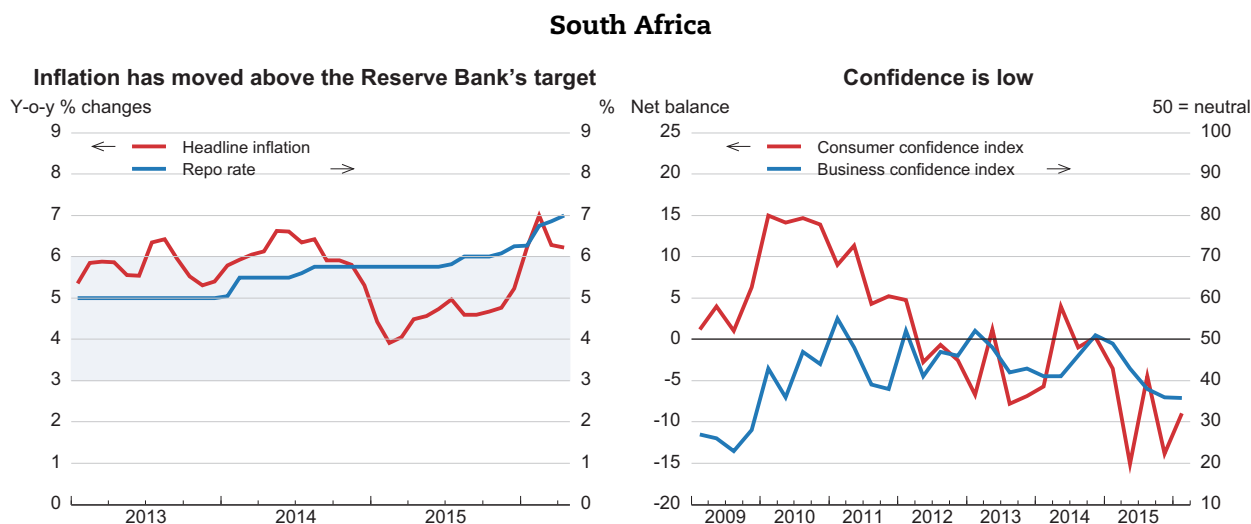
Drought and electricity constraints slowed economic growth in 2015, and tighter financial conditions and low confidence will weaken it further in 2016. Investment will grow modestly, deterred by continuing lack of electricity and an uncertain policy environment. Growth will broaden and pick up again in 2017 once new electricity capacity comes on stream.

South Africa is experiencing a difficult monetary policy environment, with high inflation and weak growth. Inflation is partly driven by temporary factors, mainly rising food prices and the pass-through of past currency depreciation, but there are risks of second-round effects to restore margins and real wages. Monetary policy should remain ready to act to ensure that inflation expectations do not become anchored above the target band of the Reserve Bank. Fiscal policy needs to earn credibility by sticking to announced consolidation and prioritising growth-enhancing spending. The cost of fiscal consolidation would be greatly offset if long overdue structural reforms would be finally implemented.


Labour productivity has trended down since 2011. Structural reforms are needed to boost productivity and employment to raise incomes and living standards. Ensuring more market competition, in particular in network sectors, strengthening the management and investments of state-owned enterprises, encouraging the development of SMEs by reducing red tape and access barriers and improving the education system are all key measures to boost productivity and inclusion.

### Growth remains subdued as structural weaknesses persist

Persistent electricity shortages and drought affecting agricultural production cut growth in 2015. Political uncertainties reduced confidence further, hurting investment and consumption. The depreciation of the rand supported exports, benefiting some



Source: OECD Economic Outlook 99 database; and Statistics South Africa.

StatLink  <http://dx.doi.org/10.1787/888933368107>


South Africa: **Macroeconomic indicators**

	2012	2013	2014	2015	2016	2017
	Current prices ZAR billion	Percentage changes, volume (2010 prices)				
<b>GDP at market prices</b>	3 254.7	2.3	1.7	1.3	0.7	1.4
Private consumption	1 983.6	2.0	0.7	1.8	0.9	1.2
Government consumption	658.7	3.8	1.8	0.2	1.0	0.7
Gross fixed capital formation	625.6	7.0	1.5	2.5	1.0	1.4
Final domestic demand	3 268.0	3.3	1.1	1.6	1.0	1.1
Stockbuilding <sup>1</sup>	34.0	-0.5	-0.6	0.2	-0.6	0.0
Total domestic demand	3 302.0	2.8	0.5	1.8	0.4	1.1
Exports of goods and services	967.2	3.6	3.3	3.8	3.9	4.0
Imports of goods and services	1 014.4	5.0	-0.5	5.3	2.5	3.1
Net exports <sup>1</sup>	- 47.2	-0.5	1.1	-0.5	0.4	0.2
<i>Memorandum items</i>						
GDP deflator	—	6.6	5.8	3.9	5.7	5.4
Consumer price index	—	5.8	6.1	4.6	6.5	6.3
Private consumption deflator	—	6.0	5.8	4.1	4.9	5.4
General government financial balance <sup>2</sup>	—	-3.3	-4.1	-3.9	-3.3	-3.0
Current account balance <sup>2</sup>	—	-5.7	-5.4	-4.3	-4.4	-4.0

1. Contributions to changes in real GDP, actual amount in the first column.

2. As a percentage of GDP.

Source: OECD Economic Outlook 99 database.

StatLink  <http://dx.doi.org/10.1787/888933369528>

manufacturing sub-sectors, and helped the mining sector deal with falling commodity prices.

### **Macroeconomic policies are at a critical juncture**

Apart from electricity shortages, inflation and financial market reactions are the main forces behind current economic developments. Higher food prices and rising administered prices will continue to push inflation above the 6% upper limit of the target band in 2016. The weaker currency will push up inflation and low profitability means that cost increases are more likely to be passed on. Oil prices have worked in the opposite direction. However, the effect on inflation of the sharp spike in food prices should diminish in the near term and therefore monetary policy can remain in a fairly supportive stance while being ready to counter a build-up of trend inflation.

Public debt has increased steadily in recent years. Moreover, interest payments have been increasing rapidly, prompting fiscal consolidation strategies. However, given the weakness of the economy and investment needs, the consolidation pace should be gradual. The government has to improve cost effectiveness of government spending and prioritise investment projects according to their social returns. Fiscal credibility will depend on effectively controlling spending and implementing current consolidation plans.

South Africa needs bold structural reforms to boost the economy, remove bottlenecks on production capacities (electricity and skill shortages) and increase market competition in network sectors. These reforms are fundamental for growth, job creation and reduction of the high unemployment rate, and would allow reform of social safety net policies in a way which stimulates economic activity and labour force participation.

**Political uncertainty and risks are on the rise**

2016 will mark a third year of declining growth. Improvements in electricity production are only expected by the end of the year and financial markets are concerned about the rising public debt. Confidence is likely to remain low, deterring investment and consumption. In 2017, growth is projected to pick up modestly. Improvements in electricity capacity will remove production bottlenecks, bring back confidence and push up investment a little. Also, sustained job creation will increase household disposable income and consumption. And, improvements in external demand, in particular the assumed stabilisation of commodity prices, will lift export markets.

More rating agency downgrades would further lower confidence. Delays in electricity supply improvements cannot be ruled out. Further declines in commodity prices and global demand of raw materials would also drive down the economy. On the other hand, a normal rainy season would allow the agriculture sector to recover and push down food prices, and increases in global commodity prices would boost exports and growth.