South Africa

Recent macroeconomic and financial developments

South Africa's GDP contracted by 6.4% in 2020 because of the COVID-19 pandemic, which disrupted trade and travel. The economy grew by an estimated 4.9% in 2021, driven by recovery in finance on the supply side and fixed investment on the demand side. Headline inflation picked up to 4.5% in 2021 from 3.3% in 2020, on the back of higher food and transport prices, and the policy rate was therefore increased, to 3.75% in November 2021 from 3.5% in 2020. The budget deficit reached a record 10% of GDP in 2020 due to additional expenditure to mitigate the impact of COVID-19. The fiscal deficit was estimated to have declined to 5.8% of GDP in 2021, reflecting higher revenue and rationalized expenditure. The current account surplus was estimated at 3.8% of GDP in 2021 from 2% in 2020 attributable to improved export performance and higher commodity prices.

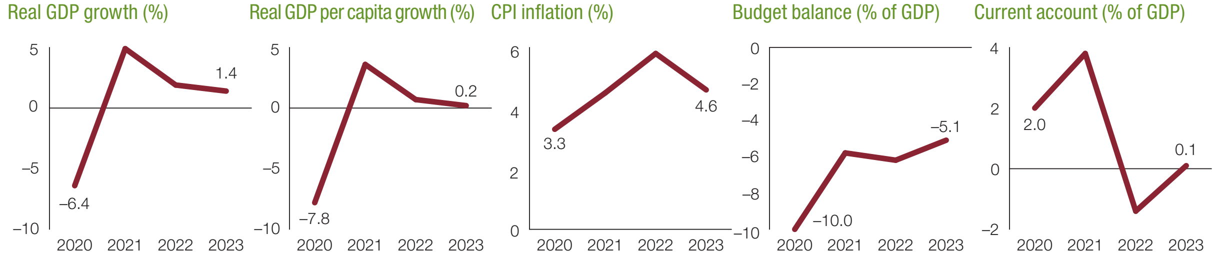
External reserves increased from $54.5 billion in July 2021 to $58.4 billion in August 2021 (about 5 months of import cover) boosted by the SDR allocation. South Africa's total public debt was estimated to have declined marginally to 70% of GDP in 2021 from 71% of GDP in 2020 given the fiscal consolidation. The financial sector is stable with banks holding adequate capital—15.8% in March 2020 and 18.07% in January 2022, compared with 18.04% in December 2021—well above the 10.5% minimum regulatory requirement. Poverty remains high, however, affecting 55.5% of the population in 2015, with unemployment at 35% in September 2021.

Outlook and risks

The economy is projected to grow by 1.9% and 1.4% in 2022 and 2023, lifted by growth in trade, tourism, mining, and manufacturing. Inflation is projected to rise to 5.8% in 2022, due to rising oil prices and likely increases in food prices resulting from the Russia–Ukraine conflict, but to decrease to 4.6% in 2023. The fiscal deficit is also projected to increase to 6.2% of GDP in 2022 before falling to 5.1% of GDP in 2023 due to the consolidation measures, including higher tax revenues and a reduced wage bill. The current account deficit is projected to be 1.4% of GDP in 2022 and to swing to a surplus of 0.1% in 2023 due to the recovery in import demand and expected fall in commodity prices. Downside risks include the uncertainty linked to the COVID-19 pandemic, electricity supply constraints, and weak governance in state-owned enterprises and associated contingent liabilities.

Climate change issues and policy options

South Africa is 12th highest emitter of GHGs in the world and the biggest in Africa. It is also facing significant impacts from climate change. For example, heavy rains caused flooding leading to loss of lives and damage to property and infrastructure in parts of the country in late 2021. The government has adopted climate legislation to support mitigation and adaptation in enhancing its commitment to the Paris Agreement. South Africa has developed a National Climate Change Adaptation Strategy, aligned with the National Development Plan 2030, while on mitigation, through a Carbon Act 2019, the government has introduced a carbon tax of 120 rand per ton of CO_2 equivalent targeting the carbon-intensive sector. The country is also implementing the Just Energy Transition Strategy, for cleaner energy. It updated its NDC in 2021 to include a Low Carbon Emission Development Strategy for the energy, mining, industrial, agriculture, and waste sectors to curb the national carbon footprint to an upper limit of 350–420 $MtCO_2eq$ by 2030. The financing needs for the updated NDC is estimated at $55 billion–$59 billion over 2020–30.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team. Data on the budget balance correspond to South Africa's fiscal year, which runs from April 1 to March 31.