

SOUTH AFRICA

Table 1 **2022**

Population, million	59.9
GDP, current US\$ billion	405.9
GDP per capita, current US\$	6776.5
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	97.4
Life expectancy at birth, years ^b	65.3
Total GHG emissions (mtCO ₂ e)	611.9

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2014), 2017 PPPs.

b/ Most recent WDI value (2020).

After a strong recovery in 2021, GDP grew by only 2 percent in 2022, supported by a favorable global environment but constrained by domestic challenges – especially the electricity crisis and transport disruptions. While the government recognizes the need to address these constraints, economic growth is expected to decline to 0.5 percent in 2023 and to average 1.5 percent over 2024-25. With weak growth and job creation, poverty and inequality are expected to remain elevated in the near future.

Key conditions and challenges

Electricity supply shortages have constrained South Africa's growth for several years. Rolling scheduled power cuts (load-shedding) started in 2007 and have intensified exponentially over the past few years, reaching close to 9 hours daily in 2022. This severe electricity shortfall has disrupted economic activity and increased operating costs for businesses (many of which rely on costly diesel generators). It has also affected other infrastructure such as water and IT, and service delivery (health and education). Although new reforms and investments are being considered, load-shedding is expected to continue for two more years at least. Other structural challenges have also increased, in particular transport and logistics, which have deteriorated due to weak maintenance, theft, sabotage, and slow reforms constraining South Africa's export capacity.

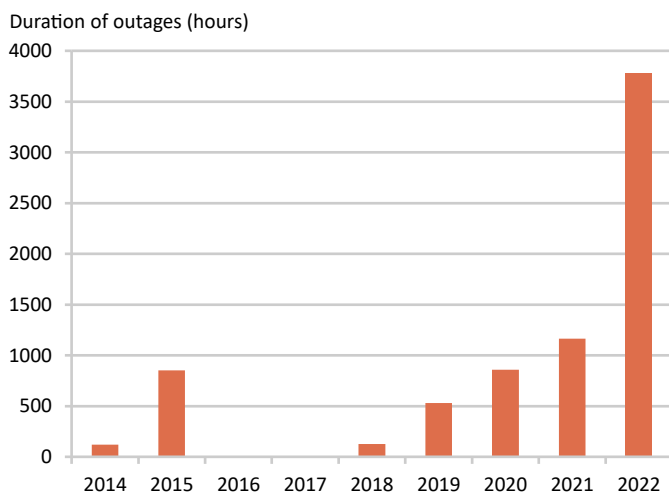
Persistent weak growth and the COVID-19 pandemic have exacerbated socioeconomic challenges. South Africa has recovered its pre-pandemic GDP but not its employment level. At end-2022, there were still close to half a million fewer jobs than at end-2019, with women and youth persistently more impacted. Inequality remains among the highest in the world, and poverty was an estimated 62.6 percent in 2022 based on the upper-middle-income country poverty line, only slightly below its pandemic peak. These trends have

prompted growing demands for government support, which could put the sustainability of public finances at risk if they are met.

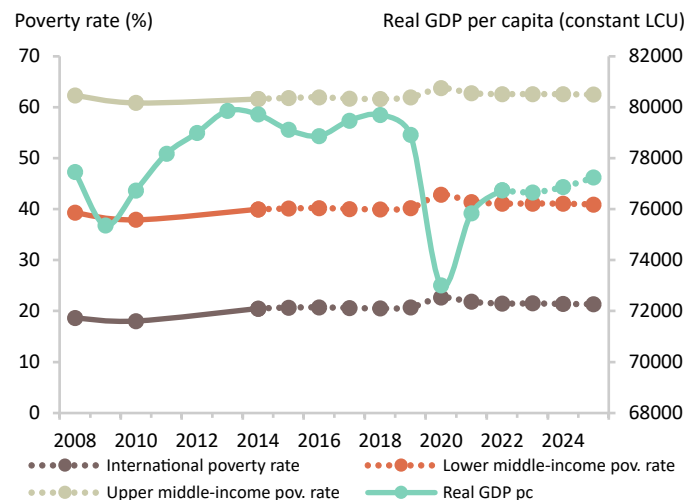
Fiscal and monetary policy space is limited due to the deteriorated public finances and the prudent monetary policy required to control inflation – in line with the South African Reserve Bank's mandate. South Africa needs to accelerate structural reforms to boost inclusive growth and job creation while supporting fiscal sustainability. Along these lines, Eskom, the national power utility, is set to benefit from a conditional R254 billion debt-relief arrangement with the National Treasury over the next three years to support its reform plan. However, the political consensus needed to tackle reforms is elusive ahead of the 2024 general elections amid widespread corruption allegations, rising crime, weak service delivery and high unemployment and poverty.

Recent developments

The global environment remained supportive, but increasingly severe domestic constraints led to GDP growth slowing to 2 percent in 2022 from 4.9 percent in 2021. Mining production fell while manufacturing production stagnated, as load-shedding and transport bottlenecks intensified. The services sectors (financial, transport, and personal) and domestic trade were key drivers of growth. The labor market has remained weak. The employment ratio only increased slightly to 39.4 percent at

FIGURE 1 South Africa / Hours of electrical service lost due to load shedding


Source: CSIR.

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


Source: World Bank. Notes: see Table 2.

end-2022 from a pandemic low of 35.9 percent in September 2021. In this context, the COVID-19 social relief of distress grant, introduced in May 2020, was extended for another year until March 2024. Socioeconomic challenges were further exacerbated by rising fuel and food (bread and cereals) prices, which disproportionately affected the poor. Inflation averaged 6.9 percent in 2022 but was 8.2 percent for those at the bottom 20 percent of the income distribution.

High global commodity prices supported South Africa's fiscal and external balances. Fiscal revenue overperformed again in 2022. As the government contained expenditure growth, the overall deficit is estimated to have reached 4.2 percent in FY22, smaller than the initial budget forecast of 6 percent of GDP. The current account balance returned to a small deficit of 0.5 percent of GDP in 2022 as imports growth outpaced exports growth. It was financed through financial inflows, and international reserves increased by US\$3 billion to US\$60.6 billion. In the context of rising global risk aversion, the exchange rate, which is fully flexible, depreciated by about 10 percent in 2022.

Outlook

In the short term, the electricity crisis and transport bottlenecks will hamper domestic activity even if external demand for commodities, notably coal, will provide some support to the economy. GDP growth is expected to slow to 0.5 percent in 2023 and average 1.5 percent in 2024-25 as the investments in power generation materialize and load-shedding gradually eases. The duration and intensity of load-shedding will depend on Eskom's ability to increase the availability of existing generation capacity while the reform program developed by the government is gradually implemented. Investment in least-cost renewable energy would also support a faster resolution of the crisis. Investment in rooftop solar is rising quickly but remains constrained by limited incentives to sell excess generation back to the grid. Based on this growth outlook, the poverty rate is expected to remain high, hovering close to 63 percent over 2023-25.

The government is expected to limit public expenditure growth. However, lower

revenue associated with the tapering of global commodity prices in the medium term and weaker domestic growth will translate into persistent deficits. As a result of the debt-relief arrangement with Eskom, government debt is expected to increase to 72.6 percent of GDP in 2023 and 74.9 percent by 2025. External balances are expected to remain sound even as the current account returns to a deficit.

Risks are tilted to the downside. Lower external demand for South African commodities or worsening transport bottlenecks constraining export capacity would further weaken economic growth. Deteriorating global financial conditions in the context of monetary policy tightening in advanced countries could weaken the South African rand, increase inflation, and raise the borrowing costs for the government (about a quarter of domestic debt is held by foreign investors). Domestically, persistent weak growth and job prospects may fuel social discontent. Moreover, rising crime and deteriorating state capacity could further hamper business confidence and investment and affect the government's capacity to implement much-needed reforms.

TABLE 2 South Africa / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-6.3	4.9	2.0	0.5	1.3	1.6
Private Consumption	-5.9	5.6	2.6	1.7	1.7	1.7
Government Consumption	0.8	0.6	0.9	-2.7	-0.6	-0.4
Gross Fixed Capital Investment	-14.6	0.2	4.7	4.2	4.9	4.4
Exports, Goods and Services	-11.9	10.0	7.5	2.3	3.0	3.0
Imports, Goods and Services	-17.4	9.5	14.2	4.5	4.5	3.5
Real GDP growth, at constant factor prices	-5.9	4.7	2.1	0.5	1.3	1.6
Agriculture	14.9	8.8	0.3	2.7	2.0	2.0
Industry	-12.5	6.1	-2.3	-1.2	0.5	1.1
Services	-4.4	4.1	3.6	1.0	1.5	1.7
Inflation (Consumer Price Index)	3.3	4.5	6.9	5.5	4.5	4.5
Current Account Balance (% of GDP)	2.0	3.7	-0.5	-1.6	-1.9	-2.2
Net Foreign Direct Investment Inflow (% of GDP)	1.5	9.8	0.5	0.7	0.7	0.7
Fiscal Balance (% of GDP)^a	-9.9	-4.6	-4.2	-4.4	-4.1	-3.4
Revenues (% of GDP)	25.1	27.8	28.5	27.7	27.7	27.9
Debt (% of GDP)	70.2	68.0	71.1	72.6	73.7	74.9
Primary Balance (% of GDP)	-5.8	-0.4	0.5	0.5	0.8	1.7
International poverty rate (\$2.15 in 2017 PPP)^{b,c}	22.7	21.8	21.5	21.5	21.4	21.3
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{b,c}	42.8	41.4	41.1	41.1	41.1	40.9
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{b,c}	63.8	62.8	62.6	62.6	62.6	62.5
GHG emissions growth (mtCO₂e)	-2.6	4.0	7.5	-5.7	-0.7	0.7
Energy related GHG emissions (% of total)	77.7	78.5	79.6	78.4	78.0	77.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ As in the 2023 Budget Review, the Eskom debt-relief arrangement is reported below the line.

b/ Calculations based on 2014-LCS. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.

c/ Projection using neutral distribution (2014) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.