SOUTH AFRICA

Table 1	2016
Population, million	55.8
GDP, current US$ billion	294.8
GDP per capita, current US$	5287
International poverty rate ($1.9)[a]	18.8
Lower middle-income poverty rate ($3.2)[a]	37.5
Upper middle-income poverty rate ($5.5)[a]	57.0
Gini coefficient[a]	63.0
School enrollment, primary (% gross)[b]	99.7
Life expectancy at birth, years[b]	57.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Based on the recent LCS survey (2014/15), 2011 PPPs.
(b) Most recent WDI value (2014)

Poverty has fallen significantly since democracy in 1994, but this trend reversed between 2011 and 2015. The economy has been growing too slowly since the global financial crisis to create jobs for poor South Africans. In 2017, the economy is expected to contract on a per capita basis for a third year in a row. Fiscal space is limited as South Africa lost its investment grade status earlier in the year. Decisive structural reforms are needed to continue social progress.

Recent developments

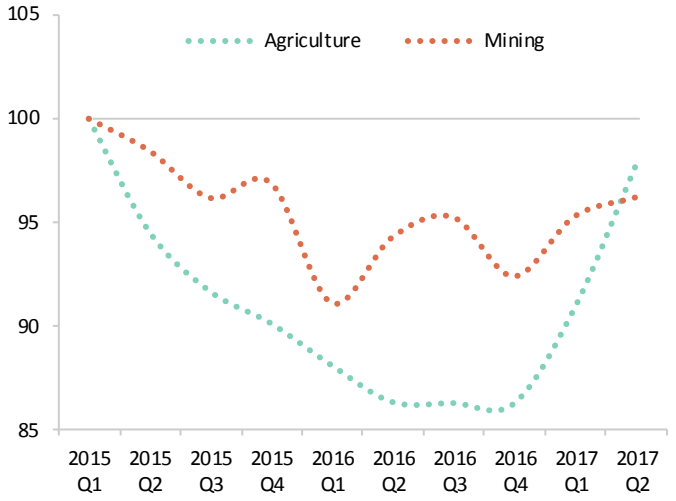
South Africa emerged from a technical recession in Q2 2017, mostly driven by agriculture, which recovered from an historical drought (figure 1). Mining also supported growth in the first half of 2017. Finance, real estate, and business services, the traditional engine of growth in South Africa also picked up again in Q2. The 1.1 percent y/y increase in the first half of the year is unlikely to be sustained, however. Business and consumer confidence remain low and the purchasing manufacturers index continues to point to pessimism in industry. Investment remains subdued, with excess capacity in the manufacturing sector mostly due to a lack of demand. Although a depreciated rand and accelerating global growth present opportunities to tap global demand, non-commodity exports barely increase, with the exception of the automotive sector. Consumer spending grows roughly in line with population growth. It has been supported by falling inflation and may benefit further from somewhat looser monetary policy, as the hiking cycle has come to an end in July 2017 with a 25 basis point reduction in the policy rate.

The trade balance has been improving, partly due to improving terms of trade, with a moderately stronger rand and rising commodity prices. This has also helped narrow the current account deficit. However, at a projected 2.6 percent of GDP for 2017 it still remains a source of external vulnerability. This is not least because its financing—mostly by portfolio flows—remains vulnerable to quickly shifting global capital flows. International reserves remain below the IMF's recommended reserves adequacy measures.

Fiscal policy remains on a path of consolidation with adjustments of tax brackets below inflation and higher fuel levies and sin taxes. Yet, revenue collections in the early months of the fiscal year (since April) have disappointed; and risks to achieving the debt stabilization goal resulted in downgrades of South Africa's credit rating to sub-investment grade by Standard and Poors and Fitch in April 2017, raising borrowing costs to the government.

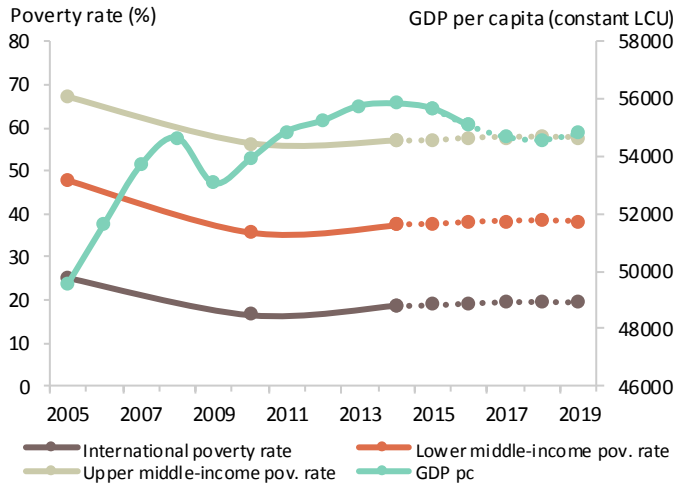
The soft economic environment dampens job opportunities as unemployment increased to 27.7 percent (6.2 million unemployed) the first half of 2017. Youth unemployment is a growing concern as 55.9 percent of those between 15-24 years (1.6 million) are unemployed. Including discouraged workers, this increases to more than two in every three youths (67.4 percent - 2.5 million people) without a job and an overall unemployment rate of 36.6 percent (9.3 million people unemployed). The newly published results of the 2014/15 Living Conditions Survey suggested a significant increase in poverty in the recent years. Between 2011 and 2015 the economic slowdown and unemployment challenge have pushed close to 2 million people into extreme poverty measured by $1.9 a day.

FIGURE 1 South Africa / Sectoral value added: agriculture and mining (seasonally adjusted annualized rate, 2015 Q1=100)



Sources: StatsSA and World Bank staff calculations.

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



Source: World Bank. Notes: see table 2.

Outlook

While global growth is strengthening, the South African economy risks lagging behind. The World Bank continues to project 2017 growth at 0.6 percent—which would mean a third year of falling growth in GDP per capita. Only a modest rebound is expected in 2018 and 2019 at 1.1 percent and 1.7 percent, respectively. Base effects from agriculture are expected to disappear toward the end of 2017. Most of the rebound is expected to be due to an improvement in commodity prices and strengthening balance sheets of households from easing inflation and looser monetary policy. A national minimum wage is going to be introduced in 2018 which may raise consumption among lower income households—although this may be partly offset by job losses. Investment is expected to remain soft in light of heightened policy uncertainty, e.g. around a new Mining Charter and land property rights. Automotives are expected to provide support to exports in 2018 and 2019 but beyond this, exports are expected to grow modestly given the economy's structural constraints to seizing opportunities from the global economy and a still competitive exchange rate. Imports are expected to pick up slowly with domestic demand. Improving terms of trade due to a recovery in commodity prices are expected to counter import pressure with an only moderately increasing current account deficit. Some fiscal slippage is expected given revenue collections in 2017 and the continued weak growth outlook.

Forecasts suggest an increase in poverty in South Africa. Poverty rates measured at the international poverty lines of $1.9 and $3.2 a day are projected at 19.5 percent and 38.3 percent in 2017, up from 19.3 percent and 38.0 percent in 2016, respectively. The negative trend is expected to continue in 2018 reaching 19.6 percent and 38.4 percent respectively.

Risks and challenges

Given economic performance in the first half of the year, downside risks to the outlook have somewhat dissipated for 2017. Further downgrades by credit rating agencies, especially Moody's which still rates South African debt as investment grade, remain a risk which is likely to hinge on credible proposals to counter revenue shortfalls in the Medium Term Budget Policy Statement in October. On the other hand, stepping up fiscal effort to maintain the debt stabilization target would further undermine growth. The 2019 elections are likely to raise political pressures on the budget—as well as policy uncertainty which has become a major constraint for investors.

A strengthening global economy poses opportunities for a small open economy like South Africa but structural constraints keep the country from seizing them. While the reliability of electricity has improved markedly, concerns are mounting about significant upward adjustment in electricity tariffs, and the reliability of electricity in the future depends on greater policy certainty by independent power producers. Logistical and telecommunications costs are high and lack of competition, especially in upstream sectors, keeps domestic input costs high. Some progress is being made in education but the majority of South Africa's labor force remains unskilled—resulting in both unemployment and high skills premia in South Africa's modern economy. In a constrained fiscal environment, decisive steps to address some of these structural constraints are vital. They can also help raise investor confidence, crucial to bring back much needed investment in South Africa, required to expand productive capacity and generate jobs, especially for South Africa's poor.

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

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices	1.7	1.3	0.3	0.6	1.1	1.7
Private Consumption	0.7	1.7	0.8	1.0	1.9	2.0
Government Consumption	1.1	0.5	2.0	-0.2	0.3	0.5
Gross Fixed Capital Investment	1.7	2.3	-3.9	-1.2	1.6	2.3
Exports, Goods and Services	3.2	3.9	-0.1	0.4	2.4	1.7
Imports, Goods and Services	-0.5	5.4	-3.7	2.1	1.7	1.9
Real GDP growth, at constant factor prices	1.8	1.2	0.4	0.6	1.1	1.7
Agriculture	6.9	-6.1	-7.8	15.0	5.8	2.4
Industry	0.1	1.1	-1.3	0.2	1.1	1.6
Services	2.4	1.6	1.4	0.3	0.9	1.7
Inflation (Consumer Price Index)	6.4	4.6	6.3	5.7	5.8	5.9
Current Account Balance (% of GDP)	-5.3	-4.4	-3.3	-2.6	-2.7	-2.8
Financial and Capital Account (% of GDP)	6.5	5.2	2.9	2.0	1.8	1.6
Net Foreign Direct Investment (% of GDP)	-0.5	-1.3	-0.4	-1.4	-0.5	-0.1
Fiscal Balance (% of GDP)	-4.3	-4.1	-3.9	-3.8	-3.7	-3.5
Debt (% of GDP)	46.6	49.4	50.7	52.7	53.8	53.4
Primary Balance (% of GDP)	-1.3	-1.0	-0.5	-0.4	-0.2	0.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	18.8	18.9	19.3	19.5	19.6	19.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	37.5	37.6	38.0	38.3	38.4	38.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	57.0	57.1	57.6	57.7	57.8	57.7

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty and Equity Global Practice.
Notes: f = forecast.
(a) Calculations based on 2014/15-LCS. Actual data: 2014/15. Nowcast: 2015 - 2016. Forecast are from 2017 to 2019.
(b) Projection using neutral distribution (2014) with pass-through = 0.87 based on GDP per capita in constant LCU.