SOUTH AFRICA

Table 1	2015
Population, million	55.0
GDP, current US$ billion	313.7
GDP per capita, current US$	5709
Poverty rate ($1.9/day 2011PPP terms)[a]	15.5
Poverty rate ($3.1/day 2011PPP terms)[a]	33.4
Gini Coefficient[a]	63.4
School enrollment, primary (% gross)[b]	101.6
Life Expectancy at birth, years[b]	56.1

Sources: World Bank WDI and Macro Poverty Outlook.
Notes:
(a) Most recent value (2010)
(b) Most recent WDI value (2013)

Real GDP per capita has been falling in South Africa since 2014—aggravated

seize the opportunities from the real effective depreciation of the rand.

Recent developments

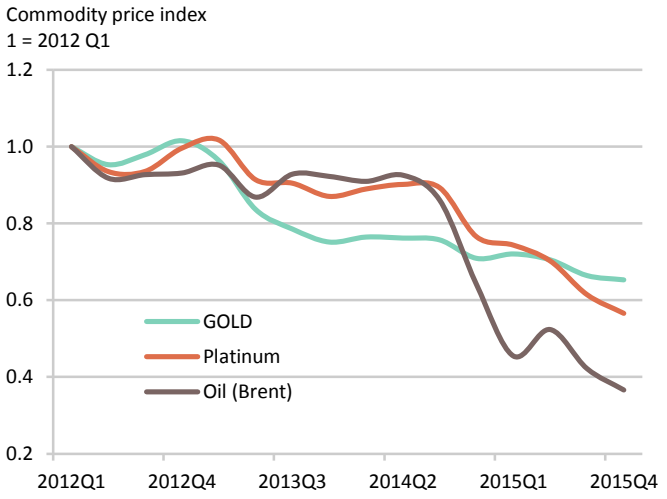
South Africa's economy grew by 1.3% in 2015, 0.5p.p. below population growth, making it the second consecutive year of falling GDP per capita. Mining recovered from prolonged strikes in 2014, but decelerated markedly through 2015 due to tumbling global demand (and prices) for commodities. Agriculture was hit by the worst drought in a century. This has plunged at least an estimated 50,000 South Africans into poverty. Manufacturing sector performance has been mixed, somewhat supported by a maintenance-related rebound in steel and stronger automotive exports. Structural constraints, including rigid labor and goods markets, skills mismatches, and barely sufficient electricity provision limit the economy's ability to rebalance from commodities to manufacturing and services. In addition, policy uncertainty is increasingly undermining invest-

sonal income tax rates, the weaker-than-expected economy resulted in collection shortfalls, especially in income taxes and VAT. Expenditure growth was propelled by a three-year wage agreement raising wage growth above inflation. The 2015/16 budget deficit was 3.9% of GDP. Defending its investment-grade credit rating, new revenue measures and expenditure cuts were introduced in the 2016/17 budget. Two-thirds of the fiscal adjustment will come from taxes, largely from fuel and sin levies and excises as well as only limited relief from 'fiscal drag'. The budget deficit is expected to fall to 2.4% of GDP in 2018/19, and net public debt to stabilize at 46.2% of GDP in 2017/18, two years earlier than previously expected (gross debt is expected to peak at 51% of GDP in 2017/18).

In addition to the mining rebound after several strikes, manufacturing exports—such as automotives—benefited from strengthening global demand. Although the drought put pressure on (food) imports, this supported a narrowing of the current account deficit. The rand depreciated by 30% against the US dollar. This helped cushion the effect of falling commodity prices on the current account—

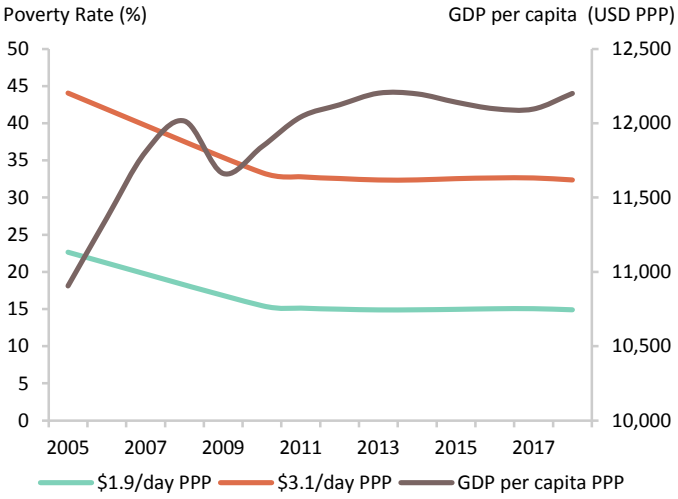
lines leave 30.9% (close to 20 million people) below the national lower bound of R501 per month. Extreme poverty, based on the international poverty line of $1.9 per day (PPP, 2011), is expected

FIGURE 1 South Africa / Commodity prices, including for major South African exports, have tumbled



Notes: Major exports: gold, platinum; major import: oil.
Sources: World Bank, World Development Indicators.

FIGURE 2 South Africa / Per capita growth and poverty reduction decelerate



Sources: World Bank (see notes to table 2).

to remain almost unchanged falling slightly from 15.5% in 2010 to 15.0% (close to 8.0 million people) in 2015. The Gini coefficient of 63.4 makes South Africa one of the world's most unequal countries in the world.

South Africa's high unemployment hampers progress in poverty reduction. Unemployment was 24.5% in Q4 after briefly reaching 26.4% in Q1 2015, the highest since the early 2000s. The number of unemployed grew by 5.3% y/y in the first three quarters, outpacing growth of the labor force of 4.1% y/y, leaving 5.4 million South Africans unemployed in Q3 2015. Youth and unskilled workers have particular difficulty finding work. Discouragement is a driver of low labor force participation.

Outlook

Growth has been revised downward from the last forecast, estimated at 0.8% in 2016 and 1.1% in 2017 before rebounding to 2.0% in 2018. Weaker-than-expected global demand, deteriorating investor sentiment and consumer confidence, and a sluggish adjustment to the real effective depreciation are the main reasons for the downward revisions. Consumers will remain constrained by high unemployment and household indebtedness. Public service wages will drive consumption growth. Investors worry about policy uncertainty and potential downgrade of FX-denominated foreign debt to sub-investment grade, while monetary policy normalization in advanced economies reduces global liquidity which has spurred investment in emerging markets in the past. Mining production will contract while manufacturing firms and service providers barely expand production. Effects of the 2015 drought on planting will last at least through 2016. Given the government's target of debt stabilization and objective to defend its credit rating, little impetus can be expected from the national budget. GDP per capita growth is expected to turn positive again in 2018, as global growth rebounds and the economy slowly adjusts to seize new opportunities.

Given the weak growth prospects, especially in the primary sectors, little progress is expected in reducing poverty and inequality. Since the majority of the extreme poor depend on social grants for their income, the growth of these transfers has the largest effect on the pace of extreme poverty alleviation. Inequality is expected to increase by 1.3% between 2010/11 and 2017/18, largely due to the impact of the widening gap between those with and without jobs, and between primary and tertiary sectors. Little improvement is expected in the measure of shared prosperity: growth in consumption of the poorest 40% of South Africans is flat, but there is some increase at the top of the income distribution.

Risks and challenges

As less can be expected from global demand, the onus lies on policymakers to spur growth. Making the economy more nimble to help it rebalance toward the non-mineral sectors holds the key to future growth and poverty reduction. South Africa's economy will need to restructure, and carefully managing labor relations in the process will be vital to secure the required investment. Strong efforts to maintain the integrity of South Africa's institutions, a major selling point to investors, and to increase investor confidence through greater certainty in policymaking too will be vital for the return of investment and growth. While fiscal consolidation forms part of the policy mix to defend South Africa's investment grade credit rating, ambitious structural reform will be required to lift South Africa's weak growth prospects and accelerate poverty reduction.

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

	2013	2014	2015 e	2016 f	2017 f	2018 f
Real GDP growth, at constant market prices	2.2	1.5	1.3	0.8	1.1	2.0
Private Consumption	2.9	1.4	1.2	0.8	0.9	2.1
Government Consumption	3.3	1.9	0.3	1.1	1.1	1.0
Gross Fixed Capital Investment	7.6	-0.4	-0.9	-2.5	0.3	2.0
Exports, Goods and Services	4.6	2.6	8.5	2.5	2.7	3.1
Imports, Goods and Services	1.8	-0.5	6.1	0.6	1.6	2.7
Real GDP growth, at constant factor prices	2.3	1.6	1.3	0.8	1.1	2.0
Agriculture	1.5	5.6	-8.4	-4.3	1.0	3.1
Industry	1.8	-0.2	1.1	-0.3	0.4	1.2
Services	2.5	2.1	1.7	1.4	1.4	2.3
Inflation (Consumer Price Index)	5.8	6.1	4.6	6.5	6.7	6.1
Current Account Balance (% of GDP)	-5.8	-5.4	-4.5	-4.4	-4.3	-4.0
Financial and Capital Account (% of GDP)	5.8	5.4	4.5	4.4	4.3	4.0
Net Foreign Direct Investment (% of GDP)	0.5	-0.3	-0.5	-0.3	-0.1	0.1
Fiscal Balance (% of GDP)	-3.8	-3.6	-3.9	-3.3	-2.9	-2.4
Debt (% of GDP)	43.9	46.8	50.5	50.9	51.0	50.5
Primary Balance (% of GDP)	-0.7	-0.4	-0.6	0.4	0.7	1.2
Poverty rate ($1.9/day PPP terms)[a,b,c]	14.9	14.9	15.0	15.0	15.1	14.9
Poverty rate ($3.1/day PPP terms)[a,b,c]	32.4	32.4	32.5	32.6	32.6	32.4

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.
Notes: f = forecast.
(a) Calculations based on 2010-IES.
(b) Projection using neutral distribution (2010) with pass-through = 0.87 based on GDP per capita constant PPP.