

South Africa

Real gross domestic product (GDP) growth recovered in 2010 to reach 2.8% but unemployment remains painfully high around 25%. Real GDP growth is projected to increase to 3.6% in 2011, and to 4.3% in 2012.

South Africa has achieved the Millennium Development Goal (MDG) of eradicating extreme poverty and hunger but, as highlighted by the New Growth Path framework, progress still needs to be made in health, education and especially job creation.

China is the topmost destination for South Africa's exports and leading source of imports, highlighting the need to engage purposefully with the newly joined BRIC (Brazil-Russia-India-China) group and to prioritise productive capacity.

Real GDP has recovered from -1.7% in 2009 to 2.8% in 2010; this rate of GDP growth remained clearly below potential, estimated around 4% per annum for South Africa. GDP is expected to grow at a rate of 3.6% in 2011 and 4.3% in 2012. GDP growth for 2010 was driven primarily by a steady recovery in consumer spending, partially attributed to the FIFA World Cup. Inflation fell to 3.5% by the end of 2010, averaged 4.3% in 2010, and is expected to reach 5.3% in 2011.

The consolidated government deficit rose to 6.9% of GDP in fiscal year 2009/10, and the central bank's policy rate declined by 6.5 percentage points since the end of 2008. Fiscal policy is now taking a less expansionary turn, with the consolidated government deficit slowing to an estimated 5.4% in fiscal year 2010/11 and projected to decline further to 5.0% in fiscal year 2011/12. Likely increases in the wage bill pose a downward risk to the fiscal balance outlook as do the possible introduction of a new public health insurance system and youth employment subsidy. The repo rate, the price at which the South African Reserve Bank lends cash to the banking system, is expected to remain close to 5.5% throughout 2011 and to start rising moderately only towards the end of the year.

China has become the top destination for South Africa's exports since mid-2009 and is also South Africa's leading source of imports. China is the dominant investment partner among emerging partners with its foreign direct investment (FDI) ranked fifth in terms of value in early 2010, at 33 billion South African rand (ZAR). Many emerging partners use South Africa as a gateway to other African countries. In December 2010, South Africa became an official member of the BRICS (Brazil-Russia-India-China-South Africa) group. The challenge for the government is to show that it has a purposeful plan to engage with BRIC countries, to prioritise its productive capacity, and to maximise its contribution to the national economy. Another challenge is to avoid neglecting traditional partners while nurturing its strategically important emerging partnerships. Indeed, the EU is still South Africa's topmost regional export destination. The year 2011 will also see the launch of the South African Development Agency (SADPA) to inform and direct the country's development assistance.

In the political arena, 2010 was characterised by a clearer elaboration of the Zuma administration's goals, and progress in achieving some of them. The administration has shown strong commitment to fighting crime. Significant progress has been made, for example, in crime prevention. Corruption, however, remains a major challenge, and both unemployment and inequality are on the rise. South Africa has achieved the 1st Millennium Development Goal (MDG) - reducing the proportion of the population living on less than 1 USD a day by half - but the government still needs to tackle issues such as providing adequate public health services, improving the quality of education, and reducing unemployment, especially for the youth. HIV/AIDS remains a critical issue: South Africa has the world's largest population of people living with HIV: 5.6 million. In April 2010, the Zuma administration launched a campaign to test 15 million people for HIV by end-2011; 5 million people have been tested since the launch began.

Structural challenges such as infrastructure bottlenecks hampered recovery in private investment in 2010. Unemployment remained very high in 2010 even though it declined marginally in the fourth quarter of 2010 to 24% from 25.3% in the previous quarter. The government outlined a number of measures to address these challenges in the New Growth Path framework (November 2010), including more investment in infrastructure, skills enhancement, public service and regional economic ties.

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	-1.7	2.8	3.6	4.3
CPI inflation	7.1	4.3	5.3	5.6
Budget balance % GDP	-6.9	-5.4	-5	-4.5
Current account % GDP	-4.1	-2.8	-3.4	-4.3

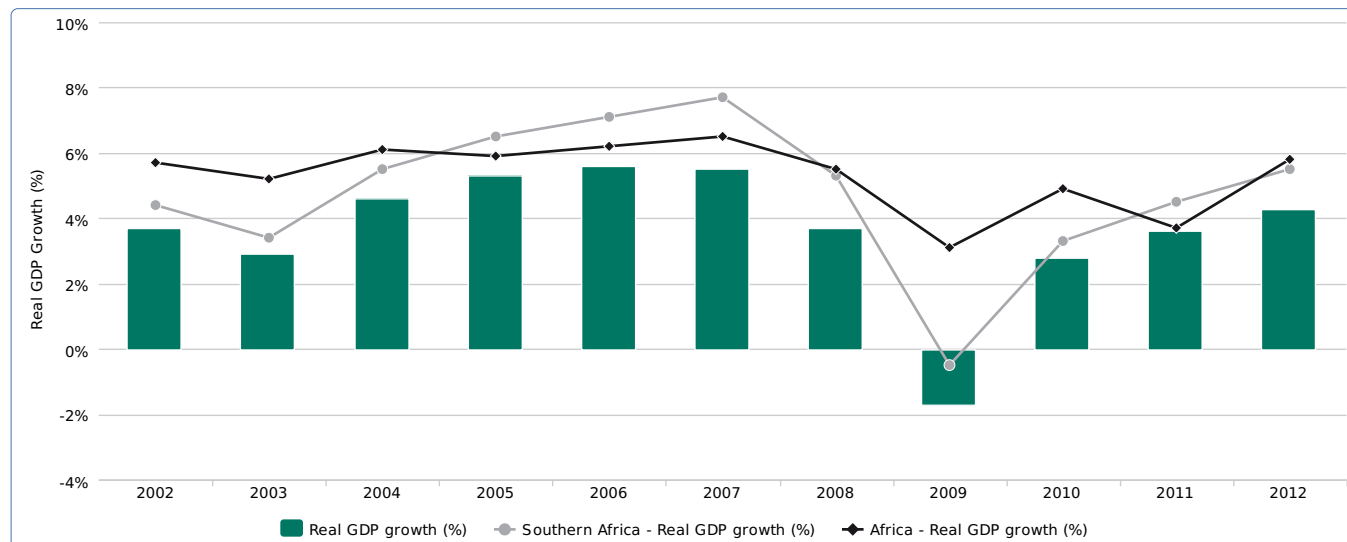
Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for budget balance refer to fiscal years; thus 2009 corresponds to FY 2009/10, running from April 2009 to March 2010, for instance.

Figures for 2010 are estimates; for 2011 and later are projections.

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Figure 1: Real GDP growth (S)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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