# MACRO-FISCAL PROFILE

# SOUTH AFRICA

May 2016

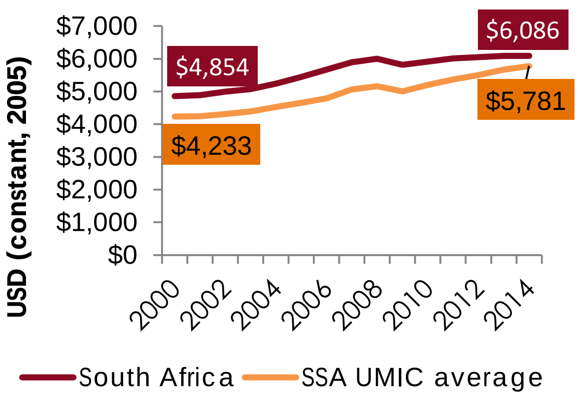
| Key Indicators | |
|---|---|
| Population (2014) | 53.7 million |
| Per capita GDP (2015, constant USD) | $5,784 |
| Average annual population growth rate (2010–2014) | 1.5% |
| Government revenue as a % of GDP (2014) | 28.1% |
| Country income classification | Upper-middle |

Source: World Bank, 2016.

| Macroeconomic Forecasts | | | | | |
|---|---|---|---|---|---|
| Indicator | 2013 | 2014 | 2015 (est.) | 2016 (proj.) | 2017 (proj.) |
| Real GDP growth (%) | 2.2 | 1.5 | 1.3 | 0.7 | 1.8 |
| GDP per capita growth (%) | 1.5 | 0.5 | 0.3 | -0.2 | 0.9 |

Sources: IMF, 2015a; Phiri and Odhiambo, 2015.

**Figure 1: GDP per Capita (2000–2015)**




Source: World Bank, 2015.
UMIC = upper middle-income country.

## Overview

In 2014, South Africa's annual real gross domestic product (GDP) growth fell to 1.5%, the lowest since the global financial crisis. Infrastructure gaps, weak domestic demand, labor unrest in the mining sector, and recent increases in interest rates all contributed to slowing growth. Nonetheless, the economic outlook for South Africa is positive. It is well integrated into the global economy, and stable economic management and planned new public investment promise to foster economic growth. The South African Reserve Bank is committed to price and financial stability, and has tightened monetary policy, thus keeping inflation low. South Africa's fiscal position has improved somewhat in recent years, with increased tax revenues helping to lower the deficit from 4% in fiscal year (FY) 2012/13 to 3.4% in FY 2014/15. South Africa is not a resource-dependent country; resource rents account for about 9% of GDP.

## Political Economy

The African National Congress has been the ruling party in South Africa since the end of the apartheid era in 1994. Political stability has translated to consistency in macro-fiscal policy, though in December 2015, uncertainty created by President Jacob Zuma's dismissal and appointment of three different finance ministers within one week resulted in a sudden drop in the South African rand (Onishi, 2015). Concerns also exist about the lack of policy implementation and governance issues, such as corruption. Poverty remains a major concern, with high inequity and unemployment persisting. Due to both high unemployment and a large informal sector, only 12.5% of South Africans of working age pay income taxes (AfDB, OECD, UNDP. 2015).

## GDP and Economic Growth

The 2014 GDP marked the nadir of South Africa's recent economic performance. The decline of South Africa's economy had begun in previous years (a 3.2% decline in 2011, 2.2% in 2012, and 2.2% in 2013). Real growth in GDP per capita was 1.5% in 2014 (Figure 1). Growth was expected to bounce back in 2015, reaching 2%, thanks to increasing levels of demand from new trading partners and decreasing oil prices. However, fiscal tightening and weak consumption levels forced a reduction in growth estimates. As of the fourth quarter of 2015, recorded GDP growth was 1.3%, significantly below the predicted 2%.

## Government Revenue and Expenditure

Government revenue is raised mainly through taxes (Figure 4), which have increased in recent years (from 24.1% of GDP in FY 2012/13 to 24.8% in FY 2013/14). This was significantly higher than the median tax revenue in sub-Saharan Africa (SSA), which is 15% of GDP (Figure 2). Consumption taxes remain low due to a decrease in household consumption, from 3.5% in 2012 to 2.6% in 2013. The comprehensive package of measures presented in the 2014 Medium Term Budget Policy Statement is aimed at reducing the expenditure ceiling and raising tax revenue over the next two years to decrease the deficit and stabilize

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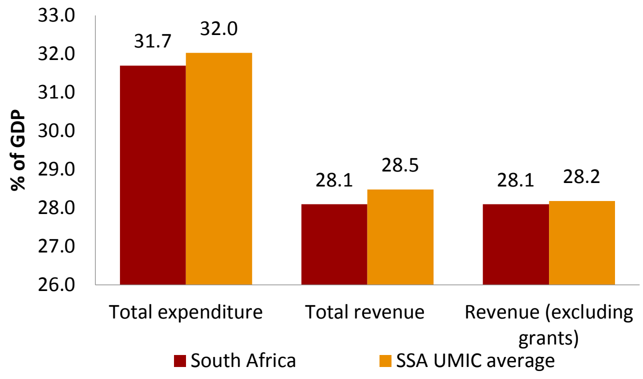
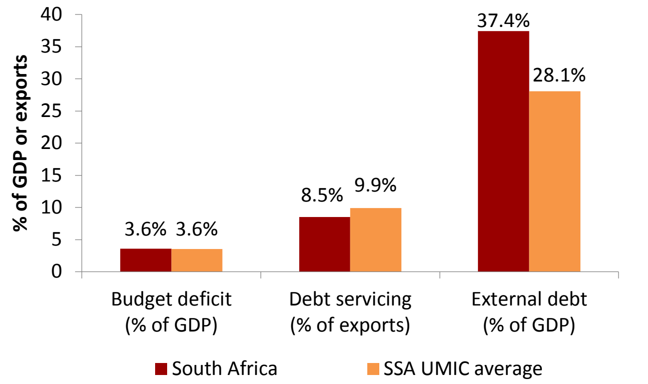
**Figure 2: Government Revenue and Expenditure (2015)**




Source: Chulu, Kumo, and Minsat, 2016.

**Figure 3: Government Borrowing (2015)**

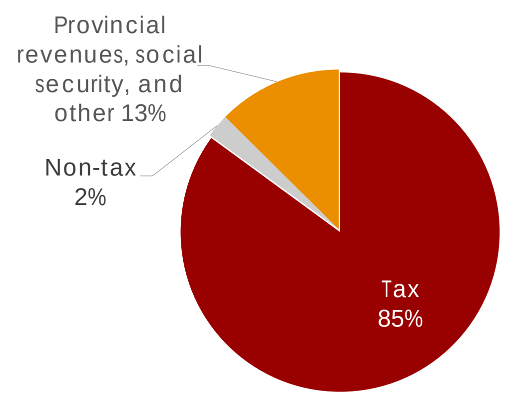



Source: IMF, 2015

the debt (Figure 3). The government will leverage revenue through progressive tax reforms. The Davis Tax Committee that reviews the country's tax policy framework is working on recommendations (small business, value-added, or mining taxes).

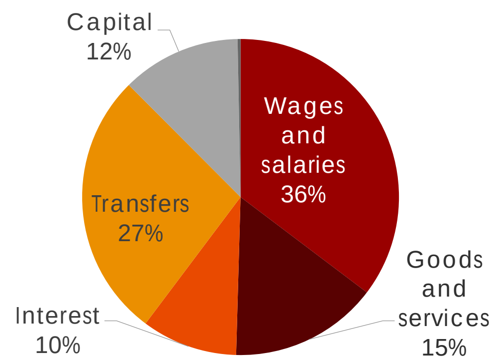
Government expenditure has increased over the last fiscal year, from 31.3% of GDP (FY 2012/13) to 33.0% (FY 2013/14). Consistent with most SSA upper middle-income countries (UMICs), the majority of this expenditure goes to the payment of wages and salaries (Figure 5), accounting for about 36%. The government recognizes that this level is unsustainable and is committed to improving the efficiency of its expenditure by strengthening monitoring and evaluation systems. Overall, the set of revenue and expenditure measures is balanced. However, restraining the government wage bill, reducing transfers to public entities, and increasing efficiency in current spending will be needed to keep the level of debt in check (IMF, 2015b). The expenditure ceiling remains in place at R1.03 trillion in FY 2014/2015 (National Treasury. 2014).

**Figure 4: Revenue (2015)**




Source: IMF, 2015b.

**Figure 5: Expenditure (2015)**




Source: IMF. 2015b.

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The Health Policy Project is a five-year cooperative agreement funded by the U.S. Agency for International Development under Agreement No. AID-OAA-A-10-00067, beginning September 30, 2010. The project's HIV activities are supported by the U.S. President's Emergency Plan for AIDS Relief (PEPFAR). HPP is implemented by Futures Group, in collaboration with Plan International USA, Avenir Health (formerly Futures Institute), Partners in Population and Development, Africa Regional Office (PPD ARO), Population Reference Bureau (PRB), RTI International, and the White Ribbon Alliance for Safe Motherhood (WRA).