



UNITED NATIONS
SOUTH AFRICA



Macroeconomic Trends in South Africa



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This note gives the highlights of South African GDP 2023, inflation rise in February 2023 and Interest Rate increase in March 2023.



I. Introduction

The Bank failures in the US and the difficulties facing Credit Suisse (which resulted in an engineered merger with UBS) in Switzerland have “undermined confidence in the banking system and will be felt for years” [1]. If this crisis of confidence is not adequately responded to, it may slowly lead to growing instability and culminate in a full-blown global financial crisis. Although rising interest rates have been identified as a main factor behind the turbulence in the banking system, central banks have continued to raise rates in their responses to higher inflation while using other tools to prevent the risk of contagion spreading across the financial markets. These events have added uncertainty to the future direction of a world economy already under stress due to volatile international economic and financial conditions. The South African monetary authorities have responded to this growing uncertainty by further raising interest rates. The latter is likely to weaken the South African economy, which is already faltering and expected to register near zero growth in the near future.

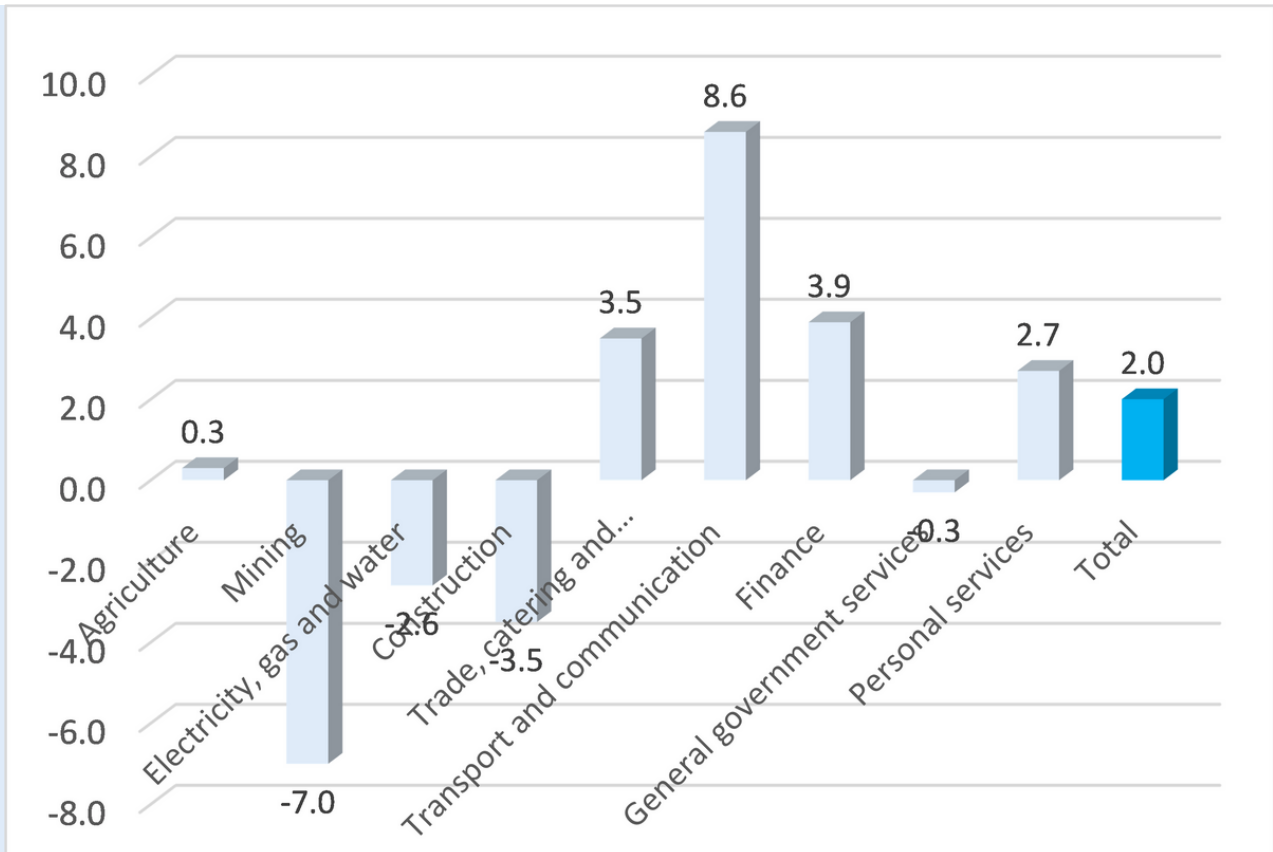
On 22nd March 2023, the IMF issued a Concluding Statement of the 2023 Article IV Mission, which highlights South Africa’s socioeconomic challenges and risks of stagnation, mentioned below. The Statement also highlights a number of strengths in the South African economy as well as recent positive developments, including the improved tax revenue collection as a result of revenue administration strengthening by the South African Revenue Service, discussed in the RCO Note of March as part of its analysis of the Annual Budget Review 2023.





II. GDP growth in 2023

Following a GDP contraction of 6.3 per cent in 2020 and recovery rate of 4.9 per cent in 2021, GDP had a modest expansion of 2.0 per cent in 2022 (Stats SA, 2023). In the year, growth was led by finance; transport, storage and communication; personal services; and trade, catering and accommodation. In contrast, negative growth was recorded in mining; manufacturing; electricity; gas and water; construction; and general government (Figure 1).



Source: Stats SA

[1] See Partington and Mkortoff (2023), quoting Jamie Dimon, JP Morgan CEO.



From the expenditure side, the main contributors to growth were household consumption and fixed capital formation, while net exports constituted a drag on GDP expansion due to growth of imports (Stats SA). The latter was reflected in the current account of the balance of payments, which, following a surplus of 3.7 per cent of GDP in 2021, turned into a small deficit of 0.4 per cent in 2022.

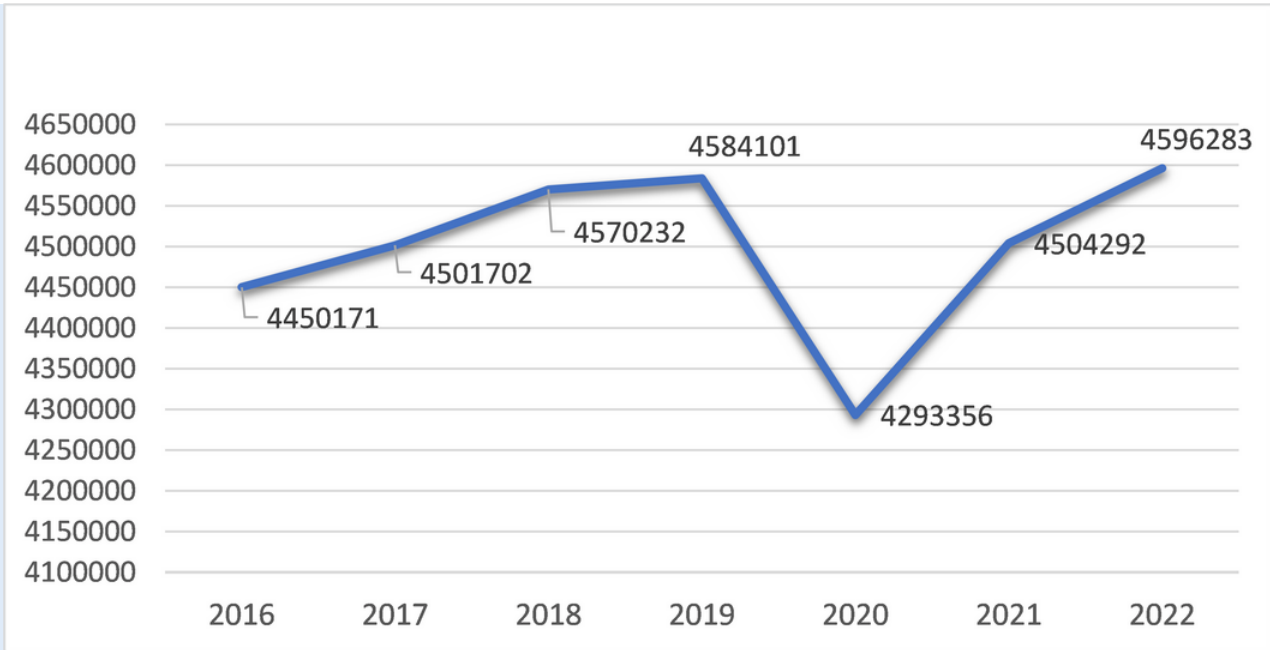
Within the year, quarterly growth registered positive rates of 1.6 and 1.8 per cent in the first and third quarters, respectively, and contraction of 0.8 and 1.3 per cent in the second and fourth quarters, respectively. The contraction observed in Q4 is thought to be partially attributable to the intensification of loadshedding. Overall, the volatility of GDP

rising inflation and interest rates. Due to heavy loadshedding and logistical constraints, SARB in its Monetary Policy Committee Statement of March 2023, expects growth to be at only 0.2 per cent in 2023, against growth forecast of 0.3 per cent back in January 2023. The January forecast had already factored in the estimated impacts of loadshedding, of 2 percentage points of growth in the year.

As a result of the deep GDP contraction in 2020 and slow recovery in the biennium 2021-2022, annual GDP in 2022 was just about the level registered in 2019 – that is, just before the start of the COVID-19 pandemic (see Figure 2). Given population growth, GDP per capita is lower today than three years ago.



Figure 2: South African annual GDP – R million, constant 2015 prices

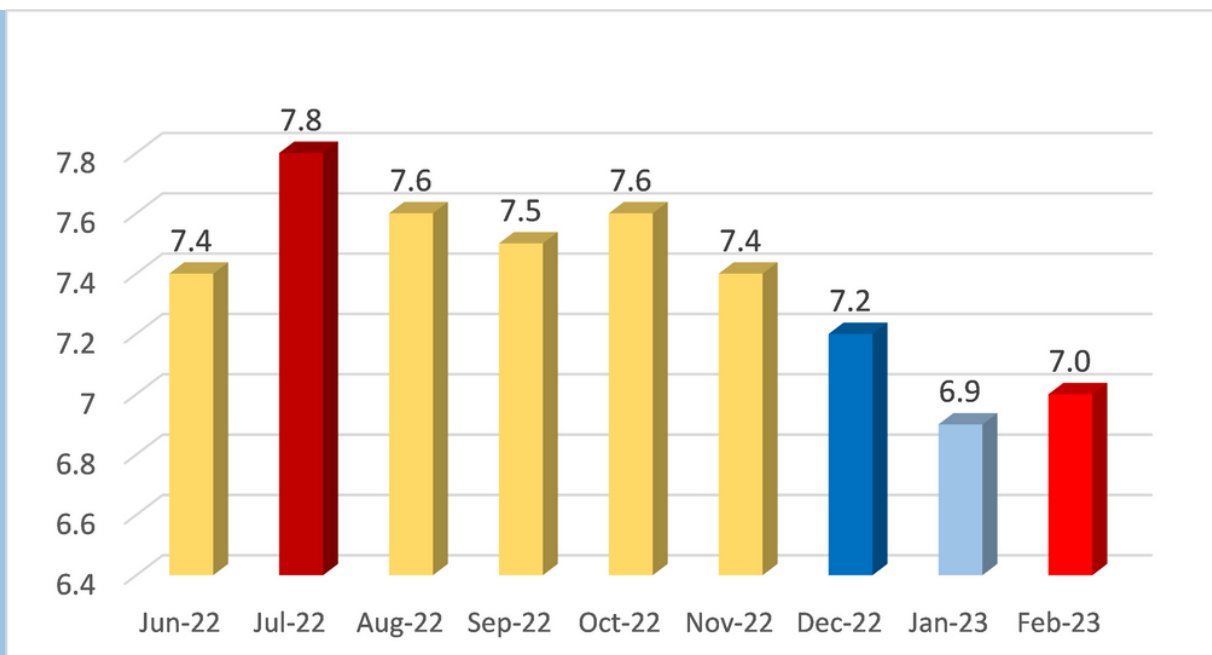


Source: Stats SA.

III. Annual inflation in February 2023

Annual inflation resurged to 7.0 per cent in February 2023, after a gradual decline from 7.8 per cent in July 2022 to 6.9 per cent in January 2023 (Figure 3). The increase registered in February reflected higher prices of food and non-alcoholic beverages, by 13.6 per cent year-on-year, and transport, by 9.9 per cent. Annual inflation for good items stayed stable at 9.5 per cent, while for services it increased slightly from 4.3 to 4.6 per cent from January to February 2023.

Figure 3: Annual Inflation in South Africa –End of Period



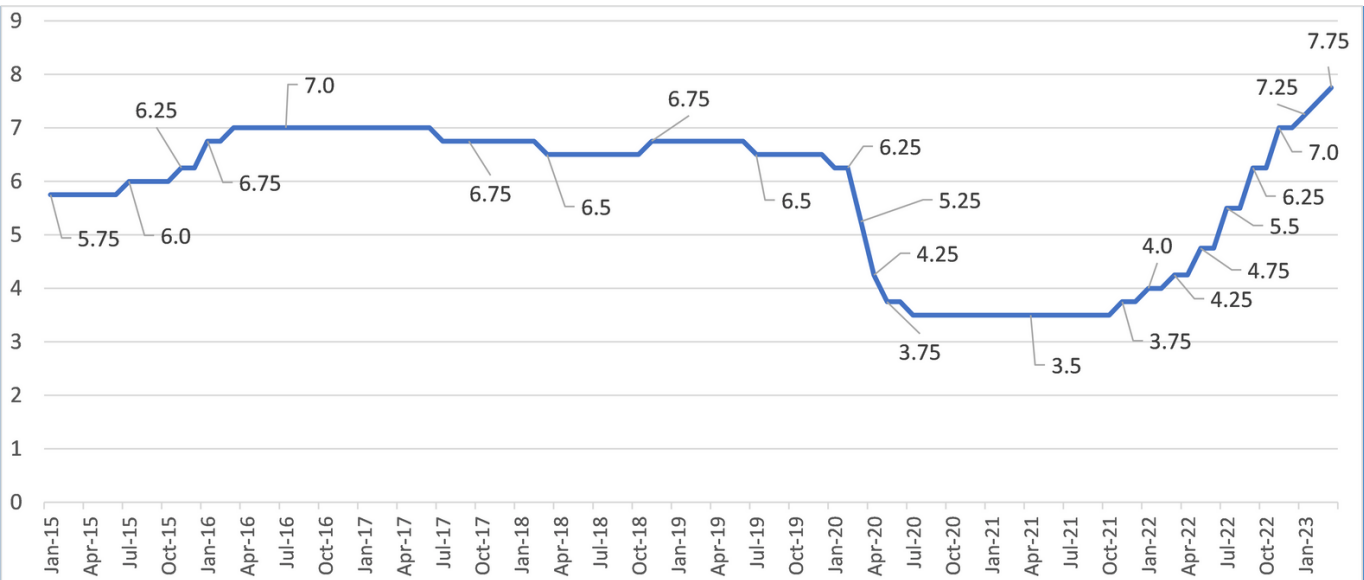
Source: Stats SA.



IV. SARB's interest rate increase in March 2023

In response to higher inflation in February 2023 – as well as to worsening international financial conditions, on 30th March, the SARB Monetary Policy Committee voted for increasing interest rates by 50 basis points, to 7.75 per cent (see Figure 4). This was the ninth consecutive interest rate increase since November 2021. This latest increase is intended to anchor inflation expectations around the mid-point of SARB inflation target band of 3-6 per cent.

Figure 4: South Africa's Repurchase Rates – Jan 2015-Mar 2023



Source: South African Reserve Bank (<https://www.resbank.co.za/en/home/what-we-do/statistics/key-statistics/selected-historical-rates>)

SARB expects core inflation to be at 5.1 per cent in 2023, and headline inflation at 6.0 per cent, the latter due to renewed pressures coming from higher food price inflation. Another key price of concern is the exchange rate, which continues to exhibit a volatile behaviour but overall trending towards depreciation, due to the global headwinds impacting the South African economy.



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