

Macroeconomic Trends in South Africa



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This note discusses recent growth forecasts for the global economy and South Africa, the debt situation in developing countries and the current level of foreign debt in South Africa.



I. Introduction

The IMF (2023) and UNCTAD (2023) in their April reports on global macroeconomic trends concur that, following the financial sector turmoil in the USA and Europe in March 2023, high levels of uncertainty remain over the outlook of the global economy. Consequently, both organisations downgraded their latest forecasts for the growth of the world economy in 2023 – the IMF by one percentage point compared with its forecast of January 2022 and 0.1 percentage point compared with its January 2023 forecast; and UNCTAD, by 0.1 percentage point compared with its October 2022 forecast.[1] Moreover, both organisations argue that, overall, risks are to the downside. New episodes of financial turmoil and/or the escalation of the war in Ukraine, for instance, would contribute to even greater uncertainty and a worsening in global economic conditions.

South Africa, which has in the recent past suffered from multiple shocks and is already performing poorly, will be further affected if the scenario of greater turbulence materialises. It is exposed to such turbulence through both close trade and financial links with the rest of the world.

II. GDP growth in 2023 and beyond

Table 1 below reports growth rates for the world economy, developed and developing countries – and South Africa, by both the IMF and UNCTAD. Their forecasts are very close to each other and reflect similar assumptions – that the world economy is still dealing with the multiple shocks it has suffered since early 2020 and that the outlook may deteriorate further in the near future. It can be seen from the table that projected growth for South Africa over 2023-2024 is lower than for the world economy and for developing countries as well. Table 2 also shows that growth for South Africa is forecast to be lower compared with selected comparator countries, such as Brazil, India and Nigeria. Compared with their forecasts of October 2022, the IMF downgraded South African growth in 2023 by a full percentage point; and UNCTAD, by 1.6 percentage point. The IMF and UNCTAD's projected growth for South Africa in 2023 – 0.1 and -0.3 per cent respectively, are even lower than that forecast by the South African Reserve Bank, of 0.2 per cent, back in March 2023, which already reflects the impacts of the intensification of the energy crisis since last year.

[1] These IMF figures in the text are based on PPP for the calculation of country weights, while the figures on Table 1 below, country weights are based on market exchange rates, unless otherwise indicated.



Table 1: GDP growth – developed and developing countries¹ %

		2022	2023 ²	2024 ²
IMF	World economy	3.0	2.4	2.4
	Advanced economies	2.6	1.2	1.3
	Emerging market and developing economies	3.6	4.0	4.0
	South Africa	2.0	0.1	1.8
UNCTAD	World economy	3.1	2.1	Na
	Developed countries	2.5	0.9	Na
	Developing countries	3.8	3.9	Na
	South Africa	2.0	-0.3	Na

Sources: IMF WEO April 2023 and UNCTAD TDR Update April 2023.¹ The country weights for the calculation of global growth are based on market exchange rates, unless otherwise indicated. ²Forecasts.

Table 2: GDP growth: South Africa and Selected Country Comparators %

Country	2022	2023 ¹	2024 ¹
Brazil	2.9	0.9	1.5
India	6.8	5.9	6.3
Mexico	3.1	1.8	1.6
Nigeria	3.3	3.2	3.0
South Africa	2.0	0.1	1.8

Source: IMF WEO April 2023. ¹Forecasts.

The question, for South Africa, is how to better manage further international uncertainty and turbulence in the coming months. Both the IMF and UNCTAD see as important that, for a better response to possible heightened uncertainty and turbulence, countries seek to have more policy tools at hand to macro manage the economy and that fiscal policy should be a tool to be added to the monetary tool. However, the IMF sees the fiscal tool to be used to pursue reforms aimed at fiscal sustainability so that it gives monetary policy space to reduce interest rates, which have been rising since late 2021. UNCTAD, for its part, sees fiscal policy as a tool for economic reactivation and higher public investments which can be possible if progressive taxation is adopted, as the latter would help create the fiscal space needed for higher levels of public expenditure.

III. The levels of debt in developing countries and South Africa

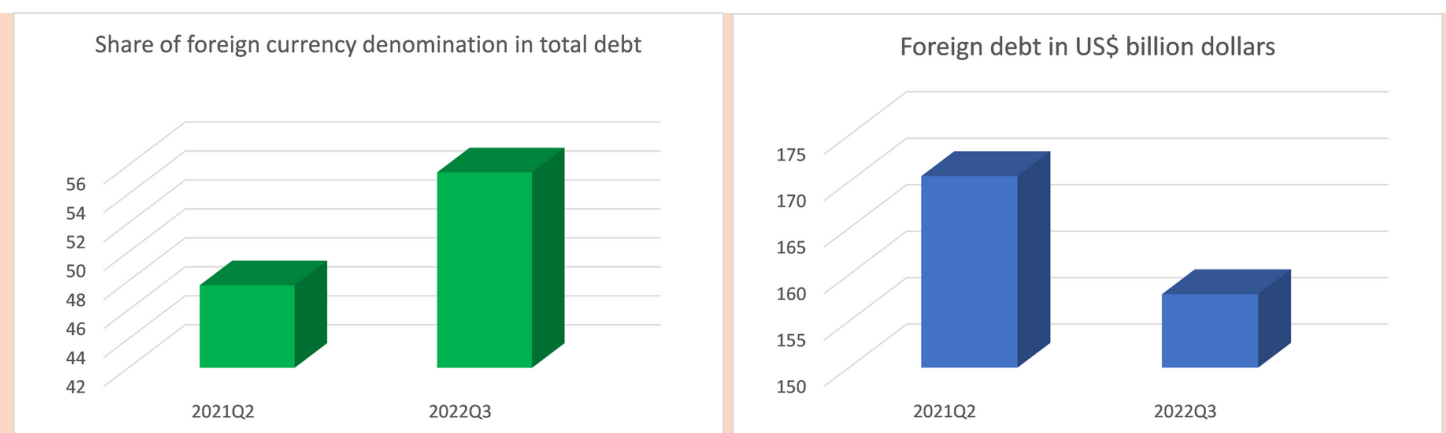
Public debt in developing countries (except China) reached a total of US\$ 11.5 trillion in 2021, or 58.9 per cent of their combined GDP. Higher interest rates, volatile capital flows and depreciating currencies are making it more difficult for these economies to service their debts (UNCTAD, 2023:24).



According to the IMF, 56 per cent of low-income countries are already under debt distress or at high risk of debt distress. Among middle-income countries, 25 per cent are at high risk of facing debt distress. Although the external debt ratio is nowadays a third lower compared with the 1980s and 1990s, the profile of the debt has changed towards more variable interest rates and dollar denomination, which makes countries more vulnerable to the ongoing tightening of global financing conditions and exchange rate volatility (IMF, 2023:16).

In South Africa, although public debt is increasing and has surpassed 70 per cent of GDP, foreign debt has declined in the recent past, both in total US dollar value and as a proportion of GDP. In 2022 Q3 it reached US\$ 157.9 billion against US\$ 170.6 billion in 2021 Q2. This corresponds to a change in the debt to GDP ratio from 44.2 to 38.2 per cent between the two periods. A not so positive trend is that the portion of the debt denominated in foreign currency increased from 47.7 per cent to 55.5 per cent of the total debt (see Figure 1; SARB, 2023).

Figure 1: South African Foreign Debt



Source: SARB Quarterly Bulletin, March 2023, p. 48.

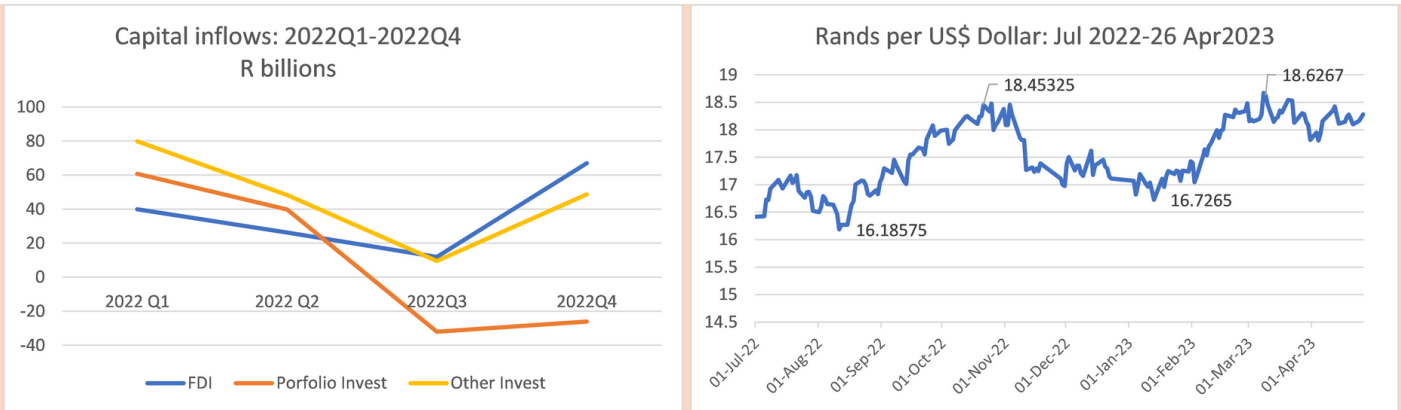
South Africa's foreign reserves (including gold holdings) reached US\$ 61 billion in February 2023, against US\$ 58.9 billion registered in September 2022. This reflects a broader reserve accumulation trajectory that started in early 2021. However, the level of import cover, which includes merchandise imports, services and income payments, decreased from about 8 months in mid-2020 to 4.9 months of imports in December 2022 (SARB, 2023). This is in the main due to the growth of imports on the back of post-COVID-19 economic recovery.

The recent trends in South Africa's foreign debt and level of foreign reserves indicate that the country is seemingly in a better position compared with many of its developing country peers facing situations of debt distress. An advantage South Africa has compared with many African countries is its deep financial markets, which permits it to have most of its public debt owned by residents and a significant portion of its foreign debt denominated in domestic currency. It is important that South Africa uses this advantage to try to avoid the share of foreign debt denominated in rands declining



further. Like most developing countries, South Africa is exposed to the ongoing volatility in the international financial markets. Indeed, capital flows into South Africa showed volatility during 2022 and portfolio flows turned net negative in the second half of the year (see Figure 2). This volatility is already causing exchange rate depreciation (also figure 2), which in turn creates pressures on the country's fiscal capacity to service the debt.

Figure 2: Capital inflows and the South African exchange rate

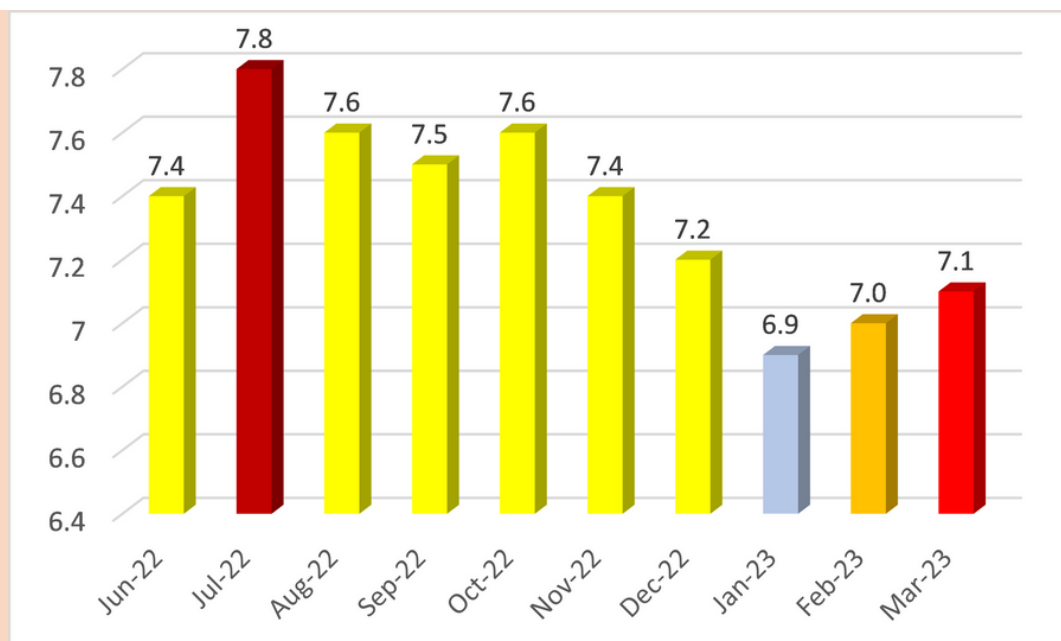


Sources: SARB Quarterly Bulletin, March 2023, p. 45 and IMF database

IV. Annual inflation in March 2023

After declining from 7.8 per cent to 6.9 per cent between July 2022 and January 2023, annual inflation in South Africa increased for the second consecutive time, from 7.0 to 7.1 per cent between February and March 2023 (see Figure 3). The main contributors to this latest increase were food and non-alcoholic beverages – whose prices increased by 14 per cent year-on-year, housing and utilities, transport and miscellaneous goods and services (Stats SA, 2023). The continued rise in food prices (of 14.4 per cent in the past year and 1 per cent in the past month) is likely to be causing increased food poverty in the country.

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



Source: Stats SA



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