

Macroeconomic Trends in South Africa

January 2024- Edition



Macroeconomic Trends in South Africa

This note highlights the implications of the latest trends in the country's fiscal situation, the interest rate, inflation, GDP Growth, and provides an update on the Financial Action Task Force's grey listing of South Africa.



I. Introduction

2023 was a challenging year for the South African economy – an expected anemic GDP growth of below 1 per cent, influenced by persisting freight, logistics, governance and energy supply constraints, high interest rates and rising fuel and food prices. In addition, adverse weather conditions continue to affect lives and livelihoods and damage infrastructure. Going into 2024, the South African Reserve Bank (SARB) anticipates a 1.2 per cent growth in the GDP for the year and expects the headline inflation rate to ease further into the bank’s inflation target range of 3 – 6 per cent – as, in fact, the headline inflation for 2023 has already hit the upper end of the target. As the 2024 February Budget Review approaches, attention will be on measures and reforms to support fiscal consolidation, and the better management of state-owned entities. This is a critical time for South Africa, especially with elections posing additional challenges to public expenditure, and even more so as the country enters uncharted political waters.

On a more positive note, since being placed on the Financial Action Task Force’s (FATF) grey list in February 2023, South Africa has made significant progress in addressing the country’s deficiencies in combating crime-related financing. The collaborative efforts of the government coupled with a resilient financial sector and continued compliance with international regulatory standards has so far mitigated some of the risks associated with grey listing. However, with South Africa planning to exit the grey list by 2025, a substantial amount of work still needs to be done. This is particularly the case in relation to the investigation and prosecution of crimes, identification of informal mechanisms for sending money, and the repossession of proceeds from crime and corruption.

II. FATF Grey listing Update

Nearly a year ago, the Financial Action Task Force (FATF), a global body that sets standards and policies on money laundering, terrorist financing, and the financing of the proliferation of weapons of mass destruction, placed South Africa as a “jurisdiction under increased monitoring”¹. This is also known as “grey listing”, and it occurs when a jurisdiction is found to be insufficiently compliant with FATF status. The FATF standards on anti-money laundering and counter financing of terrorism (AML/CFT) consists of 40 recommendations and 11 effective immediate outcomes. They encompass a wide array of issues including the regulation of financial institutions and nonfinancial businesses and professions, cross-border currency movements, the transparency of legal entities, criminal law, institutional capacity, sanctions, as well as domestic and international cooperation.

¹ Statement from Grey listing in South Africa: A Note on Possible Socioeconomic Implications (2023) published by the United Nations in South Africa.



Some of the possible implications of grey listing to South Africa includes the impact on foreign capital flowing into and out of the country; the effect on the cost of doing business, with i.e., higher transaction and administrative costs; the impact on borrowing costs for the government, business and individuals raising capital abroad as well as negative effects on macroeconomic trends such as on the interest rate, exchange rate, inflation and economic growth.

While the immediate consequences of grey listing may involve higher processing, monitoring, and reporting costs, in the long-term, perceived risk might increase, resulting in the decline in South Africa's attractiveness as an investment destination in the region and across the African continent. Furthermore, South Africa is a significant regional financial centre, economic hub and serves as an access-point for inter-regional trade and foreign direct investment in Africa. Meaning that, any negative consequences from grey listing could potentially spillover and affect the Southern Africa region and the wider continent.

After the FAFT's grey listing decision, undertaken in February 2023, in May 2023 the European Commission added South Africa to its updated list of "high-risk third countries" with strategic deficiencies in fighting money laundering and terrorist financing. On 4 December 2023, the HM Treasury as the United Kingdom's economic and finance ministry, followed suit by releasing an advisory notice that South Africa has been included to the schedule of "high-risk third countries". This means that credit and financial institutions will now employ heightened customer due diligence measures and monitoring processes towards South African businesses or persons. The real impact of this and any additional scrutiny from the international community remains to be seen.

According to the latest follow-up report published by the FATF on 28 November 2023, South Africa has made commendable progress towards rectifying the 20 deficiencies identified in the 2021 FATF Mutual Evaluation Report. The follow-up further shows that 18 deficiencies were re-rated, with 15 now upgraded as no longer deficient, 14 recommendations are partially compliant, and one recommendation is not applicable to South Africa. Going by these re-ratings, South Africa is mostly compliant (or not deficient) in 35 of the FATF recommendations, including in 5 of the 6 core FATF recommendations. This suggests that South Africa has 5 remaining deficiencies in technical compliance, and 2 which were left partially compliant in 2021.

Although South Africa has made advancements in addressing technical compliance deficiencies in its anti-money laundering system, more work still needs to be done, particularly in relation to effectiveness deficiencies outlined in the FATF Action Plan established in February 2023. These include strengthening capacity building and expertise within investigating units and the prosecution. The Minister of Finance at the National Treasury, Enoch Godongwana, further stresses that advancing the legislative environment in areas related to financial management and financial governance remains important in restoring confidence with investors and commercial partners.

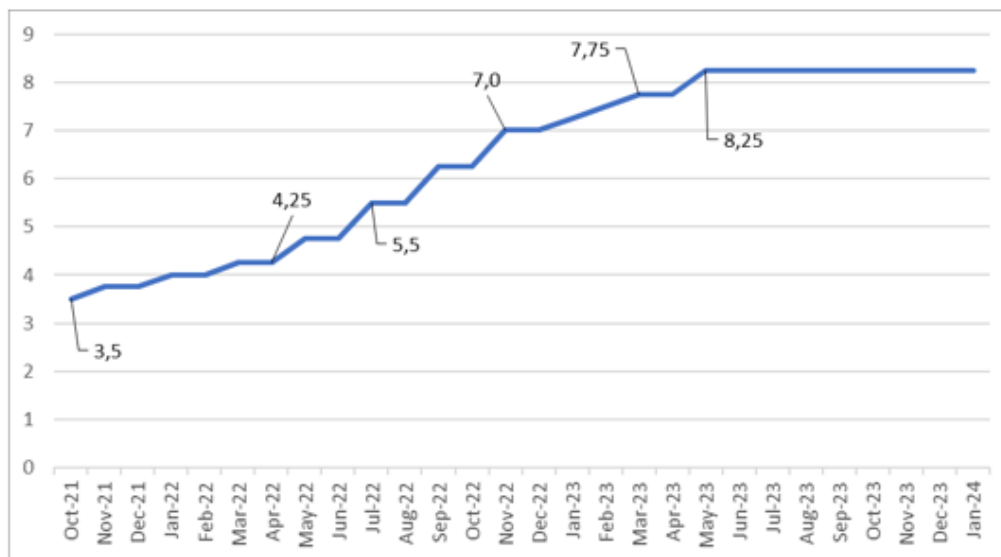


The National Treasury anticipates that South Africa will make it off the grey list by early 2025, in time for the global anti-money laundering watchdog meeting set for June 2025. For this to happen, South Africa needs better transparency within the coordinated action plan and improved collaboration from all parties involved.

III. SARB's Interest Rate in January 2024

As the new year begins, the SARB Monetary Policy Committee (MPC) made no changes to the repurchase rate of 8.25 per cent per year, a rate it has maintained since May 2023 (see Figure 1). This decision was made unanimously by the MPC despite continued inflation deceleration – see below. The MPC believes that at the current interest rate, policy is restrictive, and in its view aligned with the inflation outlook and projections. The Committee therefore maintains a cautious stance and remains prepared to act in response to any potential shocks. A key variable the SARB is keeping a close eye on is the exchange rate, which, last year, depreciated by 11 per cent against the dollar. Lower interest rates could cause further depreciation of the rand which in turn could stoke domestic inflation. In addition, global economic conditions and outlook remain uncertain in the face of geopolitical tensions and climate change affecting international trade, supply chains, output, and prices.

Figure 1: South Africa's Repurchase Rates Oct 2021 – Jan 2024



Source: SARB (2024).

Similar to most countries, the policy priorities for the year are achieving inflation targets, decreasing fiscal deficits and controlling debt levels. In 2024, both advanced and emerging economies are expected to experience modest growth.

After a weaker than predicted GDP growth of -0.2 per cent for Q3 of 2023, SARB anticipates a 0.4 per cent expansion in GDP growth for Q4. Logistical constraints and electricity shortages have been pointed out as factors that will continue to impact output growth. Overall, SARB forecast for GDP growth in 2023 has been revised downwards to 0.6 per cent, from the 0.8 per cent reported in November 2023.



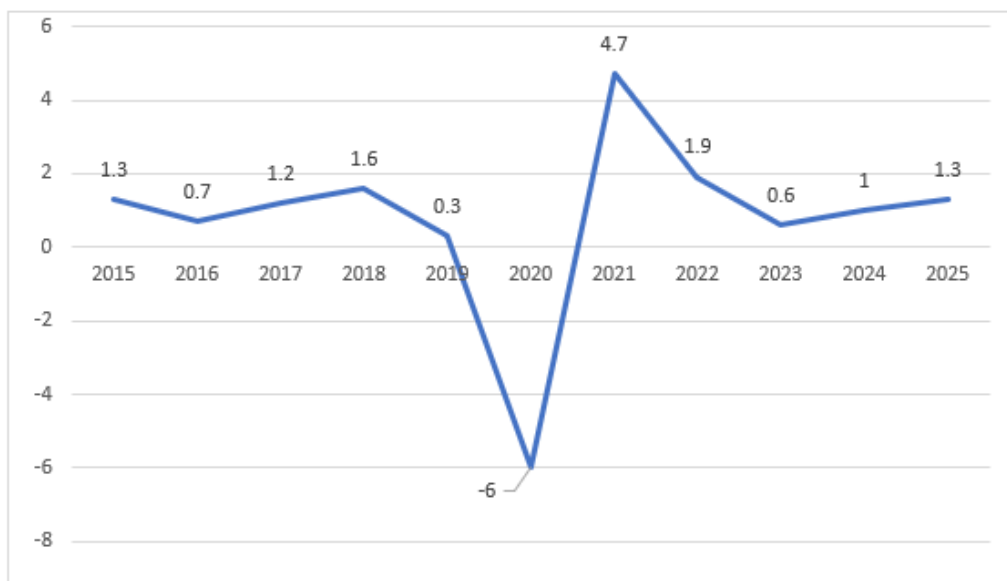
Their GDP growth projections for 2024 and 2025 remain unchanged from their previous forecast, at 1.2 per cent and 1.3 per cent, respectively. South Africa's external financing needs are expected to rise as the current account deficit is expected to expand from 1.4 per cent of GDP in 2023 to 2.8 per cent of GDP in 2024 and 3.6 per cent of GDP in 2025.

To strengthen economic conditions, the SARB's Monetary Committee recommends attaining a prudent public debt level, expanding the supply of energy, having a firm hand on administered prices, and maintaining real wage growth consistent with productivity gains.

IV. IMF Economic Growth Forecast

The International Monetary Fund's (IMF) World Economic Outlook update of January 2024 cut down South Africa's GDP growth forecast for the year 2024, with the country now expected to grow modestly at 1.0 per cent, a substantial decrease from the IMF's October 2023 forecast, which foresaw a 1.8 per cent GDP expansion (see Figure 2). Growth for 2025 was revised down to 1.3 per cent from the 1.6 per cent projected in October 2023.

Figure 2: IMF Real GDP Growth 2015 – 2025¹ %



Source: International Monetary Fund (2024a). ¹ 2023-2025: forecast years.

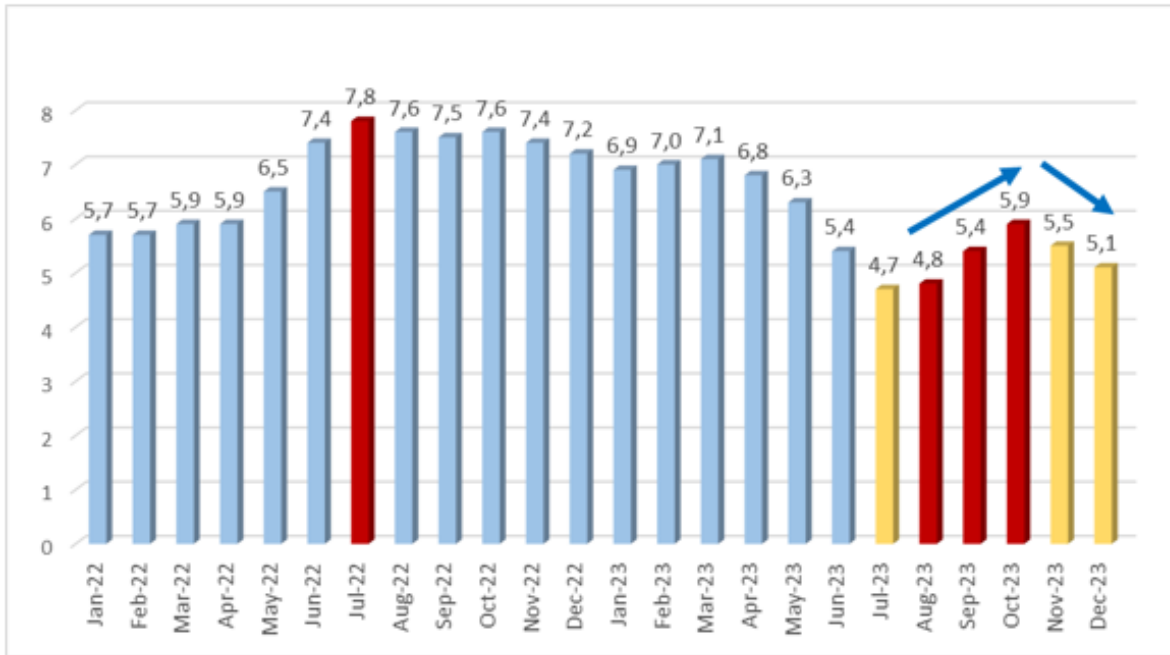
The growth downgrades primarily stem from the assessment that output has been constrained by the continued crises witnessed in South Africa's energy sector and logistics, the latter including transportation, freight, and ports. In IMF's view, other contributing factors are the country's delicate fiscal outlook and high public debt levels, which constrain public investment and discourage private investors.



V. Annual inflation

The annual consumer price inflation slowed for a second month, from 5.5 per cent in November to 5.1 per cent in December 2023 (see Figure 3). The annual inflation rate on food and non-alcoholic beverages (NAB) softened to 8.5 per cent from 9.0 per cent observed in November 2023. Poultry products continue to see a rise in annual prices.

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



Source: Stats SA (2024a).

At the end of 2023, the headline or average inflation rate was 6.0 per cent, lower than the 6.9 per cent rate recorded in 2022. This means that inflation has hit the upper end of the 3-6 per cent target range. Even so, inflation continues to be influenced by global and domestic supply and demand. The SARB Monetary Policy Committee projects an ease in the rate at 5.0 per cent in 2024, and 4.6 per cent and 4.5 per cent in 2025 and 2026, respectively.

The annual producer price inflation is on an uninterrupted declining path of 4.0 per cent in December from 4.6 per cent in November and 5.8 per cent in October 2023 (Stats SA, 2024b). The main contributors to this decline include food products and beverages, metals, machinery, computing, and transport equipment.



VI. References

- SARB. (2024). Statement of the monetary policy committee January 2024. Press Statement. 25 January. Retrieved from <https://www.resbank.co.za/en/home/publications/publication-detail-pages/statements/monetary-policy-statements/2024/Statement-of-the-Monetary-Policy-Committee-January-2024>
- Stats SA. (2024a). Inflation eases for a second consecutive month. 24 January. Data Stories. Retrieved from <https://www.statssa.gov.za/?p=16940>
- Stats SA. (2023b). Producer Price Index. Statistical Release. 21 December. Retrieved from <https://www.statssa.gov.za/publications/P01421/P01421December2023.pdf>
- United Nations South Africa. (2023). Grey listing in South Africa: A Note on Possible Socioeconomic Implications. 29 September. Retrieved from <https://southafrica.un.org/en/247836-grey-listing-south-africa-note-possible-socioeconomic-implications>
- National Treasury. (2023). Grey listing: Positive Progress in Addressing Technical Compliance Deficiencies in South Africa's Anti-Money Laundering System. Media Statement. (29 November). Retrieved from https://www.treasury.gov.za/comm_media/press/2023/Default.aspx
- Naidoo, S. (2023). South Africa eyes exiting FATF grey list in 2025. (2 November). Retrieved from <https://www.moneyweb.co.za/in-depth/budget/south-africa-eyes-exiting-fatf-grey-list-in-2025/>
- Viljoen, N. (2023). Prosecution challenges threaten South Africa's exit from FATF grey list. (11 December). Retrieved from <https://www.moonstone.co.za/prosecution-challenges-threaten-south-africas-exit-from-fatf-grey-list/>
- Business Tech. (2023). South Africa is making progress getting off the grey list. (30 November). Retrieved from <https://businesstech.co.za/news/finance/735123/south-africa-is-making-progress-getting-off-the-greylist/>
- IMF. (2024a). World Economic Outlook Update January 2024: Moderating Inflation and Steady Growth Open Path to Soft Landing. Publications. 30 January. Retrieved from <https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024>
- IMF. (2024b). South Africa's Annual Real GDP Growth. Retrieved from https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/ZAF?year=2024
- IMF. (2024c). Transcript of Press Briefing: Regional Economic Outlook for Sub-Saharan Africa. 13 October. Retrieved from <https://www.imf.org/en/News/Articles/2023/10/13/tr101323-transcript-of-africas-regional-economic-outlook>
- Thukwana, N. (2024). IMF cuts South Africa's 2024 growth forecast. Economics. 30 January. Retrieved from <https://www.bloomberg.com/news/articles/2024-01-30/imf-clips-south-africa-2024-growth-forecast-on-logistics-worries>
- Bloomberg. (2024). IMF slashes South Africa's GDP growth forecast for 2024. 30 January. Retrieved from <https://businesstech.co.za/news/finance/746898/imf-slashes-south-africas-gdp-growth-forecast-for-2024-2/>



Macroeconomic Trends in South Africa



CONTACT US:

United Nations Resident Coordinator's Office
UN House, Metro Park Building,
351 Francis Baard Street, Pretoria, South Africa

Telephone: +27 12 354 8504

Email: unic-pretoria@un.org

Designed by: UNIC Pretoria

Facebook: [@UNinSouthAfrica](https://www.facebook.com/UNinSouthAfrica)

Twitter: [@UNinSouthAfrica](https://twitter.com/UNinSouthAfrica)

Instagram: [@UNinSouthAfrica](https://www.instagram.com/UNinSouthAfrica)

Website: <https://southafrica.un.org/>