



Casa África- Business Opportunities

Republic of South Africa

South Africa's GDP growth has weakened to an average of 1.1% over the past five years due to unreliable structural reforms in the energy sector and rigidities in the labour market. After a record unemployment rate of 30% and an economic contraction of 1.4% in 2019, growth prospects remain uncertain and highly vulnerable to a combination of the COVID-19 pandemic and other factors related to electricity supply constraints and the financial crisis in major state-owned enterprises. GDP is projected to contract by 6.3% to 7.5% by 2020, depending on the duration of the pandemic. The country is expected to enter a fiscal crisis with pre-existing budgetary pressures arising from high debt and state-owned enterprises, along with low revenue collection related to the pandemic. This situation could raise the budget deficit to over 12% of GDP by 2020; however, the current account deficit is expected to widen moderately, to between 3.5% and 3.9% of GDP, thanks to the country's position as a net exporter of capital.

Prior to the pandemic, reforms were addressing structural constraints to economic growth and job creation. One of them is the restructuring of the utility company Eskom to reduce the increased risk that its debt poses to the treasury. Other reforms include allocating the telecommunications spectrum, removing barriers to mining investment and reviewing visa requirements to boost tourism. In addition, the government was taking steps to improve investment by revitalizing municipalities and industrial parks. Given the current crisis situation, these reforms are likely to be postponed.

The South African economy shows the typical structure of a developed country, where services predominate with approximately 67% of GDP, a secondary sector share of about 30% and a barely significant primary sector. It is an open economy with a low current account deficit, as both exports and imports are at similar levels. In recent years, trade with China has increased considerably, while with India it has increased to a lesser extent. Although at very low levels, trade with the rest of the continent also seems to be increasing, especially exports. After China, the main destinations for South African exports are the United States, Germany, Botswana, the United Kingdom and Japan. In the list of customers, after China comes Germany, followed by the United States, Nigeria and India. Hydrocarbons represent the country's main imports, in addition to automobiles and machinery. In relation to exports, various minerals stand out, as it is a country that enjoys rich deposits of different types. Gold, platinum, iron and coal stand out. It also exports metals and vehicles.

Skill shortages, challenges in the health sector, weak competition from domestic products and limited adoption of information and communication technologies, now exacerbated by the pandemic, caused South Africa's position in the global competitiveness ranking to drop dramatically in recent years. On the other hand, the value chain links between mining and manufacturing are weak, as South Africa exports most of its mineral resources. This in turn exposes the country to recurrent shocks in world commodity prices. Weak global growth, global trade tensions and commodity price volatility also pose risks to the South African economy. In addition, the high wage bill of the public sector, the poor performance of state-owned enterprises and social programmes, including national health insurance, put pressure on the budget. South Africa would benefit more from manufacturing for African markets.

AEO: <https://www.afdb.org/en/documents/african-economic-outlook-2020>

AEO (Suplemento COVID-19): <https://www.afdb.org/en/documents/african-economic-outlook-2020-supplement>

MAEC: http://www.exteriores.gob.es/Documents/FichasPais/SUDAFRICA_FICHA%20PAIS.pdf