POST APARTHEID ECONOMY EXPLAINED IN 15 GRAPHS

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Heterodox economic views and policies helped the ANC to formulate and advance its popular vision for the post-apartheid South Africa from the early 1940s to early 1990s. The organisation, however, began to embrace mainstream free market economics after the Ready to Govern conference of 1992, and especially with the adoption of GEAR in 1996.
This was not an inconsequential change. It shaped:

- the post-apartheid government's role in the economy,
- The ANC-government economic policy choices and
- the country's growth and development outcomes in the last 25 years.

GEAR failed to meet its five year targets. However, the government decided to continue with GEAR's macroeconomic framework and employed Growth Diagnostic approach of Hausmann et al., (2005) to:

- identify the "binding constraints" of the South Africa economy; and
- devise mainly microeconomic, supply side, interventions toward lifting those constraints.

Government expectations was that this approach will unlock the economy's potential for accelerated growth and employment without requiring changes to its macroeconomic policy framework. It was believed that in the absence of rigidities, frictions and market failures, the market will produce necessary growth with full employment. This mainstream view of the economy has informed government economic plans (e.g., ASGISA, NDP, 9 Point Plan, 2019 Treasury Strategy) in the past two decades.
The overall policy impact and outcomes of above choices can be summarized in following 15 charts.

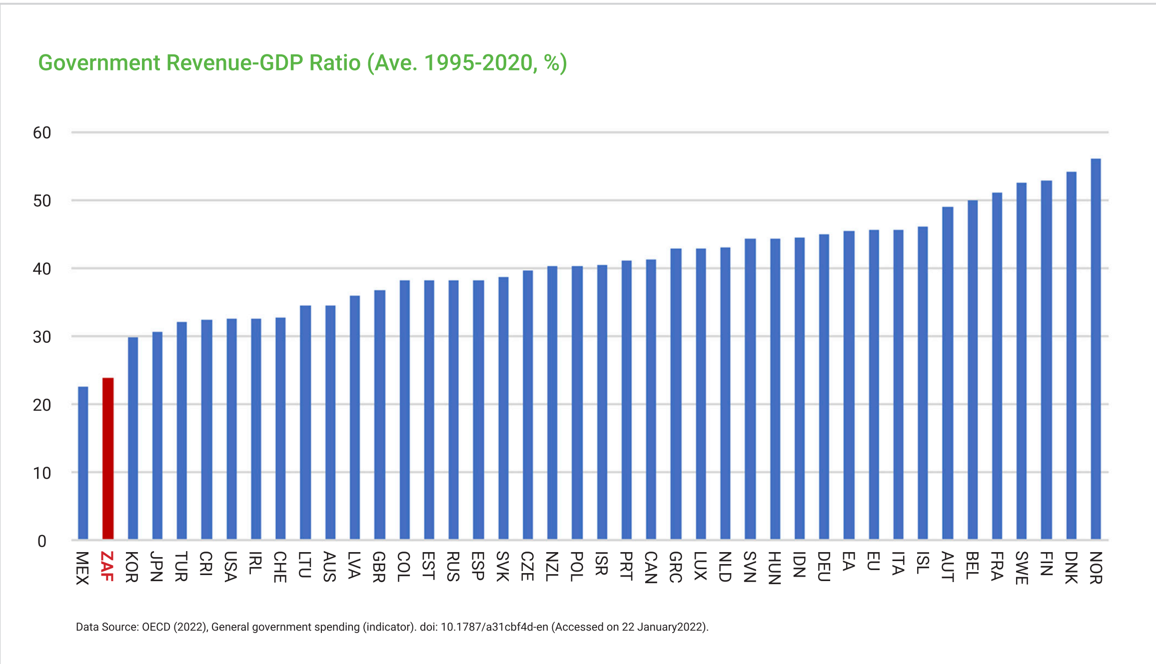
FISCAL POLICY

Since GEAR, two central aims of the government's fiscal policy strategy have been:

- to avoid permanent increases in the overall tax burden, and
- to use medium-term deficit targets to minimize government dissaving (i.e., to keep budget deficit as low as possible)

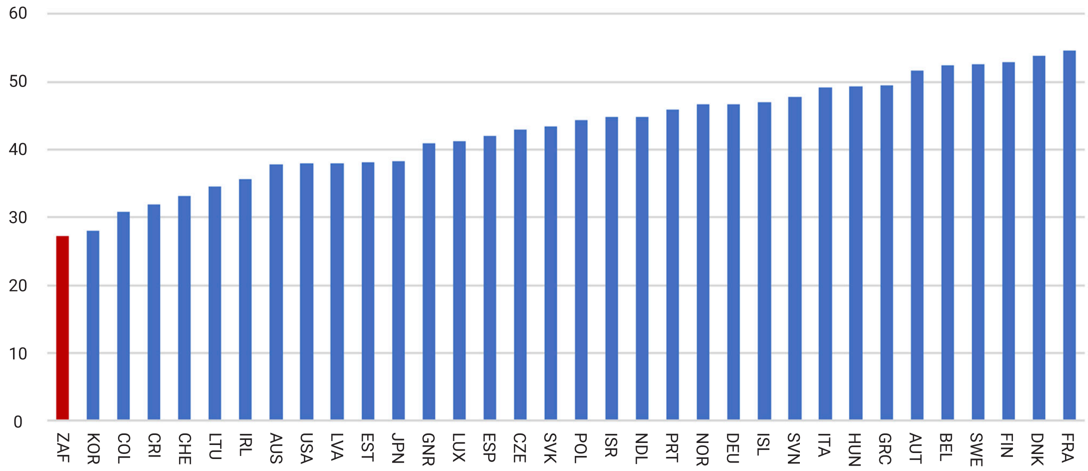
In practice, these aims together have limited the government's ability to raise taxes and/or to borrow as part of financing the expected post-apartheid socio-economic transformations.

Government Income
The SA government's average annual revenue-GDP ratio for the period 1995–2020 was almost the lowest among OECD countries.



Government Expenditure
Relative to the rest of the OECD countries, the SA government spent the lowest share of the country's GDP on delivering public goods and services and providing social protection between 1995-2020.

Government Expenditure-GDP Ratio (Ave. 1995-2020, %)



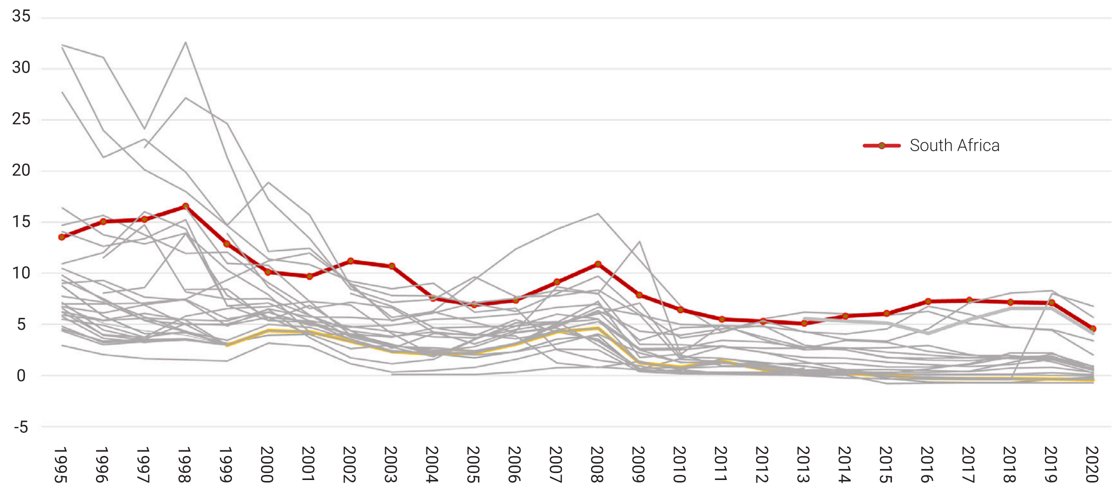
Data Source: OECD (2022), General government spending (indicator). doi: 10.1787/a31cbf4d-en (Accessed on 22 January2022).

MONETARY POLICY

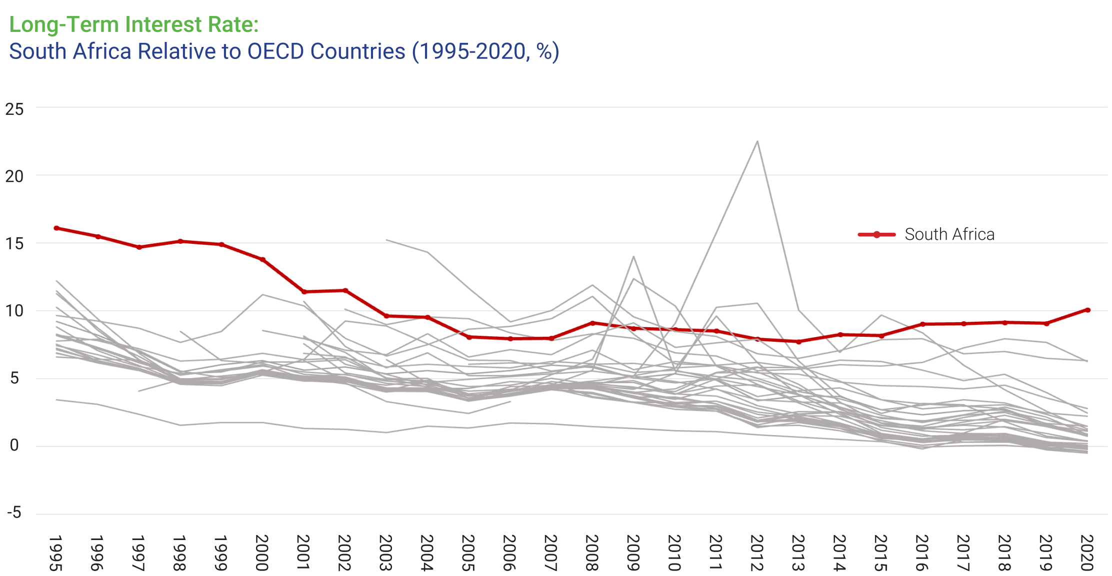
South Africa adopted inflation targeting in 1999 to guide its monetary policy, especially the interest rate decisions.

Interest Rates
Consequently, South Africa's short- and long- term interest rates have consistently been almost the highest among OECD countries over the last 25 years.

Short-Term Interest Rate:
South Africa Relative to OECD Countries (1995-2020, %)



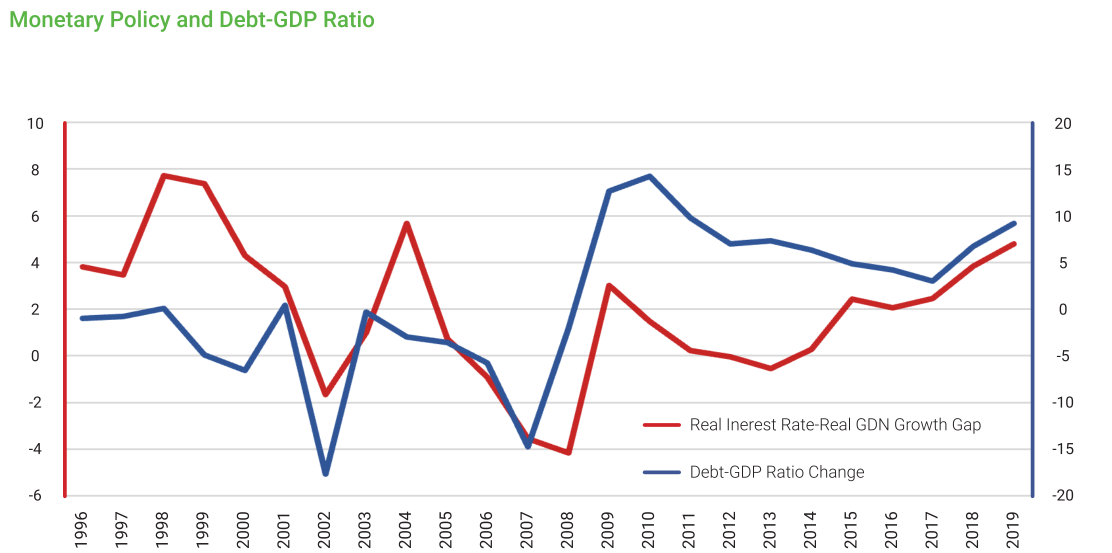
Source: OECD (2022), Short-term interest rates (indicator). doi: 10.1787/2cc37d77-en (Accessed on 12 March 2022). Note: Short-term interest rates are the rates at which short-term borrowings are effected between financial institutions or the rate at which short-term government paper is issued or traded in the market.



Source: OECD (2022), Long-term interest rates (indicator). doi: 10.1787/662d712c-en (Accessed on 12 March 2022). Note: Long-term interest rates refer to government bonds maturing in ten years.

DEBT-GDP RATIO

Real interest rates were above the GDP growth rates for 19 out of the 24 years between 1996 and 2019.
The positive gap between the real interest rate and GDP growth has contributed to the rise of the debt-GDP ratio.

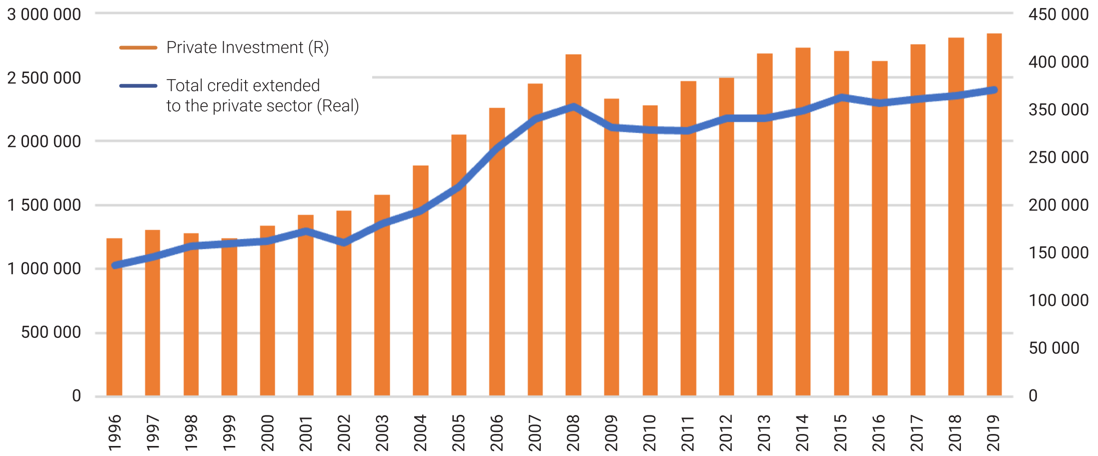


Source of Data: Used Reserve Bank Time Series data on Total National Government Debt (RB4114J) and Nominal GDP (RB6006J) for the calculation of Debt-GDP Ratio.
Calculated the Real Interest Rate using OECD South Africa data on CPI inflation and the long term interest rate. Used Reserve Bank Time Series data for the real GDP growth (RB6006Y).

ACCESS TO CREDIT

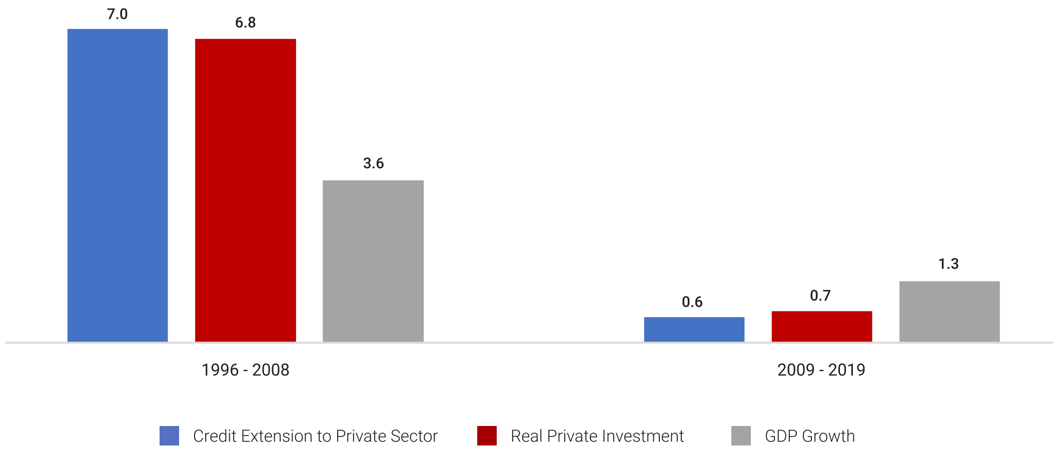
Even though real private investment positively relates to credit extension, annual growth of credit extension to the private sector significantly declined between 1996 and 2019.

Private Investment and Credit Extension



Data Source: Reserve Bank Time Series data

Access to Credit, Private Investment and Economic Growth



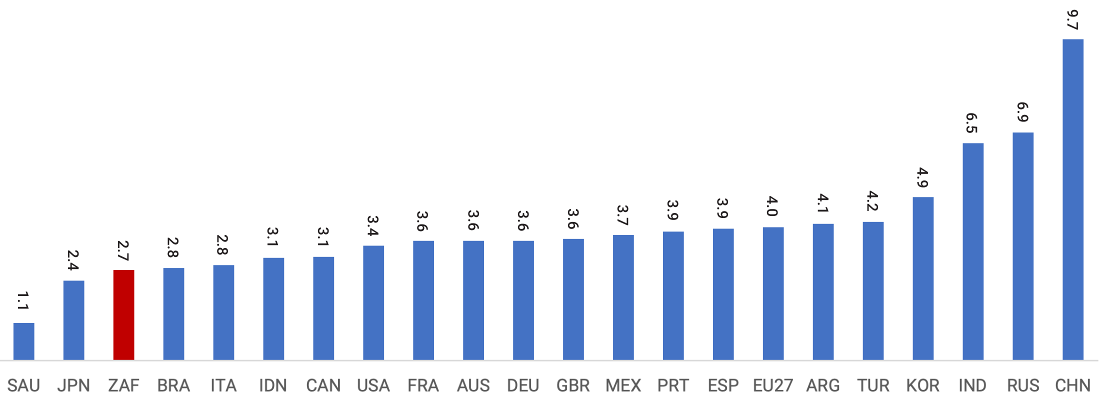
Data Source: Reserve Bank Time Series data

MACROECONOMIC OUTCOMES

Economic Growth

Between 1995-2019, SA average annual GDP growth was the third-lowest among G20 countries.

South Africa Within G20 Countries:
Growth Performance (USD/Capita, Current PPPs, CAGR 1995-2019)

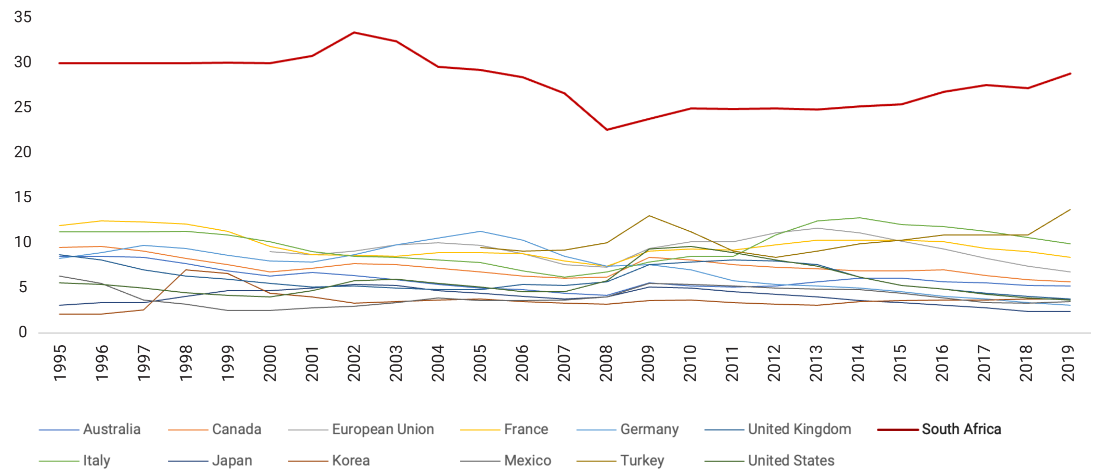


Data Source: OECD (2022), Gross domestic product (GDP) (indicator). doi: 10.1787/dc2f7aec-en (Accessed on 14 March 2022)

Unemployment

SA unemployment rate was consistently much higher than all the G20 countries during the 25 years between 1995 & 2019.

South Africa Within G20 Countries:
Unemployment Rate (1995-2019, %)



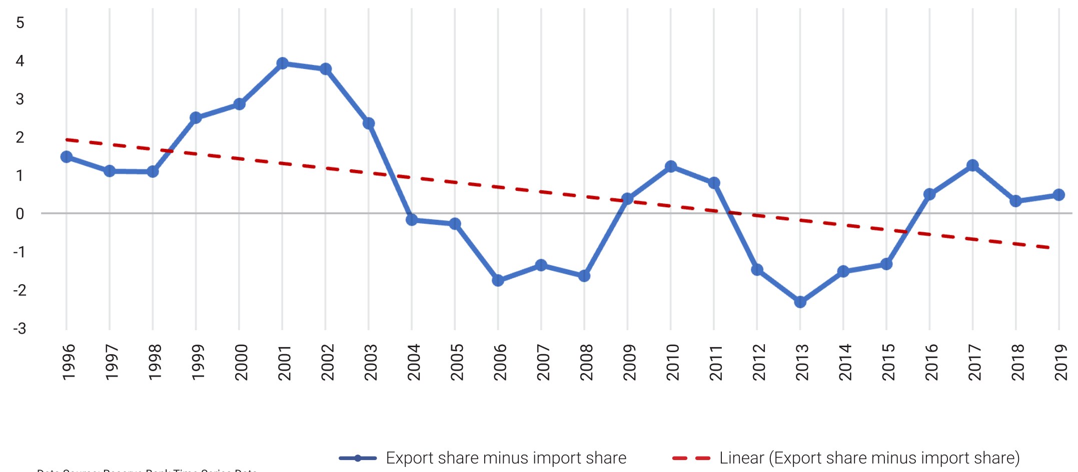
Data Source: OECD (2022), Unemployment rate (indicator). doi: 10.1787/52570002-en (Accessed on 27 March 2022)

ECONOMIC TRANSFORMATION

International Trade

Earlier positive gap between the export and import shares of GDP has gradually diminished in the past 25 years.

Trend in Gap Between Export and Import Shares of GDP (1996-2019)

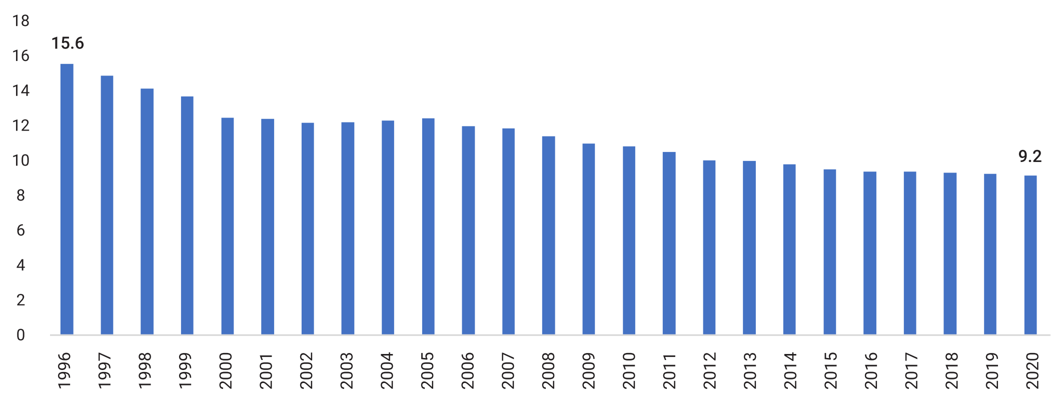


Data Source: Reserve Bank Time Series Data.

De-industrialisation

The share of manufacturing employment in total employment reduced from 15.6% in 1996 to 9.2% in 2019.

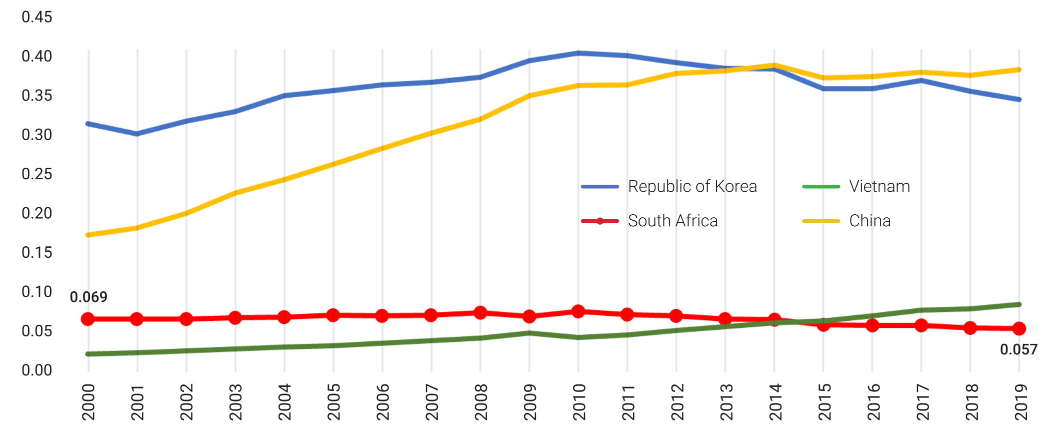
Share of Manufacturing in Total Employment (%)



Data Source: Quantec

The UNIDO's Competitive Industrial Performance (CIP) index for South Africa declined 17% between 2000 and 2019. In comparison, the CIP indices for China, Vietnam and South Korea increased 120%, 262%, and 10% during the same period respectively.

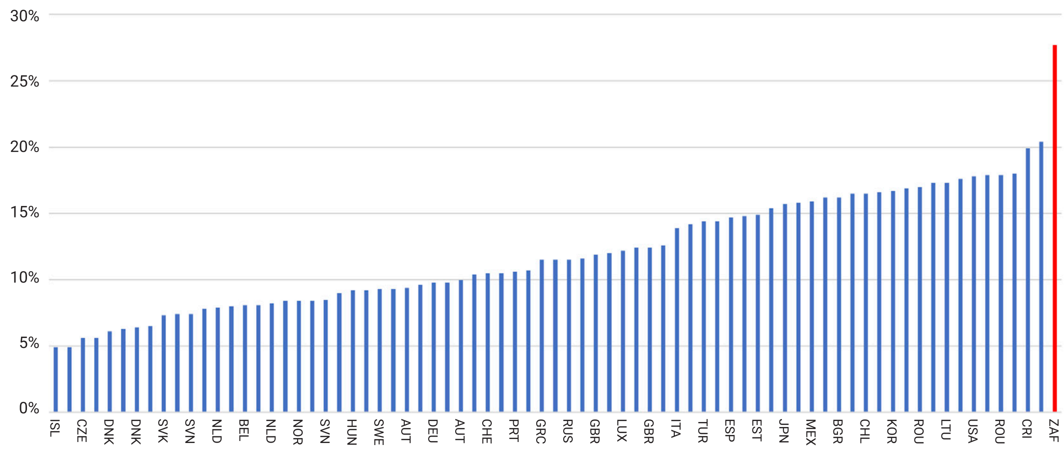
UNIDO Competitive Industrial Performance Index (CIP)



Data Source: United Nations Industrial Development Organisations (UNIDO)

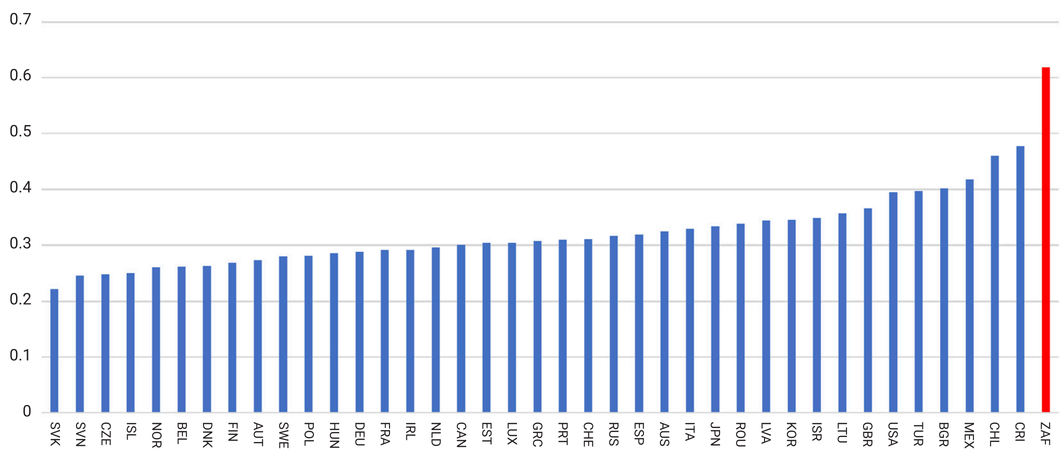
POVERTY AND INEQUALITY

Income Poverty



Source: OECD (2022), Poverty rate (indicator). doi: 10.1787/0fe1315d-en (Accessed on 09 May 2022)

Income Inequality

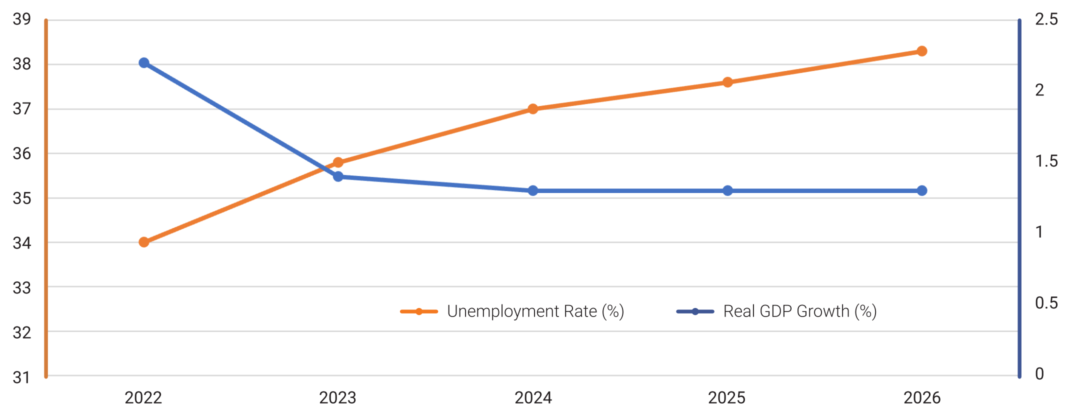


Source: OECD (2022), Income inequality (indicator). doi: 10.1787/459aa7f1-en (Accessed on 09 May 2022)

FIVE YEAR MACROECONOMIC OUTLOOK

According to the National Treasury, the economy is expected to grow at an average annual rate of 1,5% between 2022 and 2026, and the unemployment rate is projected to rise to 38,3% by 2026.

Outlook for Growth and Employment (2022-2026)



Sources of Data: Haver, South African National Treasury, World Bank, and Fund staff estimates and projections (World Bank, 2021).