

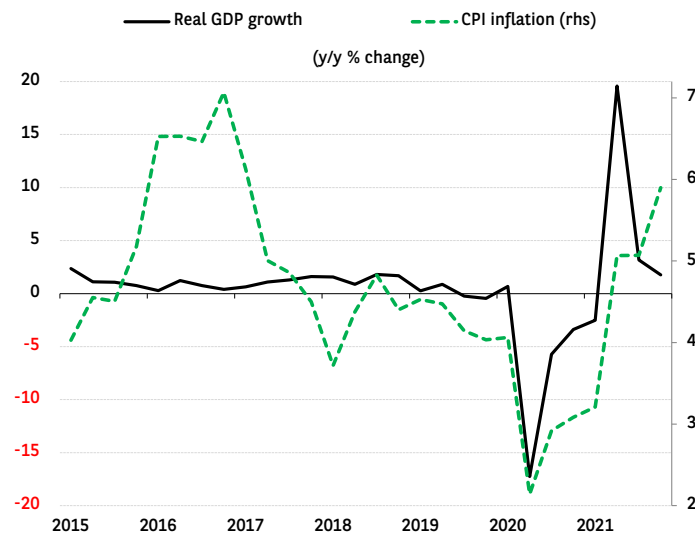
CHART OF THE WEEK



23 March 2022

SOUTH AFRICA: A FRAGILE ECONOMIC RECOVERY

Perrine Guérin



Source: Statistics South Africa, BNP Paribas

After a record contraction in the economy in 2020, South Africa's GDP grew by 4.9% in 2021. This was the highest growth rate since 2007. The strong recovery in the first half of 2021 was held back by rioting over the summer and the return of health protection measures in the face of the Omicron variant in the fourth quarter of 2021. The pace of recovery is likely to continue to slow, with GDP forecast to grow by 1.3% in 2022, according to our estimates. Economic activity will remain structurally constrained by weak potential growth.

Inflation keeps accelerating. By the end of 2021, inflation had hit 6% year-on-year (3.1% core inflation), driven by the significant increase in the transport component, which represents nearly 15% of the reference basket and whose index reflects the increase in energy prices. In the short term, international conditions will fuel this upward pressure, and it could spread to other items, such as food. Although South Africa has few direct links with Ukraine and Russia (0.8% of total imports in 2020), its status as a net importer of hydrocarbons and cereals (the main products to be affected by the war) exposes it to the global increase in prices and disruption to supply chains. We expect the inflation rate to stand above the upper end of the 3%-6% target range in 2022. The normalization of monetary policy is expected to continue. The Central Bank rate hike cycle would potentially intensify if price momentum picks up further.

In this case, there could be significant consequences as inflation would hit consumer purchasing power, increasing already substantial inequalities, and heightening the risk of social unrest. The socio-economic climate is already extremely fragile. This is evidenced by the labour market, which did not fully recover during 2021. The participation rate remains below its pre-pandemic level and the unemployment rate, currently estimated at 35% of the active population, continues to rise.

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