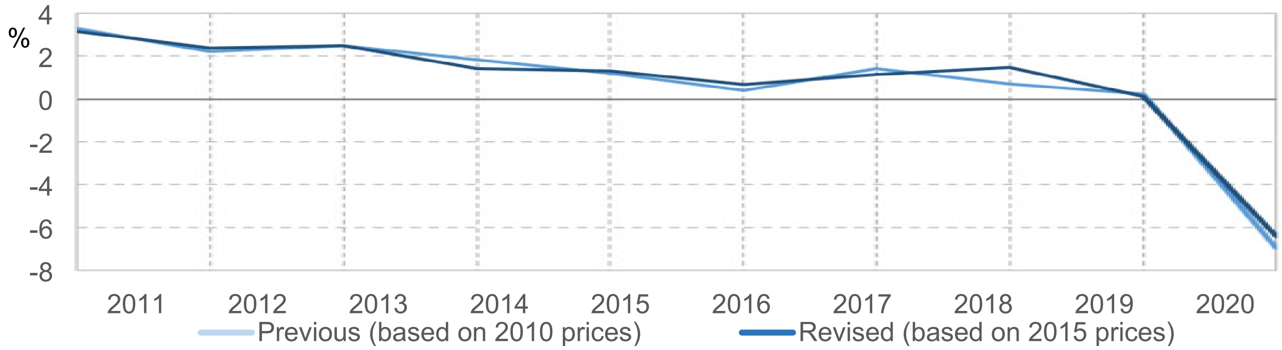
Investec

GDP revisions note: increasing the size of the economy reduces future government's debt and deficit ratios and pushes up our 2021 growth outlook

Wednesday 25 August 2021

Figure 1: Real GDP growth rate



Source: Stats SA

- Statistics South Africa published a new set of statistics for GDP today after its normal five yearly rebasing and benchmarking exercise, which pushes up our GDP forecast for this year to 4.2% y/y, on higher weightings to faster growing sectors, and upwards revisions to the Q1.21 outcome.
- The new GDP figures lowers gross debt to 71.1% for 2020/21 from the previous 80.3% of GDP, lowering the 2021/22 estimates too, to a gross debt ratio of 73.5% from the previous forecast in the 2021 Budget Review in February of 81.9% of GDP, and for 2022/23 to 76.4% (February estimate 85.1%) and 2023/24 to 78.4% (previous estimate 87.3%).
- In addition, the GDP revisions also serve to lower the budget deficit ratio to -12.4% of GDP from 14.00% for 2020/21, and to -8.4% of GDP (February estimate -9.3%) for 2021/22, and for 2022/23 to -6.6% of GDP (previous estimate -7.3%) and 2023/24 to -5.7% (from -6.3%), but again assuming no additional expenditure.
- This will be pleasing to the rating agencies, but still shows rising debt as opposed to stabilisation, and also assumes no additional borrowing. SARS recently said greater revenue collection compared to that budgeted is expected to adequately cover the cost of fiscal assistance to lessen the recent riot's impact.
- Specifically adding that, Q2.21 saw significant growth in commodity prices which will have benefited both exports and tax revenues, while VAT and corporate tax collections grew faster than expected as well covering the cost of the vaccines and riot relief without having to resort to borrowings.

Figure 2: Comparison of previous and revised GDP estimates

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Real GDP growth rate (% per year)										
Previous (2010 prices)	3.3	2.2	2.5	1.8	1.2	0.4	1.4	0.8	0.2	-7.0
Revised (2015 prices)	3.2	2.4	2.5	1.4	1.3	0.7	1.2	1.5	0.1	-6.4
Difference (% points)	-0.1	0.2	0.0	-0.4	0.1	0.3	-0.2	0.7	-0.1	0.6
Level of GDP at current prices (R billion)										
Previous	3 024	3 254	3 540	3 805	4 050	4 359	4 654	4 874	5 078	4 973
Revised	3 327	3 566	3 869	4 134	4 421	4 760	5 078	5 358	5 605	5 521
Difference	303	313	329	329	371	400	425	484	527	548
Difference (%)	10.0	9.6	9.3	8.6	9.2	9.2	9.1	9.9	10.4	11.0

Source: Stats SA

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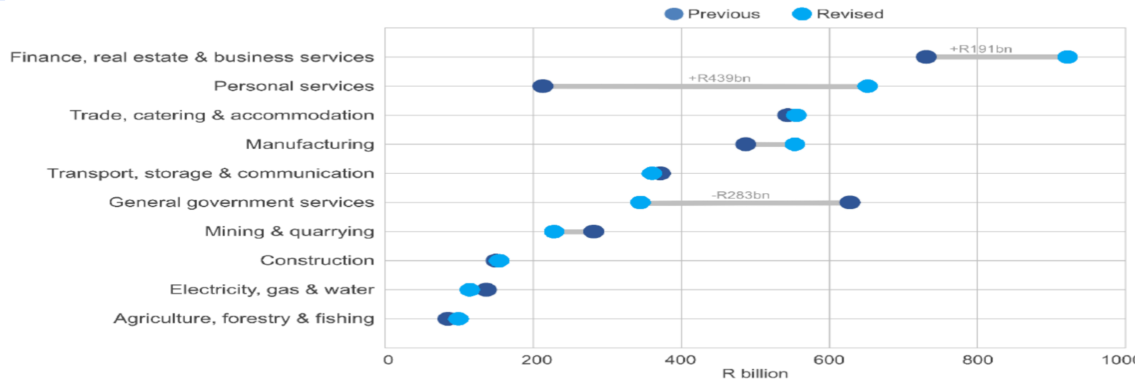
Figure 3: Personal services, government and finance recorded the largest changes

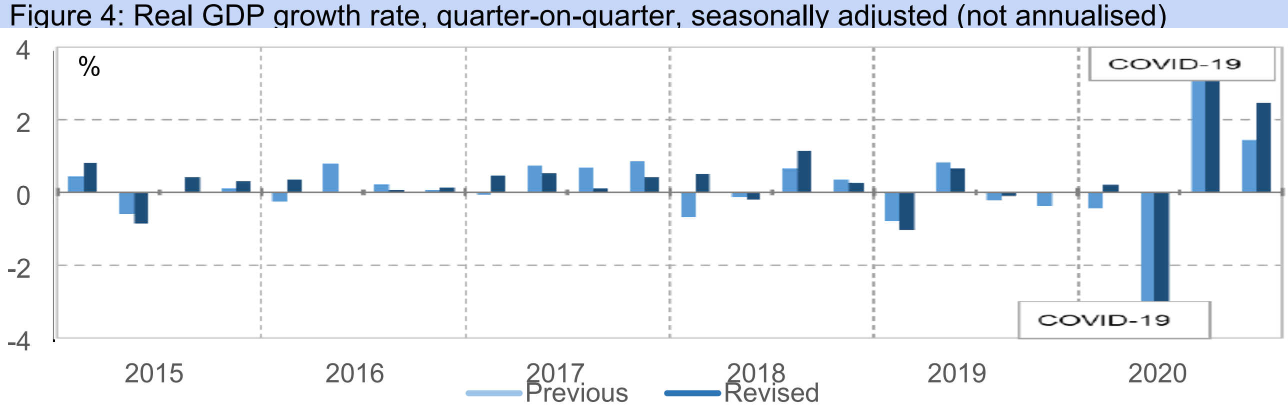


Source: Stats SA

Note: Previous and revised estimates of industry size (value added in 2015 base year). Based on GDP measured by production

- Periodic revisions of GDP are very normal for countries, and highly recommended in order to capture changes in the economy and size of sectors through updated surveys. The South African economy is 11% higher than estimated in June this year, while the composition of the economy has changed too.
- Stats SA notes that the large upwards revision to the size of the economy is not unusual, and that "(t)he average increase between previous and revised GDP estimates across OECD countries was 3.8% in 2010. This ranged from 0,2% for Luxembourg to 7,8% for South Korea.[2] Latin America recorded an average increase of 8,8%[3], and closer to home, Botswana revised the size of its economy down by 10%."
- A more accurate publication of the South African economy is also a positive outcome, as it helps investors to better understand the environment they are investing in. Government policies will not likely be changed by the larger size of the economy, as the key issues of extremely high unemployment and poverty, and insufficient economic development in the areas where the majority of the unemployed live remain.
- The detail of the data revisions show that there is now a less significant contraction in GDP in 2020, of -6.4% y/y instead of -7.0% y/y, while GDP in Q1.21 rises from 1.1% y/y growth to above 2.0% y/y growth and the Q2.21 GDP outcome will likely get a boost as well given the bigger weighting to finance.
- The faster growing services sectors account for a greater share of GDP while government expenditure accounts for less, although items have been shifted from government expenditure to the personal care category. Household expenditure accounts for more also, adding to the increased estimated size of the economy and the finance real estate and business services sector 26% larger than in 2015.

Figure 4: Real GDP growth rate, quarter-on-quarter, seasonally adjusted (not annualised)



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