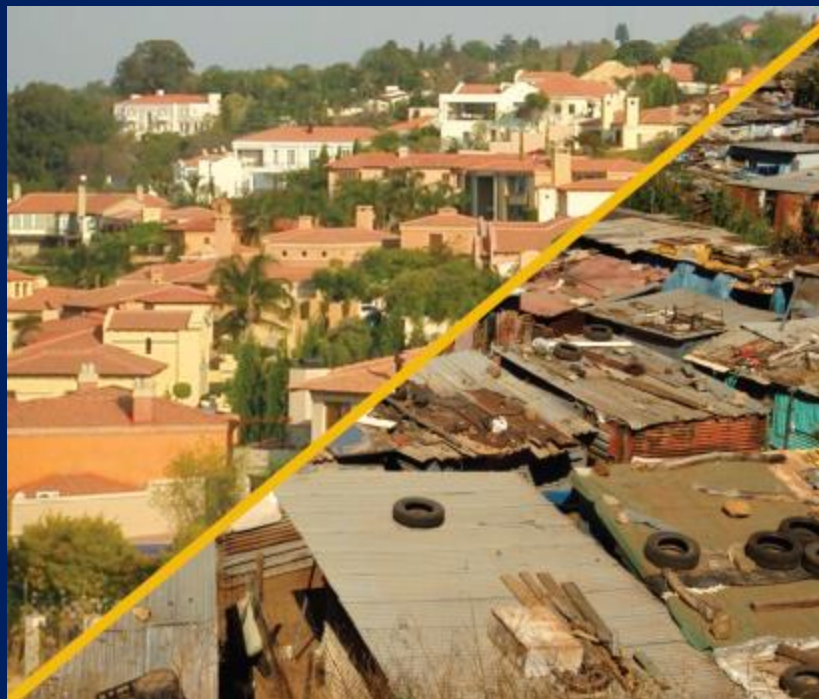


# South Africa Economic Update

*Focus on*

## Fiscal Policy and Redistribution in an Unequal Society





Our special focus combines fiscal & household survey data to examine:

# **FISCAL POLICY & REDISTRIBUTION IN AN UNEQUAL SOCIETY**



Question 1: How do taxes & spending redistribute income?

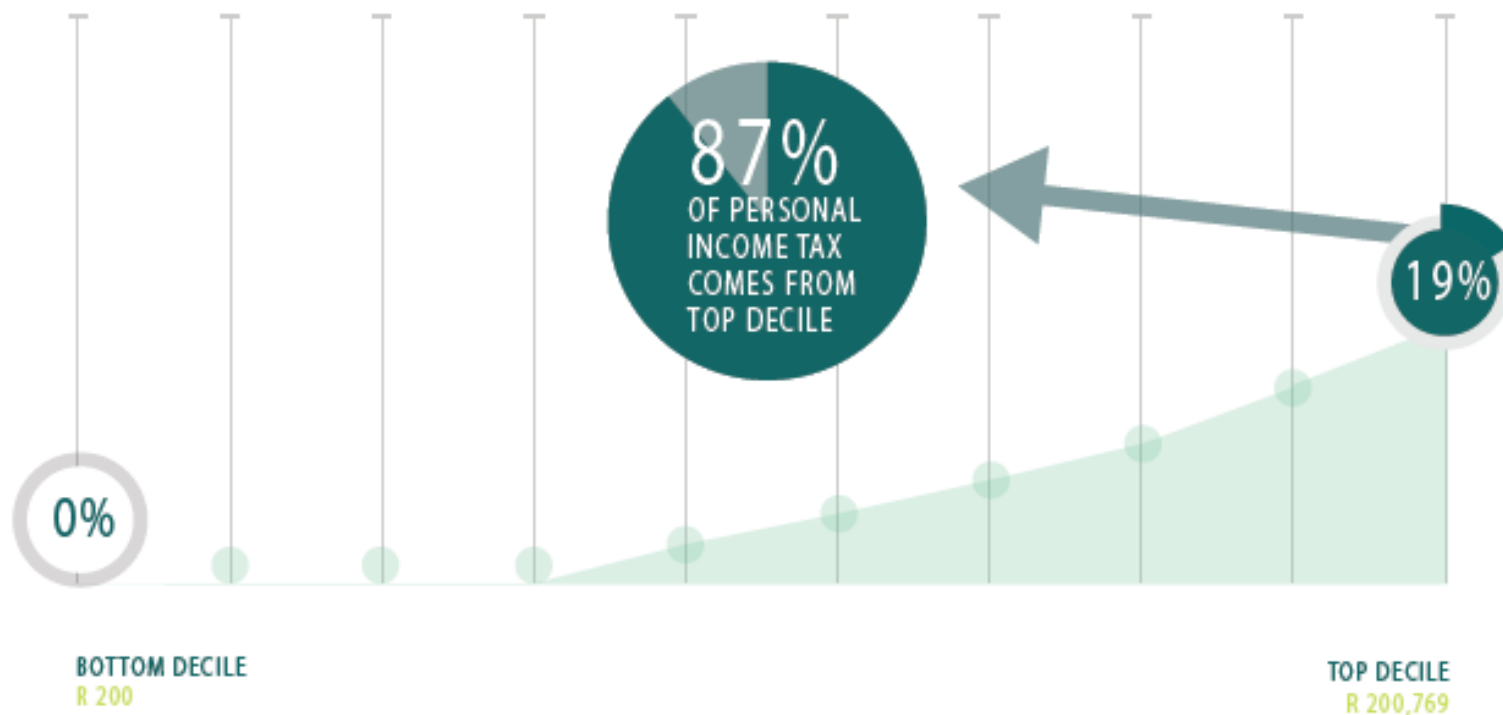
**FISCAL POLICY IS PROGRESSIVE**

**TAXES COLLECTED MAINLY FROM THE RICH HELP FUND**

**SOCIAL PROGRAMS THAT BENEFIT THE POOR**

# Tax System Is Slightly Progressive: Rich Pay Higher Share Than Poor In Income Tax

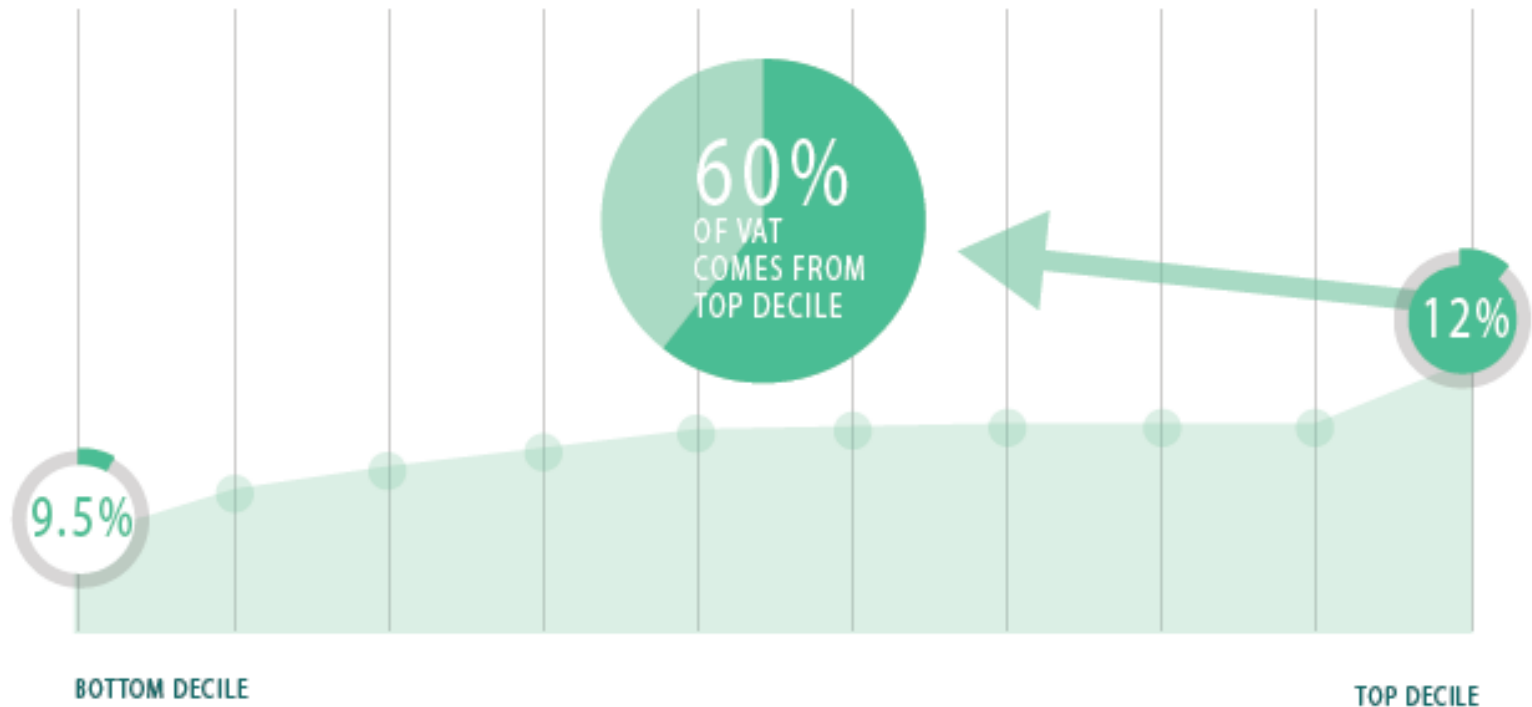
## SHARE OF INCOME PAID IN PERSONAL INCOME TAX



# VAT is Progressive

## Rich Pay Higher Share Than Poor In VAT

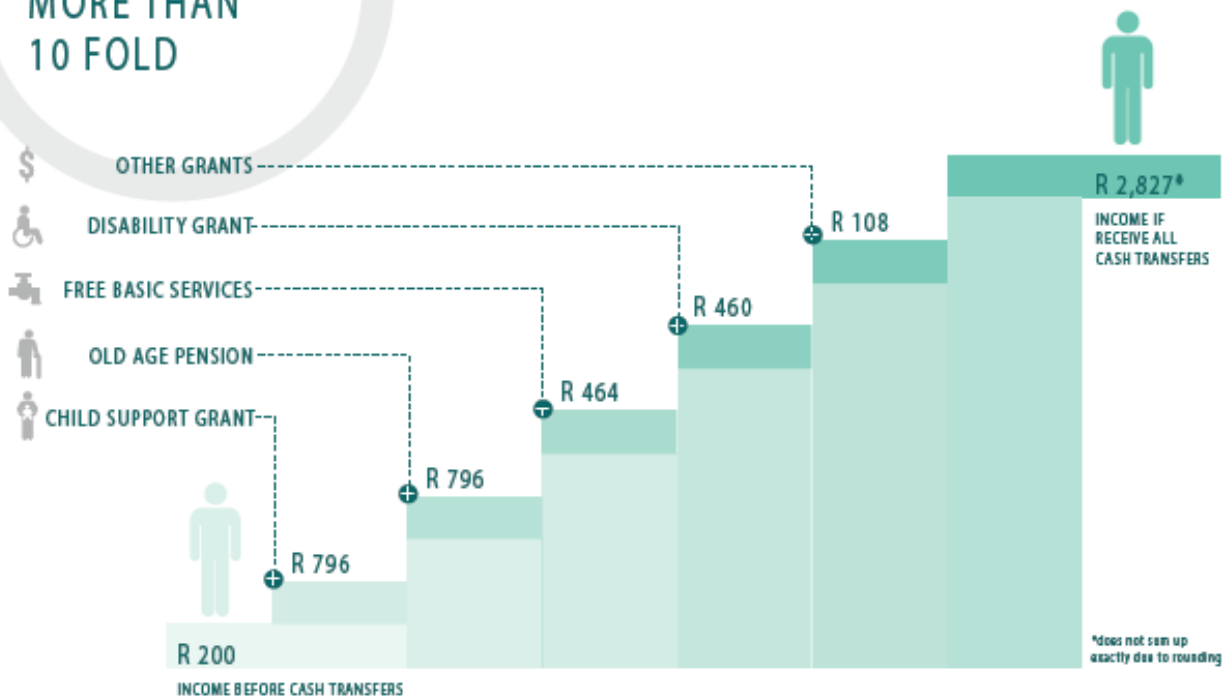
### SHARE OF INCOME PAID IN VAT



# Social Spending Benefits The Poor: Transfers Lift Income of Poor 10 Fold

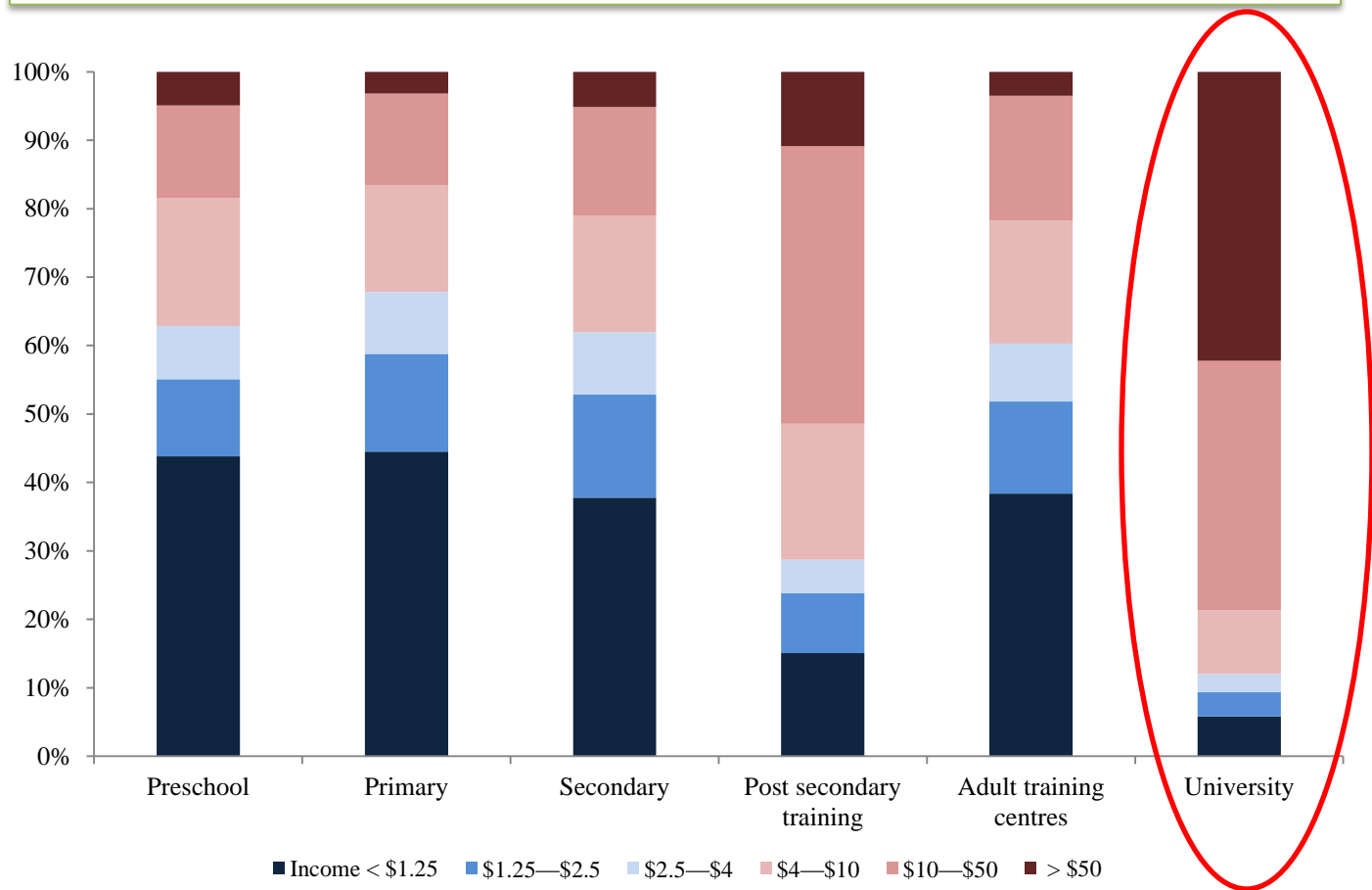
## CASH TRANSFERS AND FREE BASIC SERVICES

LIFT INCOME OF  
POOREST DECILE  
MORE THAN  
10 FOLD



# Education & Health: Poorest Half Get 54% of Spending

## Share of Education Spending by Income Group







Question 2: What is the impact of taxes & spending on poverty and inequality?

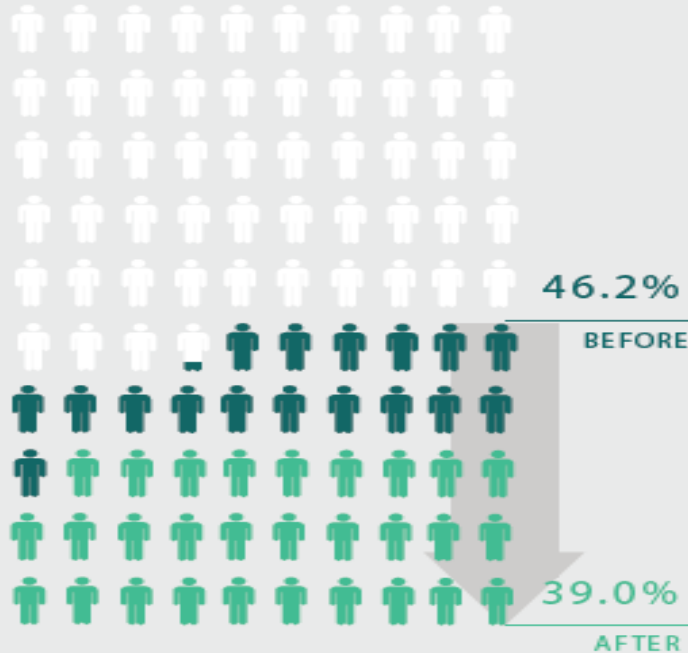
**FISCAL POLICY IN SOUTH AFRICA ACHIEVES  
THE LARGEST REDUCTIONS IN POVERTY &  
INEQUALITY OF 12 COUNTRIES**



# Fiscal Policy Lifted

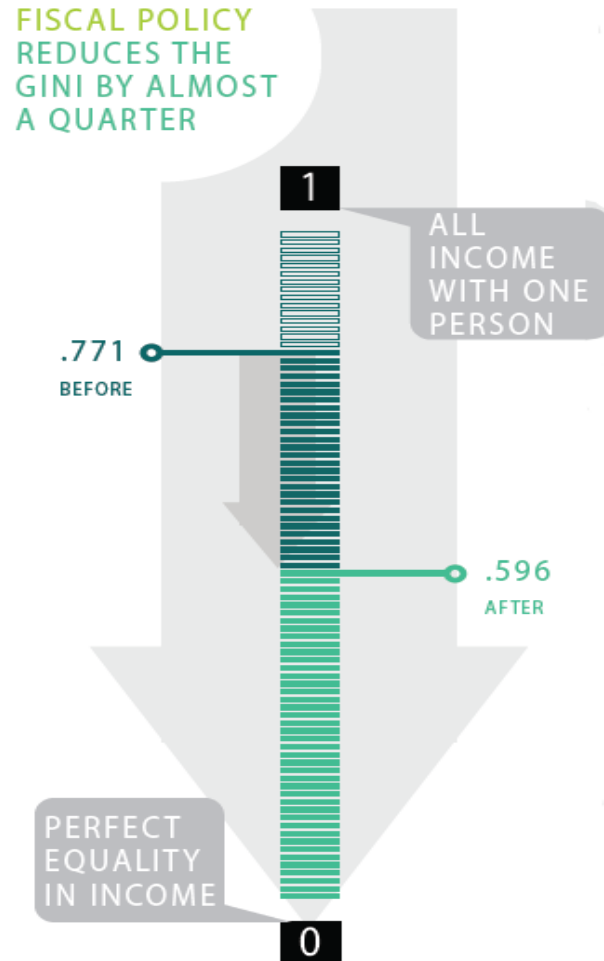
## 3.6 Million People Out Of Poverty in 2010/11

THE SHARE OF THE  
POPULATION LIVING  
ON LESS THAN  
\$2.50 A DAY

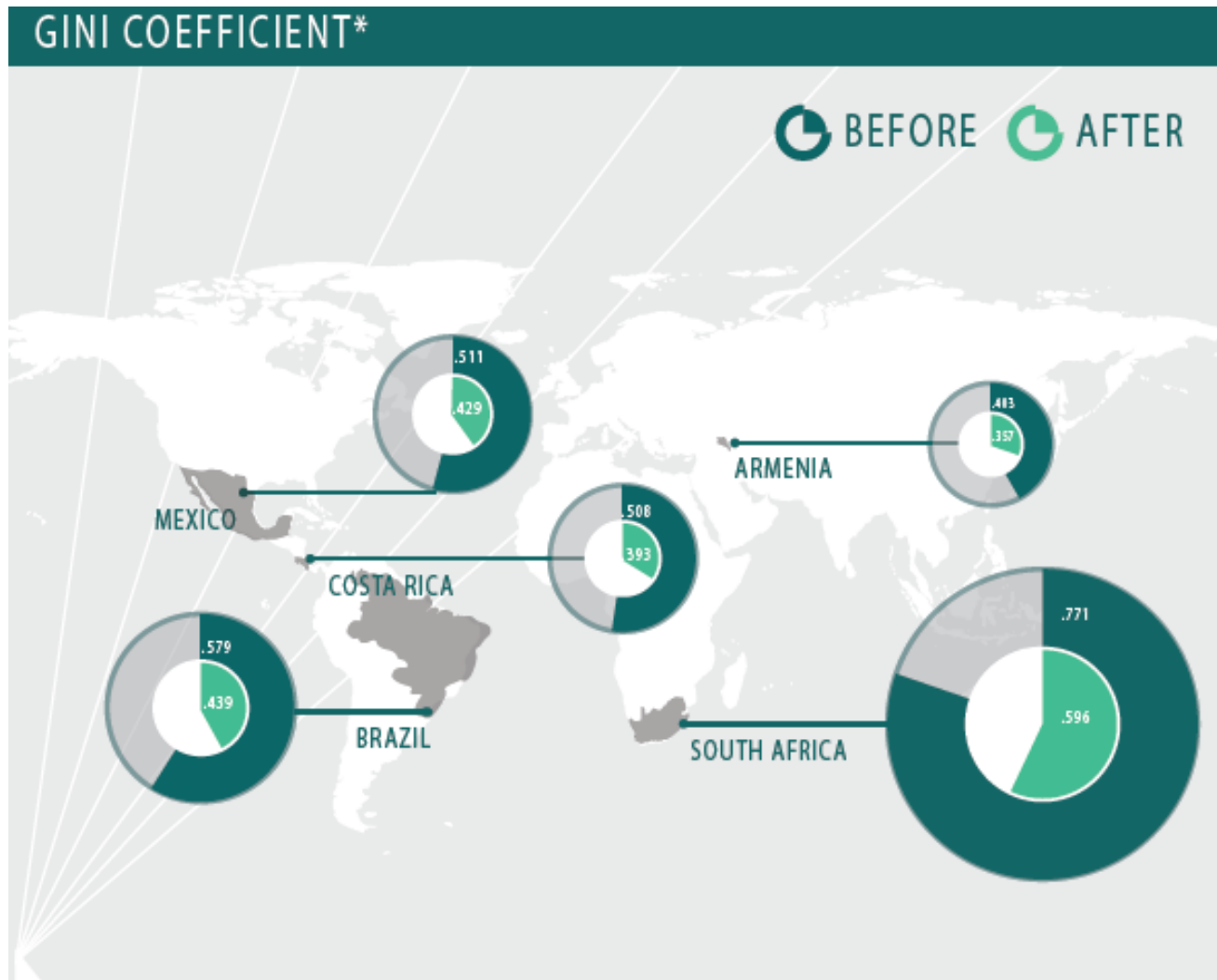


FISCAL POLICY  
LIFTS  
3.6 MILLION ABOVE  
POVERTY LINE  
OF \$2.50 A DAY

# Fiscal Policy Reduced Income Inequality By Narrowing Gap Between The Rich & Poor



# The Reduction In Inequality Due To Fiscal Policy Is Larger Than In Other Countries





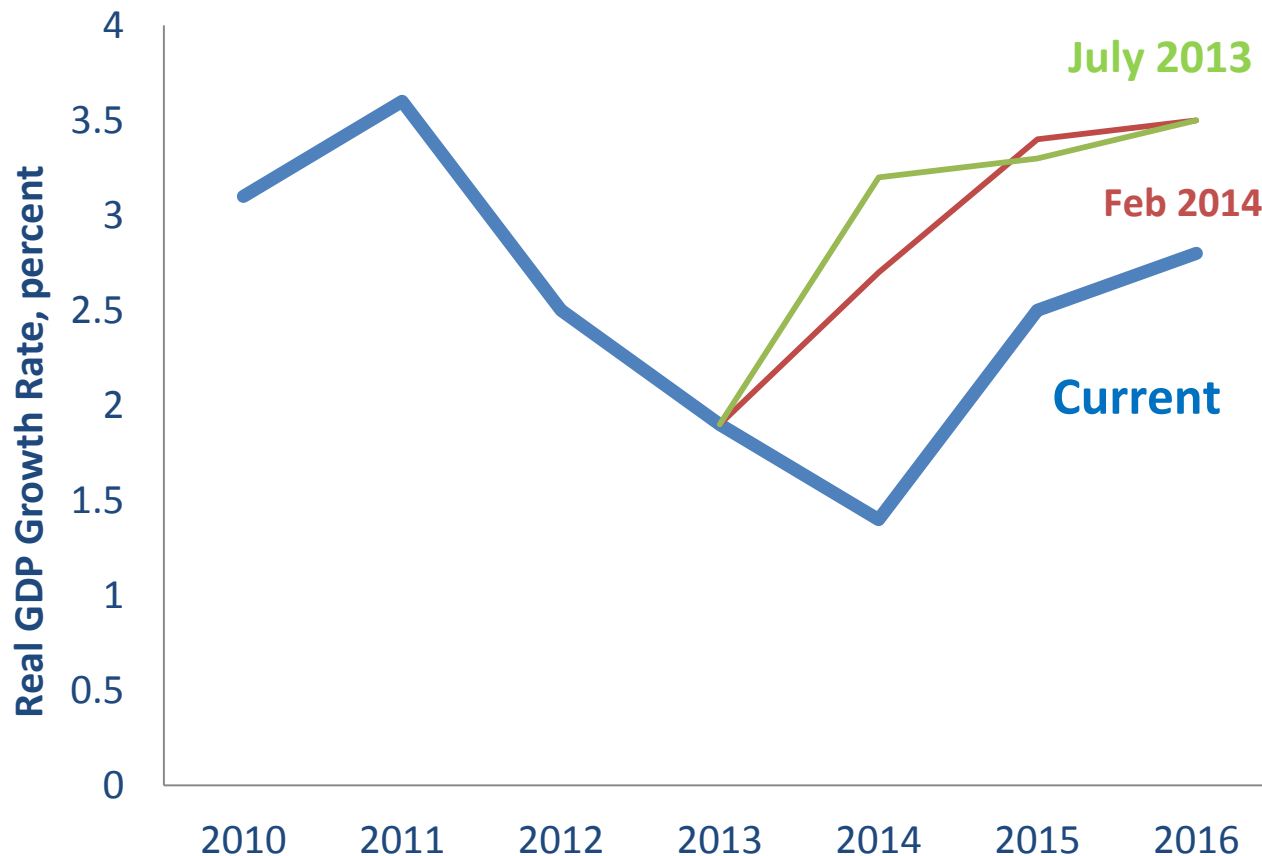
Addressing Twin Challenges of Poverty and Inequality Going Forward:

**AMID LIMITED FISCAL SPACE, GROWTH,  
JOBS & EFFICIENT PUBLIC SERVICES ARE  
NEEDED TO REINFORCE FISCAL POLICY**



# ECONOMIC OUTLOOK

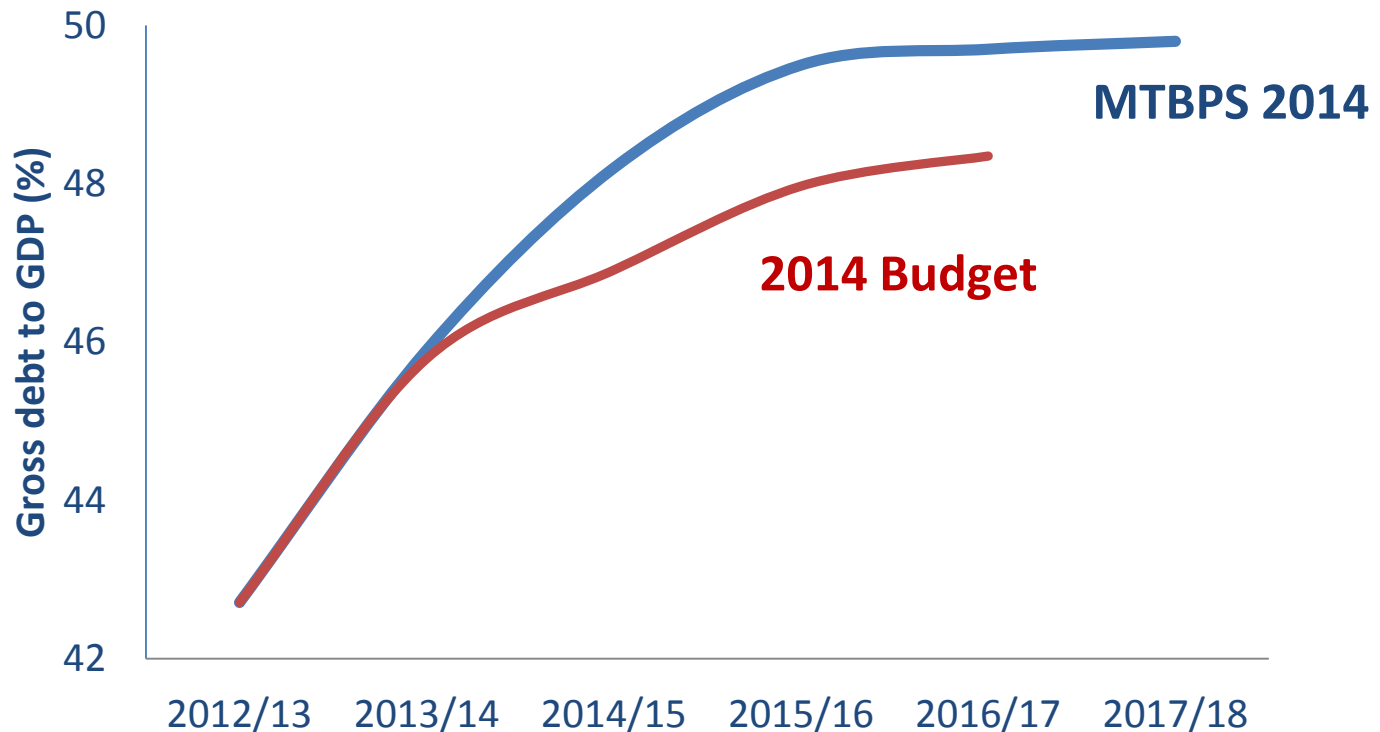
# Real GDP Is Projected To Grow By 1.4% in 2014 and 2.5% in 2015



Source: World Bank



# Fiscal Consolidation Is Needed To Contain A Rising Debt Burden



Source: National Treasury Medium-Term Budget Policy Statement

# Risks To The Outlook Are To The Downside

## Key Global Risks

- US monetary policy
- Sharper slowdown in China
- Ebola crisis and spillovers

## Key Domestic Risks

- Labor market unrest
- Delays in addressing key infrastructure constraints
- Policy uncertainty



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# Fiscal policy and redistribution in an unequal society: the case of South Africa

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This study demonstrates that South Africa is doing a better job than other peer countries in using fiscal policy to reduce inequality and poverty. Yet because the problem was so great to begin with, levels of poverty and inequality in the country remain unacceptably high. Inclusive economic growth and better jobs will be required to overcome these challenges.

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