



## South Africa Lifts 3.6 Million out of Poverty Thanks To its Fiscal Policies

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South Africa lifts 3.6 million people out of poverty and cuts the rate of extreme poverty by half, as a result of its use of fiscal policy. Tax and social benefits effectively redistribute income from the rich to the poor, according to the South Africa Economic Update released by the World Bank today. "This report provides evidence that activist fiscal policies have helped South Africa reduce poverty and inequality even though these remain pressing developmental challenges," says Asad Alam, World Bank Country Director for South Africa. "We hope that this analysis will help inform and deepen the ongoing debate on the broader policies needed to attack poverty and inequality". The South Africa Economic Update 6 which has a special focus section on Fiscal Policy and Redistribution in an Unequal Society assesses the distributional impact of government taxation and spending and how these tools address poverty and inequality. Tackling these twin challenges in a society that is one of the most unequal in the world is at the heart of South Africa's National Development Plan which sets ambitious targets of eliminating poverty and cutting the Gini coefficient to 0.6 by 2030. This Update shows that the proportion of the South African population that are living on \$1.25 per day or less, an international measure of extreme poverty, is cut in half through the use of fiscal policies. This rate of extreme poverty falls from 34.4 percent before the use of fiscal policy to 16.5 percent after its use reflecting mainly the impact of cash transfers such as the child support and disability grants and the old age pensions. These cash transfers lift the income of the poorest decile tenfold. Thanks to effective use of fiscal policy to achieve redistribution, the Gini coefficient on income falls from 0.77 to 0.59. The report also shows that the burden of taxes falls on the richest in South Africa. The income of the richest decile goes from being over 1000 times bigger than the income of the poorest decile, to being 66 times bigger after the impact of taxes and transfers. "South Africa achieves the largest reductions in poverty and inequality compared to other middle income countries sampled in the report. The reductions are higher than what countries such as Brazil, Indonesia, Ethiopia, Mexico and Argentina achieve through fiscal redistribution," explains World Bank Senior Economist, Gabriela Inchausti. But, even with such a progressive tax system, inequality in South Africa remains higher than in the other countries in the sample. With fiscal deficits and debt already high, and the fiscal system already achieving a lot of redistribution, there is little space left in the governments purse to do more to alleviate poverty and inequality via fiscal policy. "We see from the analysis in the Update that fiscal policy goes a long way towards redistribution but reducing poverty and inequality further in a way that is consistent with fiscal sustainability will require a combination of better quality and more efficient public services but most importantly greater employment opportunities," says World Bank Lead Economist, Catriona Purfield. The report argues that critically, faster and more inclusive economic growth that generates jobs and higher incomes for the poor would reinforce the effectiveness of fiscal policy. Recent Economic Developments This Economic Update also provides a review of recent economic developments and assesses South Africa's economic prospects. Domestic factors and a fragile global recovery pose significant headwinds to South Africa's growth performance. The reports forecast for real GDP growth has been revised downward to 1.4 percent for 2014 and 2.5 percent for 2015, from 2.7 and 3.4 percent in the previous update due to the impact of prolonged labor unrest and the shortages in electricity supply. It envisages a slow and gradual return to modest economic growth over the medium term. Public investment helps to ease infrastructure constraints and private investment and household consumption gradually regain pace as external demand strengthens and confidence improves. However, to boost economic growth, South Africa needs to quickly address infrastructure constraints and broaden structural reforms if it is to succeed in reducing the unacceptably high levels of joblessness and inequality prevailing in the economy. Media Contacts In Pretoria Zandile Ratshitanga Tel : 073 888 5969 zratshitanga@worldbank.org In Washington Aby Toure Tel : (202) 473-8302 akonate@worldbank.org 

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