



# ***Economic overview:***

*Recent developments in the global and South African economies*

February 2023

Department of Research and Information

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## Highlights

- **The world economy will experience a sharp slowdown in 2023 but a recession seems to be off the cards.** The International Monetary Fund (IMF) projects global output growth for the year at 2.9%, a slight improvement on the 2.7% it had forecast last October. This is mainly due to the reopening of China's economy after a prolonged period under Covid restrictions. World economic growth in 2024 is forecast at 3.1%.
- **The pace of economic expansion is likely to slow considerably in advanced economies but to accelerate marginally in emerging market and developing economies.** The impact of sharply higher interest rates will be reflected in weaker demand and more subdued economic activity in the advanced world. The performance of emerging markets and developing economies as a group should be supported by strong growth in India and a relatively faster pace of economic expansion in China.
- **Growth in Sub-Saharan Africa is anticipated to hold steady at 3.8% in 2023,** despite the continued underperformance by some of the region's economic heavy weights, particularly South Africa and Nigeria. Risks to the regional outlook are, however, tilted to the downside considering the ongoing macroeconomic and geopolitical challenges, as well as concerns over the fiscal and debt sustainability of various regional economies, among other factors.
- **Headline inflation may have peaked in many countries, but core inflation has tended to remain at elevated levels.** This is of particular concern for central banks, implying that monetary policy may remain in tightening mode for some time, albeit at a less aggressive pace in certain instances.
- **The rate of increase in world trade volumes anticipated for 2023 falls short of that which has been projected for global output growth.** Although the easing of supply-chain pressures is supportive of global trade flows, weakening household and investment demand in a high inflation and interest rate environment is likely to have negative impacts on trade in consumables and capital goods.
- **The economic environment remains particularly challenging for most business enterprises and households in South Africa.** The economy's recovery post-pandemic is being adversely affected by multiple challenges of an external as well as domestic nature. Confidence levels among consumers, businesses and investors have been dealt serious blows, with this being reflected in reduced levels of consumption and production, and, consequently, in subdued private sector investment activity.
- **Major structural constraints are hampering economic activity domestically, affecting external trade and raising the overall cost of doing business.** Insufficient and unreliable electricity supply is the key binding constraint to economic growth and development, but transport and logistics challenges are also playing a major role.
- **Several economic sectors continue to experience difficult operating and trading conditions.** Facing multiple challenges, the manufacturing sector's total output declined marginally in 2022. The mining sector's overall production, in turn, was sharply lower, with operational constraints, weaker global demand and softer commodity prices among the key contributing factors.
- **Persistently high rates of inflation and concomitantly rising interest rates are constraining household expenditure.** The ability and willingness of households to spend is clearly being compromised by these and other factors. This is reflected in retail trade sales that are still below the pre-pandemic trend.

World economic growth:

**2022: 3.4% (e)**  
**2023: 2.9% (f)**  
**2024: 3.1% (f)**

(IMF)

Sub-Saharan Africa GDP growth:

**2022: 3.8% (e)**  
**2023: 3.8% (f)**  
**2024: 4.1% (f)**

(IMF)

Growth in world trade volumes:

**2022: 5.4% (e)**  
**2023: 2.4% (f)**  
**2024: 3.4% (f)**

(IMF)

FDI flows into South Africa in 2022:

**Q1: R39.9 billion**  
**Q2: R26.2 billion**  
**Q3: R11.9 billion**

(SARB)

South Africa consumer inflation:

**2022 peak (July): 7.8%**  
**2022 average: 6.9%**  
**2023 forecast: 5.3%**

(Stats SA, IDC)

- **Fixed investment spending remains well below pre-Covid levels.** Marginally higher investment spending in the third quarter of 2022 was underpinned by a slight increase in public sector capital outlays, albeit off a very low base, whereas private sector fixed investment fell by 1% in real terms. Weak fixed investment activity not only affects current economic growth but also reduces the economy's future expansion potential.
- **The balance of trade recorded a cumulative surplus of R185 billion in 2022.** This was, however, substantially smaller than the record high surplus of R432.6 billion achieved in 2021. A worsening global environment and operating difficulties locally were reflected in a substantial moderation of merchandise export growth, whereas demand for imports was strong, partly propelled by imports of refined petroleum, which were up 142% to R324.0 billion as local refining capacity declined.
- **The African continent remains a key market for South Africa's exports.** It accounted for 24.4% of all merchandise exports and 40.2% of manufactured exports to the world at large in 2022. However, a handful of African economies dominate the regional demand for South Africa's exports, while the degree of complexity and/or technological content of the bulk of the export basket is on the limited side.
- **Very weak growth is anticipated for the South African economy in 2023.** It entered the year facing major challenges that will take time to resolve. These will continue stifling production and investment activity, limiting its export performance and job creation, and, accordingly, constraining economic growth. GDP is projected to expand by a mere 1.0% in real terms in 2023, with the annual rate of growth forecast for the subsequent two years remaining very modest at 1.5% and 1.8%, respectively.

South Africa's trade surplus:  
**2021: R432.6 billion**  
**2022: R185.0 billion**  
(SARS)

South Africa  
GDP growth forecasts:  
**2023: 1.0%**  
**2024: 1.5%**  
(IDC)

## Implications for South African business enterprises

### *Potential implications of global economic developments*

- **Weakening economic growth in several of South Africa's key external markets may affect the sales performance of many export-oriented business enterprises** in 2023. China is expected to be a major exception given the anticipated economic recovery momentum, which should raise its import demand and potentially benefit South Africa's industrial commodity exporters, among others.
- **Local exporters are likely to face fierce competition** in their current international markets given subdued demand conditions globally. Competitiveness enhancements will thus be paramount to maintain and/or expand market shares.
- **Potential changes to global trading patterns, specifically in the form of adjustments to supply chains through re-shoring, near-shoring and/or friend-shoring** may affect South African participation both negatively and positively. In the latter case, South African suppliers may be considered viable alternatives, opening-up opportunities for their participation in re-adjusted global supply and value chains.
- **Softening demand conditions in several industrial commodity markets may result in weaker prices and volume requirements**, potentially affecting the performance of South African mining companies. However, the rapidly developing renewables and new energy vehicle industries are raising demand for the associated industrial minerals and other products. This is presenting export market development opportunities for local producers and creating investment opportunities for business enterprises both domestically and regionally.

- Increased coal-fired power generation in Europe and a shift away from Russian coal boosted prices and demand for alternative sources of supply, including South Africa, in 2022. However, the return of nuclear power generation in France and an increased momentum in renewables are likely to result in **reduced demand for thermal coal, impacting adversely on prices and volume demand.**
- **Significant volatility is anticipated in financial markets in 2023** as bond, equity and currency markets continuously adjust expectations regarding monetary policy tightening (both the pace and timelines) going forward, as well as earnings prospects and other risks on the back of economic and geopolitical developments.

## *Potential implications of regional economic developments*

- **Sub-Saharan Africa's growth performance is expected to stabilise in 2023 and improve from 2024 onwards, leading to a recovery in import demand** across several regional economies. This should bode well for export-oriented business enterprises, also requiring a timely ramping up of production where appropriate.
- **Although progress has been slow, the roll-out of the African Continental Free Trade Area agreement presents numerous opportunities** for South African companies to partake in progressively higher levels of intra-regional trade and investment activity.
  - These will include increased exports of consumer items, capital goods, as well as input materials linked to infrastructure development across the continent.
  - Similarly, local companies should benefit from investment opportunities associated with cross-border supply/value chain development.
- **South African business enterprises should be cognisant of the highly competitive nature of the global supply landscape and the "new scramble" for Africa** when pursuing market development opportunities in regional economies.
- **Several African countries are set to benefit considerably from the burgeoning green and digital economies globally**, for these will bring forth new investment activity (including FDI) and export trade development opportunities on the back of abundant mineral resource endowments, including copper, cobalt, platinum, nickel, alumina and rare-earth minerals, among others.

## *Potential implications of domestic economic developments*

- **The multiplicity of factors that are adversely affecting the South African economy, as outlined in this report, may impact on the performance of business enterprises directly and/or indirectly.**
  - **Recurring and often severe loadshedding will continue to compromise business operations** across the economy, often resulting in significant production/sales losses and forcing most firms to incur considerable costs in securing alternative sources of power.

Energy-intensive users, including many mining and manufacturing industries, are among the most affected, but certain sub-sectors of agriculture that are highly reliant on irrigation or that require uninterrupted power supply (e.g. poultry producers) are also under strain. Small enterprises in general will continue being the worst affected as they tend not to have the financial means to shield them against loadshedding.

- **Transport and logistics constraints will continue to affect the operational and trading activities of many business enterprises**, including mining (e.g. iron ore, chrome, manganese), manufacturing (e.g. steel) and agricultural operations (e.g. citrus, berries), resulting in substantial sales losses.

These constraints are unlikely to be effectively addressed in the short-term due to the financial and operational challenges faced by Transnet. Alternative transportation methods and routes such as the channelling of exports/imports through the port of Maputo may be a near-term solution for some businesses.

- A high inflation and interest rate environment is affecting the ability and willingness of consumers to spend, particularly in 2023 but also extending onto 2024. Hence, **businesses that rely significantly on the local consumer market, particularly suppliers of durable and semi-durable items, are likely to experience challenging trading conditions.**
- **Rising production and debt-repayment costs are augmenting the challenges faced by many business enterprises**, potentially placing them at risk of distress or even default.
- **Fixed investment activity in the South African economy is likely to remain subdued in the current environment.** Private businesses may tend to hold back on capital spending for the expansion of existing production capacity, where needed, and postpone investment decisions regarding new project development.
- **Notwithstanding the challenging environment, investment opportunities are mushrooming in the infrastructure space, particularly in energy generation but also in transmission, transport and logistics, water and telecommunications.** The policy and regulatory landscapes in these sectors have been, or are changing rapidly, opening up space for considerable private sector involvement.
- **Opportunities to enhance competitiveness in local and global markets should be actively pursued by domestic producers.** These will be paramount in an increasingly competitive marketplace, not only in terms of product offer, price, quality and service delivery, but also by minimising their environmental footprints.
- **As economic conditions improve in the medium- to long-term, expansionary and/or greenfield investment by the private sector should increase across a variety of industries and services sectors.**

## Global economy: Are the prospects for 2023 less gloomy?

### Recent economic developments and outlook

The world economy entered 2023 continuing to face multiple challenges that are still affecting its performance directly and/or in an inter-related manner. These include:

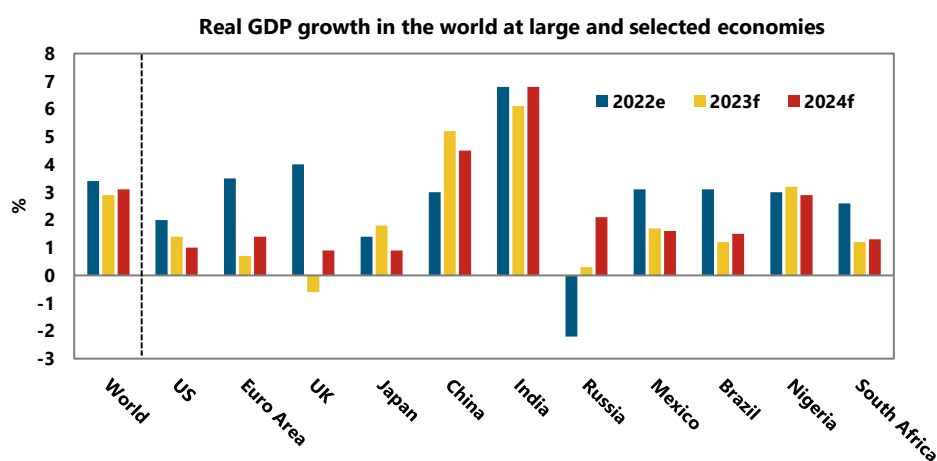
- The protracted and devastating war between Russia and Ukraine, whose highly adverse implications have been multi-faceted and far-reaching.
- Global supply chain challenges that, although easing, are still affecting industrial players across the world.
- The slowing down of China's economy to its slowest rate of growth in many decades, dragging along the global economy's expansion momentum in the process.
- Softer demand and prices for several industrial commodities, which are affecting the performance of mineral resource exporting economies, including South Africa.
- Extraordinary inflationary pressures and the concomitant aggressive tightening of monetary policy by central banks, which are basically leaving no single economic agent untouched.
- Persistent tensions in trade and investment relations between the world's two economic super-powers.
- Low confidence levels among households, business enterprises and investors around the globe, which are reinforcing the slowing economic momentum.

*Multiple challenges are still slowing the world economy's expansion momentum*

The **world economy** is, accordingly, expected to experience a sharp slowdown in the current year, with the International Monetary Fund (IMF) pinning its output growth at 2.9% in real terms, down from an upwardly revised 3.4% in 2022, as indicated in its *World Economic Outlook Update* released at the end of January. This is, however, a slight improvement on the 2.7% forecast by the IMF last October and is mainly attributable to the reopening of the Chinese economy, the world's second largest, after an extended period under Covid-related restrictions. A global recession in 2023 thus seems to be off the cards and the pace of expansion might accelerate to 3.1% in 2024.

*Global growth is projected to slow from 3.4% in 2022 to 2.9% in 2023, accelerating next year to 3.1%*

**Figure 1: Weaker growth performances expected in numerous economies in 2023**



Economic growth in **advanced economies** is projected to slow to 1.2% in 2023, from 2.7% in 2022, largely due to the impact of higher interest rates implemented in 2022. Among the major advanced economies, a contraction in growth is only projected for the United Kingdom (UK) while the German economy is anticipated to be stagnant, weighing on



Eurozone growth (forecast at 0.7% for 2023). The soft landing hoped for by the Federal Reserve for the US economy, notwithstanding the aggressive interest rate tightening path pursued to date, looks set to materialise as growth is projected at 1.2% in 2023.

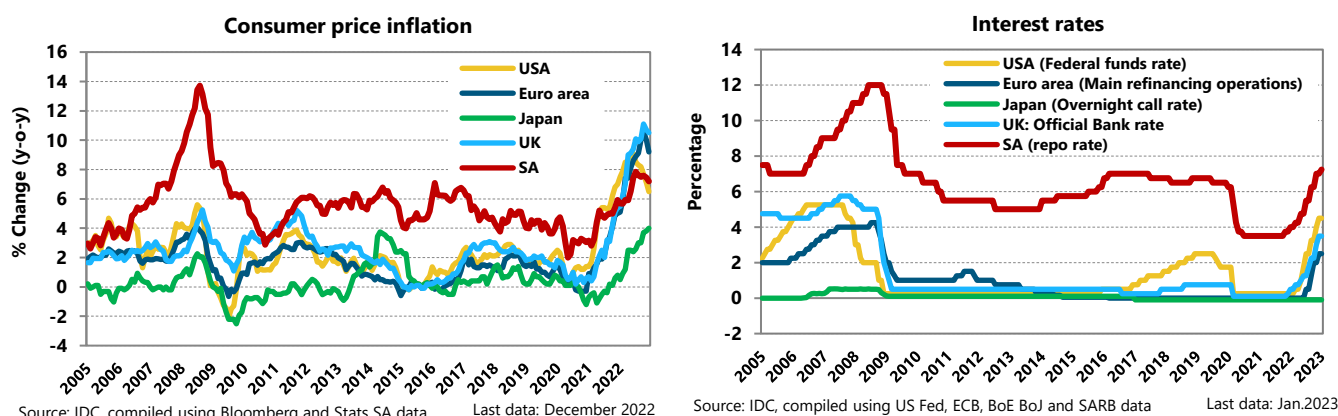
Inflation in advanced economies is expected to respond, albeit slowly, to weaker demand conditions and higher interest rates. Comparatively lower uncertainty globally, especially regarding the impact of the Ukraine war on energy security in Europe and on world food supplies, combined with a softening US dollar resulted in a sharp decline in commodity prices in the latter part of 2022. Accordingly, headline inflation has seemingly peaked in many countries, although core inflation (which excludes volatile items such as energy and food prices) has tended to remain at elevated levels, which concerns central banks.

Major central banks are, therefore, still in tightening mode, although at a less aggressive pace in certain instances. The Fed raised interest rates by only 25 basis points at its meeting of 1 February 2023, while the Bank of England and the European Central Bank (ECB) hiked rates by 50 basis points at their respective meetings on the following day.

Expectations are that the US Fed's tightening cycle is close to ending, with a further 25 basis points hike pencilled in for its next meeting, while the ECB has indicated that it will raise rates by an additional 50 bps at its March meeting. There is, however, some disconnect between the signals provided by the US Fed and the reactions of financial markets, with the Fed being more hawkish on the need for further interest increases and the timeframe before interest rates can start being lowered, which could lead to financial market volatility.

*The impact of higher interest rates in advanced economies will be reflected in weaker growth performances in 2023*

**Figure 2: Inflation peaking around the globe, opening space for a lowering of interest rates in due course**



**Emerging market and developing economies** collectively grew by an estimated 3.9% in 2022, mainly due to China's weaker performance (3%). A marginal acceleration to 4.0% is anticipated for this country grouping in 2023, supported by robust rates of expansion in India (6.1%) and China (5.2%). However, a number of major emerging market economies are projected to record significantly weaker growth rates, including Brazil (1.2% in 2023 vs. 3.1% in 2022), Mexico (1.7% vs 3.1%), Saudi Arabia (2.6% vs 8.7%) and South Africa (1.2% vs 2.6%). Inflation is projected to be most persistent in the developing economies.

Growth in **Sub-Saharan Africa (SSA)** is estimated to have slowed to 3.8% in 2022, from 4.7% in 2021, as domestic and external headwinds dampened economic activity. However, it is anticipated that the regional economy will hold steady in 2023, before growth picks up to 4.1% in 2024. Outcomes will, however, vary widely across SSA countries and sub-regional groupings. The relatively diversified and less resource-intensive economies such as those of Kenya, Uganda, Senegal, Rwanda, Côte d'Ivoire and Ethiopia are likely to remain the region's most dynamic economies, with their aggregated growth rate over the period 2023 to 2024 rising above 5%.

*Growth outcomes will vary widely across Sub-Saharan African economies*

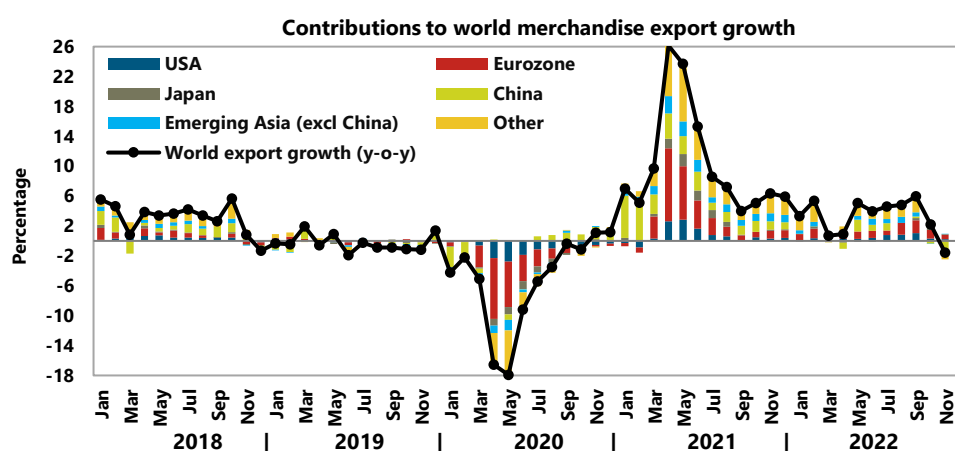


On the other hand, risks of debt distress have risen sharply in several countries due to fiscal vulnerabilities. Certain frontier economies such as Ghana entered into debt distress in late 2022. Furthermore, economic growth rates are anticipated to remain below long-term averages in many SSA countries as local households face sharply higher costs of living, which will dampen domestic demand, while commodity producers have to contend with weakening global demand and lower export prices.

Growth in **world trade** in goods and services is expected to under-perform relative to the projected rates of increase in global output. World exports came under renewed pressure towards the end of 2022, with a sharp contraction in China's exports (-10.2% y-o-y) having been recorded in November. The easing of supply-chain pressures and the re-opening of China's economy are likely to support an up-tick in global trade flows in 2023 but weakening demand in a high inflation and interest rate environment will have a negative bearing.

*Growth in world trade volumes likely to underperform relative to projected growth in global output*

**Figure 3: World trade growth projected to slow down substantially in the short-term**



Source: IDC, compiled using CPB data

Last data point is November 2022

**Changes to global trading patterns** in the form of adjustments to supply chains through re-shoring, near-shoring and/or friend-shoring are also contributing to uncertainty over the outlook for global trade.

A series of disruptions and risks to world trade and supply chains brought to the fore by the Covid-19 pandemic and, more recently, by the Russia-Ukraine war and growing tensions between China and certain western powers, have been underpinning strategic considerations by many corporates around the globe, often with governmental backing, to build self-sufficiency and enhance the resilience of their global value/supply chains. These are considering reshoring and/or near-shoring as options to bring supply sources closer to home and to encourage their diversification.

To illustrate, a number of manufacturers in the US have acknowledged that this process of moving production capacities back or closer to home has already started, particularly in the semi-conductor manufacturing industry. Substantial subsidies under the Inflation Reduction Act and the CHIPS Act, which contain provisions that provide specific financial incentives for products made in the US, Canada or Mexico, have encouraged this trend. As a prime example, it is reported that some of the major chip makers such as Intel, Samsung and the Taiwan Semiconductor Manufacturing Company (TSMC), among others, are already investing in new wafer fabrication facilities in Ohio, Texas and Arizona, respectively.

However, criticism has been raised on this 'trend towards fragmentation of the world trade order', with the World Trade Organization calling it a wave of protectionism, while those in the Global South argue that poor countries will be even more excluded from international trade, thus depriving them of income generating job opportunities.

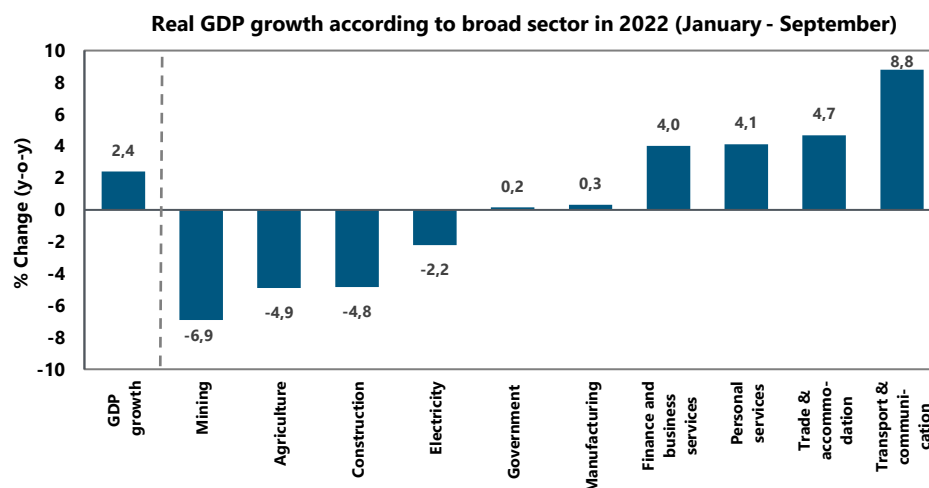
For those advocating so-called friend-shoring – that is, “working with allies and partners” – this is meant to encourage the sourcing of supplies from ‘trusted’ trading partners. The World Economic Forum, in its *Global Risks Report 2023*, states that if on- and friend-shoring are prioritised going forward, the costs of compliance with divergent political and economic systems by multinationals will rise, with consumers potentially bearing the rising costs well into the future. Considering the complexity of certain value chains, the need for a more transparent process to deal with some of these supply chain risks will be critical.

## South Africa: Economic recovery momentum dealt major blows

The pace of economic expansion in South Africa slowed to 2.4%, year-on-year, over the period January to September 2022, as shown in Figure 4. Despite difficult operating conditions and a worsening economic environment, the services sectors generally recorded fairly robust performances. The goods producing sectors, however, either reported modest growth or saw their output falling sharply.

*Setback to the economic recovery under challenging economic conditions*

**Figure 4: Goods-producing sectors of the economy reeling in an adverse operating environment**



Source: IDC, compiled using Stats SA data

The transport, storage and communication sector (+8.8%) was the best performer, whilst the 6.9% contraction recorded by the mining sector was the worst at the broad sector level. Services sectors thus appear to have been more resilient in the face of an adverse domestic and global economic environment, whereas sectors such as manufacturing, mining and agriculture have been significantly more affected by prevailing challenges such as continuous and intense electricity supply interruptions, transport and logistics constraints, as well as weakening demand.

*Services sectors outperforming goods-producing sectors*

Although real GDP is back to pre-pandemic levels, gross fixed capital formation (GFCF) and employment creation are lagging well behind, as illustrated in Figure 5 below. Multiple factors are affecting investor decisions and therefore limiting private sector investment. Furthermore, many companies remain hesitant to employ more people under trying conditions and poor growth prospects.

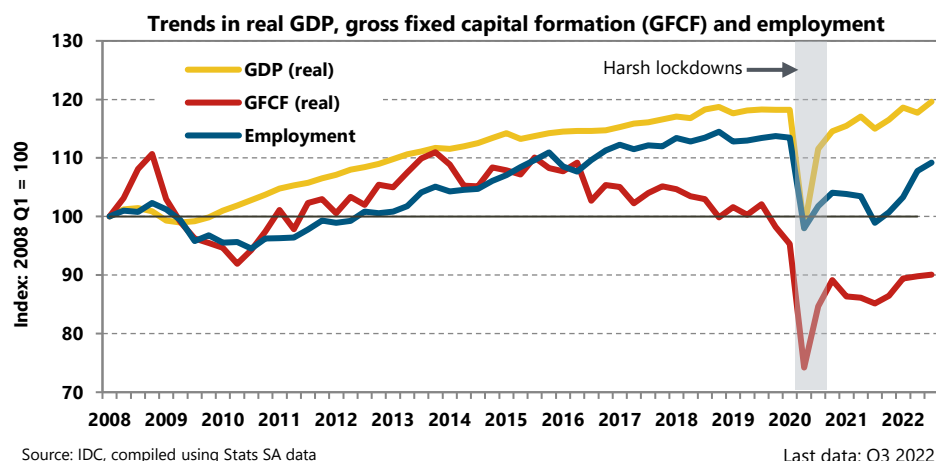
*Real GDP back to pre-pandemic levels*

The major contributing factor to South Africa’s worsening economic environment has been the continued electricity supply interruptions, with more than 200 days of loadshedding having been experienced in 2022, often at stage 6. Serious challenges in the country’s transport and logistics infrastructure have also been particularly harmful. These include rail transport, bottlenecks and inefficiencies at ports (with long delays as ships are not able to dock for on- or off-loading of freight), and high container costs.

*Severe constraints in the energy and transport & logistics sectors holding back economic activity*

In addition to these structural/operational challenges, rising costs of production and living (consumer inflation surged to a 13-year high of 7.8% in July 2022, averaging 6.9% for the year) and sharply higher interest rates (the repo rate was raised by 375 bps from October 2021 to January 2023), also had negative impacts on the business and consumer landscapes.

**Figure 5: Difficult economic environment impacting on investment activity and employment**

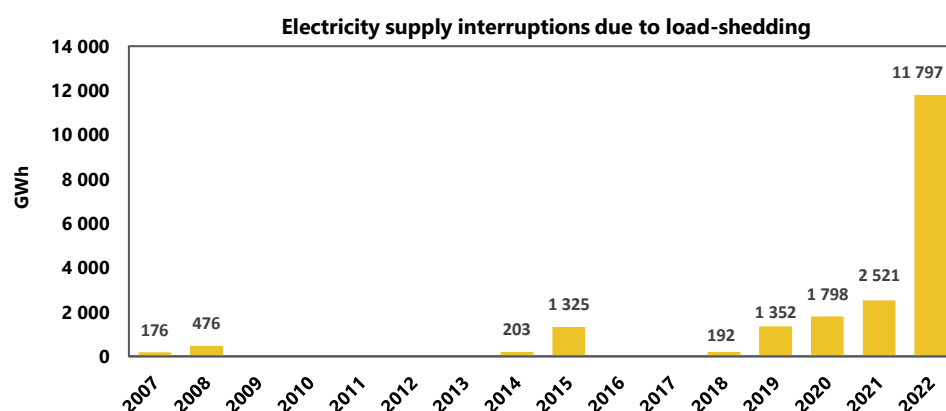


The lack of sufficient, reliable and affordable **electricity** is the principal binding constraint for the South African economy, as it is undermining its current growth performance and compromising its future expansion potential.

*Recurrent and severe electricity supply interruptions are the main threat to the SA economy*

Electricity production and consumption declined in 2022, with loadshedding having intensified especially towards the latter part of the year (refer to Figure 6). An ageing coal-fired electricity generation fleet and the associated unplanned stoppages, unforeseen breakdowns at Medupi and Kusile, as well as incidents of vandalism, criminal activity and alleged sabotage to energy infrastructure, underpinned the steep drop in electricity availability during the course of the year, resulting in prolonged periods of loadshedding.

**Figure 6: Loadshedding intensified massively, inflicting huge costs on the economy**



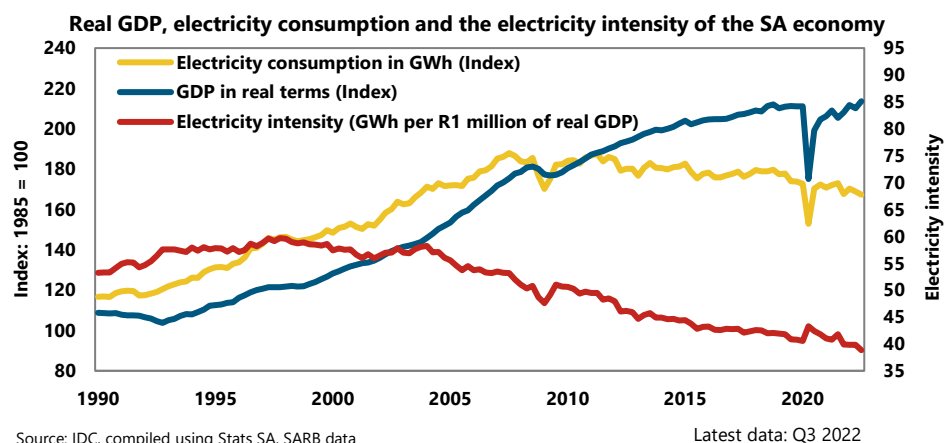
The impact on the domestic economy is enormous and felt across the board. Energy-intensive users, including many mining and manufacturing industries, are among the most affected, but certain sub-sectors of agriculture that are highly reliant on irrigation (such as maize, soybeans, sugar cane and wheat producers) and others including dairy, poultry and fruit, are also under strain due to electricity supply interruptions. SA Canegrowers, for instance, estimated that the sugar cane industry could incur losses of between R723 million

(stage 4 to 6 loadshedding assumed) and R1.8 billion (stages 6 to 8), with a sharp increase to more than R2.4 billion if power cuts are even more intense, due to loadshedding in 2023.

Even though South African producers and households have been adapting remarkably well to electricity supply constraints and rising energy costs by introducing less energy-intensive production/consumption technologies, changing operating/business hours, and by pursuing self-generation alternatives, loadshedding has inflicted huge costs. As an example, the Shoprite group reported that it spent about R560 million on diesel for generators during the second half of 2022. Small and micro enterprises have been the worst affected as they tend not to have the financial means to shield them against loadshedding.

*Businesses and households have been adapting remarkably well but at a huge cost*

**Figure 7: Economy becoming more energy efficient to counter impact of loadshedding**



PwC estimated the potential impact of loadshedding on the economy at 2.9 percentage points in 2021, thus implying that GDP growth could have been more than 7.0%, compared to the 4.9% reported by Statistics South Africa. Furthermore, in light of the surge in blackouts during 2022, and assuming a lower cost of loadshedding of R20/KWh (compared to R50/KWh in 2021) due to businesses having to adapt to loadshedding, the potential negative impact on GDP growth in 2022 was estimated at about 5 percentage points. This implies that the economy could have expanded by approximately 7.0% in 2022 had it not been hampered by intense loadshedding.

The Reserve Bank (SARB), in turn, indicated in its December 2022 Quarterly Bulletin that intense electricity supply interruptions had shaved as much as 2.3 percentage points off GDP growth in the third quarter of 2022. Mindful of the anticipated loadshedding during 2023, the SARB has estimated that this could reduce real GDP growth by 2 percentage points, with the central bank having sharply lowered its growth projections for the current year to a mere 0.3% (from 1.1% previously) and its forecast for 2024 to 0.7%, (from 1.4%).

*Loadshedding has sharply lowered the economy's growth performance*

These estimates serve as a clear reminder of the severity of the impact of continued loadshedding on overall economic activity, the well-being of South African households and economic development per se. Even though mitigation against loadshedding may have improved, it is extremely difficult to quantify.

Compounding these predicaments, the sharp increases in electricity tariffs recently approved by NERSA (+18.65% for 2023/24 and +12.74% in 2024/25) will cause further hardship for business enterprises and households. Consumers will feel the pinch from these higher tariffs as from 1 July 2023 when municipalities include the higher tariff in their pricing system. Based on the 18.65% tariff increase, this could have a direct impact on consumer price inflation (CPI) of 0.69%, considering that electricity has a 3.7% share in the overall CPI basket. Through price increases across several sectors of the economy on the back of rising electricity costs, and assuming that businesses are able to pass the additional cost burden

*Steep electricity price increases to raise operating costs*

on to consumers, the ultimate impact on CPI could range between 0.88 and 1.0 percentage points (and up to 1.5 percentage points in a worst-case scenario) over time.

To fast-track reforms in the electricity sector, President Ramaphosa announced in his State of the Nation Address (SONA) on 9 February 2023 that a National State of Disaster would be declared and that a Minister of Electricity would be appointed to oversee implementation and progress in this regard. He also announced that the Electricity Regulation Amendment Bill aimed at establishing a competitive electricity market will be tabled later in the year, while the National Transmission Company is expected to be operational shortly.

Further details on the assistance to households and tax incentives for businesses regarding the rollout of rooftop solar panels are expected to be covered in the forthcoming National Budget, while National Treasury is making the necessary adjustments to the bounce-back loan scheme to assist small businesses to invest in solar equipment. National Treasury is also finalising a solution to Eskom's R400 billion debt burden to provide the utility room to focus on investments in transmission and necessary maintenance.

**Transportation and logistics** challenges have cost South Africa's mining and minerals sector dearly over the past year, as export volumes have declined sharply.

*Logistics challenges impacting severely on exports*

Coal exports via the Richards Bay coal terminal fell to a 30-year low as Transnet was unable to meet its own target of around 60 million tonnes. According to the Minerals Council, this has cost the industry an estimated R30 billion in lost revenue in 2022 as coal export volumes plunged to around 50 million tonnes (compared to the 2018 peak of 79.6 million tonnes).

The domestic iron ore mining sector was also adversely impacted by rail and transport related challenges, including the Transnet strike in October. Kumba Iron Ore reported that its sales fell by 35% in the fourth quarter of 2022, compared to the equivalent period last year, largely due to Transnet's logistics constraints.

The Transnet strike caused major disruptions and affected exports in many other segments of the economy, with heavy manufacturing sectors such as the steel industry experiencing challenges in obtaining raw materials such as iron ore, resulting in substantial sales losses. A number of agricultural sub-sectors, including those producing citrus, berries and other fruit, also experienced difficulties in getting their products to export markets.

Ongoing challenges in South Africa's rail transport network along with inefficiencies at key ports have seen export products such as coal, iron ore and ferrochrome being diverted to the port of Maputo in neighbouring Mozambique.

Transport and logistic constraints were specifically highlighted in the SONA as major area of concern given their adverse impacts on the economy. To address challenges pertaining to the rail network, a Transnet Roadmap will be developed to augment the National Rail Policy that has already been adopted.

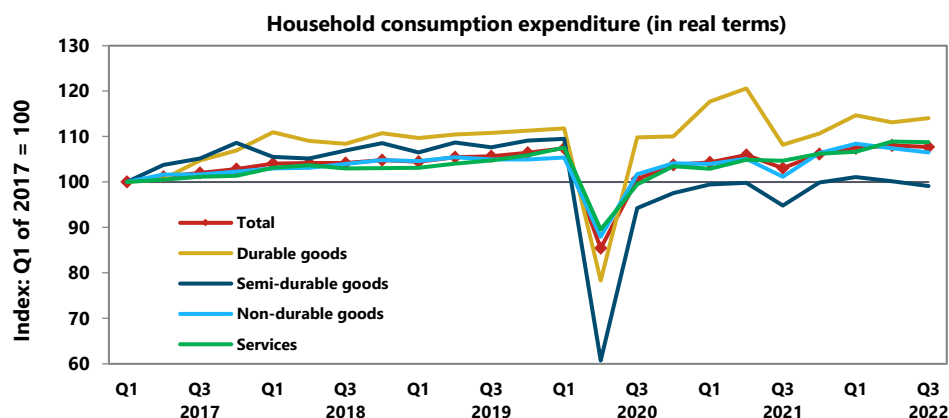
## *Households under significant strain*

South African households are experiencing increased hardship due to rising costs of living on the back of persistent high rates of consumer price inflation, increasing debt-service repayments due to sharply higher interest rates, and relatively modest increases in real disposable incomes. Concern over labour market conditions both presently and in future, considering very high unemployment and weak job creation prospects going forward, are also affecting consumer confidence, which is at low levels. Households are, understandably, being particularly cautious in their discretionary spending.

*Households under increasing strain amidst several challenges*

Overall household spending fell by 0.3% in Q3 2022 on a quarterly basis, whilst real retail trade sales remain well below the pre-pandemic trend line. Despite a somewhat surprising up-tick in consumer sentiment in Q4 2022, confidence is likely to remain low for some time.

**Figure 8: Facing budgetary constraints, households are being quite cautious in their spending**



Source: IDC, compiled using Stats SA data

## Weak fixed investment activity curtailing the economy's expansion prospects

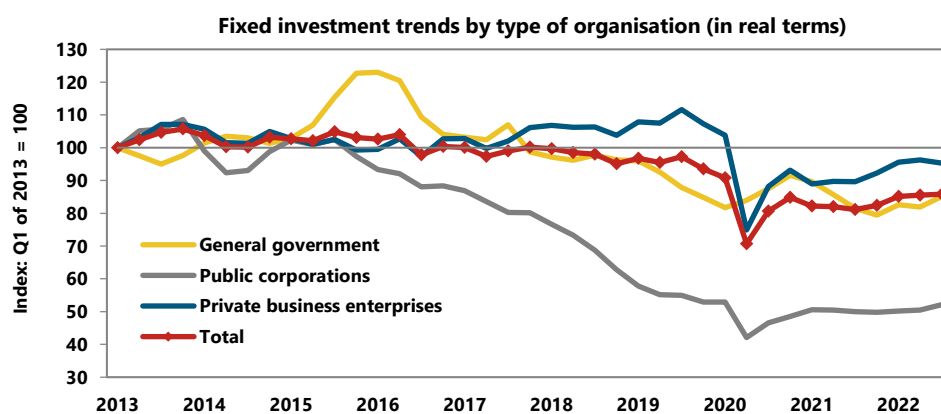
Fixed investment expenditure ticked higher for the fourth consecutive quarter in the third quarter of 2022, but the increase was marginal at 0.3%. Importantly, overall capital spending in real terms is still well below pre-pandemic levels. It should also be noted that fixed investment spending in the economy declined in 8 out of the past 14 years, reflecting the challenging environment over a prolonged period.

Weak investment not only affects current economic growth but also reduces the economy's future expansion potential. Marginally higher investment spending in the third quarter of 2022 was underpinned by a slight increase in public sector capital outlays, albeit off a very low base, whereas private sector fixed investment fell by 1% in real terms.

Foreign direct investment (FDI) flows into South Africa fell sharply to R11.9 billion, from R26.2 billion in the second quarter of the year and R39.9 billion in the first quarter, an indication of reduced investor appetite. According to the most recent Bureau for Economic Research survey, manufacturers expect to cut back on investment spending over the next 12 months.

*Weak fixed investment activity reflecting a deteriorating economic and business environment*

**Figure 9: Fixed investment trends reflecting difficult business conditions**



Source: IDC, compiled using Stats SA data

Last data: Q3 2022

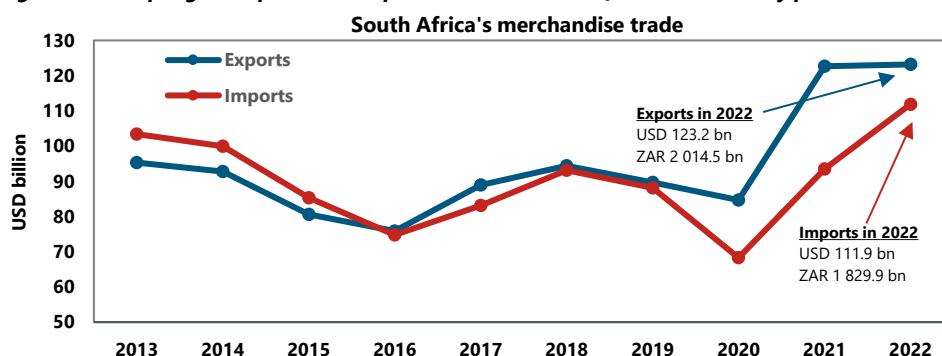
The multiple factors currently affecting business and investor confidence, along with surplus production capacity in many industries, do not bode well for a meaningful and sustained rebound in fixed investment activity in the short- to medium-term.

## External trade

South Africa's export performance over the past two years clearly reflected the benefits of rising commodity prices following the easing of lockdown restrictions and, for a considerable period in 2022, due to the military conflict between Russia and Ukraine. However, weaker global demand and softer commodity prices more recently (except for coal) resulted in a sideways movement in exports, as shown in Figure 10 below. Merchandise imports, in turn, rose sharply on the back of surging oil prices in both 2021 and 2022, while the country also faced refining capacity challenges. Domestic demand for refined petroleum and related products therefore also increased significantly during 2022.

*Steep rise in the value of South Africa's export trade over the past two years*

**Figure 10: Sharp higher exports and imports in value terms reflected commodity price movements**

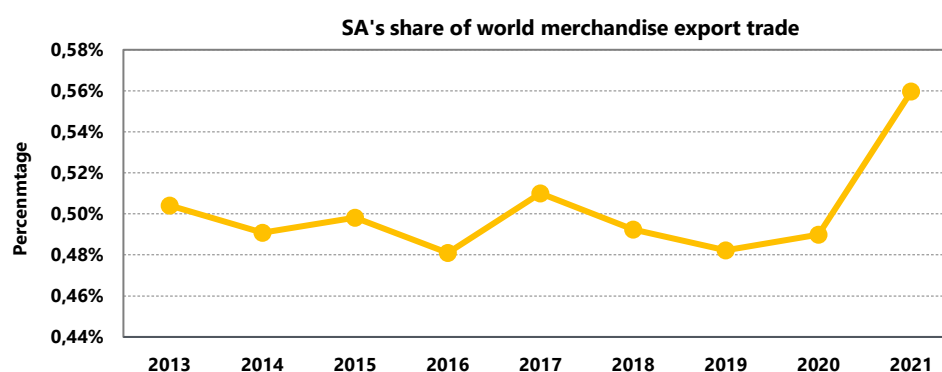


Source: IDC, compiled using SARS data

Although South Africa's share of the world's merchandise exports remained fairly stable around the 0.5% mark for most of the past 10 years (see Figure 11), the uptick in 2021 mirrored the steep uptrend in commodity prices. These were reflected in higher exports of platinum group metals, coal, iron ore and non-ferrous metal ores such as chrome and manganese. The share of world exports thus increased from 0.49% in 2020 to 0.56% in 2021.

*SA's share of the world's merchandise export trade rose sharply on the back of higher commodity prices*

**Figure 11: Commodity price trends boosted SA's share of world merchandise exports**



Sources: IDC, compiled using International Trade Centre data

South Africa recorded a cumulative trade surplus of R185 billion in 2022 - substantially smaller than the record high of R432.6 billion reported for 2021. Merchandise exports increased by 11.1% to R2 014.5 billion, with coal exports being 145.9% higher on the back of yet high, albeit declining prices. Lower commodity prices and weakening demand were reflected in sharply lower export sales in the case of gold, PGMs and iron ore.

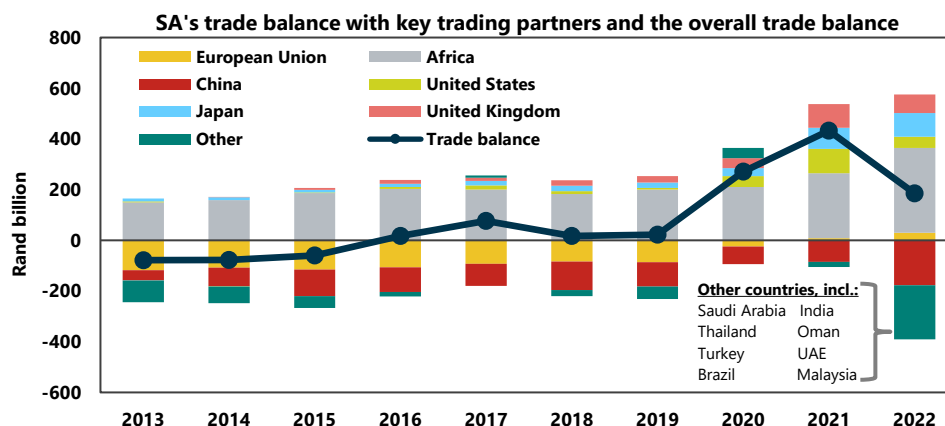
*Trade surplus substantially smaller in 2022 as imports rose sharply*

Despite the economy's weakness, demand for imports increased robustly (+32.5% in nominal terms) to R1 829.9 billion, with refined petroleum products (+141.9%); motor vehicles (+58.6%); paper and paper products (+50.1%); and basic chemicals (+32.6%) among the key contributors. Imports of refined petroleum products increased to R324 billion, while



crude oil imports amounted to R78.6 billion, with a combined share of 22% of South Africa's total merchandise imports in 2022.

**Figure 12: Substantially smaller trade surplus in 2022 as imports increased sharply**



Source: IDC, compiled using SARS data

South Africa recorded surpluses in its balances of trade with most of its key trading partners in 2022, except for China. The surplus with its African trading partners collectively measured R335.1 billion, while the trade surplus with the European Union amounted to R29.9 billion. In sharp contrast, South Africa recorded a deficit of R177.1 billion in its balance of trade with China in 2022, as imports (R367 billion) exceeded exports (R189.9 billion) by a large margin.

The sizeable trade deficit illustrated in Figure 12 above with regard to "other" regions largely reflects the deficits recorded with oil-producing countries such as Saudi Arabia. South Africa also imported a substantial quantum of refined petroleum products from the United Arab Emirates, India, Saudi Arabia and Oman. Trade with Thailand, Turkey, Brazil and Malaysia also resulted in deficit positions during 2022.

## South Africa's trade with other African economies

The African continent remains a key export market for South Africa, having accounted for 24.4% of all merchandise exports to the world in 2022, as shown in Figure 13 below, down from a record high of 29.8% in 2014.

The leading African export markets in 2022 were Mozambique, Botswana, Namibia, Zimbabwe and Zambia, with a combined share of 66.3% of South Africa's exports to the continent at large. However, the overall value of exports to Mozambique in more recent years is somewhat misleading since exports of mineral products such as coal, iron ore, chrome and manganese were likely transported via the port of Maputo to other global destinations.

As indicated in Table 1 below, South Africa's merchandise exports (at a sectoral level) to other African economies in 2022 were dominated by basic iron and steel; refined petroleum; coal; motor vehicles and agricultural products. The top 20 sectors (out of a total of 140 sectors) accounted for approximately 60% of South Africa's total merchandise exports to African markets in 2022 (take note of the above comments regarding exports to Mozambique).

The export basket to other African countries is dominated by manufactured goods (a very diverse range of products), which totalled R365.9 billion in 2022. These represented 40.2% of South Africa's total exports of manufactured goods to the world at large last year, compared to an all-time high of 45.8% in 2014. Moreover, manufactured goods accounted for 75% of South Africa's merchandise exports to African countries in 2022.

*Several African economies are important export destinations*

*Manufactured goods dominate South Africa's export basket to other African markets*

Figure 13: Graphical overview of South Africa's merchandise export trade in 2022, including exports to other African economies

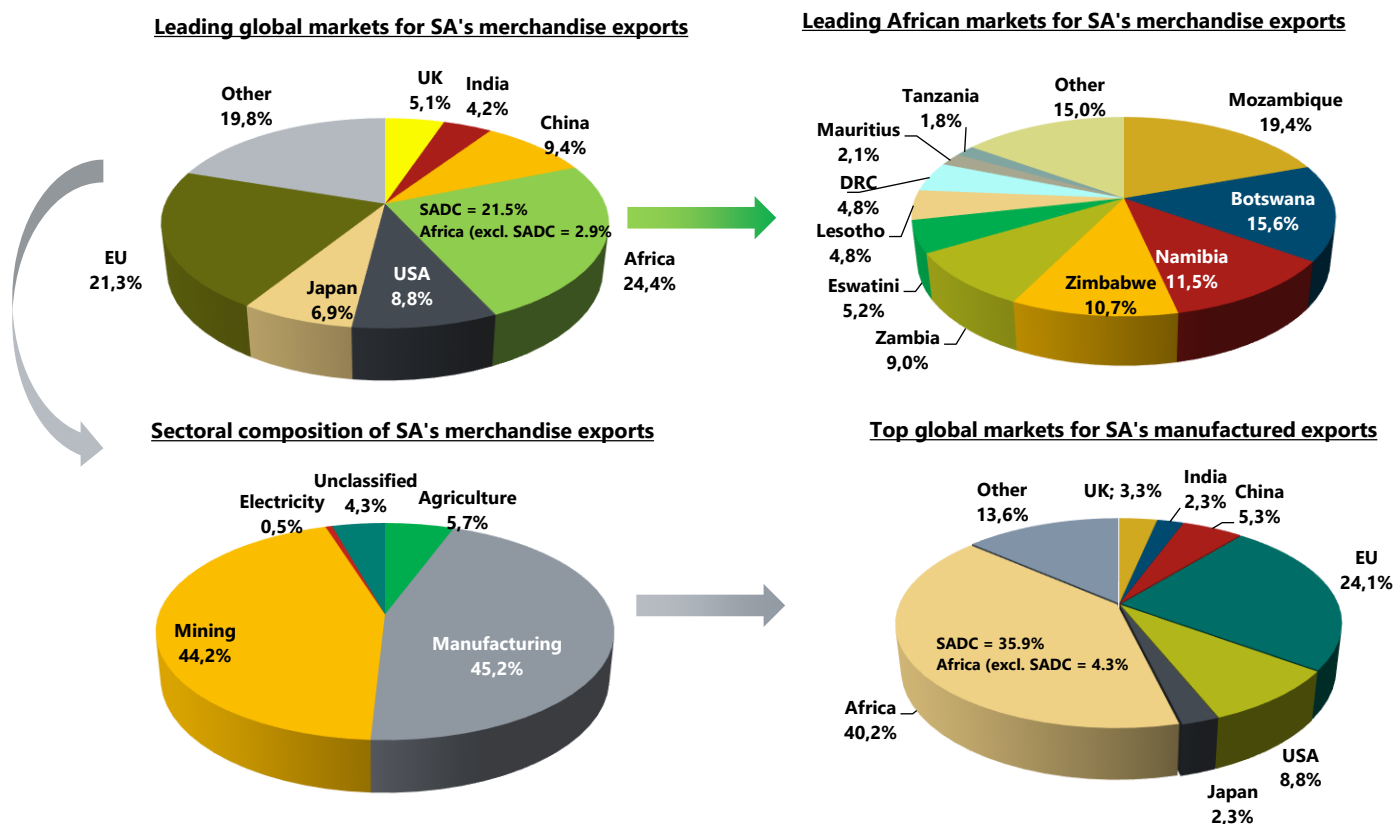


Table 1: South Africa's leading exports to Africa at a sectoral level in 2013 and 2022 (top 20 out of 140 sectors)

Rank	2013				2022			
	Sector	USD million	% share	Cumulative % share	Sector	USD million	% share	Cumulative % share
1	Petroleum refineries & synthesisers	2 564,6	9,3%	9,3%	Basic iron and steel	2 132,5	7,1%	7,1%
2	Motor vehicles	2 428,5	8,8%	18,2%	Petroleum refineries & synthesisers	2 089,9	7,0%	14,1%
3	Basic iron and steel	1 397,2	5,1%	23,3%	Coal	1 712,4	5,7%	19,8%
4	Machinery for mining, quarrying & construction	968,3	3,5%	26,8%	Motor vehicles	1 329,5	4,4%	24,2%
5	Agriculture (cereals and other crops)	943,2	3,4%	30,2%	Agriculture (cereals and other crops)	1 065,1	3,5%	27,7%
6	Soap, detergents, cleaning & polishing, perfumes, etc.	788,3	2,9%	33,1%	Non-ferrous metal ores (except gold and PGMs)	992,9	3,3%	31,0%
7	Other fabricated metal products	638,7	2,3%	35,4%	Machinery for mining, quarrying & construction	987,9	3,3%	34,3%
8	Plastic products	568,2	2,1%	37,5%	Soap, detergents, cleaning & polishing, perfumes, etc.	743,5	2,5%	36,8%
9	Electricity	562,8	2,1%	39,6%	Basic chemicals	691,9	2,3%	39,1%
10	Pumps, compressors, taps & valves	529,2	1,9%	41,5%	Electricity	674,6	2,2%	41,4%
11	Other chemical products, nec.	520,2	1,9%	43,4%	Fertilisers and nitrogen compounds	648,4	2,2%	43,5%
12	Plastics in primary form	504,4	1,8%	45,2%	Plastics in primary form	642,0	2,1%	45,7%
13	Structural metal products	494,7	1,8%	47,0%	Pumps, compressors, taps & valves	600,9	2,0%	47,7%
14	Diamonds	477,6	1,7%	48,8%	Plastic products	596,8	2,0%	49,7%
15	Fertilisers and nitrogen compounds	442,3	1,6%	50,4%	Diamonds	591,5	2,0%	51,6%
16	Other food products nec.	414,6	1,5%	51,9%	Other fabricated metal products	590,4	2,0%	53,6%
17	Motor vehicle parts and accessories	411,9	1,5%	53,4%	Iron ore	512,1	1,7%	55,3%
18	Wearing apparel; excl. fur apparel	369,2	1,3%	54,7%	Other food products nec.	468,1	1,6%	56,9%
19	Grain mill products	368,5	1,3%	56,1%	Vegetable & animal oils & fats	467,1	1,6%	58,4%
20	Other general purpose machinery	367,6	1,3%	57,4%	Other chemical products, nec.	454,1	1,5%	59,9%
	Other	11 685,1	42,6%	100,0%	Other	12 035,1	40,1%	100,0%
	<b>Total (USD million)</b>	<b>27 445,0</b>	<b>100,0%</b>		<b>Total (USD million)</b>	<b>30 026,6</b>	<b>100,00%</b>	
	<b>Total (Rand million)</b>	<b>264 850,6</b>			<b>Total (Rand million)</b>	<b>491 110,1</b>		
<b>LEGEND:</b>								
	<b>Manufacturing</b>		<b>Mining</b>		<b>Agriculture</b>		<b>Electricity</b>	






Source: IDC, compiled using SARS data






## Product level analysis of South Africa's trade with its main African partners

This section provides a more granular view of the products exported by South Africa to its ten largest African markets in 2022 – namely Mozambique, Botswana, Namibia, Zimbabwe, Zambia, Eswatini, Lesotho, Democratic Republic of the Congo (DRC), Mauritius and Tanzania. These countries accounted for 85.0% of South Africa's export trade with the rest of the African continent, and 20.7% of its exports to the world at large.

Table 2 sets out the total value of South Africa's exports to each of these ten African economies in 2022. It also lists the 15 largest exports at product level to each of these markets, indicating their respective values and, within brackets, the corresponding shares of South Africa's total exports of the specific products to the world at large.

**Table 2: South Africa's 10 largest African export markets in 2022, the overall value of exports, and the top 15 products exported**

African country	Total export value in 2022	15 largest products
 <b>Mozambique</b>	<b>Total SA exports to Mozambique: R95.4bn</b>  SA exports to Mozambique as a % of total exports to the African continent: 19.4%  SA exports to Mozambique as a % of SA exports to the world: 4.7%	Iron and steel R18 052.6m (17.3%); Chrome ore R16 127.4m (40.2%); Coal R10 970.2m (5%); Iron ore R7 893.9m (7.4%); Electricity R5 202.2m (47.1%); Iron oxides and hydroxides R4 856.9m (78%); Organic surface cleaner R927.4m (30.4%); Soups and broths R796.6m (58.2%); Soya bean R709.1m (26%); Vermiculite, perlite and chlorites R660.0m (68%); Maize meal R509.2m (29.8%); Maize R503.9m (2.5%); Light commercial vehicles R466.3m (0.8%); Chicken meat R452.9m (31.1%); Pumps for liquids R443.6m (6.4%)  <b>Cumulative share of the above 15 products out of total SA exports to Mozambique: 71.9%</b>
 <b>Botswana</b>	<b>Total SA exports to Botswana: R76.7bn</b>  SA exports to Botswana as a % of total exports to the African continent: 15.6%  SA exports to Botswana as a % of SA exports to the world: 3.8%	Diamonds R9 672.8m (22.3%); Petrol R7 767.4m (68%); Diesel R7 738.0m (53.1%); Iron and steel R1 401.1m (1.3%); Light commercial vehicles R1 099.9m (1.9%); Electricity R1 050.4m (9.5%); Maize R976.9m (4.9%); Passenger vehicles R858.3m (0.9%); Portland cement R829.7m (68.5%); Suits R698.1m (26.6%); Sunflower oil R659.4m (24.4%); Parts for construction equipment R615.1m (13.4%); Fermented beverages (e.g. cider, perry, mead) R589.1m (28.7%); Rice R581.6m (39%); Fruit (incl. bananas, apples) R522.8m (0.7%)  <b>Cumulative share of the above 15 products out of total SA exports to Botswana: 45.7%</b>
 <b>Namibia</b>	<b>Total SA exports to Namibia: R56.7bn</b>  SA exports to Namibia as a % of total exports to the African continent: 11.5%  SA exports to Namibia as a % of SA exports to the world: 2.8%	Medium commercial vehicles R2 221.2m (3.7%); Electricity R1 525.3m (13.8%); Passenger vehicles R1 259.4m (1.7%); Iron and steel R1 008.4m (1%); Suits R882.6m (33.6%); Sunflower oil R758.0m (29.5%); Maize R655.0m (3.3%); Plastic containers R645.2m (17.1%); Parts for construction equipment R615.5m (13.4%); Refined sugar R583.6m (41.4%); Pumps for liquids R535.3m (7.7%); Iron and steel products R533.4m (13.5%); Grape wine R522.4m (4.6%); Sunscreen or sun tan products R480.8m (10%); Organic surface cleaner R430.5m (14.1%)  <b>Cumulative share of the above 15 products out of total SA exports to Namibia: 22.3%</b>
 <b>Zimbabwe</b>	<b>Total SA exports to Zimbabwe: R52.5bn</b>  SA exports to Zimbabwe as a % of total exports to the African continent: 10.7%  SA exports to Zimbabwe as a % of SA exports to the world: 2.6%	Iron and steel R2 716.7m (2.6%); Electricity R1 563.8m (14.2%); Paper and paperboard R1 522.0m (25.1%); Nitrogenous fertilizers R1 450.4m (19%); Light commercial vehicles R1 449.3m (2.5%); Liquefied petroleum gas R1 074.7m (52.6%); Soya-bean oil R1 026.8m (51.1%); Mechanical shovels, excavators and shovel loaders R975.0m (28.8%); Wheat R954.4m (28.8%); Soap R854.8m (27%); Passenger vehicles R688.5m (0.7%); Polyethylene R630.7m (20%); Organic surface cleaner R510.9m (16.8%); Soya bean oil cake R510.8m (32.1%); Parts for sorting and screening equipment R477.2m (8.1%)  <b>Cumulative share of the above 15 products out of total SA exports to Zimbabwe: 28.8%</b>
 <b>Zambia</b>	<b>Total SA exports to Zambia: R44.4bn</b>  SA exports to Zambia as a % of total exports to the African continent: 9.0%  SA exports to Zambia as a % of SA exports to the world: 2.2%	Nitrogenous fertilizers R2 862.7m (37.5%); Iron and steel R1 917.8m (1.8%); Trailers R1 140.1m (30.9%); Light commercial vehicles R1 032.3m (1.8%); Paper and paperboard R935.7m (15.4%); Pumps for liquids R852.3m (12.3%); Parts for construction equipment R803.8m (17.5%); Sulphur R786.4m (56.1%); Polypropylene R772.6m (10.9%); Insecticides, fungicides, herbicides R705.0m (17%); Polyethylene R576.6m (18.3%); Passenger vehicles R571.7m (0.6%); Fertilizer mixtures < 10kg R564.3m (25.4%); Prepared binders for foundry moulds or cores R463.8m (15.4%); Parts for sorting and screening equipment R453.2m (7.7%)  <b>Cumulative share of the above 15 products out of total SA exports to Zambia: 32.5%</b>

 <b>Eswatini</b>	<b>Total SA exports to Eswatini: R25.4bn</b>  SA exports to Eswatini as a % of total exports to the African continent: 5.2%  SA exports to Eswatini as a % of SA exports to the world: 1.3%	Diesel R1 389.3m (9.5%); Petrol R1 114.1m (9.7%); Electricity R830.1m (7.5%); Passenger vehicles R811.9m (0.5%); Maize R700.9m (3.5%); Iron and steel R556.7m (0.5%); Soya bean oil cake R330.0m (20.7%); Wheat R327.0m (9.9%); Nitrogenous fertilizers R314.6m (4.1%); Plastic containers R306.8m (8.1%); Plastic tubes R304.2m (11.7%); Rice R292.0m (19.6%); Light commercial vehicles R284.2m (0.5%); Coniferous wood for fuel R283.2m (71.3%); Suits R277.2m (10.6%)  <b>Cumulative share of the above 15 products out of total SA exports to Eswatini: 31.9%</b>
 <b>Lesotho</b>	<b>Total SA exports to Lesotho: R23.7bn</b>  SA exports to Lesotho as a % of total exports to the African continent: 4.8%  SA exports to Lesotho as a % of SA exports to the world: 1.2%	Diesel R1 731.1m (11.9%); Petrol R1 513.1m (13.2%); Electricity R862.4m (7.8%); Chicken meat R616.4m (42.4%); Wheat R559.7m (16.9%); Maize meal R507.6m (29.7%); Parts for electrical switches, protectors R448.3m (44.4%); Woven cotton fabric R448.1m (65.2%); Maize R399.9m (2%); Illuminating kerosene R381.5m (77.3%); Iron and steel R338.4m (0.3%); Woven synthetic filament yarn R271.7m (52.2%); Cigarettes R269.5m (19.1%); Passenger vehicles R229.8m (0.2%); Suits R225.8m (8.6%)  <b>Cumulative share of the above 15 products out of total SA exports to Lesotho: 37.1%</b>
 <b>Democratic Republic of the Congo (DRC)</b>	<b>Total SA exports to DRC: R23.7bn</b>  SA exports to DRC as a % of total exports to the African continent: 4.8%  SA exports to DRC as a % of SA exports to the world: 1.2%	Pumps for liquids R1 470.6m (21.3%); Parts for sorting and screening equipment R935.8m (15.8%); Parts for construction equipment R727.6m (15.9%); Iron and steel R683.1m (0.7%); Sulphur R607.8m (43.4%); Nitrogenous fertilizers R532.2m (4.9%); Sulphuric acid R528.9m (84.7%); Iron and steel products R496.6m (12.6%); Taps, cocks and valves R481.7m (17%); Insulated electric wires R451.3m (15.7%); Plastic tubes R438.5m (16.8%); Prepared binders for foundry moulds or cores R336.1m (11.1%); Phosphoric acid R328.5m (12.9%); Diesel R319.8m (2.2%); Parts for boring equipment R306.2m (20.5%)  <b>Cumulative share of the above 15 products out of total SA exports to DRC: 36.5%</b>
 <b>Mauritius</b>	<b>Total SA exports to Mauritius: R10.1bn</b>  SA exports to Mauritius as a % of total exports to the African continent: 2.1%  SA exports to Mauritius as a % of SA exports to the world: 0.5%	Coal R4 639.6m (2.1%); Iron and steel R279.1m (0.3%); Light commercial vehicles R254.7m (0.4%); Live cattle R210.7m (69.5%); Residual fuel oils R177.8m (2.7%); Copper waste and scrap R163.4m (20%); Sunscreen or sun tan products R99.8m (2.1%); Grape wine R93.5m (0.8%); Fruit juice R91.8m (2%); Lubricating oil R90.1m (3.9%); Apples R79.8m (0.7%); Bottled water containing sweetening or flavouring R75.0m (4.1%); Oranges R70.7m (0.3%); Printing and ancillary machinery R64.2m (3.6%); Margarine R57.6m (6.8%)  <b>Cumulative share of the above 15 products out of total SA exports to Mauritius: 64.0%</b>
 <b>Tanzania</b>	<b>Total SA exports to Tanzania: R8.8bn</b>  SA exports to Tanzania as a % of total exports to the African continent: 1.8%  SA exports to Tanzania as a % of SA exports to the world: 0.4%	Iron and steel R1 619.2m (1.6%); Light commercial vehicles R425.2m (0.7%); Trailers R233.9m (6.3%); Ethyl alcohol > 80% R201.1m (6.9%); Pumps for liquids R200.3m (2.9%); Grape wine R194.5m (1.7%); Parts for sorting and screening equipment R184.8m (3.1%); Explosives R126.8m (11.3%); Parts for boring equipment R122.8m (8.2%); Mixed odoriferous substances for industrial use R120.8m (9.5%); Paper and paperboard R115.9m (1.9%); Acrylic polymers R107.9m (8.3%); Sunscreen or sun tan products R102.1m (2.1%); Industrial food and drink preparation machinery R96.8m (9.5%); Iron/ steel cloth, grill, fencing and expanded metal R94.7m (7.9%)  <b>Cumulative share of the above 15 products out of total SA exports to Tanzania: 44.6%</b>

Source: IDC, compiled using SARS data

As an example, South Africa reportedly exported a total of R95.4 billion worth of goods to Mozambique in 2022 (refer to the observations made below), of which iron and steel exports to this country amounted to R18 052.6 million. This quantum, in turn, represented 17.3% of South Africa's total exports of iron and steel to global markets collectively.

For the ten countries analysed herein, the leading export products by value in 2022 were iron and steel (R28.6 billion), chrome ore (R16.1 billion), coal (R15.6 billion) and electricity (R11.0 billion). It must be pointed out, however, that the iron ore, chrome ore and coal exports, and possibly a large portion of the iron and steel exports, reported for Mozambique were likely destined to other global markets but exported via the port of Maputo.

Where electricity exports are concerned, according to Eskom's Integrated Report for financial year 2021/22, this entity exported 13 298GWh of electricity to 7 countries during the financial year. Its imports of electricity from the region, in turn, amounted to 8 500GWh, overwhelmingly from the Cahora Bassa hydroelectric power dam in northern Mozambique.

In value terms, the ten African economies covered in Table 2 accounted for all of South Africa's electricity exports in 2022, 47.1% of which was channelled to Mozambique.

The ten largest African trading partners are important markets for certain products. For example, collectively they accounted for basically all (99.5%) of South Africa's sulphur exports to the world at large in 2022, petrol (91.2%), sulphuric acid (84.7%), suits (79.3%), iron oxides and hydroxides (78.0%), illuminating kerosene (77.3%), and diesel (76.7%), among others.

The cumulative value of the products listed in Table 2 amounts to R183.1 billion, which represents approximately 43.9% of South Africa's total exports to the ten African economies, collectively, in 2022, or 37.3% of all its exports to the African continent at large. Of this:

- Electricity exports amounted to R11.0 billion.
- Primary agricultural and mining products amounted to R58.5 billion.
- R25.4 billion pertain to petroleum-based products such as petrol, diesel, liquified petroleum gas and plastic polymers, of which South Africa is also a significant importer.
- Single-stage transformation of primary products amounted to R36.6 billion, dominated by iron and steel but also including products such as chicken meat, maize meal, sunflower oil, soya bean oil, grape wine and the like.
- R51.5 billion can be classified as products that have multi-stage transformation, including nitrogenous fertilizers, light commercial vehicles (bakkies), passenger vehicles, parts for various types of machinery, and pumps for liquids, among others.

This analysis thus indicates that a handful of African economies dominate the regional demand for South Africa's exports, while the degree of complexity and/or technological content of the bulk of the export basket is on the limited side.

## Growth outlook for the South African economy

The South African economy entered 2023 facing a number of major challenges. Several of these are of a domestic nature and, despite their criticality for they are stifling economic growth and development, they will take time to resolve.

**Gross domestic product** is projected to expand by a mere 1.0% in real terms in 2023, with the annual rate of growth forecast for the subsequent two years remaining very modest at 1.5% and 1.8%, respectively. Somewhat stronger, but nevertheless sub-optimal rates of expansion are anticipated in the last two years of the outlook period.

**Table 3: Projections for key performance indicators of the South African economy**

Variable (% change or % of GDP)	2018	2019	2020	2021	2022e	2023f	2024f	2025f	2026f	2027f
<b>Real GDP growth and its components:</b>										
Household consumption expenditure	2.7	1.2	-5.9	5.6	2.3	1.4	1.7	2.0	2.7	2.6
Government consumption expenditure	1.2	2.1	0.8	0.6	1.3	1.2	1.0	1.0	1.1	1.2
Gross fixed capital formation (GFCF)	-1.3	-2.1	-14.6	0.2	4.0	1.7	2.4	2.5	2.8	3.3
Exports	2.7	-3.4	-11.9	10.0	8.1	2.4	2.6	2.7	2.8	2.5
Imports	3.2	0.4	-17.4	9.5	13.3	2.8	3.1	3.1	3.0	2.6
<b>GDP</b>	<b>1.5</b>	<b>0.3</b>	<b>-6.3</b>	<b>4.9</b>	<b>1.9</b>	<b>1.0</b>	<b>1.5</b>	<b>1.8</b>	<b>2.3</b>	<b>2.4</b>
Consumer price inflation	4.6	4.1	3.3	4.6	6.9	5.3	4.9	4.8	4.5	4.3
Current account balance (% of GDP)	-2.9	-2.6	2.0	3.7	-0.4	-1.2	-1.9	-3.0	-3.6	-3.3
GFCF as % of GDP	15.9	15.4	13.8	13.1	14.1	14.3	14.6	14.7	14.8	14.8

Source: IDC, compiled using SA Reserve Bank historical data, IDC forecasts

Households will be under increased pressure in the current year as the full impact of higher inflation and interest rates take a toll on already strained budgets. This, along with expectations of only a modest rise in real disposable incomes, weak prospects for new job creation as well as limited appetite for new debt will affect their ability and willingness to spend. **Household consumption expenditure** is, accordingly, expected to increase by only 1.4% in real terms in 2023. Based on projections of decelerating inflation over the medium-term, which would permit a gradual reduction in interest rates, along with a progressive improvement in investment activity and employment creation, household consumption spending is forecast to increase at higher rates towards the latter part of the forecast period.

Major structural challenges, particularly severe loadshedding and serious transport and logistics constraints, coupled with relatively subdued demand domestically and globally, which is underpinning surplus production capacity in many industries, will continue to affect investor decisions and thus limit the private sector's **fixed investment activity** in the economy in the short- to medium-term.

Notable exceptions include the energy sector, considering the increased opportunities for private sector participation in the generation and transmission segments, as well as telecommunications, transport and logistics infrastructure, for their regulatory landscapes have, or are planned to be liberalised to some extent so as to encourage private sector involvement. As economic conditions improve in the longer term, expansionary and/or greenfield investment by the private sector should increase across a variety of other industries and services sectors.

Capital investment by the public sector, in turn, will be restrained by financial and skills constraints for quite some time, thus requiring partnerships with the private sector players as active participants, financially and operationally, in future infrastructure development.

The effective and timeous implementation of South Africa's Just Energy Transition Investment Plan for the five years to 2027, whose priority sectors are energy, new energy vehicles and green hydrogen, would also create numerous investment opportunities for private sector players.

South Africa's **fiscal position** is expected to undergo a gradual improvement over the outlook horizon but challenging fiscal metrics in the short- to medium-term will continue to limit government's ability to enhance its direct expenditure in the economy, whether of a consumption or capital nature. The revenue windfall experienced in 2022/23, for instance, is likely to fade since commodity prices have moderated while the mining sector, among several other productive sectors of the economy, has been underperforming.

The budget-deficit-to-GDP ratio is forecast to narrow from -5.6% in 2022 to -3.8% by 2027, while overall government debt is projected to peak at a ratio of 77.3% of GDP in 2025, with some moderation forecast for subsequent years.

The principal credit rating agencies will keep a close eye on economic and fiscal developments, as well as on much needed structural reforms. A swift implementation of the reforms recently announced by government, particularly but not exclusively in the energy sector, and visible progress towards achieving the fiscal consolidation and debt sustainability objectives indicated by National Treasury would be seen as credit positive. However, it could take a few years before South Africa's sovereign ratings return to investment grade.

Considering the expected softening of aggregate demand and commodity prices globally, along with serious production constraints domestically (primarily due to the electricity crisis) and ongoing difficulties in accessing ports effectively and cost-competitively, growth in **exports** is likely to weaken at least in the short-term. Although the opening-up of China's economy should provide some relief for commodity exporters, very weak growth and/or recessionary conditions in some of South Africa's other key export markets are likely to have an adverse impact on manufacturing, mineral and agricultural exports.



The export basket to China, the world's second largest economy, consists mostly of mineral products such as iron ore, chrome and manganese, as well as primary beneficiated products (e.g. basic iron and steel, non-ferrous metal products). Weaker growth in the Eurozone may be reflected in reduced demand for South African manufactured products such as motor vehicles, chemicals and chemical products, iron and steel, processed food, as well as primary agricultural products (for example, citrus and other fruits). Competition from foreign producers in the global marketplace is also likely to intensify, requiring that local companies focus on competitiveness enhancements and on identifying additional markets for their products.

Demand for **imports** is expected to remain somewhat subdued over the outlook period due to the challenges facing domestic consumers and the weak rates of growth projected for fixed investment expenditure. However, in light of the energy-intensity of the South African economy, this may result in demand for refined petroleum products, particularly diesel, and to a lesser extent crude oil, being fairly strong over the outlook horizon, for local refining capacity has declined.

The outlook for consumer price **inflation** is set to improve. High base effects will play a major role particularly in 2023, but softer commodity prices (fuel, food, etc.), easing supply chain constraints and generally weaker demand in a higher interest rate environment should also support a moderation going forward. Consumer inflation is expected to decline to 5.3% in 2023 and to hover around the mid-point of the South African Reserve Bank's target range in the latter two years of the forecast period.

Mindful of the economy's weak growth prospects, **monetary policy** will be applied in a manner that is growth-supportive while anchoring inflation expectations. The Monetary Policy Committee is expected to raise the repo rate to 7.50% by the end of the first quarter of 2023 (currently at 7.25%) to bring inflation back under control. This may be the peak in the domestic interest rate tightening cycle, with the repo rate potentially being lowered gradually as from the first quarter of 2024 onwards, inflation developments permitting.

South Africa's economic recovery is thus expected to proceed despite the relatively adverse environment at the present time. The pace of expansion is likely to be very muted in the short- to medium-term, though, dragged downward by both supply- and demand-side constraints. Gradually faster rates of economic growth are anticipated subsequently on the back of lower inflation and reduction in interest rates from 2024 onwards, as well as on improved access to, and more reliable electricity supply, among other infrastructural requirements.

Such developments would lift consumer and business sentiment, resulting in higher consumption spending and increased production and investment activity. As economic growth resumes a firmer trajectory globally, the domestic export sector is also likely to benefit. The risks to this growth outlook are, however, tilted to the downside, especially in the absence of meaningful progress in addressing critical structural challenges and other constraints that are still holding back South Africa's economic performance and limiting its potential.

**Department of Research and Information**

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