

A decorative graphic in the center of the page consists of a green globe with a white swoosh, surrounded by various green and grey leaves, circular patterns, and abstract shapes. The background features several thin, curved lines in shades of green and orange.

Economic overview:

Recent developments in the global and South African economies

November 2023

Department of Research and Information

Contents

Highlights..... ii

Implications for South African businesses iii

Global economy: Uneven growth with challenges ahead 1

South African economy – a modest recovery amidst ongoing challenges 4

Growth outlook for the South African economy 16

Highlights

- Global economic performance has been mixed with stronger than anticipated growth recorded in the US and China while the Eurozone recorded a contraction in the third quarter of 2023.** Improved growth performances in some major economies have been supported by sustained consumer spending and a strong recovery in tourism activities. Very tight labour markets are driving wages higher, and in conjunction with excess savings accumulated during the pandemic, are underpinning household spending.
- Advanced economies' inflation has decreased in recent months, although substantially above their targeted levels.** The rate of disinflation is slowing as wage increases support economic activity. However, recent indicators have started to reflect the impact of higher interest rates on economic activity and jobs.
- The Chinese economy is still reporting robust growth, although the country is facing several challenges.** The largest challenge to Chinese growth emanates from the distressed property developer debt defaults, negatively impacting on consumer sentiment as well as local government finances. Furthermore, weak global demand is hampering the export segment of the economy.
- Significant risks remain to global growth, largely emanating from rising geo-political tensions and ongoing wars.** Uncertainty in the global economy is negatively impacting financial and commodity markets, with gold and oil highlighting the concerns investors have regarding the outlook.
- Although **Sub-Saharan Africa's growth prospects remain positive, a further deceleration is expected in 2023** as external headwinds including softer commodity prices and relatively weak external demand, persistent inflation, higher borrowing costs and rising insecurity in several countries weigh on activity. However, the pace of economic expansion in the region is expected to gather momentum from 2024 onwards, but an increasingly uncertain external backdrop is likely to keep growth below the historical average trends of close to 5%.
- South Africa's economy recorded slightly faster than expected growth in the first half of 2023.** Nonetheless, the growth momentum remains modest and insufficient to address the various socio-economic challenges. Households are facing a difficult environment, whereas the private sector remains hesitant to ramp up fixed investment spending in uncertain conditions. Key sectors of the economy, including mining, manufacturing and retail trade, are struggling to raise output or sales on a sustained basis as structural constraints are affecting operating and trading conditions.
- Consumer price inflation moved back into the target band,** whereas the continued moderation in core inflation is a positive trend from a monetary policy perspective. Even though overall inflation has fallen to 5.4% by September 2023, key items of the consumer basket, such as energy and food, are increasing at a much faster pace. The end of the current interest rate tightening cycle may have been reached, although the Monetary Policy Committee cautioned against potential upside inflation risks.
- A worsening fiscal trajectory is posing a key risk, with rising debt levels of particular concern.** The fiscal performance for the current financial year (2023/24) is substantially worse than what was projected in the 2023 Budget in February. A sizeable revenue shortfall is now expected as per the November 2023 Medium Term Budget Policy Statement (MTBPS), as weaker growth and lower commodity prices impact corporate tax collections. In turn, expenditure has been expanding at a substantially faster-than-projected pace over the first half of this fiscal year.

World economic growth:

2022: 3.1% (e)
2023: 2.1% (f)
2024: 2.4% (f)

(IMF)

World inflation:

2022: 8.7%
2023: 6.9% (f)
2024: 5.8% (f)

(IMF)

Sub-Saharan Africa growth:

2022: 4.0%
2023: 3.3% (f)
2024: 4.0% (f)

(IMF)

South Africa GDP growth:

H1 2023 = +0.9% (y/y)

(Stats SA)

Consumer price inflation and interest rates:

CPI (Sept. '23) = 5.4%
Repo rate = 8.25%

(Stats SA; SARB)

- South Africa recorded a noticeably smaller trade surplus over the first nine months of 2023, compared to the same period last year.** The merchandise export performance has been impacted by weaker global demand, softer commodity prices, ongoing logistical challenges pertaining to the rail network and inefficiencies at ports and harbours. Mining exports had fallen by just over 11% (year-on-year) over this reference period, while exports of manufactured goods and agricultural products still managed to record relatively fast rates of growth (in nominal value terms).
- An increased reliance on imports has far-reaching implications, extending beyond just the balance of payments.** The rising import penetration observed over the years is a clear reflection of lack of competitiveness and cheaper imports flooding certain segments of the domestic economy. However, improved localisation and import replacement efforts could result in import substitution, with substantial benefits for the South African economy including higher levels of domestic production, investment activity and employment creation.
- South Africa's growth prospects remain rather modest, especially over the short-term.** Real GDP is estimated to expand by 0.5% in 2023, gaining a slightly stronger momentum in 2024 (+0.8%) and 2025 (+1.5%). Consumer spending will remain subdued throughout the forecast horizon, while fixed investment may increase at a faster rate, albeit off a very low base. Inflation is expected to decelerate further and to remain within the target range, while interest rates may be gradually lowered as from Q4 2024 onwards. However, risks to this growth outlook are tilted to the downside.

Trade performance for
Jan. – Sept. 2023
(y/y growth)

Exports = 1.1%
Imports = 11.1%
(SARS)

South Africa's GDP
growth prospects:

2023e = 0.5%
2024f = 0.8%
2025f = 1.5%
(IDC)

Implications for South African businesses

Potential implications of global economic developments

- Considering subdued growth prospects in several of South Africa's key export markets,** local exporters are likely to face challenging trading conditions, which may affect their export performances. Businesses should take note of these conditions and plan accordingly so as to mitigate against the impact of these adverse developments.
- South Africa's manufactured exports may be under pressure** considering the challenging conditions in the Eurozone, the USA and the UK, as manufactured goods feature prominently in South Africa's export basket to these destinations. Key manufactured export categories include motor vehicles and parts; base metals; processed food; basic chemicals, as well as chemical products, while PGMs; coal and agricultural products also feature strongly in such export baskets.
- The somewhat firmer growth out of China is likely to support South Africa's commodity exports,** considering that South Africa's export basket to China is dominated by mining and mineral products (68% of total exports). In 2022, China accounted for 51% of all South Africa's iron ore exports, 60% of manganese, 48% of chrome and 95% of copper exports.
- Relatively strong growth in India, which is an important market for South Africa's exports** of coal, paper and paper products; manganese ores and basic chemicals, should provide increased export opportunities over the next couple of years. It is, however, important for South Africa to diversify this highly concentrated export basket considering the rapid growth expected in India and the fact that these top-4 export categories accounted for 85% of the entire export basket in 2022.
- South African companies should focus on competitiveness enhancement measures** in order to expand exports in existing markets and increasingly penetrate new global markets and/or to be able to better compete with imports flooding segments of the domestic market. It is important to increase the level of productivity, reduce input/operating costs and to raise economies of scale.

- **The Middle East conflict introduced another layer of economic complexity and could have far-reaching implications if not contained.** A widening of this conflict (e.g. Iran/US drawn into the conflict) has the potential to result in heightened geopolitical tensions, with major implications for financial and commodity markets.
- **A widening of the conflict could result in a steep rise in international crude oil prices,** among others, with all the negative implications arising therefrom, such as rising inflation and higher interest rates, and in the process complicating the global economic recovery process underway.
- **Higher international interest rates at present, and the likelihood of further monetary policy tightening,** have already resulted in a substantial increase in borrowing costs for South African companies wishing to tap into international markets to raise funds. South African companies with external debt exposures linked to variable interest rates could, therefore, experience higher debt repayment costs, while they may also find it more difficult to raise more debt in global markets.
- **The declining trend in commodity markets since mid-2022 is being reflected in the weaker financial performance of mining companies.** Within the PGM sector, palladium prices have been on a steep declining trend since early 2021, with prices dropping from almost USD3 000 per ounce in early May 2021 to just below USD1 100 in early November 2023. Demand for palladium has been dampened by growing battery electric vehicles sales in China, with its substitution by platinum in catalytic converters compounding its woes. Other commodities (such as coal and iron ore) whose prices increased dramatically in 2021 and early 2022 have since normalised. Expectations of ongoing subdued demand on the global front are anticipated to limit the upside potential for commodity prices, and as a result impact the performance of mining companies and their ability to distribute profits through dividends.
- **An uncertain global economic and political environment is being illustrated in a downward correction in equity markets** across the world as investors opt for safer investment asset classes. Increased financial market volatility and downward adjustments are also affecting international capital flows, with implications for South Africa. For the year to 3 November 2023, foreigners were net sellers of equities in the amount of R109.9 billion, exceeding the R89.7 billion recorded during 2022.

Potential implications of regional economic developments

- **The anticipated up-tick in growth in Sub-Saharan Africa as from 2024 onwards,** should provide improved market conditions for exports of manufactured goods, considering that the continent accounted for roughly 40% of all South Africa's manufactured exports in 2022. However, export market development opportunities beyond the SADC region should be pursued, as 88% of South Africa's merchandise exports to the continent are destined to countries within SACU and SADC.
- **More importantly, the progressing roll-out of the AfCFTA agreement should provide ample trade, investment and business opportunities** for South African companies over time in terms of additional demand as well as alternative supply sources. Local companies should take note of these developments and plan strategically and invest timeously in expanding productive capacity, domestically and regionally, to meet the rising demand and to exploit the opportunities arising in countries elsewhere in the continent.
- **The greening of economies and digitalisation trends currently underway** around the globe should translate into rising demand for certain minerals and metals. A few African countries are already major producers of several of these minerals, with some dominating globally in terms of reserves. Investment opportunities may arise not only in exploration and mining activities, but also for beneficiation across the green energy transition value chains.

Potential implications of domestic economic developments

- **A worsening domestic consumer environment will have negative implications for the performance of those businesses** relying on the consumer market, especially over the short-term. Household consumption expenditure on durable goods (e.g. vehicles, furniture) and semi-durable items (clothing, household textiles) will be most impacted over the next two years.
- **Over the shorter-term, fixed investment activity is most likely to be directed towards improving energy security**, through embedded generation capacity. A gradual up-tick in fixed investment expenditure should see an increase in demand for construction-related materials (e.g. steel, cement, bricks) beyond the shorter-term, but benefitting the entire construction supply-chains. Domestic companies in this space should take note of these developments and prepare themselves to benefit from such changing demand conditions.
- **Even though the broader agricultural sector has been quite resilient in recent years**, South Africa should brace itself for the possibility of the adverse climatic effects associated with *El Niño*, although the potential impact remains uncertain.
- **The surprisingly resilient domestic (and international) tourism industry should provide improved investment and business opportunities** that should be exploited. The tourism industry is a substantial employer, being more labour-intensive, and has a strong non-urban footprint and thereby contributing to rural economic development.
- **Investor, business and consumer sentiment is expected to remain low in the short-term and is indicative of difficult operating and trading conditions.** This could result in investment decisions being reconsidered or postponed for some time. Consumption expenditure is also likely to remain fairly subdued, affecting those businesses that are targeting the consumer market.
- **Since interest rates are anticipated to remain higher for longer, this will most likely affect private sector appetite to raise new funding for investment and/or business purposes** and thereby also delaying the economic recovery process.
- **Structural reforms and infrastructure development plans are opening up investment opportunities**, and by implication raising demand for private sector financing, in the energy, transport and logistics, telecommunications and water infrastructure sectors. Progress is being made on a number of fronts, such as the roll-out of renewable energy infrastructure, the unbundling of Eskom, as well as the opportunities for private sector participation in some of Transnet's operations. Substantial investment in new equipment, as well as operational efficiencies are key in normalising handling facilities at ports and harbours, while improving service delivery.
- **Logistical challenges such as the inefficiencies of the rail network, as well as bottlenecks at South Africa's ports and harbours have a severe impact on the domestic economy.** The negative impacts are not only confined to mineral exporters, but are also affecting manufactured goods and agricultural products (e.g. citrus in the Western Cape). In addition, companies relying on imports (e.g. raw materials; intermediate inputs; final consumption goods) are also counting the costs as their production and/or trading operations are being compromised due to the excessive delays in receiving required goods/stocks and the associated costs.
- **Despite a challenging economic environment and subdued growth prospects, especially in the short-term**, several investment opportunities should be explored. Investment opportunities should be pursued in sectors such as agriculture and agro-processing, minerals for a greener economy (e.g. lithium, nickel, cobalt), NEV's, hydrogen-economy, the digital economy, as well as in value-chain opportunities linked to regional integration.

Global economy: Uneven growth with challenges ahead

The global economy surprised on the upside in the first half of this year, although growth performances are becoming increasingly uneven between countries. Sustained consumer spending activity and a strong recovery in tourism flows underpinned the resilience in global growth.

In advanced economies, growth in consumer spending was underpinned by strong labour market dynamics, which resulted in very low unemployment levels and rapid wage increases, as well as higher consumption levels by households supported by excess savings accumulated during the pandemic.

However, economic activity has been less resilient in emerging and developing economies compared to advanced economies, due to a combination of softer commodity prices, weakening global demand and the sharp increases in the cost of living. Although still robust, growth in China has been well below the expected trajectory following the lifting of pandemic related restrictions at the start of the year.

Growth outcomes for the third quarter of 2023 have thus far been mixed, with the United States (US) and China reporting much improved growth rates, while the Eurozone economy contracted.

The **United States** reported robust growth in Q3 2023 of 1.2% (q-o-q), a sharp acceleration from the 0.5% growth of the previous quarter. The robust performance of the US economy during the first three quarters of 2023 prompted the IMF to revise its growth forecasts for the country higher to 2.1% in 2023, with a slowdown to 1.5% in 2024. Unemployment levels have remained at historic lows (3.9% in October 2023), helping to sustain household consumption spending.

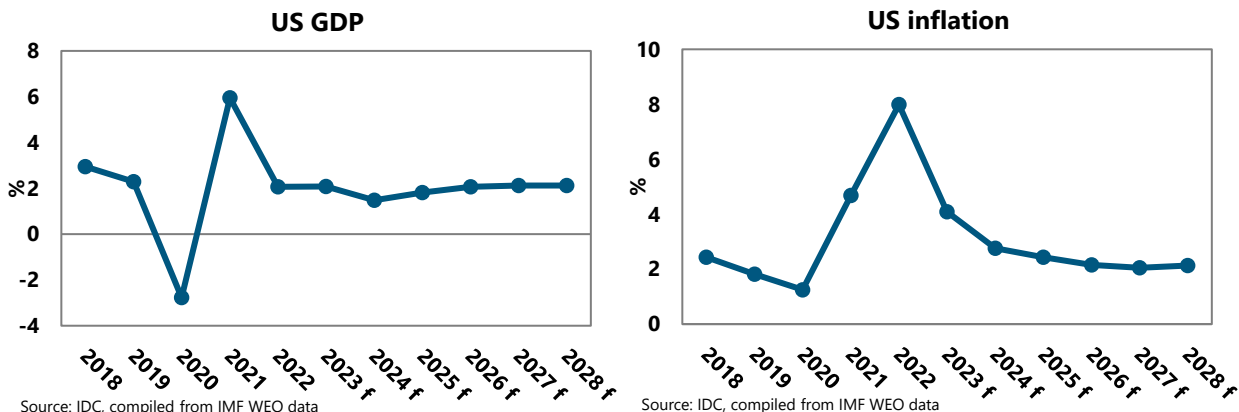
The world economy showed surprising resilience in H1 2023

Excess savings support strong consumer spending activity as well as tourism

Emerging and developing economies are more exposed to weaker demand conditions

Strong US household spending supported economic growth

Figure 1: Continued resilient GDP growth performance and slowing disinflationary trend



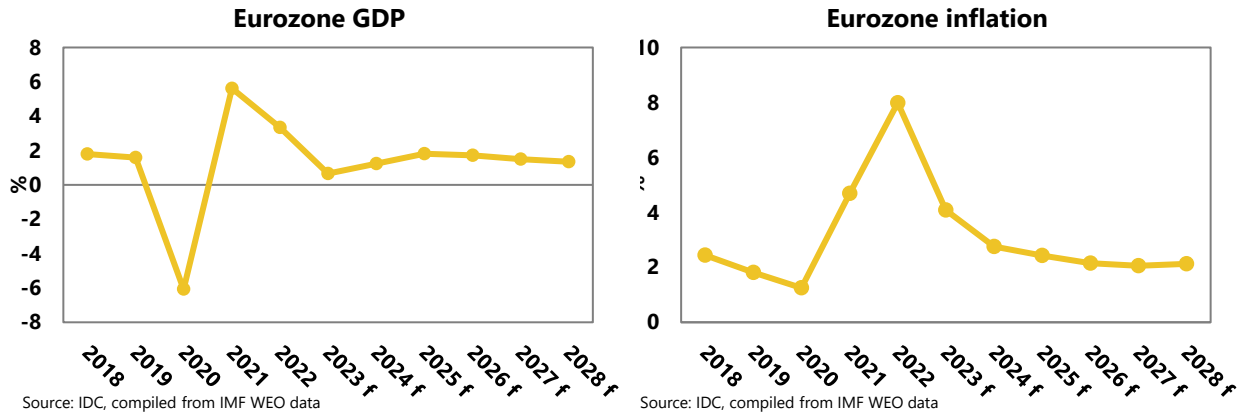
Recent readings on the jobs front are showing that the number of jobs that are being added each month is slowing, while announcements of job cuts are increasing. The easing in the labour market is likely to reduce the pressure on wages, thereby supporting efforts to rein in inflation. The impact of the sharp increase in interest rates is starting to be felt across the US economy, resulting in the moderation in employment creation. Although consumer inflation had slowed to 3.0% in June, it accelerated slightly to 3.7% in September 2023. The stickiness of inflation remains a concern for the US Federal Reserve (US Fed), with the Fed chairman recently indicating that further rate hikes would be considered if it deems that inflation is not responding sufficiently to existing rate hikes.

In the opening three quarters of 2023, economic activity in the **Eurozone** has been very weak, with the third quarter reporting a contraction of 0.1%, a turnaround from the 0.2% growth recorded in the previous quarter. The poor performance in Q3 2023 was a result of contractions recorded among some of its largest member countries, such as in Germany

Weak Eurozone growth due to subdued exports and weaker consumer confidence

(-0.1%; q-o-q), Austria (-0.6%) and Ireland (-1.8%). In turn, positive rates of expansion, albeit subdued, were recorded in France (0.1%; q-o-q), Spain (0.3%) and Belgium (0.5%). The difficulties faced by the Eurozone economies are reflected in the downward revision of the IMF's growth projections for the bloc in both 2023 and 2024 to 0.7% and 1.2%, respectively.

Figure 2: Constrained growth in the Eurozone supportive of inflation recovering to targeted range

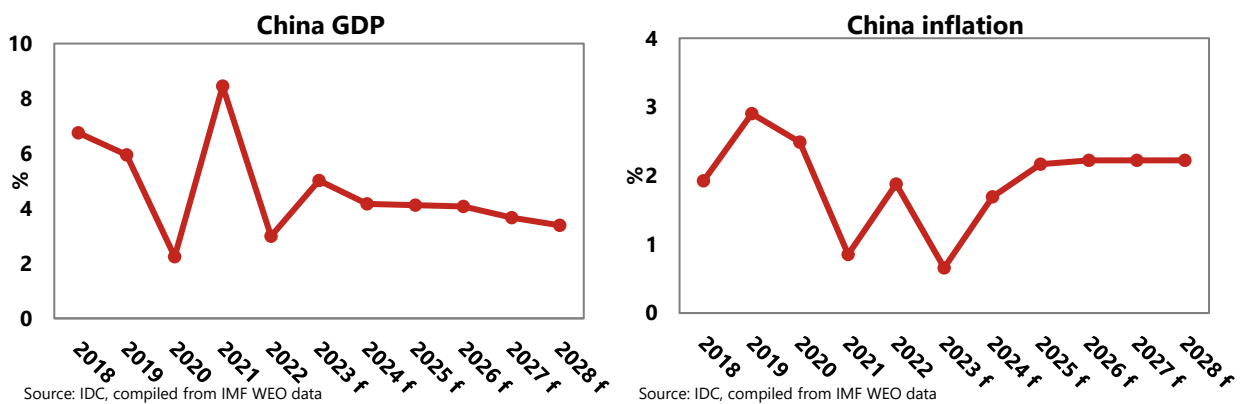


High energy prices late in 2022 and early 2023 resulting from the Russia-Ukraine war, higher interest rates aimed at combating excessive inflation as well as weaker global demand for exports underlie the weakness in the Eurozone economies. The overall unemployment rate in the region stood at 6.5% in September 2023. The increase in the cost of living, especially due to higher energy prices, negatively impacted consumer sentiment and as a result consumer spending. However, the recent easing of energy prices has resulted in a sharp fall in the region's inflation rate which reported an increase of 2.9% in October 2023, compared to 8.6% recorded in January. As such, the European Central Bank (ECB) has left its interest rates unchanged at 4.75% since September 2023, indicating that it might have reached the end of its current tightening cycle.

The **Chinese** economy expanded by 1.3% (q-o-q) in Q3 2023, an acceleration from the 0.5% recorded in the previous quarter. The improved performance was driven by increased consumer spending activity, despite the negative impact of the ongoing property crisis. The Chinese authorities have implemented support measures, which are starting to filter through into increased economic activity.

The Chinese economy is performing relatively well although facing pressure from the property crisis and weak exports

Figure 3: Chinese economy losing growth momentum, with weak inflationary pressures



Yet weak global demand conditions are weighing on the county's export performance, thus limiting the external stimulatory impact. The IMF revised China's growth forecasts after the stronger than expected Q3 data was released, with growth now expected at 5.4%, exceeding the Chinese government's 5% target. However, real GDP growth in China is projected to

slow down to 4.6% in 2024, reflecting the continued internal difficulties as well as a challenging global trading environment.

Unemployment in China also remained at a very low rate of 5% in September 2023, highlighting the continued tight labour market. This is resulting in rising wage pressures and impacting the country's competitiveness. Inflation in China has remained around the 0% level in recent months, despite the high global inflation environment and strong labour market. October's consumer inflation (CPI) reading of -0.2% was mainly due to a continued sharp fall in pork prices, while its producer prices declined even faster at -2.6% indicating further deflationary pressures. With inflation at very low levels, the People's Bank of China (PBoC) has been reducing interest rates in an effort to stimulate demand and by extension prices.

Growth in **Sub-Saharan Africa (SSA)** is forecast to decelerate further to 3.3% in 2023 (4.0% in 2022). Country-specific challenges and heightened external headwinds dampened economic activity across the region. The pace of recovery has been tempered by the global slowdown including weaker external demand, domestic policy tightening and in certain cases flare-ups of violence and unrest.

However, it is anticipated that the regional economy's growth will pick up to 4.0% in 2024. Outcomes will, however, vary widely across SSA countries and sub-regional groupings. Improved consumption and investment on relatively lower inflation and interest rates should support growth in relatively diversified and less resource-intensive economies. These include the likes of Kenya, Uganda, Senegal, Rwanda, Côte d'Ivoire and Ethiopia, which are likely to remain the region's most dynamic economies, with their aggregated growth rate over the period 2023 to 2024 rising well above 5%. Although subdued commodity prices are expected to weigh on exports for most resource-intensive economies, their overall growth is likely to improve, supported by private consumption and in certain cases the on-streaming of various mining and hydrocarbon projects.

That said though, the region's growth will likely remain below potential, weighed down by persistent debt sustainability issues, susceptibility of external shocks and developments, extreme weather events and widening insecurity and conflicts.

Global economic activity is anticipated to be more subdued in the remainder of 2023 and in 2024, largely constrained by the lagged impact of a global rise in interest rates. The IMF maintained its growth outlook for the world at 3.0% in 2023, revising it to a slightly lower 2.9% in 2024. Advanced economies are projected to grow by 1.5% in 2023 and 1.4% in 2024, significantly slower than the 2.6% recorded in 2022. These expectations are premised on still higher interest rates across most of the world negatively impacting on investment and consumer spending, as labour markets become less tight and excess savings are drawn down.

In contrast, emerging and developing economies collectively are projected to sustain their growth at 4.0% in 2023 and 2024. These sustained growth rates, though, mask the wide variations in growth performances by various countries or regions. India is anticipated to sustain its rapid growth at 6.3% in both 2023 and 2024, although the wider Emerging and Developing Asia region's growth forecasts of 5.2% in 2023 and 4.8% in 2024 are expected to be pulled lower by the weaker growth projected for China. The Brazilian economy is anticipated to slow from its 3.1% in 2023 to 1.5% in 2024, while Sub-Saharan Africa is anticipated to return to 4.0% growth after a weaker 2023 (3.3%).

Rising geopolitical flare-ups and tensions are adding another layer of uncertainty and complexity to the global geopolitical landscape already characterised by increasing economic fragmentation and competition. The Israel-Hamas war in Gaza has thus far not spread more widely across the region and as such limiting the economic fallout for now. Furthermore, its possible negative impact on oil supply is currently being outweighed by the likelihood of a weaker global economic environment. Brent crude oil prices are trading around USD80 per barrel - well below the prices before the October 7th assault by Hamas. On the other hand, though, the elevated level of uncertainty has pushed the gold price close

Modest growth prospects for growth in 2023, but a pickup to about 4% anticipated in 2024

Less resource intensive economies to register robust growth rates over 2023-24 period.

Global growth is anticipated to slow relative to recent performances as higher interest rates take effect

Increased variation in emerging and developing economies' performance

The recent Israel-Hamas war is creating significant uncertainty in global markets

to its record high of around USD2 000 per fine ounce as investors seek out safe-haven assets, despite the increased cost to hold physical gold. Nonetheless, any escalation in the current and potential conflicts and involvement of other nations would have a negative impact on the global outlook.

The global economy continues to face **significant downside risks to its growth outlook**, with this uncertainty being reflected in commodity and financial market volatility. Some of the main risks are: escalation/spread of existing armed conflicts across the globe; the sustained increase in geo-political tensions between the US/EU and China weighing on investor decision making; efforts to reshape supply chains away from China; large number of elections over the next 12 months, which could have profound impact on certain countries' approach to global issues; impact of the developing El Niño on agriculture production and food prices; among others.

Risks to global economic growth remain to the downside, with geo-political tensions elevated

South African economy – a modest recovery amidst ongoing challenges

Recent economic performance

South Africa's economy is showing encouraging signs of improvement, but several challenges persist that will continue affecting its growth performance. Although recent growth has surprised on the upside, the expansion momentum remains quite modest and insufficient to address the country's numerous socio-economic challenges.

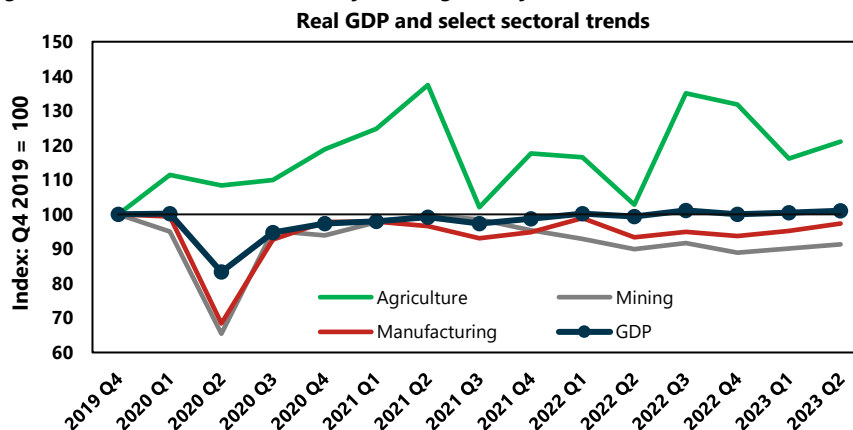
SA economy recorded better than expected growth, but challenges remain

Subdued global growth, especially in some of South Africa's principal export markets, lower commodity prices, a challenging global trading environment and higher interest rates for a prolonged period are likely to affect the export performance. Domestic factors impacting economic activity in various segments of our economy include structural impediments such as electricity supply, transport and logistics challenges (e.g. rail network inefficiencies and delays at ports and harbours); along with yet high inflation and interest rates; rising operational costs such as the steep hikes in electricity tariffs; difficult operating and trading conditions; as well as low confidence among businesses and consumers.

Consumers are facing a very difficult environment as high cost of living, expensive capital, rising interest payments, weak growth in disposable incomes and excessive unemployment impact their ability and willingness to raise consumption expenditure. The private sector remains hesitant to commit substantial new capital for investment in an uncertain environment, while surplus production capacity in many sectors of the economy and yet weak demand also impacts investment decisions.

Challenging economic environment affecting consumption expenditure and capital outlays

Figure 4: A modest economic recovery, although not synchronised



Source: IDC, compiled using Stats SA data

Key sectors of the South African economy are facing ongoing challenges, with mining and manufacturing still finding it difficult to raise output on a sustained basis. Services-oriented sectors, in general, have been more resilient in withstanding the challenging operating and trading conditions in recent years.

Following a brief recovery in H1 2023, the **manufacturing** sector encountered renewed pressures in Q3 as output declined by 1.2% on a quarterly basis, while its overall production remains below pre-pandemic levels. Several sub-sectors are struggling to raise output as operating conditions remain difficult on the back of weak demand, structural impediments to growth and rising input costs. Furthermore, the relative share claimed by manufacturing in national GDP has fallen steeply over time, measuring only 13.0% in Q2 2023, compared to 21.8% at the beginning of 1993. Manufacturers remain dissatisfied with the current economic environment and poor growth prospects as illustrated by low business sentiment. A very modest expansion in overall manufacturing output is estimated for 2023, followed by a slightly faster pace in the next two years.

Manufacturing output still below pre-pandemic levels, while operating conditions remain difficult

The **mining** sector has been particularly hard hit by electricity supply interruptions, inadequate operational capacity and efficiency challenges in the rail network, bottlenecks at ports, industrial action and a lack of investment in the sector. Softer commodity prices are being reflected in much lower overall sales values, whereas mining output is around historical lows. In Q3 2023, overall mining production declined by 1.6% on a quarterly basis, while sales values dropped sharply by 6.1%. Lower commodity prices are also impacting the profitability of marginal mining operations, raising the possibility of mine closures. In general, mining activity is likely to remain subdued over the short- to medium-term, not only due to ongoing domestic challenges, but also unfavourable global economic conditions, with China's economic recovery not as strong as initially anticipated.

Mining sector feeling the impact of weaker demand and lower commodity prices

The **agricultural** sector has been quite resilient over the past few years, with its real GDP having expanded by a further 4.2% (quarter-on-quarter) in Q2 2023, primarily driven by higher production of field crops (e.g. maize, soybeans) and horticulture. The agriculture sector benefitted from favourable weather conditions, with the maize crop estimated to be the second largest on record, while the soya bean crop will be the largest by a substantial margin. Looking ahead, ongoing policy uncertainty is impacting confidence among the broader agri-businesses sector, as well as affecting fixed investment activity. Furthermore, the agricultural sector should brace itself for the possibility of the adverse effects associated with the *El Niño* phenomenon, as this typically results in dryer weather conditions.

A resilient agricultural sector, but adverse weather conditions may pose a threat

The domestic **tourism** industry demonstrated remarkable resilience and the ability to adapt rather quickly to the changing environment, with a much better than anticipated performance since covid-related restrictions were eased. Business confidence in the hotels and restaurant industry bounced back strongly from the record lows recorded during the covid pandemic. However, a still difficult economic and consumer climate, both globally and domestically, is likely to negatively affect its short-term prospects. Combating crime and facilitating visa requirements would play an important role in attracting a large flow of tourists into South Africa, while also assisting in raising investment levels.

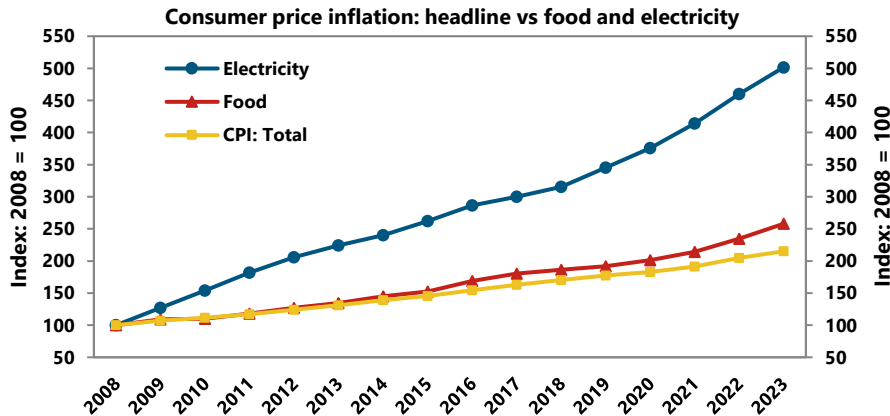
Tourism industry recovered much faster than anticipated

Inflation and interest rates

Having exceeded the upper target band for 13 consecutive months, consumer price inflation (CPI) moved back to below the 6% mark as it measured 5.4% in June 2023 and reached a two-year low of 4.7% in July, before bouncing back again to 5.4% in September on the back of rising petrol prices. However, food and electricity prices remain at elevated levels and well above the overall CPI, although food inflation trended downwards to 8.0% in September from a much higher 14.4% increase (year-on-year) in March 2023. Electricity prices rose by 15.1% in September 2023, the steepest increase in more than 11 years.

Disinflation trend providing welcome relief to households, but high food and energy price increases persist

Figure 5: Electricity prices exceeding headline inflation by a substantial margin



Source: IDC, compiled using Stats SA data

Last data point: September 2023

The continued downtrend in core inflation (i.e. excluding volatile fuel and food prices) to 4.5% in September 2023 is a positive development from a monetary policy point of view as it indicates that second-round inflationary pressures are subsiding. The disinflation trend in producer prices may eventually filter through to lower consumer prices in the months ahead.

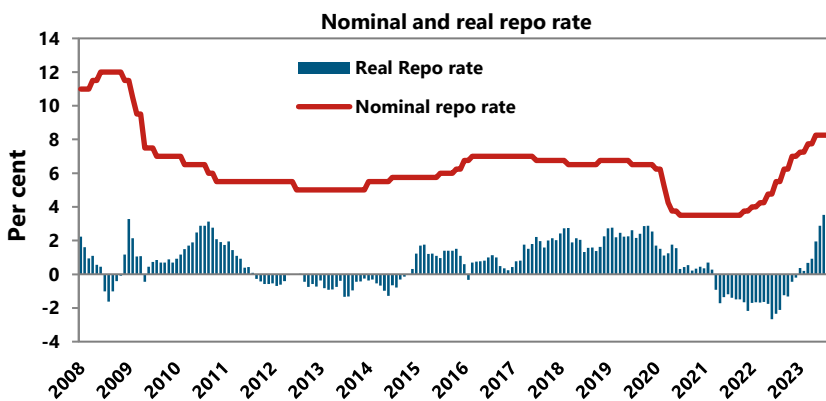
However, the unfolding Middle East crisis could result in a sharp rise in crude oil prices, with upside inflationary pressures. Fortunately, though, to date these tensions have not widened and the crude oil price has not been impacted by supply constraints. From a South African perspective, these developments accompanied by weaker global demand are likely to see oil prices under pressure and along with an appreciation of the Rand exchange rate should bode well for a further lowering in domestic fuel prices in the near-term.

After two years of aggressive monetary policy tightening, the repo rate has been raised by a cumulative 475 basis points to 8.25% at present. In light of the recent inflation trajectory and more favourable inflation prospects, interest rates may have peaked. Although the Monetary Policy Committee (MPC) raised concerns about upside inflation risks, it is unlikely that the repo rate will be raised further. Nonetheless, interest rates are expected to remain at these elevated levels for longer to anchor inflation expectations.

Monetary policy tightening may have come to an end, but interest rates to remain higher for longer

Despite higher interest rates over time, monetary policy has been broadly supportive of economic activity as inflation was higher than the repo rate, indicating negative real interest rates (i.e. excluding inflation). However, as inflation started moderating, this situation was reversed, and monetary policy became more restrictive as the real repo rate edged higher into positive territory.

Figure 6: The interest rate hiking cycle may have reached its peak



Source: IDC, compiled using SARB data

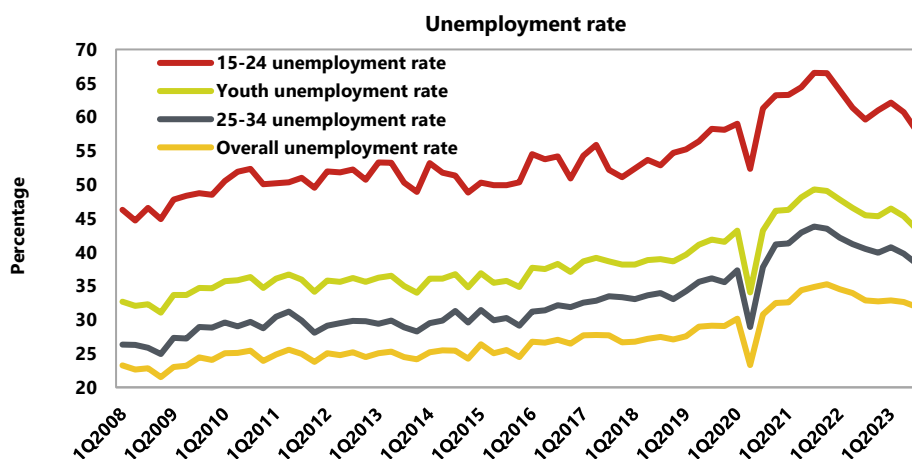
Last data point: September 2023

Youth unemployment

South Africa's unemployment rate declined marginally to 31.9% in Q3 2023 from 32.6% in the previous quarter. This is a significant improvement from the 35.3% recorded in Q4 2021, although the longer-term trend has been upwards as shown in Figure 7. However, youth unemployment (those aged between 15 and 34 years old) was significantly higher at 43.4% in Q3 2023, with the unemployment rate for those aged between 15- and 24-years old standing at a staggering 58.0%.

Youth unemployment levels are significant and on a long-term upward trend

Figure 7: Unemployment trending upward, with youth unemployment a significant concern



Source: IDC, compiled StatsSA QLFS data

Current economic growth is not sufficient to absorb all new entrants into the labour market, especially young people. In an effort to address the significant youth unemployment rate, industries that have a relatively higher youth employment tendency should be supported. Table 1 reflects the sectors with the largest increase in youth employment in the first three quarters of 2023, compared to the same period in 2022, as well as the proportion of youth in the sector's overall employment. The table reflects that the largest opportunities for the youth to gain employment are in the services sectors. For example, the retail sector increased its youth employment by just over 90 000 workers and youth constitutes 40.9% of the total employment in the sector.

Youth employment opportunities are concentrated in the services sectors of the economy

Table 1: The largest increases in youth employment in the first three quarters of 2023 y-o-y were in the services sectors

Sector	Change in youth employment	Youth employment intensity
Retail trade	91 204	40.9%
Other business activities	77 279	35.3%
Construction	75 845	31.6%
Catering and accommodation	47 858	40.1%
Land transport	33 871	29.8%
Financial services	26 540	32.3%
Health and social work	26 425	26.3%
Other activities (incl. households)	24 131	16.6%
Agriculture, forestry & fishing	12 010	40.5%
Other mining	9 675	25.3%

Source: IDC, compiled using Stats SA data

It is important to note that the manufacturing and mining sectors repeatedly indicate that they struggle to find suitably qualified workers. As such, significant effort should be made to provide appropriate education and training to young people so that they can take up these opportunities. Failure to address the current youth unemployment crisis will have a negative longer-term impact, as the shortage of appropriate skilled workers will continue to hamper the ability of South African companies to compete both domestically and globally.

Public finances

South Africa's public finances pose a key macro-economic risk, with a substantial worsening in the fiscal metric for the 2023/24 financial year relative to Budget 2023 projections. As a ratio of GDP, both the budget deficit and the gross loan debt of government are now expected to increase substantially in the current fiscal year to March 2024. Although an improvement in the deficit-to-GDP ratio is anticipated over the medium-term, the debt trajectory will still be on a rising trend.

Public finances are in a precarious state and pose a major macro risk

Revenue collections are being hampered by subdued rates of growth and softer commodity prices, thus impacting on corporate income tax, while government expenditure is increasing at a much faster rate than budgeted. Lower commodity prices have resulted in corporate taxes from the mining sector declining by R24.6 billion in the first six months of the 2023/24 fiscal year, or a drop of more than 55% on a year-on-year basis. In total, tax revenues are now estimated to record a shortfall of R56.8 billion as per the November 2023 Medium Term Budget Policy Statement (MTBPS), relative to February 2023 projections.

Revenue collections under pressure due to weak growth and softer commodity prices

Furthermore, for the period 2023/24 to 2025/26, the main budget revenue is now anticipated to be R196.4 billion lower, compared to Budget 2023 forecasts. Although non-interest expenditure is projected to decline by R88.7 billion over the three years to 2025/26, debt-service payments will be rising by R65.5 billion, relative to Budget 2023 projections, due to the higher borrowing requirement.

Table 2: Public finances trajectory budgeted by National Treasury in November 2023

R billion / percentage of GDP	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Revised	Medium-term estimates		
Main budget revenue	1 238.4	1 564.3	1 699.2	1 714.8	1 802.1	1 921.7	2 058.5
	22.1%	24.8%	25.3%	24.5%	24.2%	24.3%	24.5%
Main budget expenditure	1 789.0	1 887.3	2 009.2	2 044.9	2 123.7	2 247.2	2 369.2
	31.9%	29.9%	29.9%	29.2%	28.5%	28.5%	28.2%
Non-interest expenditure	1 556.4	1 619.2	1 700.7	1 690.4	1 737.8	1 821.7	1 913.3
	27.7%	25.7%	25.3%	24.1%	23.3%	23.1%	22.7%
Debt-service costs	232.6	268.1	308.5	354.5	385.9	425.5	455.9
	4.1%	4.2%	4.6%	5.1%	5.2%	5.4%	5.4%
Main budget balance	-550.6	-323.0	-309.9	-330.1	-321.6	-325.5	-310.7
	-9.8%	-5.1%	-4.6%	-4.7%	-4.3%	-4.1%	-3.7%
Primary balance (excl. debt-service cost)	-318.1	-54.9	-1.5	24.4	64.2	100.0	145.2
	-5.7%	-0.9%	0.0%	0.3%	0.9%	1.3%	1.7%

Source: National Treasury

Government's fiscal conundrum centres around three critical segments, namely a sizeable public sector wage bill, the Eskom bailout and support for other state-owned enterprises, as well as social grants (e.g. Social Relief of Distress Grant (SRD)). Compensation of employees measured R689.1 billion, or 40.9% of gross tax revenue in 2022/23, although this ratio is projected to decline to 38.1% by 2026/27.

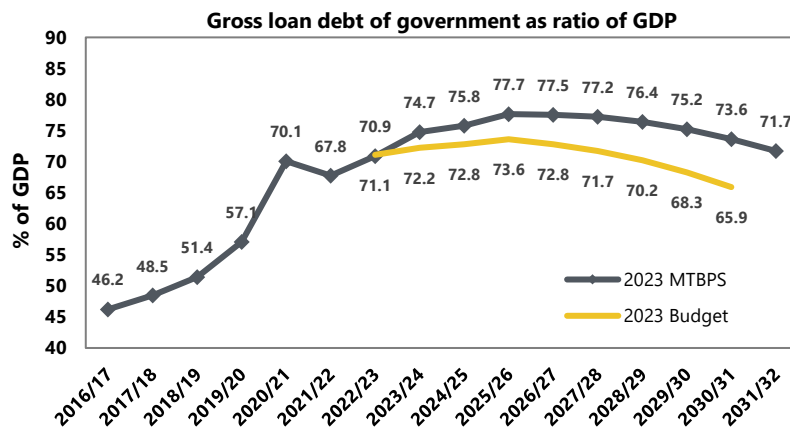
While spending cuts are necessary for fiscal consolidation efforts, it also means that much-needed expenditure on crucial service delivery may be compromised. However, capital

expenditure is forecast to grow by an average rate of 10.4% per annum over the outlook period to 2026/27, being the fastest growing expenditure item.

Relatively weak growth prospects over the next three years will frustrate government’s fiscal consolidation efforts over the outlook horizon, as the overall government debt-to-GDP ratio is forecast to rise further and to peak at 77.7% of GDP in the 2025/26 fiscal year (previously at 73.6%), compared to an estimated 74.7% in 2023/24 according to data from the November 2023 MTBPS. Moreover, overall government debt will rise by R1.29 trillion, or by 24.6% to R6.52 trillion by 2026/27, compared to 2023/24.

A worsening fiscal metrics as debt rises strongly

Figure 8: Rising debt trajectory reflecting a worsening fiscal metric



Source: National Treasury

The rising debt burden has implications for interest payments, which are forecast to increase strongly to R455.9 billion by 2026/27, compared to an estimated R354.5 billion in the current fiscal year. Put differently, interest payments are estimated to account for 20.7% of revenue in the current year and rising to 22.1% by 2026/27.

Even though credit rating agencies will be keeping a close eye on fiscal developments, structural reforms and the economy’s growth performance, no further downgrades in South Africa’s sovereign credit ratings are expected. However, the current fiscal metrics and projected trajectory do not justify a return to investment grade territory over the outlook period.

Credit ratings to remain in sub-investment territory for some time

Trade performance

South Africa’s export performance was under severe pressure over the period January to September 2023, with merchandise exports having expanded by just 1.1% (year-on-year) in nominal value terms.

Although exports of manufactured goods and agricultural products recorded relatively stronger growth, considering difficult global trading conditions, mining and mineral exports declined by 11.1% over this period. Lower commodity prices, especially in the case of coal and palladium, along with weaker global demand, have seen a sharp drop in export values for platinum group metals (PGMs) at -29.7% and for coal (-31.1%). In turn, other commodity exports such as gold, iron ore, chrome and copper recorded higher exports (in nominal values) over this reference period.

Export performance affected by challenging global and domestic factors

Table 3: Exports under pressure due to several factors at play

Key merchandise export categories and their performances in 2023
(% change for January to September 2023; year-on-year)

Economic sector	Exports (R Billion)	% change (year-on-year)
Agriculture, forestry & fishing:	109.3	16.1%
Citrus	32.4	25.0%
Maize	18.2	12.1%
Deciduous fruits (apples, pears)	11.0	7.2%
Grapes	10.7	-7.2%
Other agriculture	37.0	22.6%
Mining (total):	603.3	-11.1%
PGMs	149.8	-28.0%
Coal	108.9	-35.0%
Iron ore	87.5	4.7%
Gold	85.6	34.6%
Other mining	171.4	9.9%
Manufacturing (total):	805.1	10.8%
Motor vehicles & parts	192.9	20.0%
Iron and steel	93.3	9.5%
Machinery and equipment	80.6	18.3%
Processed food	64.1	19.2%
Non-ferrous metal products	57.1	16.8%
Basic chemicals	52.2	-16.3%
Petroleum products (refined)	46.2	20.2%
Paper & paper products	23.7	28.8%
Other manufacturing	194.9	0.3%
Total merchandise exports	1 528.7	1.1%

Source: IDC, compiled using SARS data

Despite weak domestic demand, merchandise imports increased by 11.1% (year-on-year) over the first nine months of 2023, with motor vehicles and parts, machinery and equipment, beverages and rubber products recording sharply higher import values. South Africa is increasingly relying on imports to meet domestic demand, with import penetration rising. This is partly a reflection of continuous loss of competitiveness in various domestic industries, as well as local businesses and consumers opting for cheaper alternatives. Not only does a higher import reliance have balance of payments implications, but it is replacing domestic production capabilities and subsequently resulting in job losses.

South Africa's trade surplus narrowed substantially to R48.0 billion over the 9-month review period, compared to a much larger surplus of R178.8 billion over the same period in 2022. Yet weak demand from South Africa's key trading partners, a challenging global trading environment, logistical constraints and difficult operating conditions may see merchandise exports still underperforming for some time.

Potential economic benefits associated with localisation

Notwithstanding the South African economy's prevailing weakness, imports rose by 14.9% in 2022 and by a further 8.4% (year-on-year) in the first half of 2023, in real terms, and well above GDP growth of 1.9% and 0.9%, respectively. Furthermore, the economy's import penetration ratio (i.e. real imports of merchandise goods as a percentage of gross domestic expenditure) has risen steadily over time, reaching a record high of 26.8% in Q2 2023. Thus, almost 27% of all goods used or consumed domestically, are being imported.

The import basket is dominated by transport equipment (including motor vehicles and parts); base metals, machinery and equipment; chemicals and chemical products (including refined petroleum products; fertilisers and pesticides; and pharmaceuticals), as well as mining and mineral products (mostly crude oil).

Strong import demand, despite weakness in the domestic economy

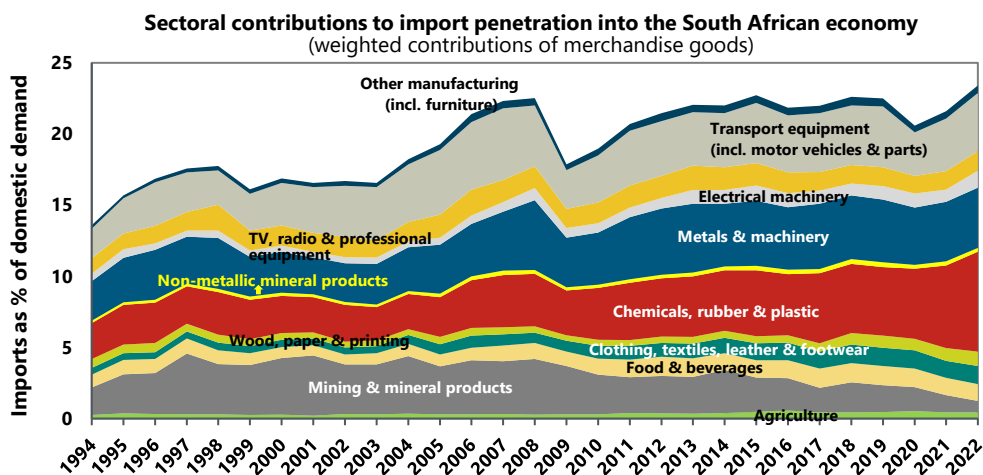
High import intensity providing room for increased localisation and import replacement

Due to the closure of several local refineries in recent years, the import bill for refined petroleum products increased significantly from R61.7 billion in 2020 to R130.9 billion and R312.6 billion in 2021 and 2022, respectively. Imports of refined petroleum products accounted for 17.2% of all merchandise imports in 2022, compared to just 5.5% in 2020. South Africa’s strong reliance on imported motor vehicles, parts and accessories has seen import demand rising to R252.1 billion, representing 13.9% of merchandise imports in 2022.

Demand for capital goods (e.g. non-electrical and electrical machinery and equipment) also features prominently in South Africa’s import basket, with a combined value of R285.1 billion in 2022, equivalent to 16% of the entire import basket. These three broad import categories accounted for a combined share of 47% of South Africa’s merchandise imports in 2022.

Capital goods feature strongly in SA’s import basket

Figure 9: A changing composition of the import basket



Source: IDC analysis, compiled using Quantec, SARB data

An interesting analysis reveals the composition of the import basket in terms of purpose of application of such imported items (i.e. by broad economic classification), namely: capital goods; consumption goods; intermediate goods; raw materials and unclassified items.

Table 4 provides insight into the composition of South Africa’s import basket (at current prices) according to the purpose of final application or use. For example, imports of capital goods amounted to R299.9 billion, or equivalent to 16.5% of all merchandise imports in 2022. Intermediate goods accounted for R781.0 billion, or 42.9% of the entire merchandise import basket, with motor vehicles and parts, chemicals and chemical products, as well as non-electrical and electrical machinery and equipment the main import items.

Intermediate goods claim the majority share of SA’s merchandise imports

The use of imported products can be across various segments, with imports of petroleum products, for example, being predominantly a consumption good, although also used as an intermediate input for further beneficiation.

Considering the high import intensity of the South African economy, a meaningful reduction in import requirements could have substantial benefits for the domestic economy. Increased import replacement would result in additional productive capacity in the local economy across various sectors, with the associated benefits thereof measurable in terms of key economic indicators such as increased output, GDP and employment opportunities.

Substantial economic benefits may be associated with import replacement

In 2022, overall merchandise imports amounted to R1 820.4 billion in nominal value terms, as indicated in Table 4. Imports of manufactured goods amounted to R1 668.7 billion, or close to 92% of all imports in 2022.

Table 4: Composition of South Africa's merchandise import basket in 2022

South African imports according to final application (Broad economic classification) in 2022 - Rand Million

Economic sector	Total imports	Capital goods	Consumption goods	Intermediate goods	Raw materials	Unclassified
Agriculture	30 074.7	2 882.2	7 060.9	416.2	19 715.5	0.0
Coal mining	8 575.6	0.0	0.0	0.0	8 575.6	0.0
Crude oil mining	78 623.3	0.0	0.0	6 678.6	71 944.7	0.0
Other mining	27 587.0	0.0	0.0	9 022.5	18 564.5	0.0
Processed food	80 300.7	0.0	45 606.9	31 939.3	2 754.6	0.0
Beverages	12 483.8	0.0	11 188.9	1 294.9	0.0	0.0
Textiles	20 815.5	0.0	4 588.0	16 206.7	20.8	0.0
Clothing, excl. footwear	38 723.9	0.0	34 841.4	3 882.5	0.0	0.0
Leather and leather products	4 292.6	0.0	3 768.1	514.9	9.6	0.0
Footwear	16 626.0	0.0	16 626.0	0.0	0.0	0.0
Wood and wood products	6 473.5	0.0	243.6	6 108.9	121.0	0.0
Paper and paper products	23 658.1	0.0	334.4	23 323.7	0.0	0.0
Printing and publishing	35 613.9	0.0	2 457.7	33 156.2	0.0	0.0
Petroleum and petroleum products	318 738.3	0.0	300 664.9	16 883.6	1 189.7	0.0
Industrial chemicals	112 062.2	0.0	0.0	111 975.6	86.6	0.0
Other chemical products	122 735.3	0.0	57 312.1	65 210.0	213.2	0.0
Rubber products	20 398.8	0.0	910.1	19 414.2	74.4	0.0
Plastic products	23 697.1	0.0	5 609.9	18 087.2	0.0	0.0
Glass and glass products	5 815.4	0.0	933.5	4 881.9	0.0	0.0
Non-metallic mineral products nec	13 223.9	0.0	843.6	12 380.3	0.0	0.0
Basic iron and steel products	34 944.1	0.0	0.0	34 944.1	0.0	0.0
Non-ferrous metal products	36 993.9	0.0	0.0	36 823.2	170.7	0.0
Metal products, excl. machinery	31 204.6	4 910.6	2 875.8	23 418.2	0.0	0.0
Non-electrical machinery	210 956.9	141 559.8	10 653.4	58 678.2	0.0	65.4
Electrical machinery	74 261.7	24 865.1	634.1	48 762.4	0.0	0.0
TV, radio & communication apparatus	80 103.5	66 289.0	115.3	13 699.1	0.0	0.0
Professional equipment etc.	40 715.8	26 841.8	7 394.2	6 479.8	0.0	0.0
Motor vehicles, parts & accessories	252 137.7	22 333.4	73 442.1	156 362.3	0.0	0.0
Other transport equipment	21 259.9	7 655.0	2 799.9	8 633.1	2 168.0	3.9
Furniture	7 721.3	1 439.2	2 936.5	3 345.7	0.0	0.0
Other manufacturing	22 695.1	1 320.4	13 257.1	3 211.0	4 616.6	289.9
Other (incl. electricity)	6 860.4	0.0	1 700.7	5 159.7	0.0	0.0
Total imports	1 820 374.3	300 096.5	608 799.1	780 894.1	130 225.4	359.3

Source: IDC calculations

To determine the potential economic benefits that may be associated with increased import replacement, an assumption of a 10% reduction in imports of manufactured goods (on a proportionate basis according to the 2022 sectoral contributions), over a three-year period has been made. The assumption is that the import substitution will be in a staggered approach, with a 2% reduction in 2024, 5% in 2025 and 10% by 2026 (Table 5).

Gradual reduction in imports over time

However, it should be noted that for these benefits to accrue to the economy, localisation must be done in a cost-competitive manner. Domestic companies/sectors must have the capability to increase production, raise their levels of productivity, and be able to increase economies of scale on a sustainable basis. It is critical that import replacement should not burden the economy from a production cost point of view, as that would undermine competitiveness in a highly contested global and domestic trading environment.

In utilising IDC's *Economy-wide Impact Model*, it was possible to estimate the potential economic benefits (both directly and indirectly¹) for the South African economy, associated with import substitution (i.e. increasing domestic production to meet demand requirements previously catered for by imports).

¹ Note: The Initial impact refers to the impact by the manufacturing sector itself. First Round impacts are due to all supplier industries providing goods and services to manufacturing. Indirect impacts are all the impacts due to those companies that are providing goods and services to the First Round suppliers. The Induced impact captures additional economic effects by means of household income generation through payments for labour services (salaries and wages) and the associated private consumption expenditure on goods and services.

Applying the import replacement ratios, this would amount to reduced imports of R36.8 billion in 2024, followed by R95.3 billion in 2025 and R198.9 billion in 2026 (at constant 2022 prices). Consequently, local manufacturing production will have to increase by the same amounts to satisfy domestic demand. It is based on this additional manufacturing output over the next three years that the potential economic benefits for the South African economy were estimated. Note, that the estimated impacts as illustrated in the adjacent table, refer to all inter-industry linkages (multiplier effects), including the Initial, First round, Indirect and Induced impacts, across entire supply chains and all sectors in the local economy.

Higher manufacturing production due to import replacement having substantial spin-offs for the SA economy

Table 5: Estimated benefits for the South African economy associated with import replacement

Estimated impacts associated with import replacement of manufactured goods by domestic production over a 3-year period on the SA economy (data at constant 2022 prices in Rand billion)

Economic variable	2023	2024	2025	2026
GDP (IDC forecasts - October 2023): R bn	6 658.9	6 714.8	6 816.6	6 944.0
<i>% change (y-o-y)</i>		0.8%	1.5%	1.9%
Manufactured imports : R bn (IDC estimates)	1 765.5	1 840.4	1 905.7	1 989.3
<i>% change (y-o-y)</i>		4.2%	3.5%	4.4%
GDP (import adjusted): R bn	6 658.9	6 750.9	6 910.0	7 139.0
<i>% change (y-o-y)</i>		1.4%	2.4%	3.3%
Additional GDP: R bn		36.1	93.4	195.1
Additional GDP growth due to reduced imports (%)		0.5%	0.8%	1.4%
Additional employment (number)		58 720	152 007	317 352
Import reduction (staggered approach over 3 years): R bn		36.8	95.3	198.9
<i>% reduction in imports</i>		2.0%	5.0%	10.0%

Source: IDC calculations

As a result of increased domestic production of manufactured goods and including all multiplier effects associated with production activity within the manufacturing sector, the estimated impact on the South African economy could potentially result in additional value added (GDP) in the amount of R324.6 billion on an economy-wide basis over the three-year period 2024 to 2026 (at constant 2022 prices).

Sizeable GDP impact due to higher manufacturing production

The direct (Initial) GDP impact is estimated at R63.4 billion in 2026, with the economy-wide impact at R195.1 billion, as strong multiplier effects associated with higher manufacturing production resulted in R131.7 billion of additional GDP across entire supply chains.

GDP estimated to expand at a faster pace due to import substitution

In addition, by 2026, the size of the South African economy is estimated to be 2.6% larger due to import replacement and subsequent higher domestic manufacturing production and all associated multiplier effects. Interesting to note is that real GDP growth would also gain a stronger momentum over time, with growth in 2024 being 0.5% higher and peaking at 1.4% above the current baseline growth projections in 2026.

Furthermore, by 2026, an estimated 317 352 additional employment opportunities may be created in the South African economy due to increased manufacturing production. Due to the increase in local manufacturing production (to replace imports), the direct (Initial) employment impact is estimated at 88 950 jobs across all affected manufacturing sectors in 2026, with an additional 228 403 jobs due to the First round, Indirect and Induced impacts in many sectors of the domestic economy.

Localisation to result in additional employment opportunities in many sectors

The importance of the new BRICS+ countries for South African exports

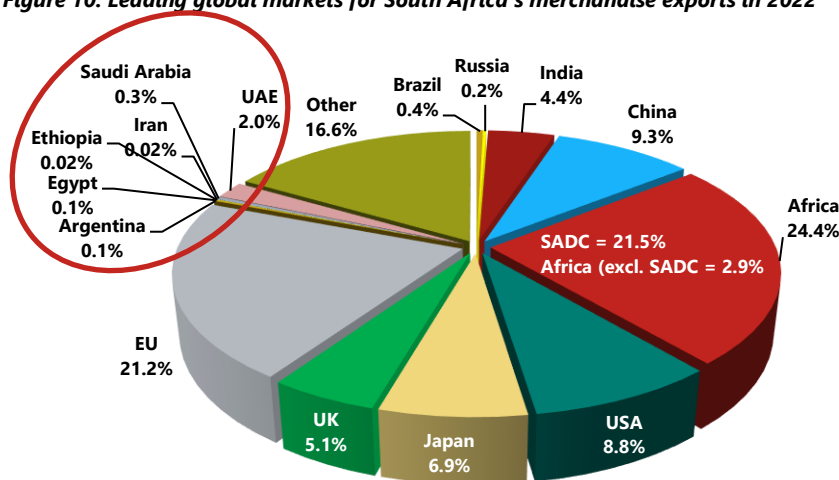
The 15th BRICS summit was held in South Africa in August 2023, with six new countries invited to join the existing bloc. Hence, as of 1 January 2024, Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates (UAE) will become full members of the BRICS, or the so-called BRICS+ bloc.

In 2022, the new BRICS+ members accounted for 3.2%, or USD3 187.9 billion of world GDP, while its combined population stood at 381.7 million people, representing 4.9% of global population. For the existing BRICS members (excluding South Africa), these ratios measured 25.4% for GDP and 40.7% for world population.

From an export perspective, these new BRICS+ members accounted for only 2.6% of South Africa's merchandise exports in 2022, valued at R54.6 billion, with the UAE (2.0%) taking the majority share. Exports to other members of the new grouping were very limited, with exports to these countries highly concentrated as a few export categories dominate each of the respective country's export baskets.

New members of the BRICS bloc account for a small share of SA's overall merchandise exports

Figure 10: Leading global markets for South Africa's merchandise exports in 2022



Source: IDC, compiled using SARS data

Exports to the new BRICS+ members in 2022 were mostly diamonds (38.5% of the export basket); agricultural cereal products (13.3%); and basic chemicals (3.6%) (refer to table below). In most instances, the top-10 export categories out of a total of 140 sectors according to the 4-digit SIC (Standard Industrial Classification), accounted for more than 75% of the export basket, with that for Iran at 96.8% the highest, while for Ethiopia (51.3%) it was the lowest.

South Africa's total imports from the new BRICS+ members measured R150.5 billion in 2022 and claimed a share of 8.3% of the overall merchandise import basket. Imports from Saudi Arabia measured R73.6 billion, comprising mostly of refined petroleum products (R33.9 billion) and crude oil (R25.1 billion), with a cumulative share of 80.2% of this import basket. In the case of the UAE, South Africa's imports amounted to R67.2 billion, with refined petroleum products having claimed an 86.8% share or R58.3 billion.

SA's import basket from the new members of the BRICS is highly concentrated

In 2022, imports from the new BRICS+ members comprised mostly of refined petroleum products (61.4% share in the import basket) and crude oil (16.7%), thereby also reflecting the highly concentrated nature of such imports.

Table 6: Export and import baskets for the new BRICS+ members are highly concentrated

Summary table of South Africa's trade (exports and imports) with the new BRICS+ members in 2022

Rank	Sector	Exports (Rand million)	% share	Cumulative (%)	Sector	Imports (Rand million)	% share	Cumulative (%)
1	Diamond mining	20 201.8	38.5%	38.5%	Petroleum refineries & synthesisers	92 344.5	61.4%	61.4%
2	Agriculture (cereals and other crops)	6 977.2	13.3%	51.8%	Crude oil mining	25 146.1	16.7%	78.1%
3	Basic iron and steel	3 509.0	6.7%	58.5%	Plastics in primary form	5 267.2	3.5%	81.6%
4	Basic chemicals	1 907.4	3.6%	62.2%	Fertilisers and nitrogen compounds	5 040.8	3.3%	84.9%
5	Motor vehicles	1 899.2	3.6%	65.8%	Basic precious and non-ferrous metals	4 430.5	2.9%	87.9%
6	Coal mining	1 645.8	3.1%	68.9%	Basic chemicals	2 970.1	2.0%	89.8%
7	Jewellery and related articles	1 578.0	3.0%	72.0%	Vegetable & animal oils & fats	2 470.9	1.6%	91.5%
8	Motor vehicle parts and accessories	1 375.3	2.6%	74.6%	Agriculture (cereals and other crops)	1 994.1	1.3%	92.8%
9	Basic precious and non-ferrous metals	1 244.2	2.4%	77.0%	Other chemical products, nec.	1 469.9	1.0%	93.8%
10	Slaughtering & processing of meat	774.2	1.5%	78.4%	Motor vehicles	949.5	0.6%	94.4%
11	Other	11 307.4	21.6%	100.0%	Other	8 399.8	5.6%	100.0%
Total		52 419.3	100.0%		Total	150 483.3	100.0%	

Source: IDC, compiled using SARS data

The following set of charts provide a perspective on South Africa's trade with the existing BRICS and that of the new BRICS+ members. Relative to the existing BRICS members, South Africa's trade with the new members is relatively small. From an export perspective, the current benefits are very limited, although new opportunities may emerge. Moreover, South Africa's trade with the new BRICS+ members recorded a widening deficit in recent years, having measured R98.1 billion in 2022 and R53.4 billion in 2021, with the trade deficit with Saudi Arabia the largest, followed by the UAE.

Trade deficit recorded with new BRICS members

It should be noted that the BRICS/BRICS+ grouping does not have a specific or preferential trade agreement. Hence, the expansion of this bloc may not necessarily result in increased trade flows beyond the existing exports and imports. Apart from China and to a lesser extent India, South Africa's trade with other member states remains limited.

Figure 11: Trade analysis of the existing BRICS and new BRICS+ members



Growth outlook for the South African economy

South Africa's economy is facing numerous challenges on several fronts, which are impacting its growth prospects over the short- to medium-term. Real **gross domestic product (GDP)** is projected to expand by a modest 0.5% in 2023 and 0.8% in 2024 and rising to 1.5% in 2025. To achieve much faster rates of economic growth on a sustained basis, South Africa needs significantly higher infrastructure investment, appropriate maintenance thereof as well as substantial efficiency improvements to provide a more enabling economic environment and business friendly operating conditions.

Household consumption expenditure will be impacted by yet high living costs, elevated interest rates, stretched balance sheets, limited access to credit, excessive levels of unemployment and low sentiment. Growth in consumer spending is projected at 1.0% in 2024, but gaining some momentum in outer years of the forecasts horizon as inflation moderates and interest rates are gradually lowered.

Fixed investment expenditure is projected to expand by a further 3.9% in 2023, following a robust 4.8% increase in 2022, albeit off a very low base, considering several years of contraction. Nonetheless, various factors are still likely to constrain much needed fixed investment spending in the short-term, particularly infrastructure-related impediments such as electricity supply, rail transportation and port services, surplus production capacity, weak demand, limited need for investments in new and/or the expansion of production capacity in many sectors, as well as the slow implementation of critical policies for a well-functioning economy.

Projections for key performance indicators of the South African economy

Variable (% change or % of GDP)	2018	2019	2020	2021	2022	2023f	2024f	2025f	2026f	2027f	2028f
Real GDP growth and its components:											
Household consumption expenditure	3.2	1.3	-6.1	5.8	2.5	0.8	1.0	1.4	2.3	2.8	3.2
Government consumption expenditure	1.1	1.8	0.9	0.5	1.0	0.8	0.6	0.8	0.9	1.2	1.4
Gross fixed capital formation (GFCF)	-1.2	-1.7	-14.6	0.6	4.8	3.9	3.6	2.7	3.1	3.5	3.1
Exports	2.7	-3.3	-12.0	9.1	7.4	3.7	4.1	3.8	3.5	3.8	3.8
Imports	3.5	0.6	-17.6	9.6	14.9	5.8	4.2	3.5	4.4	4.2	3.5
GDP	1.6	0.3	-6.0	4.7	1.9	0.5	0.8	1.5	1.9	2.5	2.9
Consumer price inflation	4.6	4.1	3.3	4.6	6.9	6.0	5.1	4.5	4.2	4.5	4.8
Current account balance (% of GDP)	-2.9	-2.6	1.9	3.7	-0.5	-2.4	-3.4	-3.5	-4.2	-4.7	-4.7
GFCF as % of GDP	15.9	15.5	13.8	13.2	14.2	14.8	15.1	15.4	15.6	15.8	15.7
Repo rate (%) end of period	6.75	6.50	3.50	3.75	7.00	8.25	8.00	7.00	6.75	6.50	6.50
Rand per USD (average per year)	13.23	14.45	16.46	14.78	16.36	18.53	19.18	18.69	18.39	18.26	18.34

Source: IDC, compiled using SARB data, IDC forecasts

South Africa's **public finances** are in a dire state, while relatively weak growth prospects are likely to frustrate government's fiscal consolidation efforts over the outlook horizon. The rising debt trajectory is of particular concern as government faces increasing pressures on the expenditure side, while demand by other SOEs (e.g. Transnet) for a financial "bail-out" may exert ongoing pressures on the fiscus.

Even though credit rating agencies will be keeping a close eye on fiscal developments, structural reforms and the economy's growth performance, no further downgrades in the **sovereign credit ratings** are expected. However, a return to investment grade territory should not be anticipated very soon.

After having recorded a solid rebound in 2021 (+9.1%) and 2022 (+7.4%), **exports** have been under pressure and are estimated to expand by 3.7% in 2023. Considering difficult demand

conditions in several of South Africa's key external markets, the country's export performance may be under pressure over the outlook period. The projected moderation in China's economic growth over the next couple of years is likely to adversely impact South Africa's commodity exports, as China accounts for roughly 50% of global industrial commodity consumption. Local companies will, therefore, need to focus on competitiveness enhancements, raising the level of productivity and to find new/alternative markets for their products.

Considering South Africa's high import intensity, **import demand** is expected to increase at a relatively fast pace over the outlook period. Furthermore, the expected firmer growth momentum of the domestic economy towards the latter part of the forecast period is likely to result in increased demand for imported capital goods (e.g. machinery and equipment) associated with an up-tick in fixed investment. Moreover, the anticipated increase in household consumption expenditure could result in stronger demand for consumer-related items in the final years of the outlook period.

However, the successful implementation of **localisation and import substitution** initiatives may result in a progressive reduction of the economy's import-reliance over time, although such a replacement trend may be quite gradual.

The **Rand** is projected to remain under significant pressure in the short-term, as several adverse global and domestic factors weigh on its performance. Even though the Rand is projected to appreciate over the outlook period, the local currency is projected to remain highly undervalued.

A disinflationary trend is being projected, with **consumer price inflation** forecast to average 6.0% in 2023 (6.9% in 2022) and 5.1% in 2024, whereafter inflation is expected to stabilise around the mid-point of the target range. However, food and electricity prices are forecast to stay at elevated levels and well above overall inflation, thereby continuing to contribute to high living costs for consumers.

The end of the current **interest rate** tightening cycle may have been reached, with the repo rate at 8.25% and the prime lending rate at 11.75% at present. However, interest rates are anticipated to remain higher for longer to contain inflation and anchor expectations. The Monetary Policy Committee is expected to only start with a very gradual lowering of interest rates as from Q4 2024 onwards, with the repo rate projected to decline by a cumulative 175 basis points to 6.50% by Q1 2027.

A rather modest **growth trajectory** is forecast for the South African economy over the period 2024 to 2028 as real GDP is projected to expand at an average annual rate of 2.2% per annum. Such pace of growth is deemed insufficient to address the several socio-economic challenges of high unemployment, rising poverty and inequality. It should be noted that the risks to this growth outlook are tilted to the downside unless structural impediments to growth are addressed swiftly and decisively to create a more enabling environment conducive for much faster rates of economic growth and development.

Department of Research and Information

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