SA Economic Prospects: Bracing for a tough year

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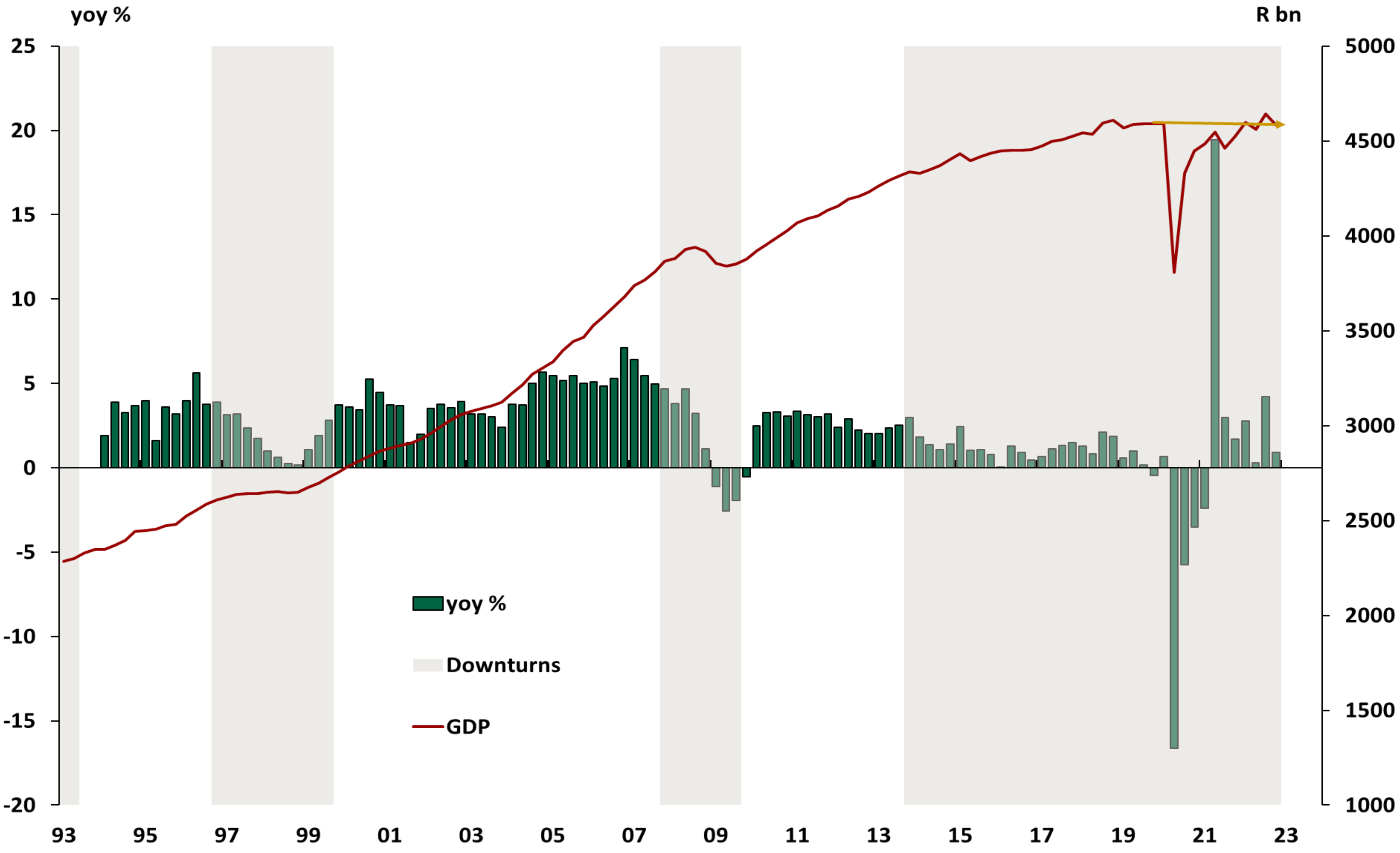
Overall, the economy held up relatively well in face of repeated shocks in 2022



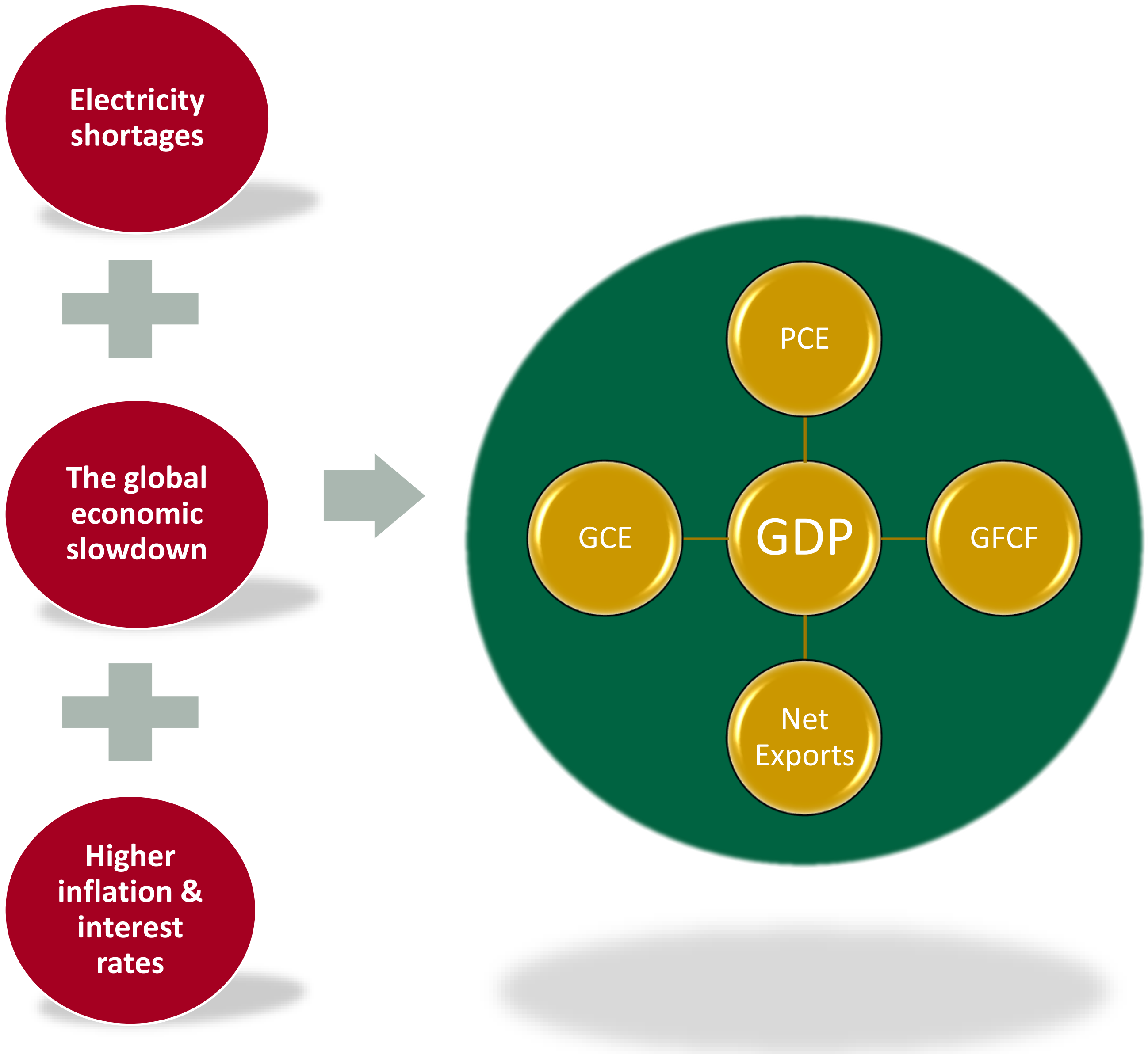
Real GDP managed to grow by a reasonable 2% in 2022, despite absorbing multiple shocks, including:

- Surging fuel & food prices due to Russia's war on Ukraine
- Devastating floods in KZN
- A frightening escalation in load-shedding in Q4.

Even so, acute power outages hit the economy hard in Q4, dragging GDP down by 1.3% qoq.

Source: Stats SA

SA faces three major challenges in 2023



Load-shedding poses the greatest threat to the country's economic outlook

The problem dates back to long before 2008:

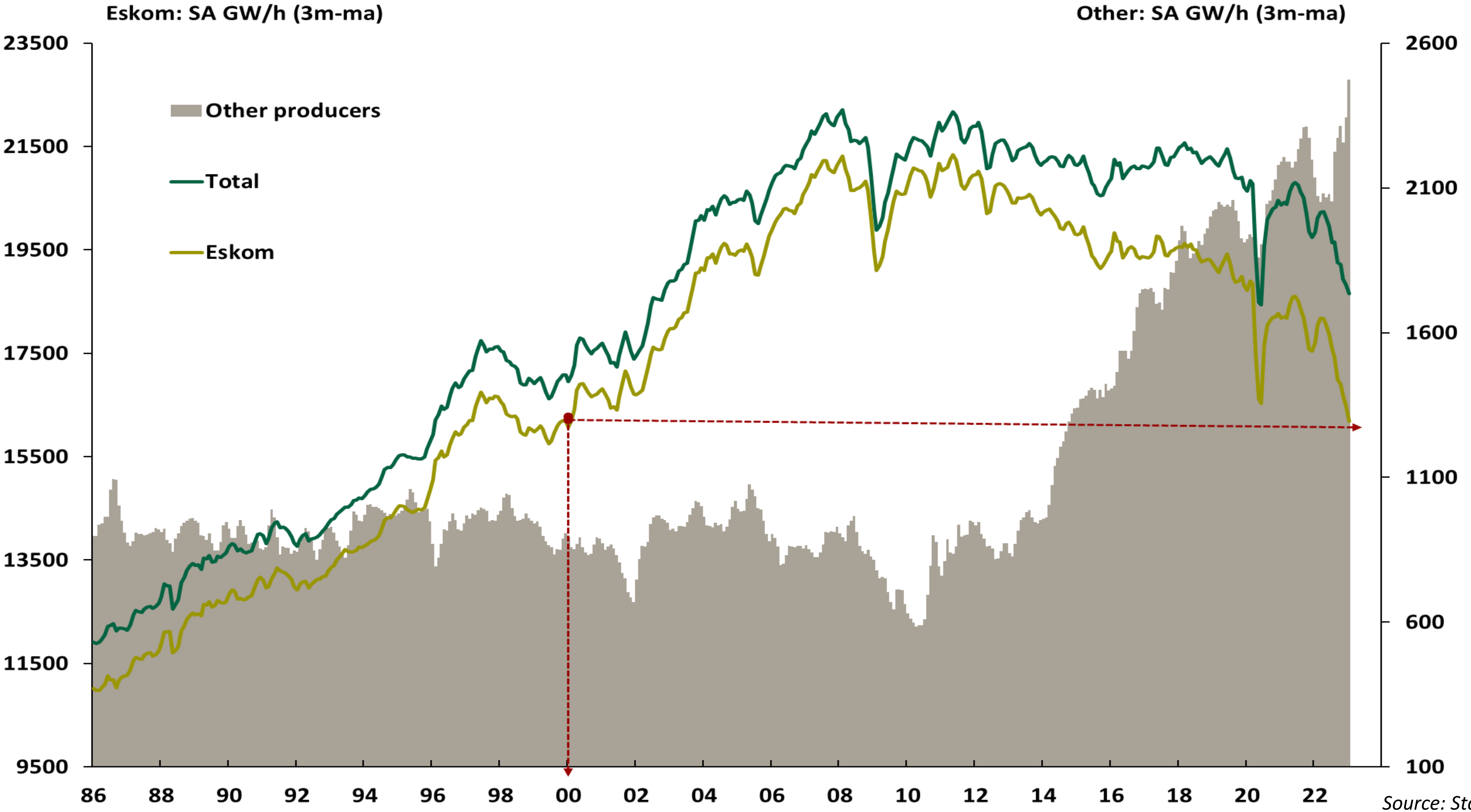
- Poor planning: Failed to approve and install new capacity timeously
- Corruption & state capture viciously undermined the quality and dramatically inflated the cost of the two new power plants that were suppose to end load-shedding.
- Corruption & criminality now deeply entrenched, extending throughout the pipeline from coal – transport – generation.
- Maintenance of existing fleet poor, also aggravated by criminal activity
- Renewable energy programme halted during the Zuma years
- Grid infrastructure neglected – concentrated around coal deposits, extremely limited in areas suited for renewables

New power plants: Structurally flawed

Existing fleet so old, amplifying unexpected outages

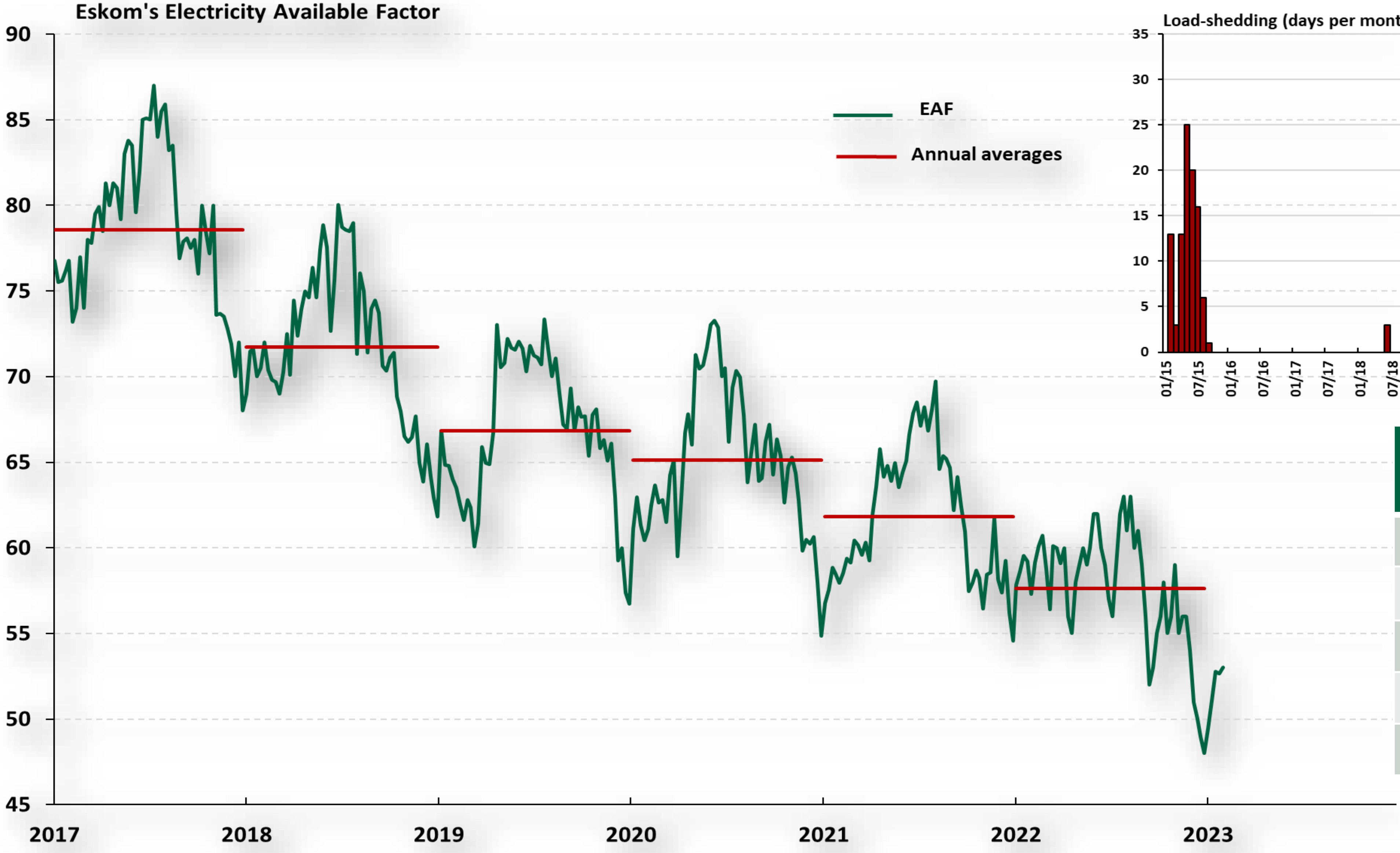
Year	Plant	MW
1961	Komati	990
1963	Rooiwal	300
1967	Camden	1561
1969	Grootvlei	1180
1970	Hendrina	1893
1971	Arnot	2352
1976	Kriel	3000
1979	Matla	3600
1980	Duvha	3600
1984	Koeberg	1860
1985	Lethabo	3708
1987	Matimba	3990
1988	Kendal	4116
1996	Majuba	4110
2015	**Medupi**	**4764**
2017	**Kusile**	**4800**

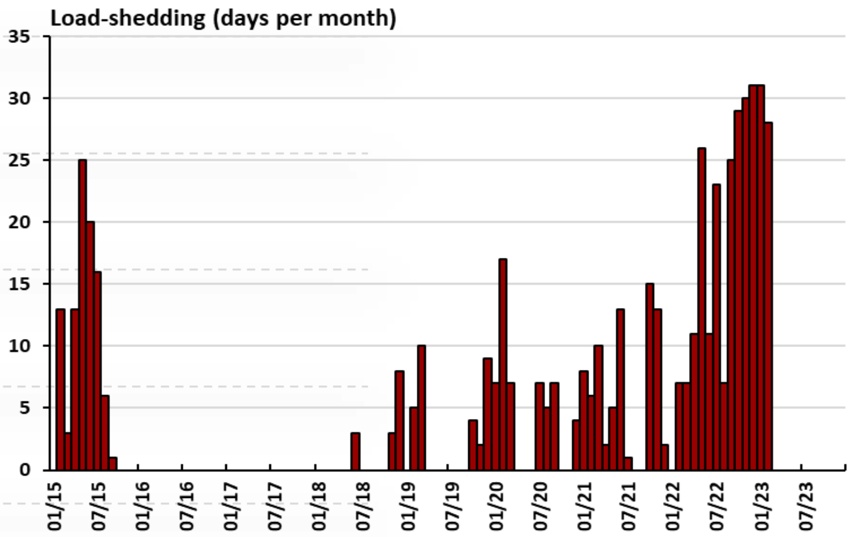
Eskom today produces less electricity than in 2000



Source: Stats SA

Eskom’s electricity availability factor stands at 53% versus the global average of 86%

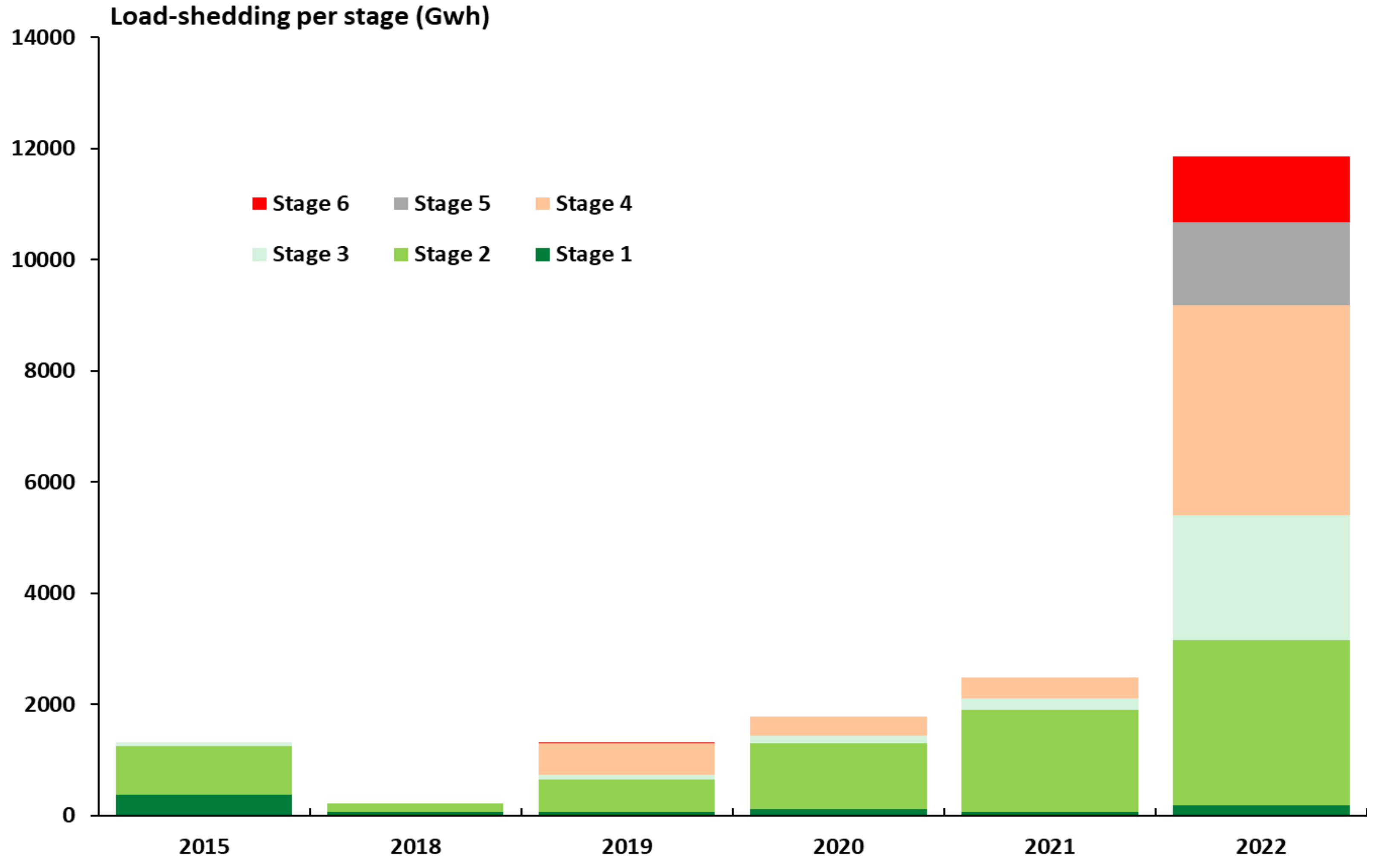




Years	No of days of outages
2018	14
2019	30
2020	54
2021	75
2022	207

Source: Eskom

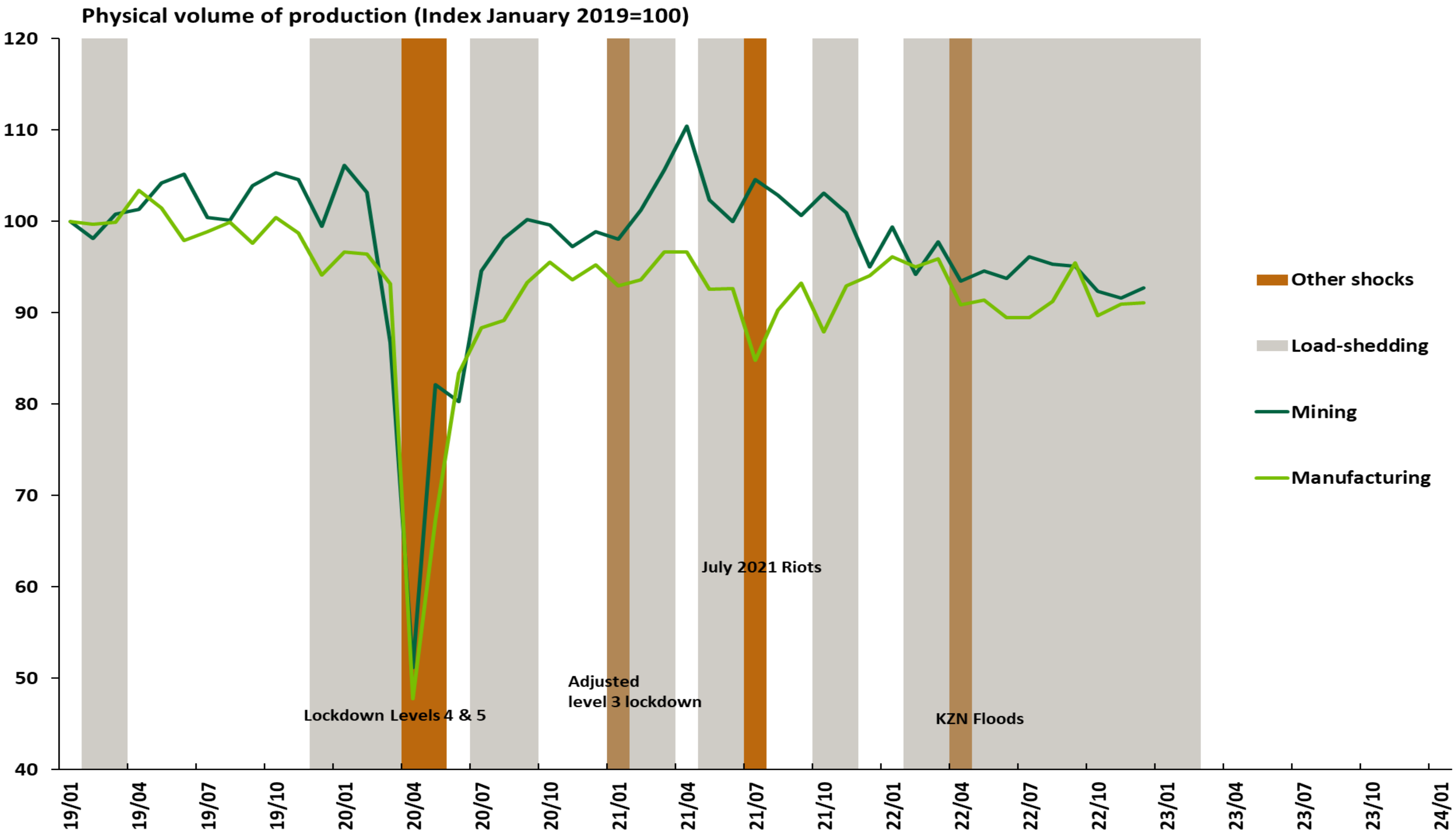
The SARB estimates that load-shedding shaved 2% off GDP in 2022

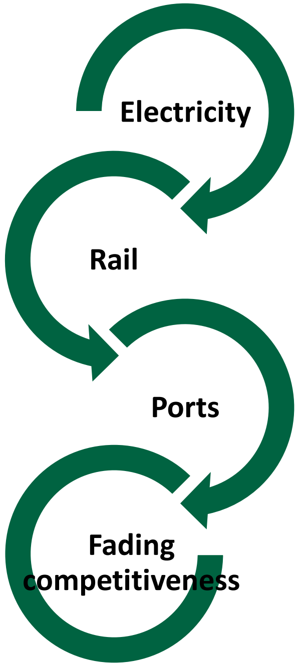


source: eskom se push and own calculations

Stages	Real GVA lost (R mn)	Nominal GVA lost (R mn)
1-2	0 - 0.8	0 – 1.2
3	135.8	203.8
4	271.7	407.5
5	483.2	724.8
6	499.0	898.5

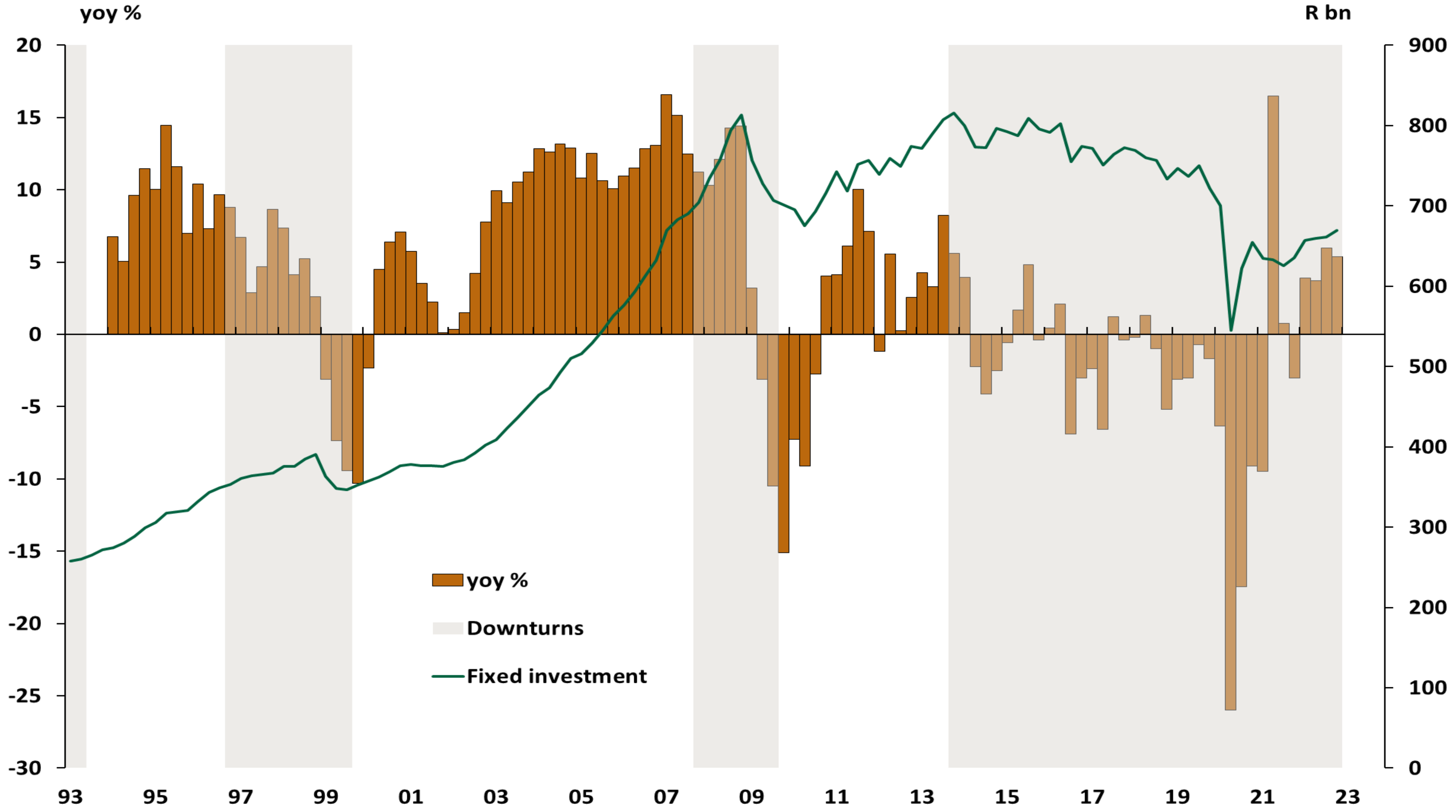
Load-shedding will hurt mining and manufacturing – our main exporters - the most





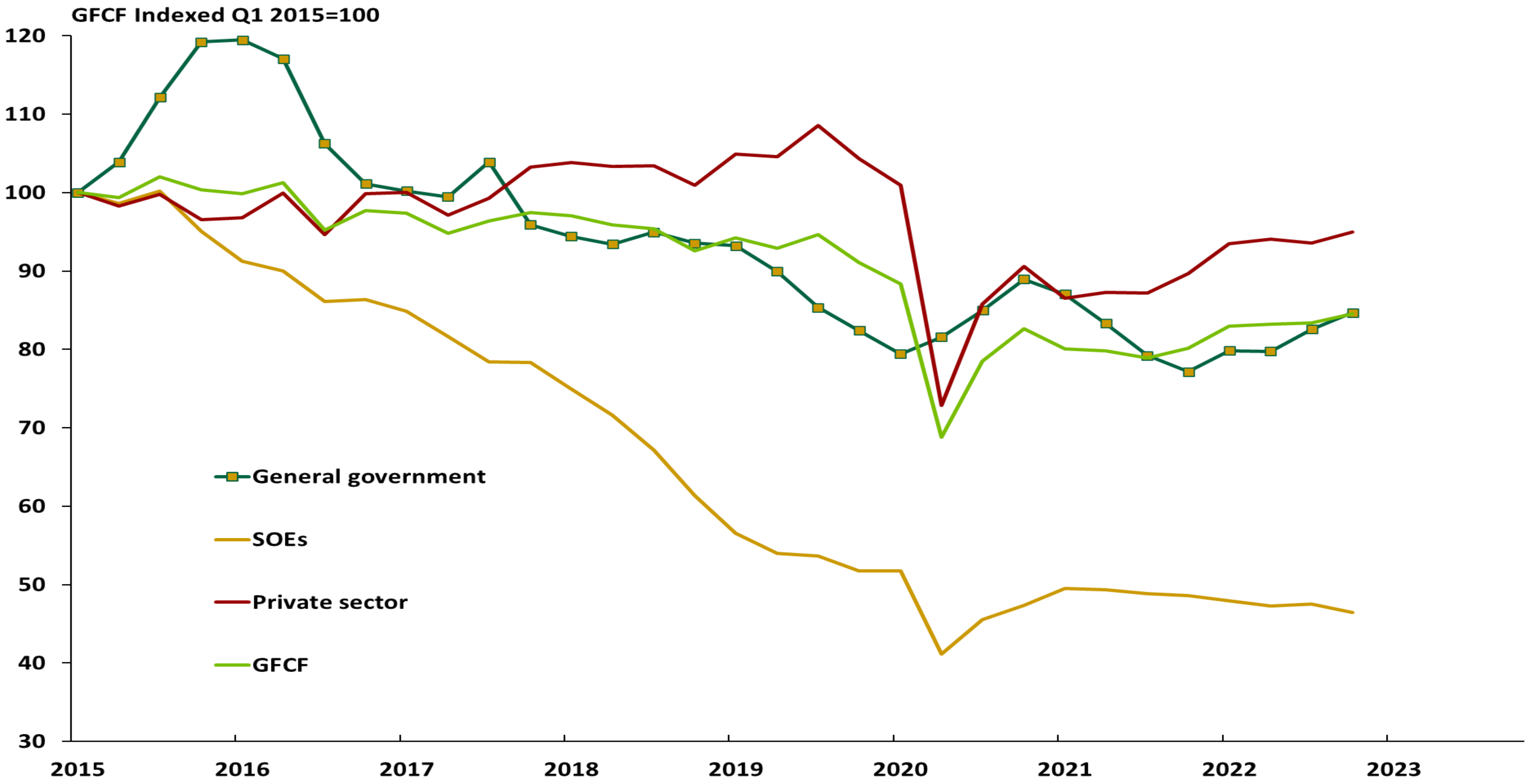
Source: Stats SA

The electricity crisis could accelerate fixed investment in alternative energy sources



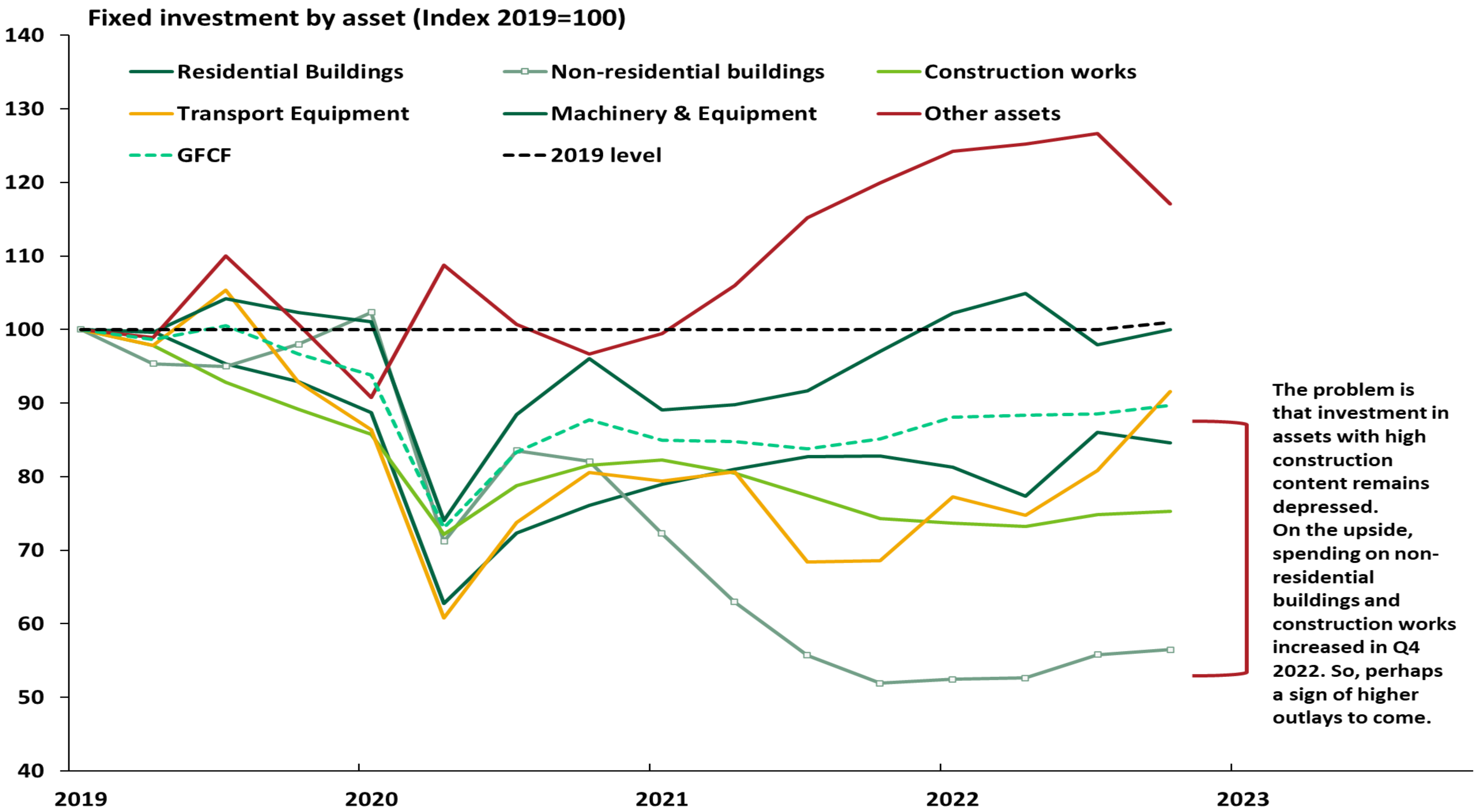
Source: SARB

Despite the tough circumstances in Q4, private sector capex increased



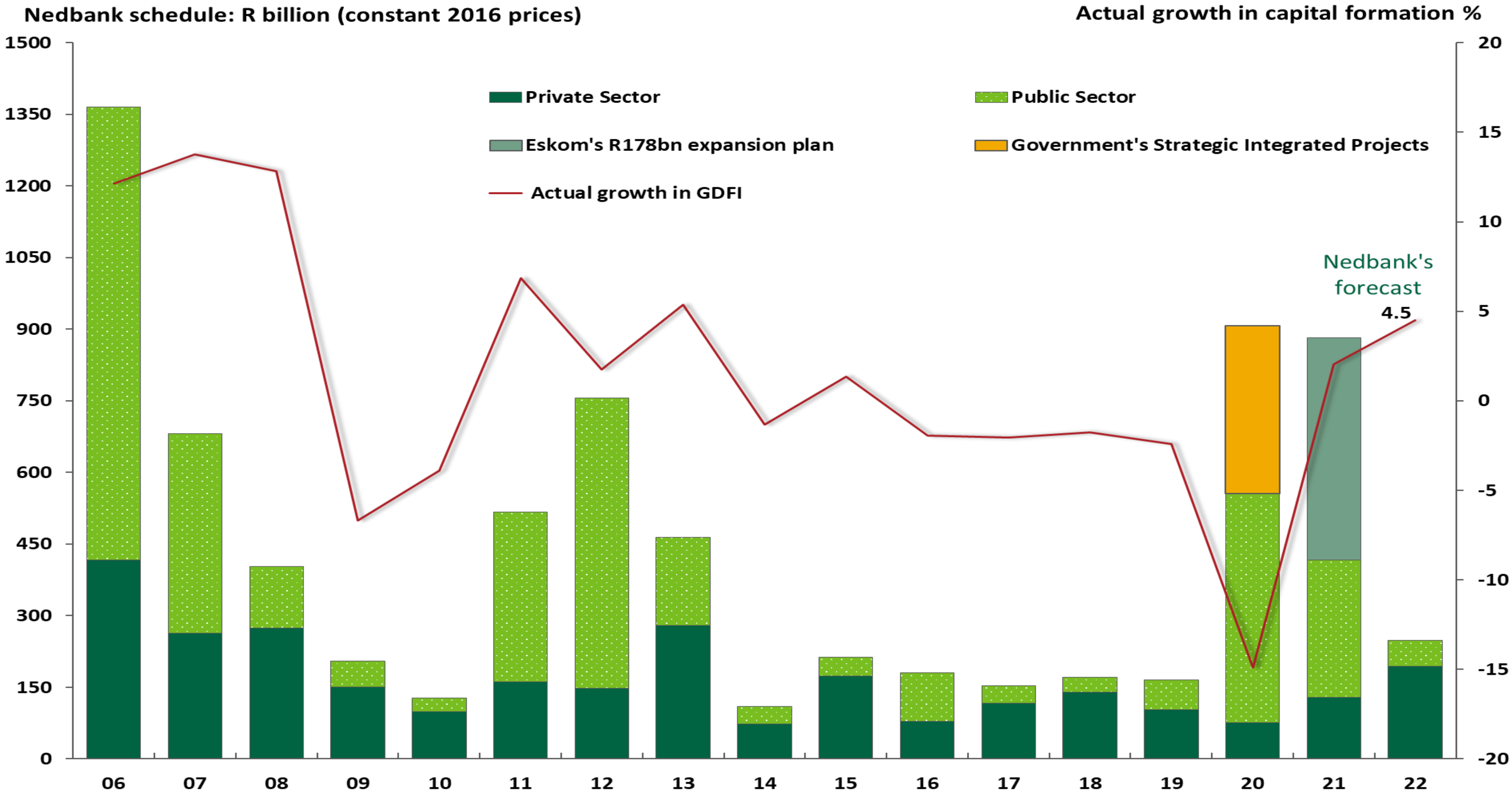
Source: SARB

Capital expenditure on ‘construction-content’ remains subdued



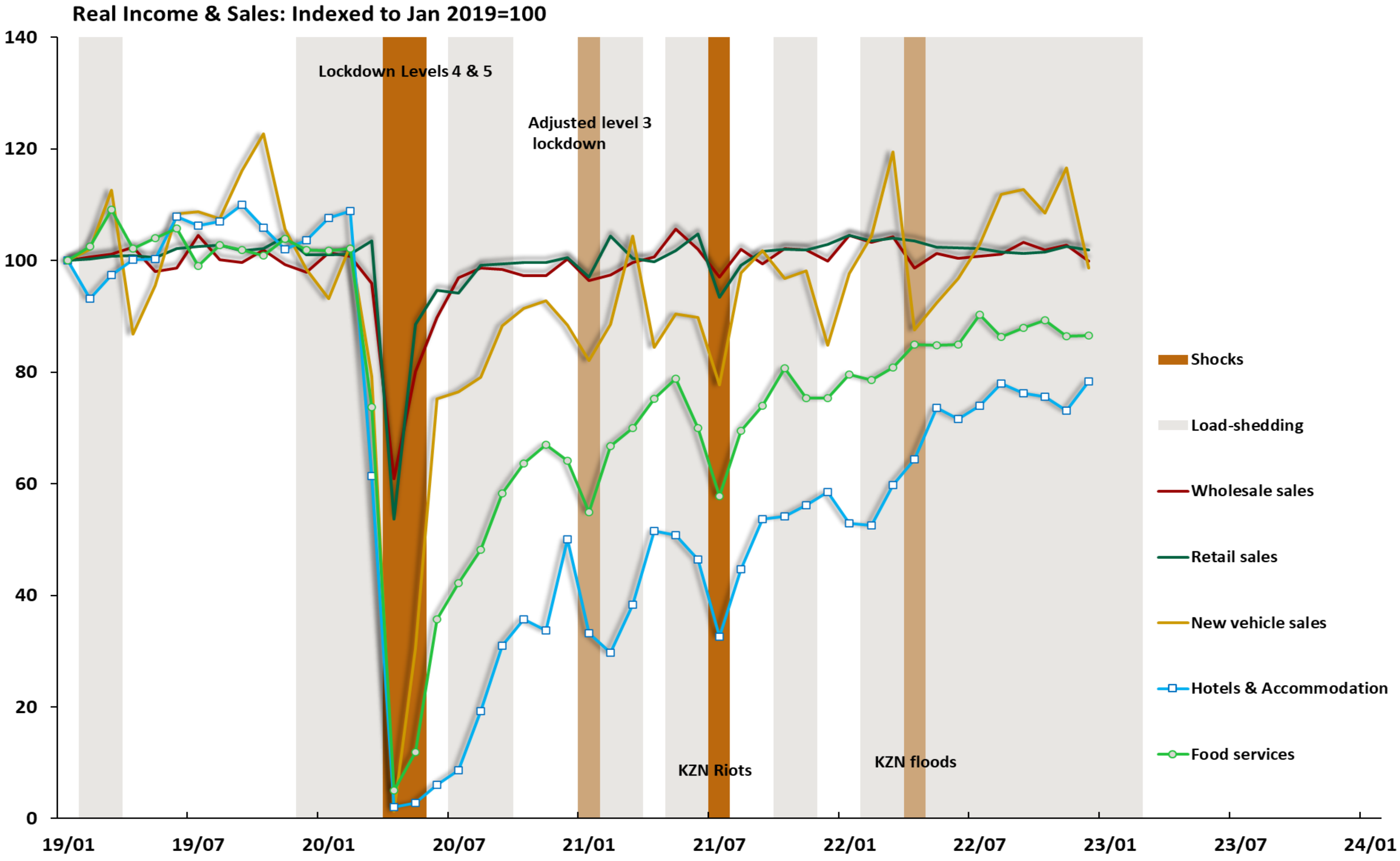
The problem is that investment in assets with high construction content remains depressed.
On the upside, spending on non-residential buildings and construction works increased in Q4 2022. So, perhaps a sign of higher outlays to come.

Nedbank's project listing shows a sharp falloff new capex plans



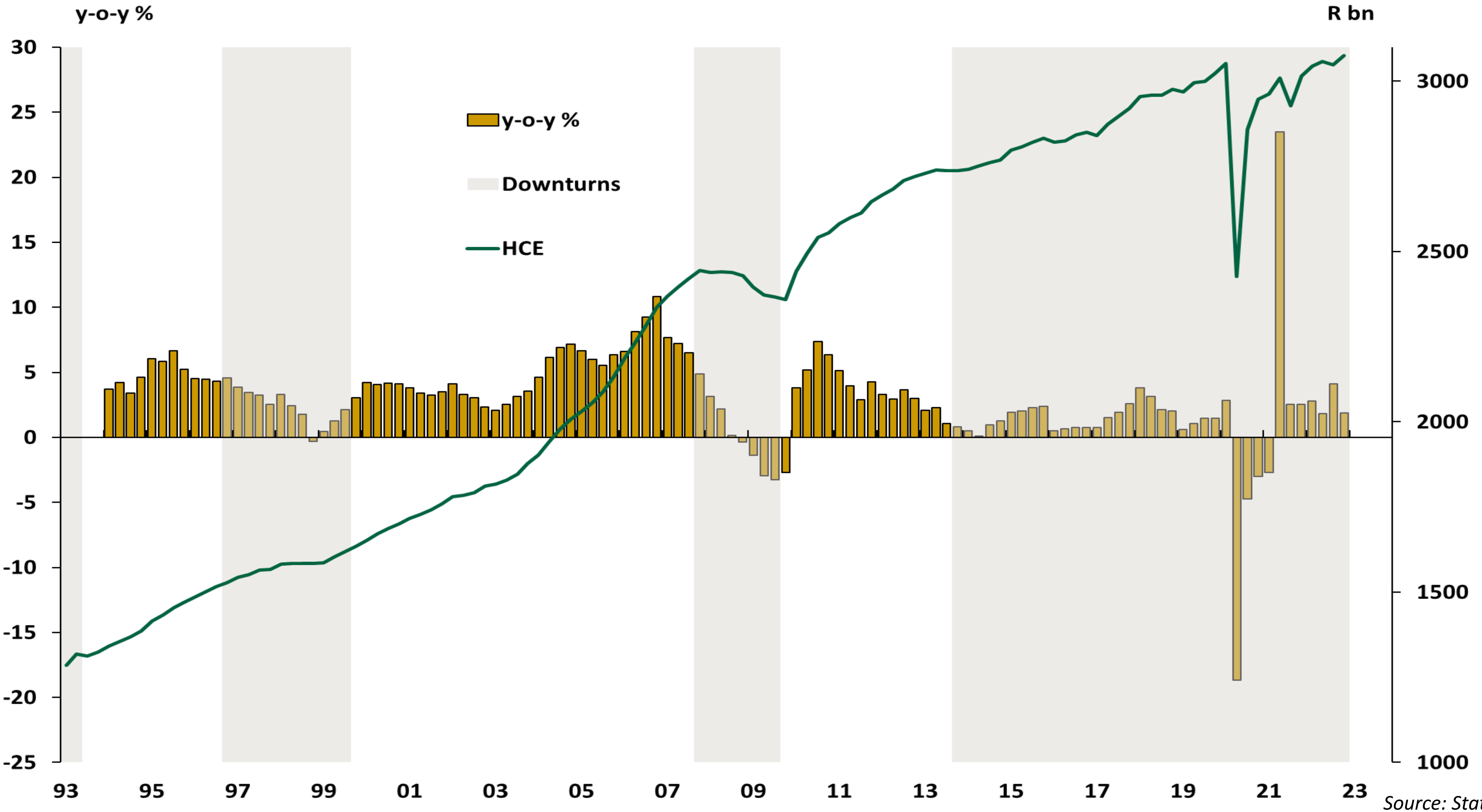
Source: Stats SA, SARB, Nedbank

While power outages will hurt the heavy-energy users the most, it will also hurt services



Source: Stats SA

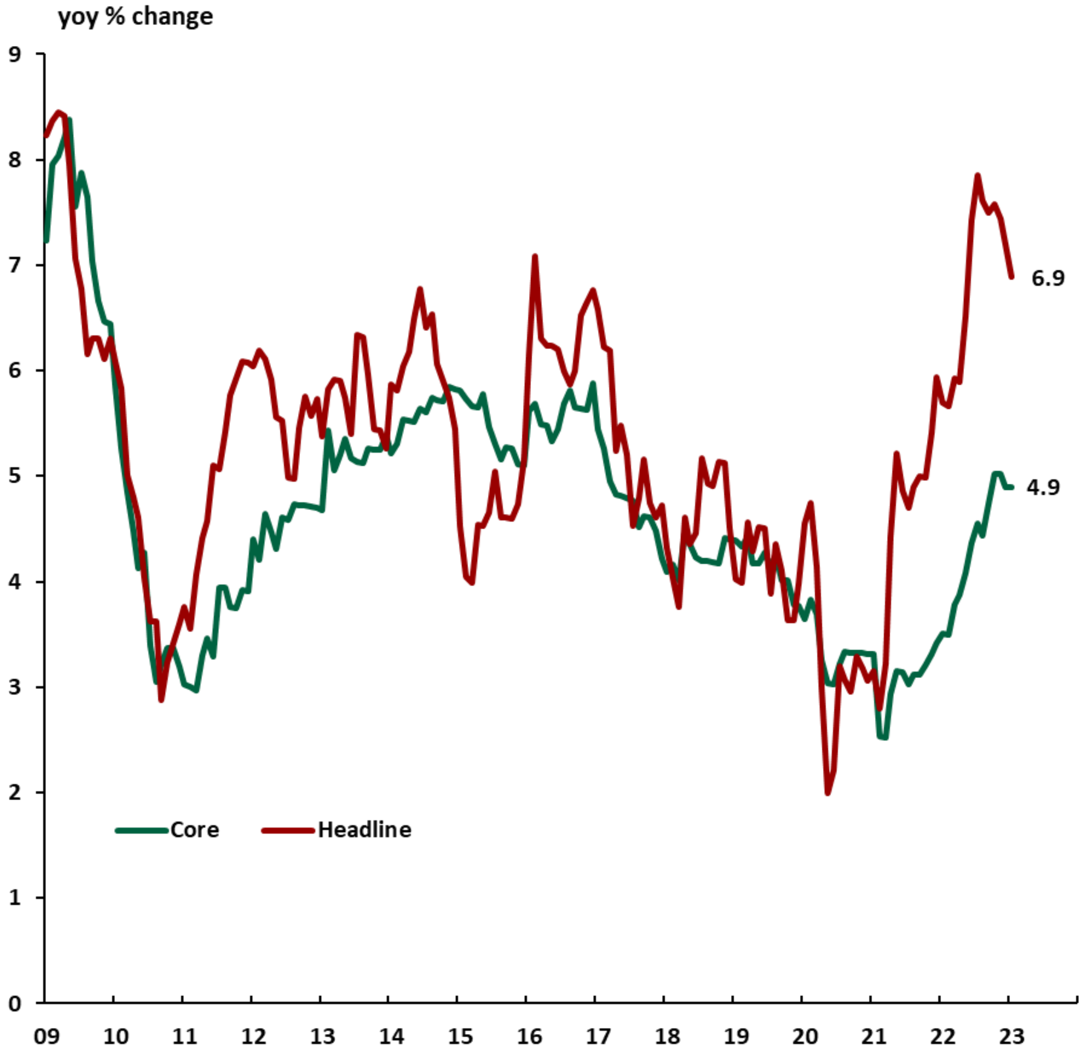
So far, consumer spending has remained robust



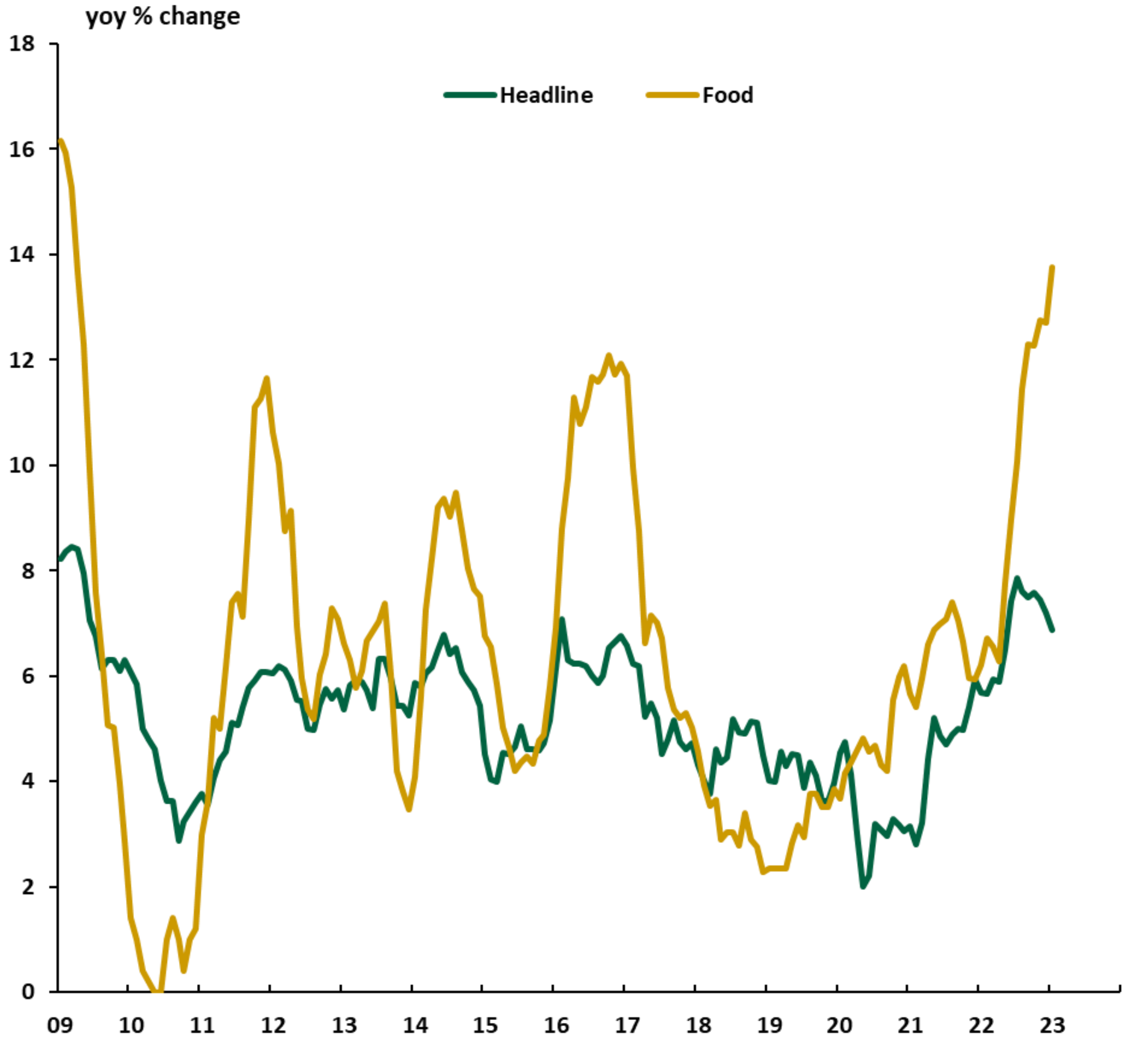
Source: Stats SA

Inflation remains an erosive influence, but there is light at the end of the tunnel

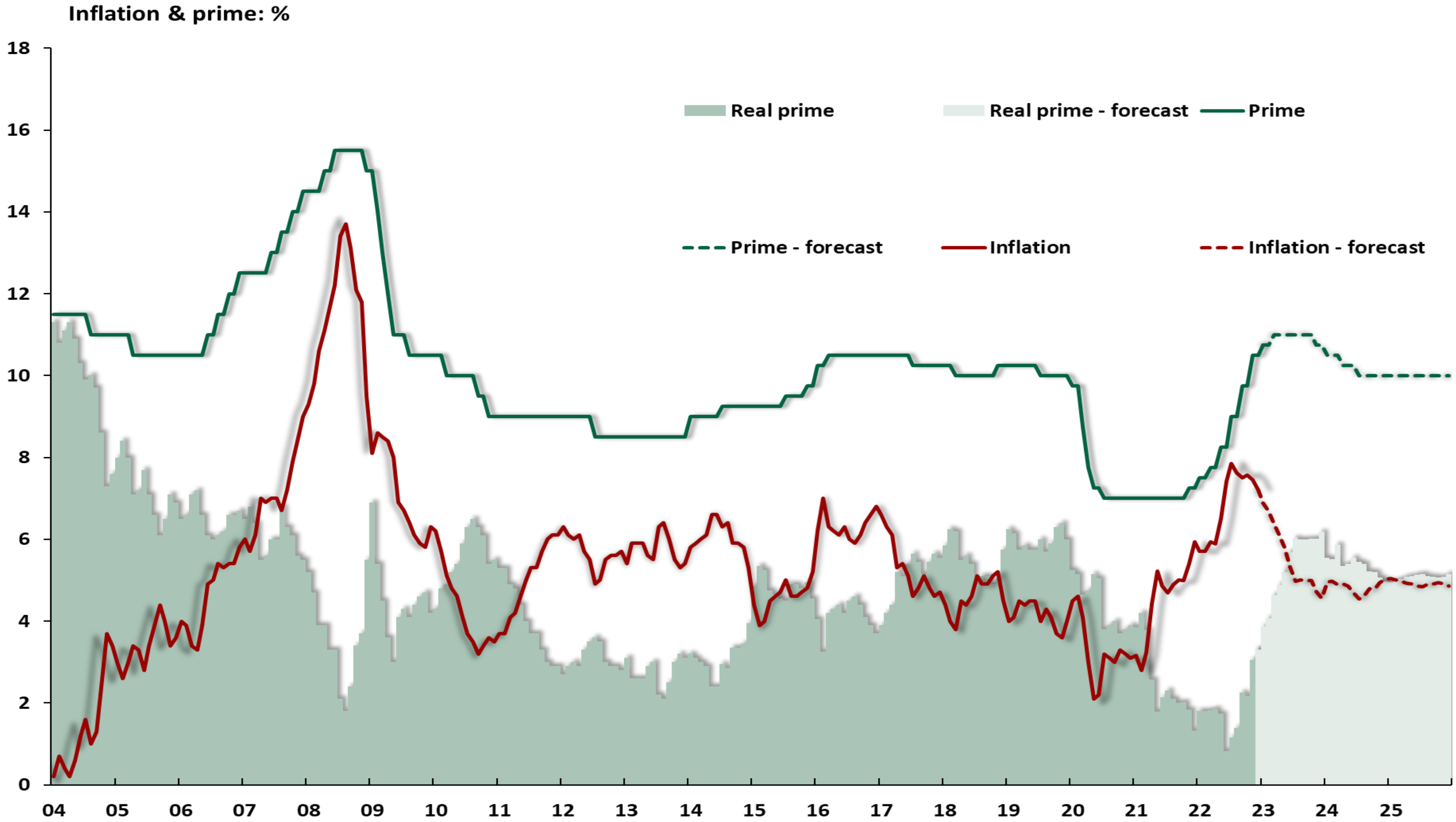
Headline inflation is starting to ease



However, food inflation is a real worry



With inflation above 6%, the Reserve Bank will push through one more rate hike



Years	Prime
2023	10.75
2024	10.00
2025	10.00
2026	10.00

All sources of demand are likely to weaken in 2023

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Economic growth - Annual growth rates (%)										
Consumer spending	0.7	1.7	2.7	1.2	-5.9	5.6	2.6	1.0	1.9	1.9
Fixed investment	-1.9	-2.0	-1.3	-2.1	-14.6	0.2	4.7	2.1	2.2	1.9
Exports	0.4	-0.3	2.7	-3.4	-11.9	10.0	7.5	-4.0	4.8	4.4
Imports	-4.1	1.5	3.2	0.4	-17.4	9.5	14.2	-1.5	4.1	4.7
GDP	0.7	1.2	1.5	0.3	-6.3	4.9	2.0	0.1	1.5	1.6
Balance of Payments										
Current Account (R'bn)	-127.4	-120.2	-157.4	-144.2	109.6	227.7	-39.9	-78.3	-165.2	-210.2
As % of gdp	-2.7	-2.4	-2.9	-2.6	2.0	3.7	-0.6	-1.1	-2.2	-2.6
Interest rates - Year-end rates										
3-month JIBAR	7.36	7.16	7.15	6.80	3.63	3.87	7.21	7.27	6.52	6.55
Prime	10.50	10.25	10.25	10.00	7.00	7.25	10.50	10.75	10.00	10.00
Long bond	8.92	8.82	9.22	8.96	8.93	9.65	10.84	10.15	9.52	9.47
Exchange rates - Annual averages										
ZAR/USD	14.68	13.26	13.24	14.48	16.45	14.93	16.41	17.87	17.45	17.63
ZAR/EUR	16.19	15.06	15.59	16.20	18.86	17.63	17.23	19.10	19.06	19.80
ZAR/GBP	19.81	17.21	17.58	18.49	21.15	20.54	20.06	21.89	21.61	21.97
JPY/ZAR	7.45	8.46	8.38	7.54	6.49	7.40	8.03	7.50	7.60	7.39
USD/EUR	1.10	1.14	1.18	1.12	1.15	1.18	1.05	1.07	1.09	1.12
Inflation - Annual averages										
CPI	6.3	5.3	4.6	4.1	3.3	4.6	6.9	5.5	4.8	4.6

The end

Thank you for listening