

Eskom, green energy boost and global pivots: The SA economy through 2024

BER Briefing

10 May 2023

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Main messages

Global

- Banking sector stress adds to (US) **recession** fears
- DM **central banks** nearing end of hiking cycles
- Excl gold, SA export **commodity prices** under pressure
- Subdued MT global growth outlook, with near-term sticky inflation

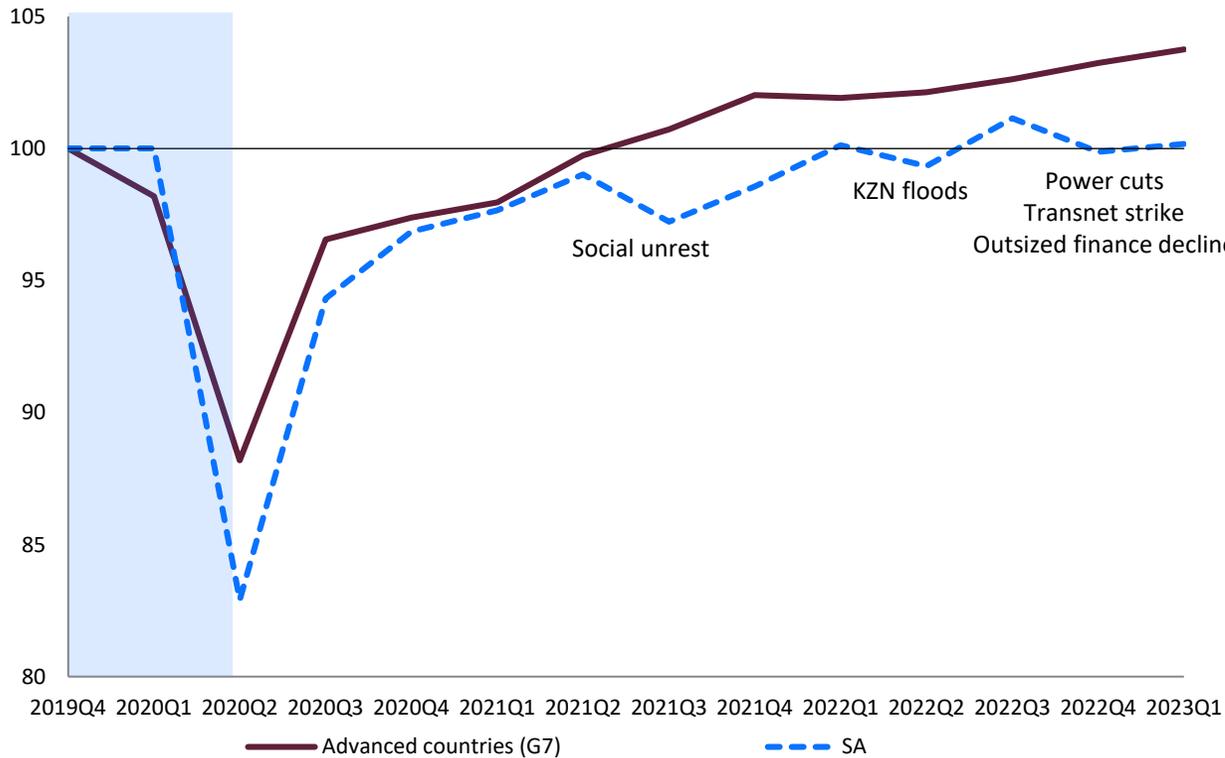
Domestic

- Intense **load-shedding** stumps near-term growth prospects
- **Green investment** boom key for MT improvement
- Broad **rand** weakness reflects SA sentiment hit
- Food stalls **CPI** disinflation
- **MPC** remains hawkish as policy turns restrictive

Stop-start SA economy lags pandemic recovery in advanced countries

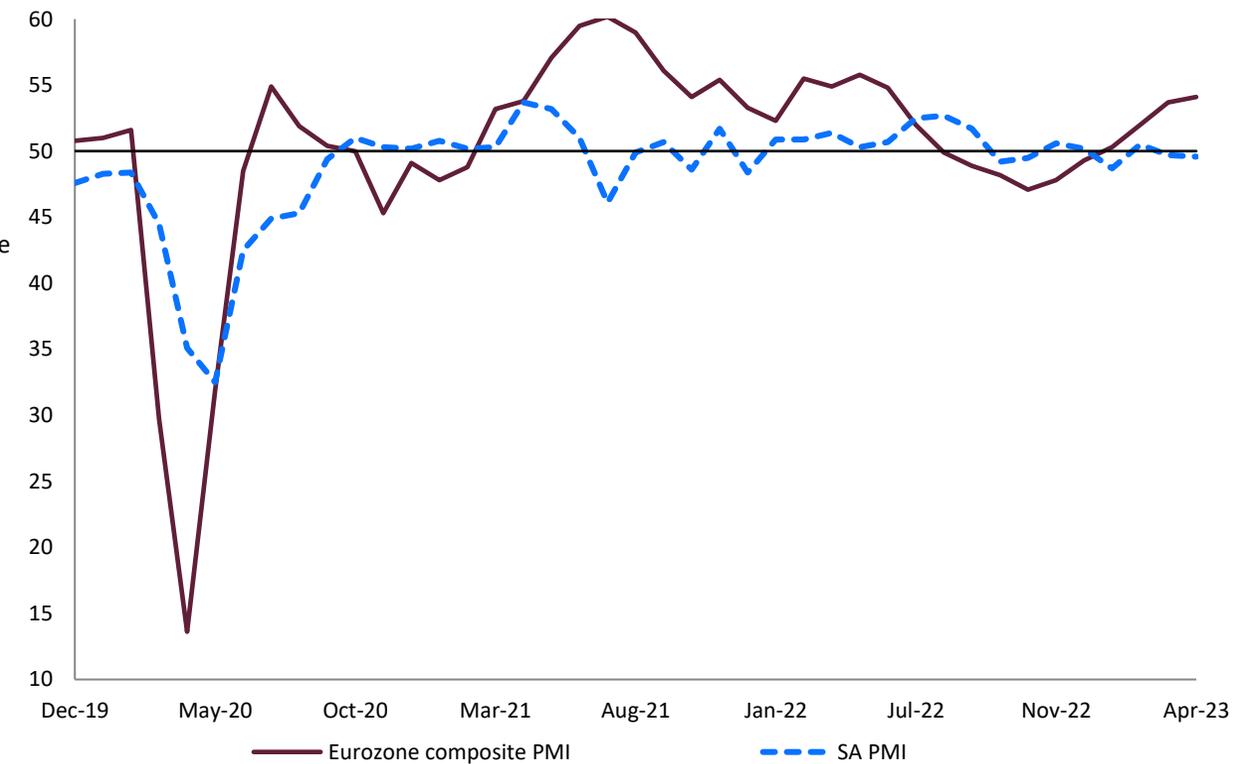
Level of real GDP

2019Q4 = 100



Composite Purchasing Managers' Indices (PMIs)

Index



Source: OECD, Stats SA, S&P Global

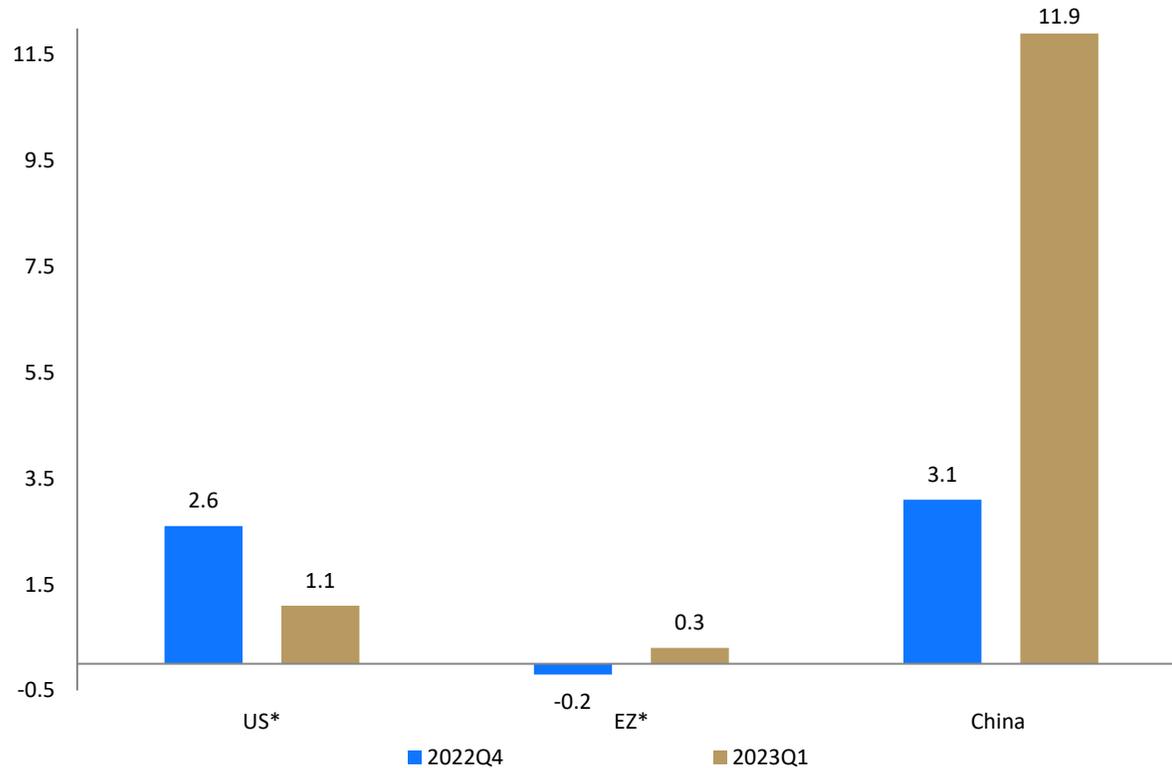
Global growth recovered in 2023Q1, driven by China reopening

'China's reopening will be the biggest economic event of 2023.'

The Economist, 6 Jan 2023

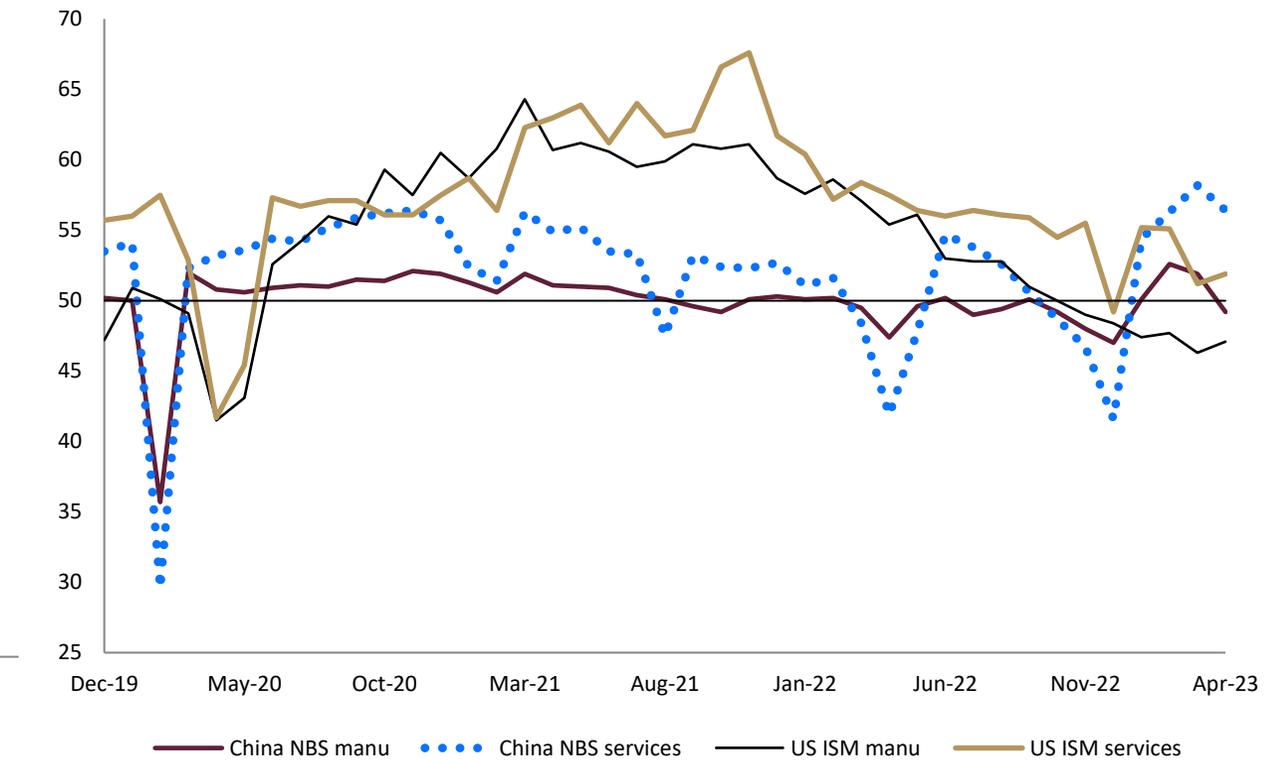
Growth in key SA export markets

q-o-q % change (annualised)



Services-led growth as China reopens and DM job markets remain tight

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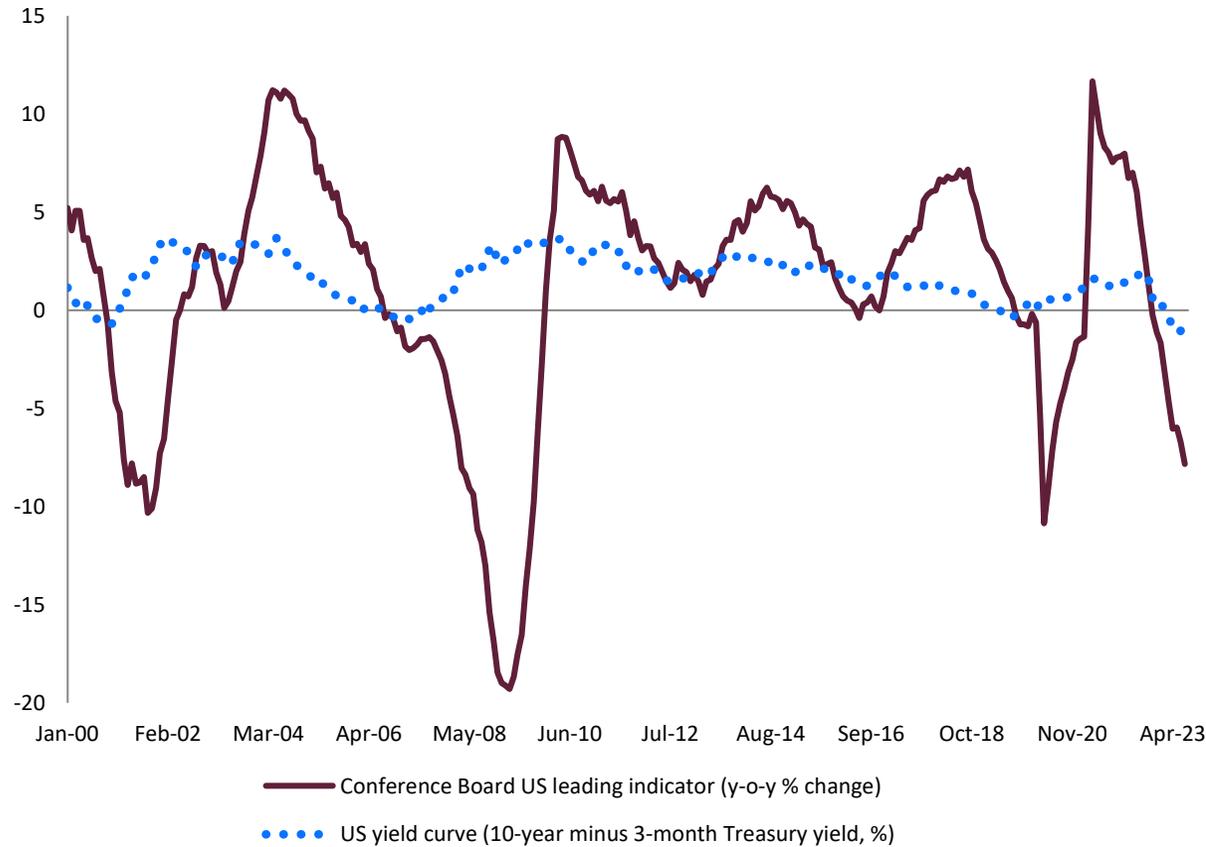
*Preliminary estimates

Source: JP Morgan, ISM, China National Bureau of Statistics

Global growth recovered in 2023Q1; US forward-looking indicators flashing red

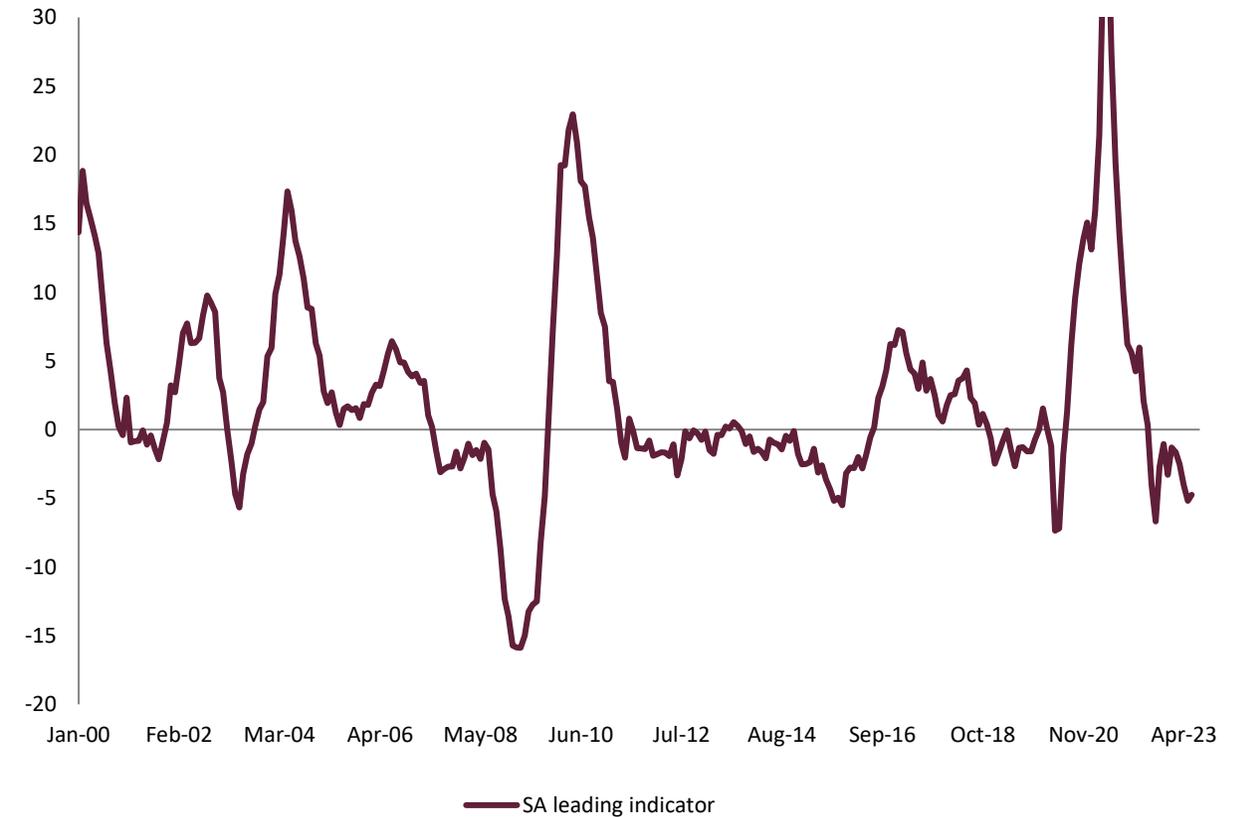
US leading indicator and yield curve signaling growth downturn/recession

% (y-o-y % change)



SARB leading indicator also down notably

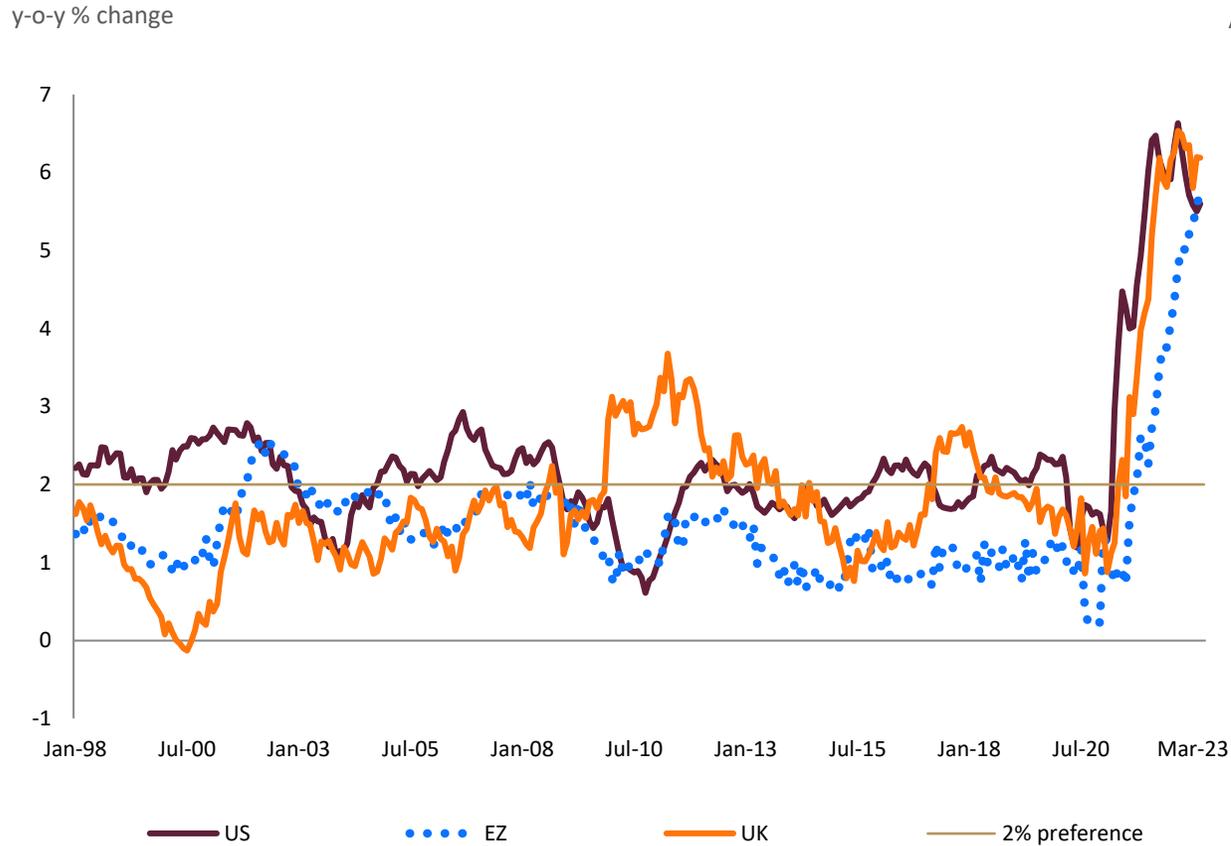
y-o-y % change



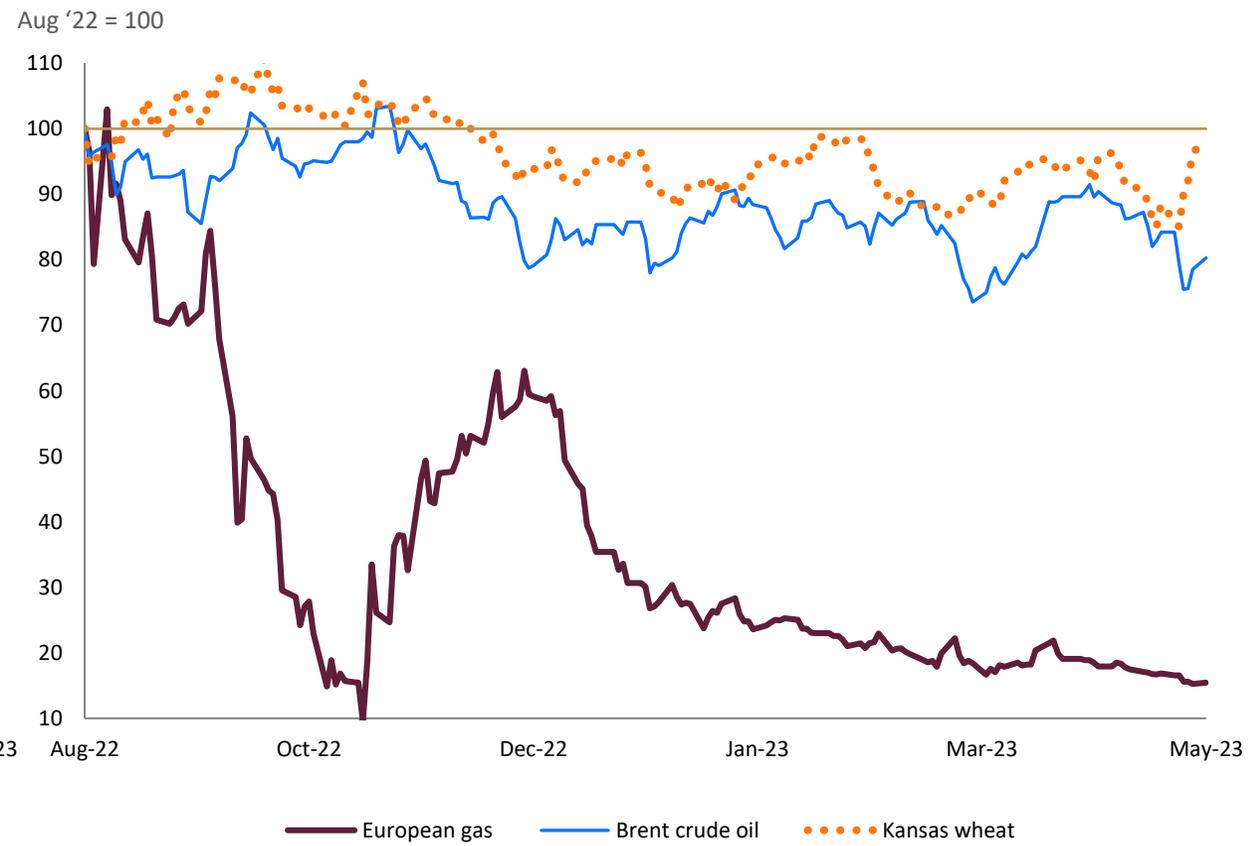
Source: US Fed, Conference Board

G7 inflation still well above target; faster rate of disinflation looms

High core inflation readings keeping central bankers up at night



Fading energy price shock supports further easing in headline CPI

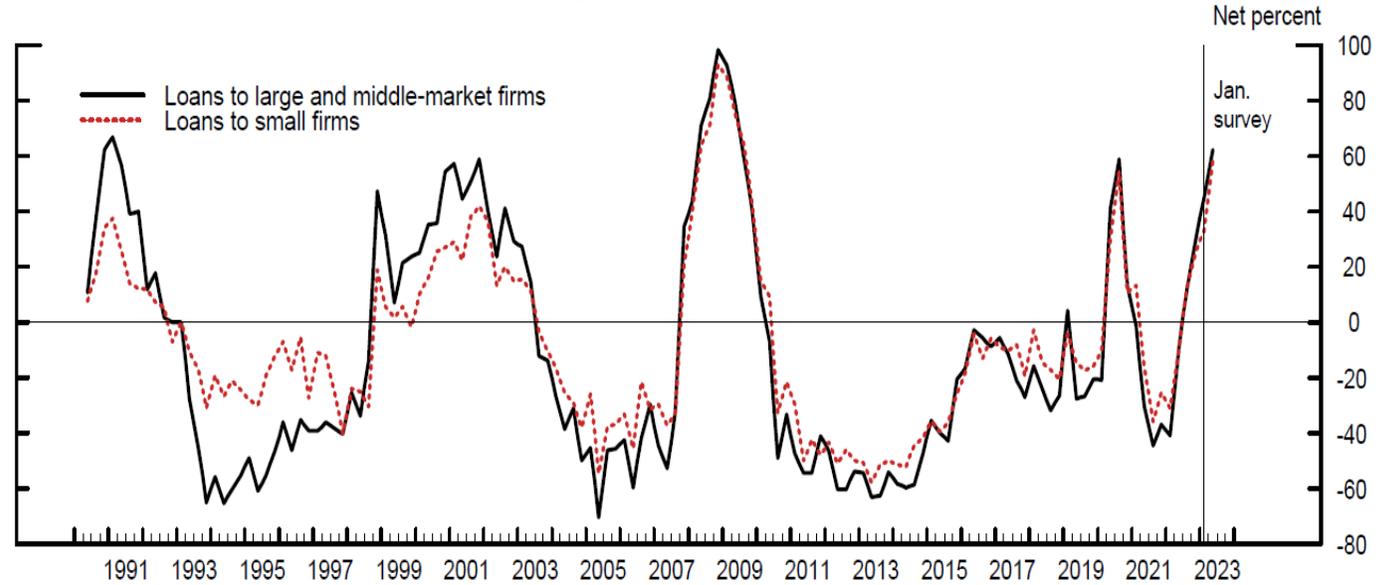


Source: Statistical agencies, DataStream

Central banks caught between sticky inflation, soft growth outlook and credit tightening

- Following aggressive hikes, Fed signaled imminent pause
- Near-term cuts unlikely, in our view
- Bank lending criteria tightened (somewhat) further in wake of regional banking woes
- ECB officials indicate a further hike(s) on the cards

Net Percent of Domestic Respondents Increasing Spreads of Loan Rates over Bank's Cost of Funds



Source: US Fed, ECB

Subdued outlook for global real GDP growth

Real y-o-y % change	Actual		Forecast		
	2017-22	2022	2023	2024	2025-28
World (PPP)	2.8	3.4	2.8	3.0	3.1
G7	1.5	2.3	1.1	1.1	1.7
US	2.1	2.1	1.6	1.1	2.0
Eurozone	1.5	3.5	0.8	1.4	1.6
UK	1.1	4.0	-0.3	1.0	1.9
China	5.6	3.0	5.2	4.5	3.8
India	4.5	6.8	5.9	6.3	6.1
G7 CPI	2.8	7.7	4.7	2.5	2.0

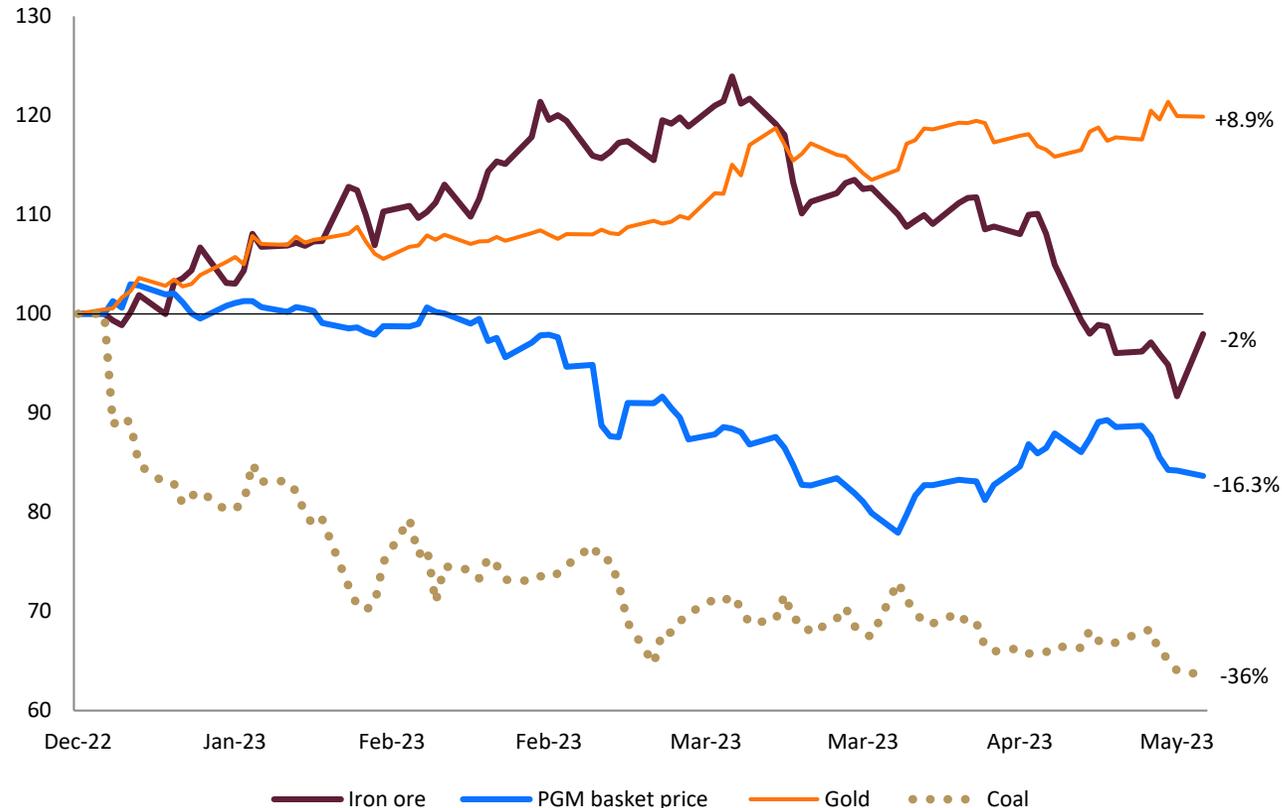
- Over medium term (2025-28), **global** growth projected to be only marginally better than 2017-22 period
- **China** set to grow at notably slower rate
- RoW unlikely to provide major growth impulse to SA

Source: IMF World Economic Outlook, April 2023

SA export commodity prices turning against current account, fiscus and ZAR

Excluding gold, SA export commodities (in rand) take strain

Dec '22 = 100



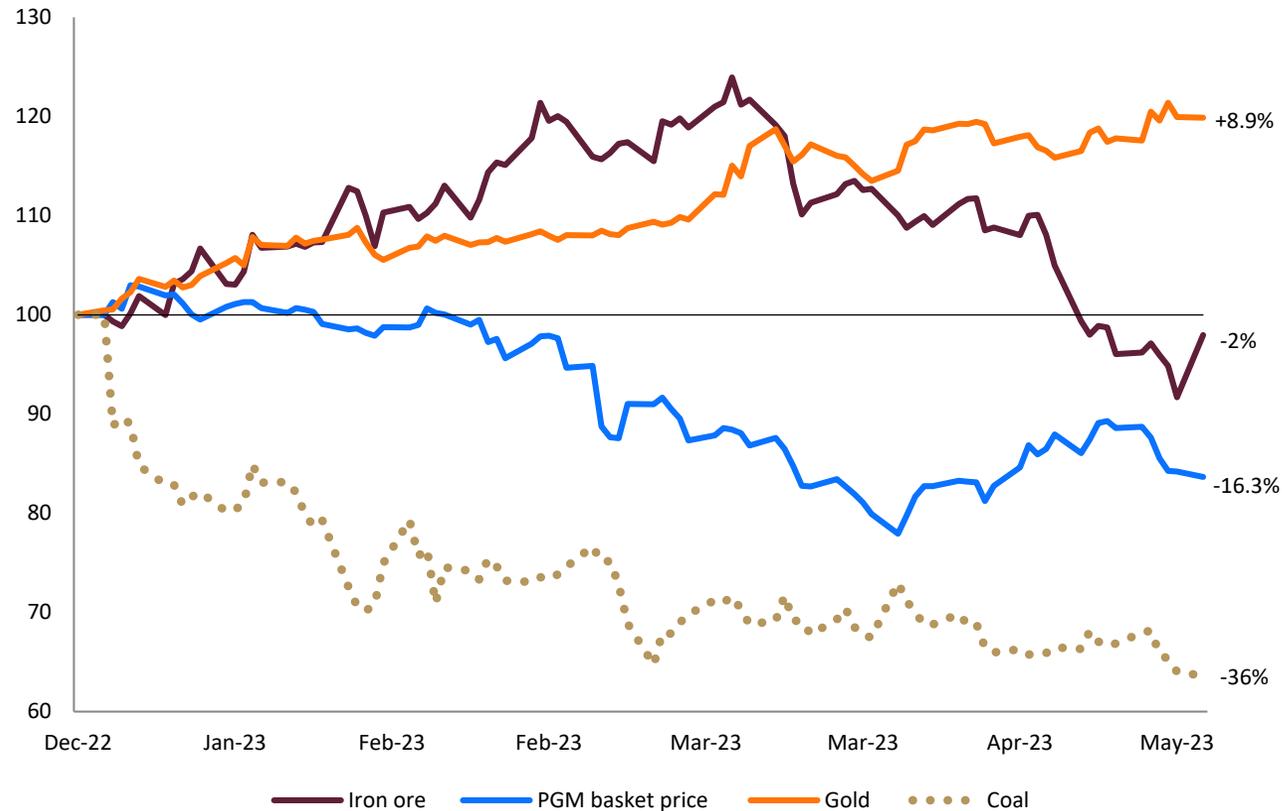
- **Current account** balance swung from 2.5% of GDP *surplus* in 2022Q1 to 2.5% of GDP *deficit* in 2022Q4
- **Terms of trade** (ToT) weakened relative to '21 & import volume growth outpaced exports
- Further ToT softening on the cards
- Export volumes set to be hurt by global growth slowdown & Transnet woes
- Faster private capex ups import volumes
- Current account projected to move from -0.5% of GDP in '22 to -3.5% during '23

Source: DataStream

SA export commodity prices turning against current account, fiscus and ZAR

Excluding gold, SA export commodities (in rand) take strain

Dec '22 = 100



Source: DataStream

- In 2021/22, **gov tax revenue** exceeded Feb budget expectations by R150bn
- In 2022/23, figure was R90bn
- Better-than-expected fiscal outcomes
- Those days now probably gone, with revenue set to underperform
- At same time, **expenditure risks** materialise

Fiscal expenditure risks materialising

R billion	MTBPS '22		Budget '23			With 7.5% in 2023/24 & 4.6% in 2024/25		
	PSWB	% change	PSWB	% change	R billion change	PSWB	% change	R billion change
2022/23	693.1	4.1	690.4	3.7	-2.7	690.4	3.7	-2.7
2023/24	699.8	1.0	701.2	1.6	1.4	727.8	5.4	26.6
2024/25	729.6	4.3	728.7	3.9	-0.9	761.3	4.6	32.6
2025/26	763.6	4.7	760.6	4.4	-2.8	794.8	4.4	34.2
MTEF ave/total		3.3		3.3	-5		4.8	93.4

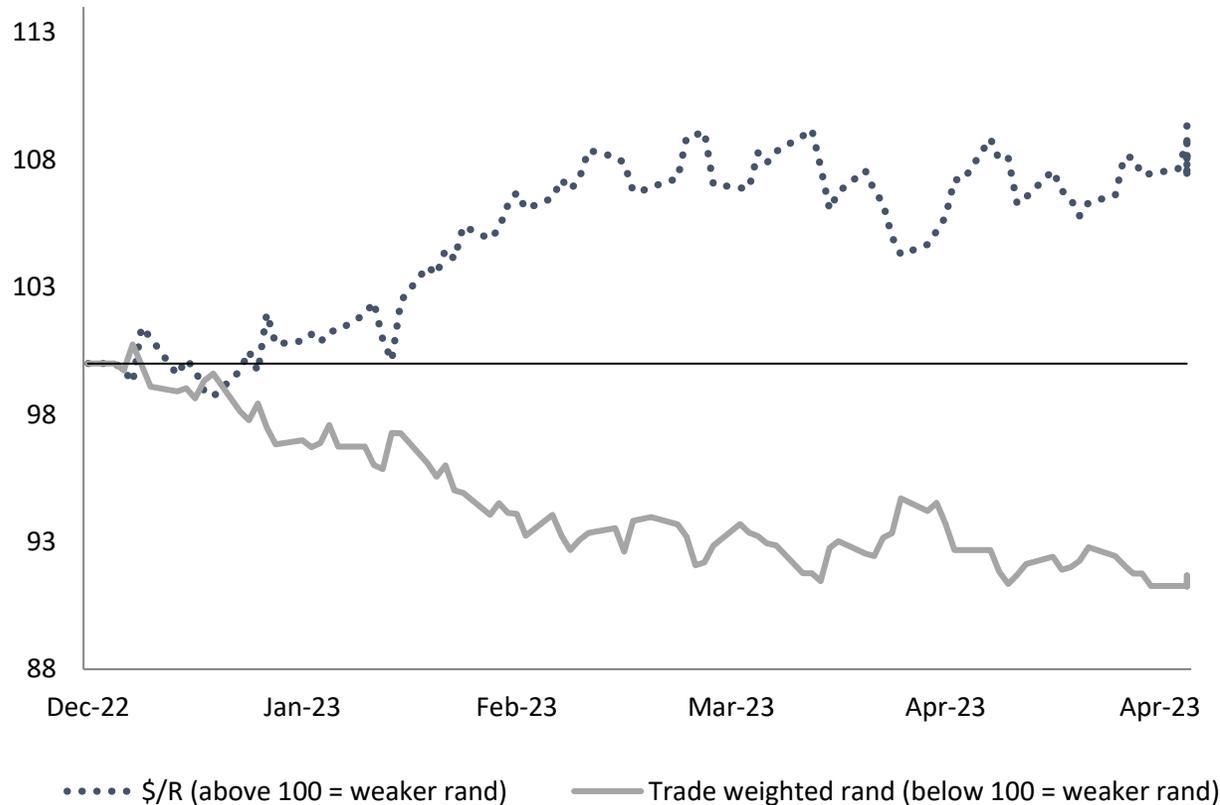
- Treasury puts cost of 2023/24 deal at R37.4bn
- Against Treasury's expectation for 3.9% of GDP main budget deficit in 2022/23, it could be 5%
- Larger twin current account and fiscal deficits on the cards

Source: Treasury. BER

SA export commodity prices turning against current account, fiscus and ZAR

Broadbased rand weakness so far in 2023

Dec '22 = 100



Source: DataStream

- Ytd, ZAR lost ground against both USD & basket of currencies

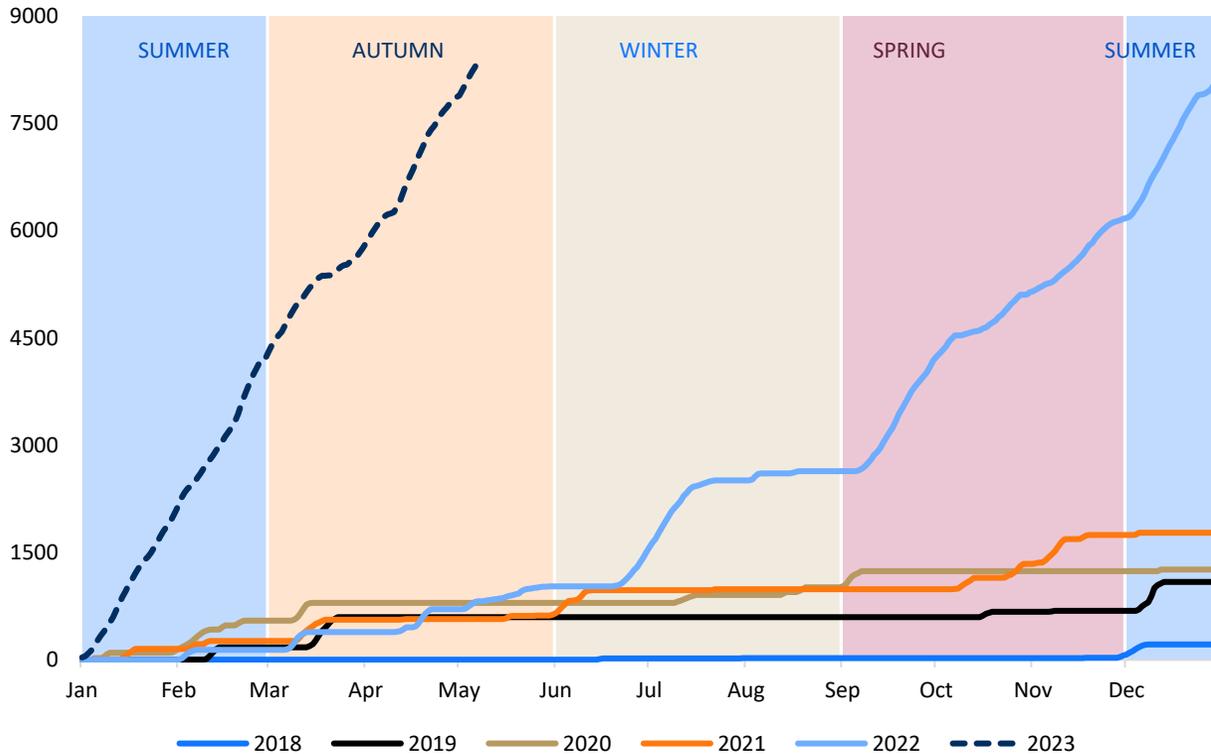
Besides global uncertainties, weaker local fundamentals:

- Intense **load-shedding**
- **Inconsistent government messaging** on power crisis, climate change commitments & 'neutrality' on Russian invasion
- Swing into **current account deficit** and concerns about fiscal outlook
- **Greylisting**
- **Political instability** in key metros
- Seemingly unrelenting erosion of investor sentiment towards SA (**R2048 bond** yield at 3-year high)

Severe Eskom load-shedding significant drag on near-term SA growth

By early May, year-to-date load-shedding already surpassed 2022 record

Cumulative Gwh shed



Source: Eskom, own calculations

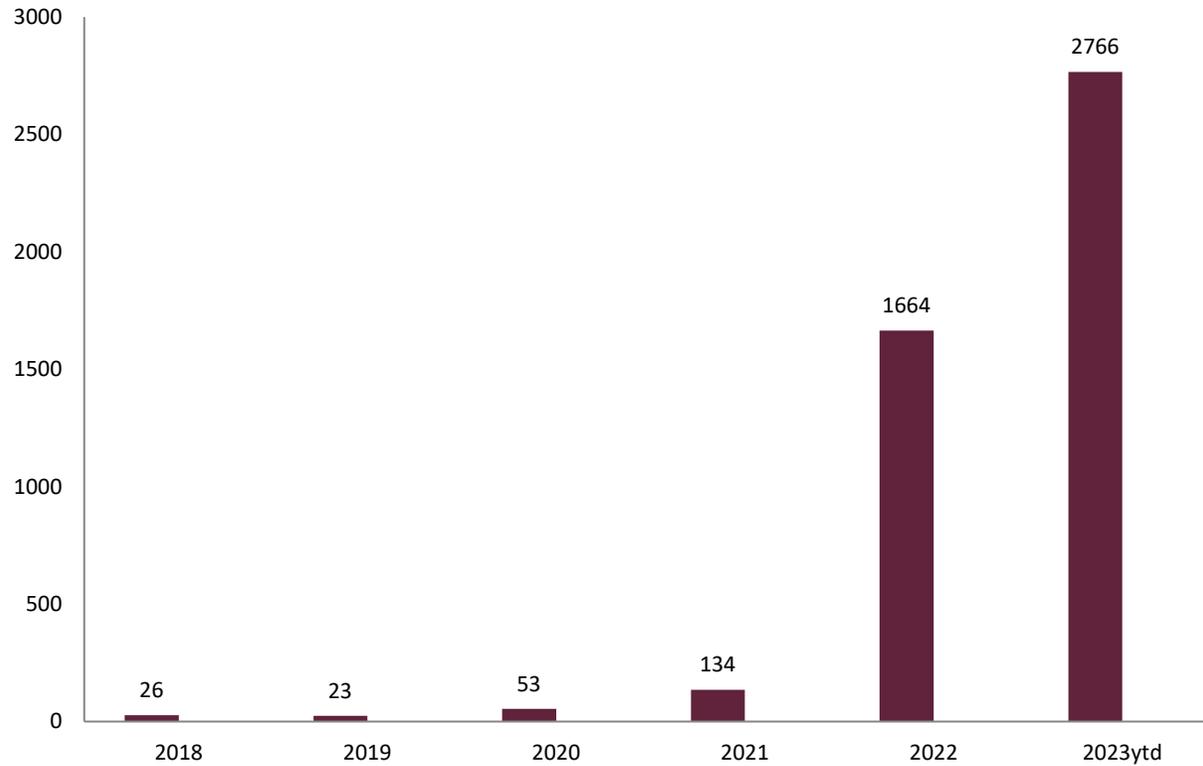
- Situation set to get worse in winter
- Demand increases
- Normally countered by reduced maintenance

This year:

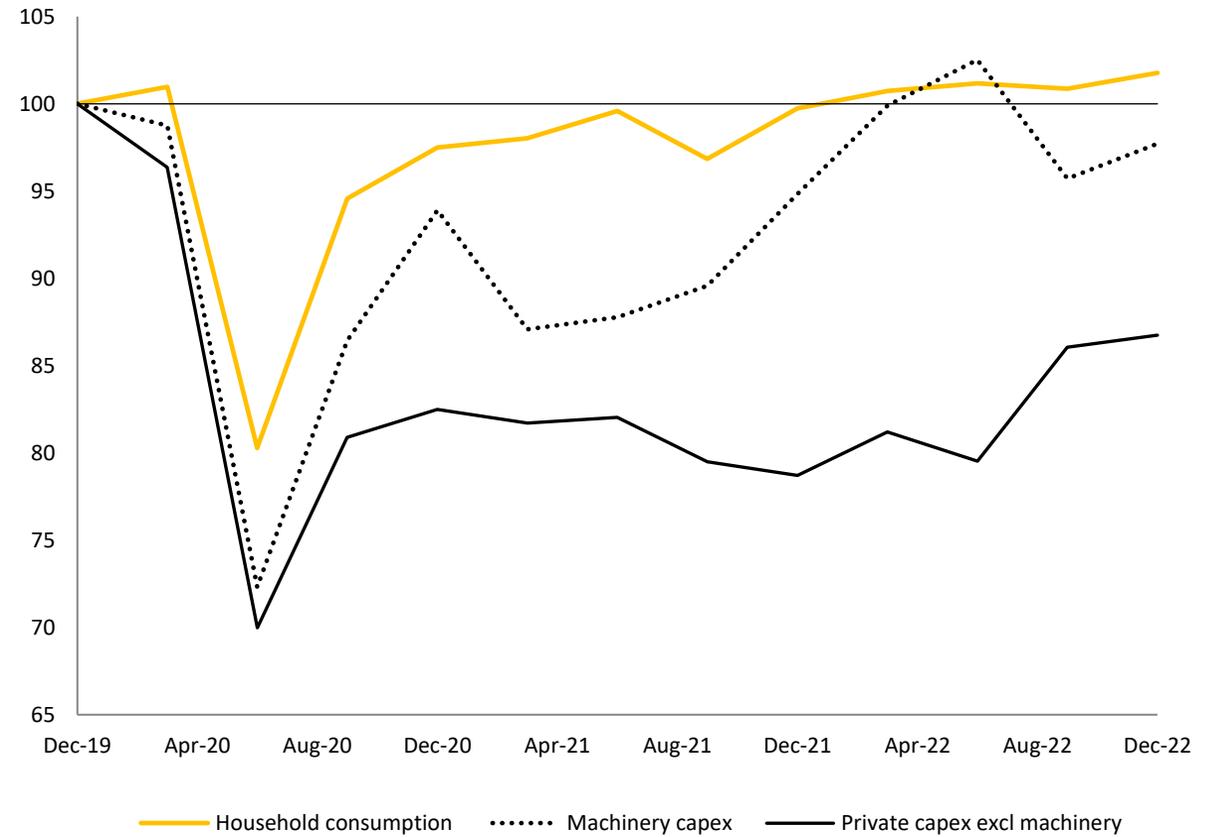
- Unit 1 of **Koeberg** out for maintenance = 920MW
- 3 **Kusile** units out to end-2023 after chimney collapse in 2022 = 2400MW
- **Medupi** unit 4 out after explosion in 2021 = 800MW
- More than 4000MW offline through winter
- LS could shave 1.8% pts from real GDP growth in '23

More near-term pain but power constraint should ease into 2024

Renewable energy project registrations surging
Generation capacity registered (MW)



Private fixed investment in machinery & equipment up by 12.4% in 2022
2019Q4 = 100



Source: Nersa, Stats SA, BER

Baseline real GDP growth forecast

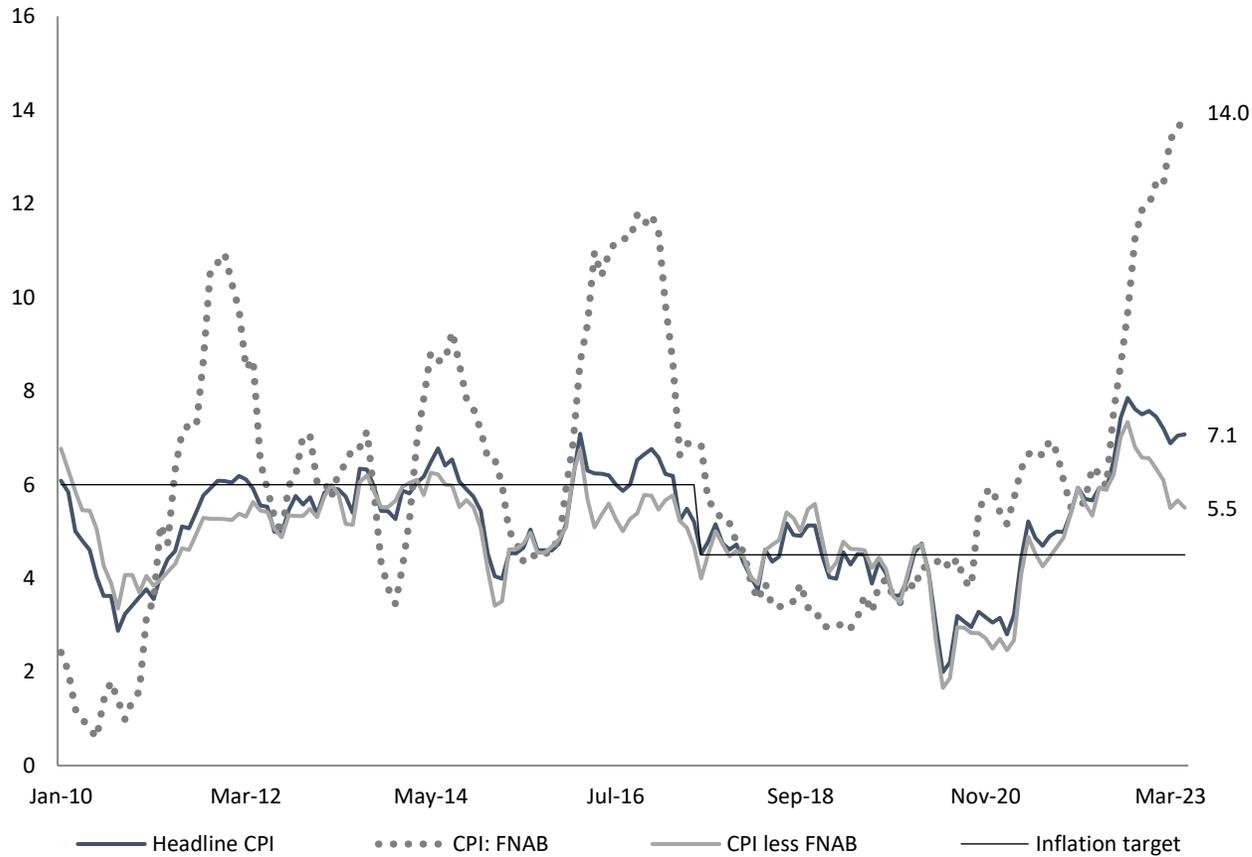
	Actual		Forecast		
	2017-22	2022	2023	2024	2025-28
Real y-o-y % change					
Consumer spending	1.3	2.6	1.2	1.8	2.0
Govt consumption	0.9	0.9	-0.6	0.1	0.5
Fixed investment (capex)	-2.5	4.7	4.3	6.2	6.4
Private capex	-0.4	7.3	5.1	7.4	7.6
Public capex	-6.9	-1.3	2.0	2.7	2.4
GDE	0.9	3.8	1.0	1.9	2.4
Exports	0.8	7.5	-0.2	2.0	3.5
Imports	1.9	14.2	2.6	3.6	4.1
GDP	0.6	2.0	0.2	1.4	2.2

Source: BER forecast

Food price spike slow tempo of CPI disinflation

Excluding FNAB, headline CPI inflation less ominous

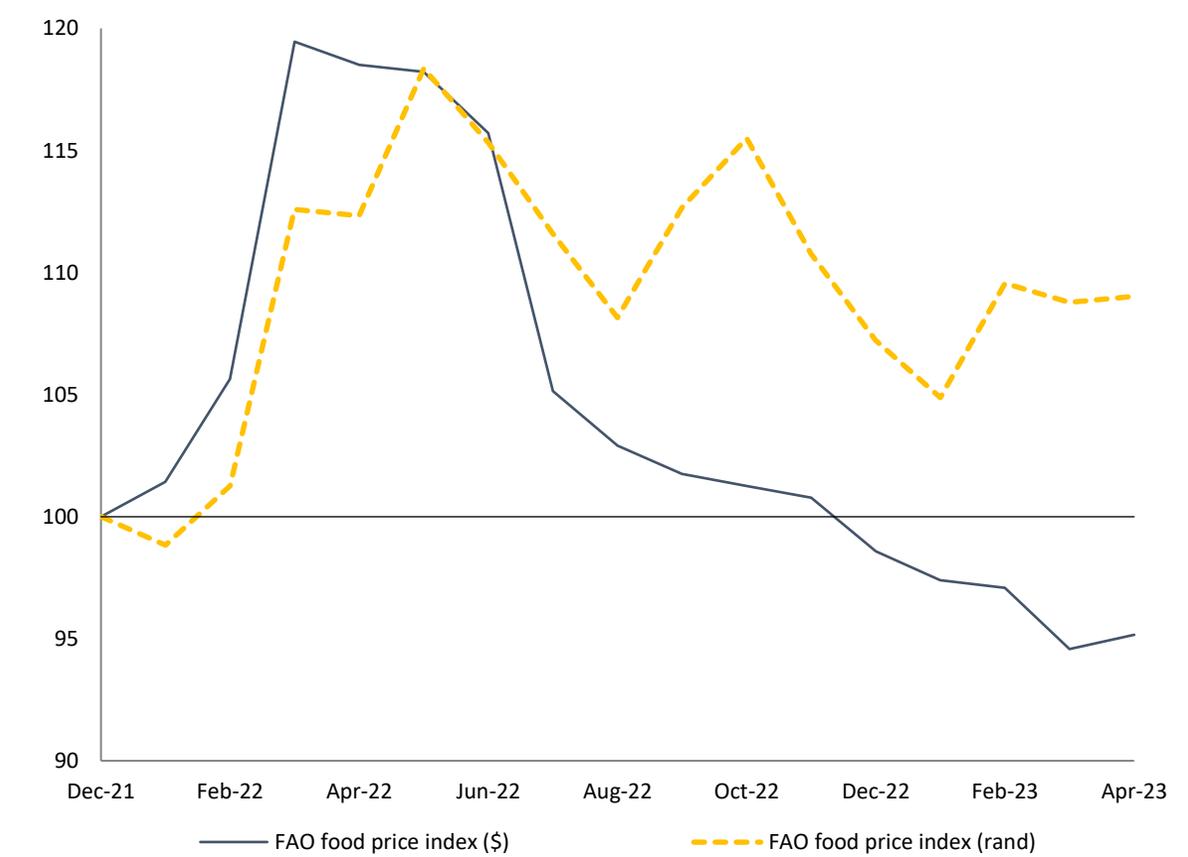
y-o-y % change



Source: Stats SA, UN

Rand weakness helps to explain sticky SA food prices as global prices decline

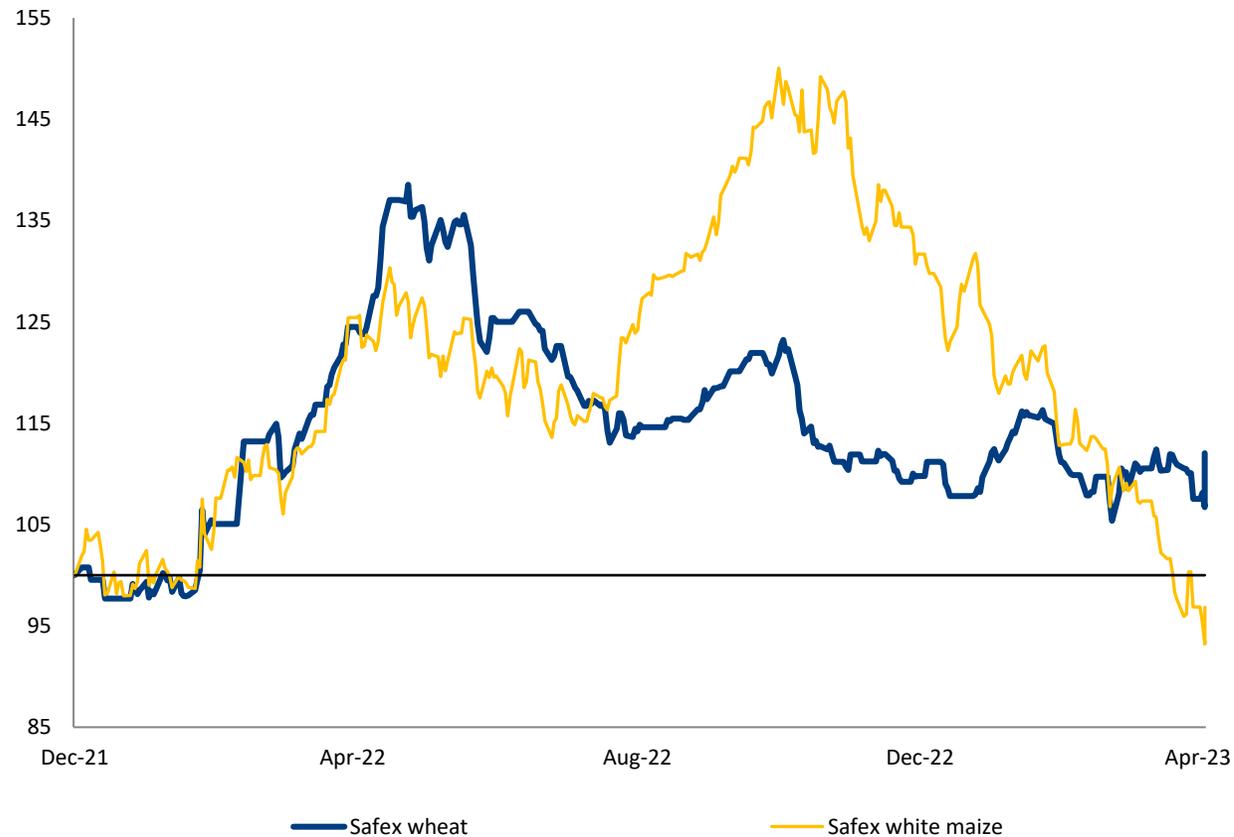
Dec '21 = 100



Base effects and, if sustained, lower grain futures should see food prices ease later in year

Safex white maize futures prices down sharply from 2022 peaks

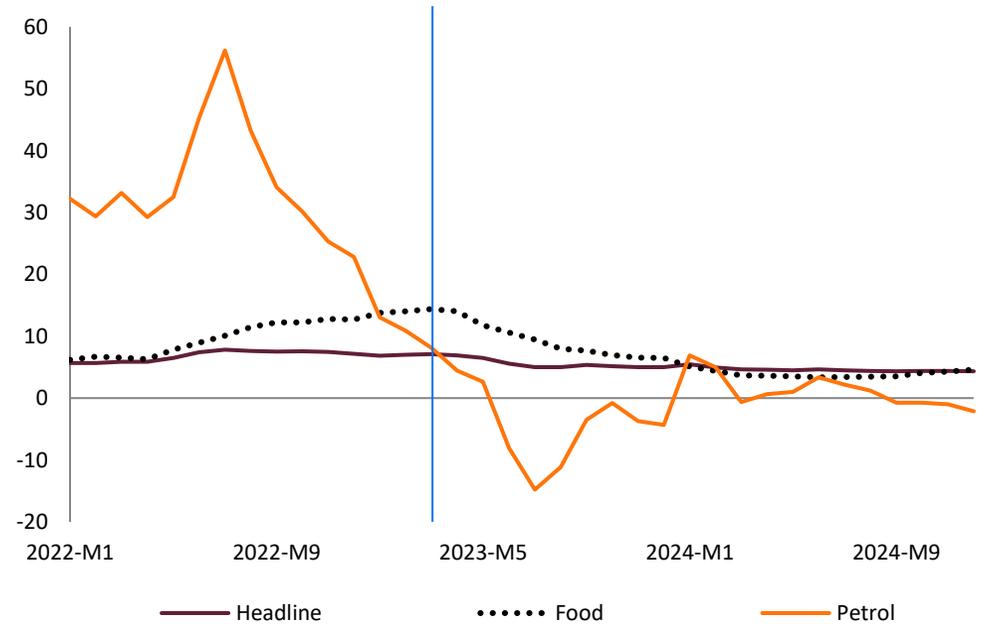
y-o-y % change



Source: DataStream

- **Petrol** component set to move into annual deflation from June through Dec '23
- **Headline CPI** expected to slow from elevated 7% y-o-y in 2023Q1 to 5% in 23Q4, and further to 4.5% in 2024

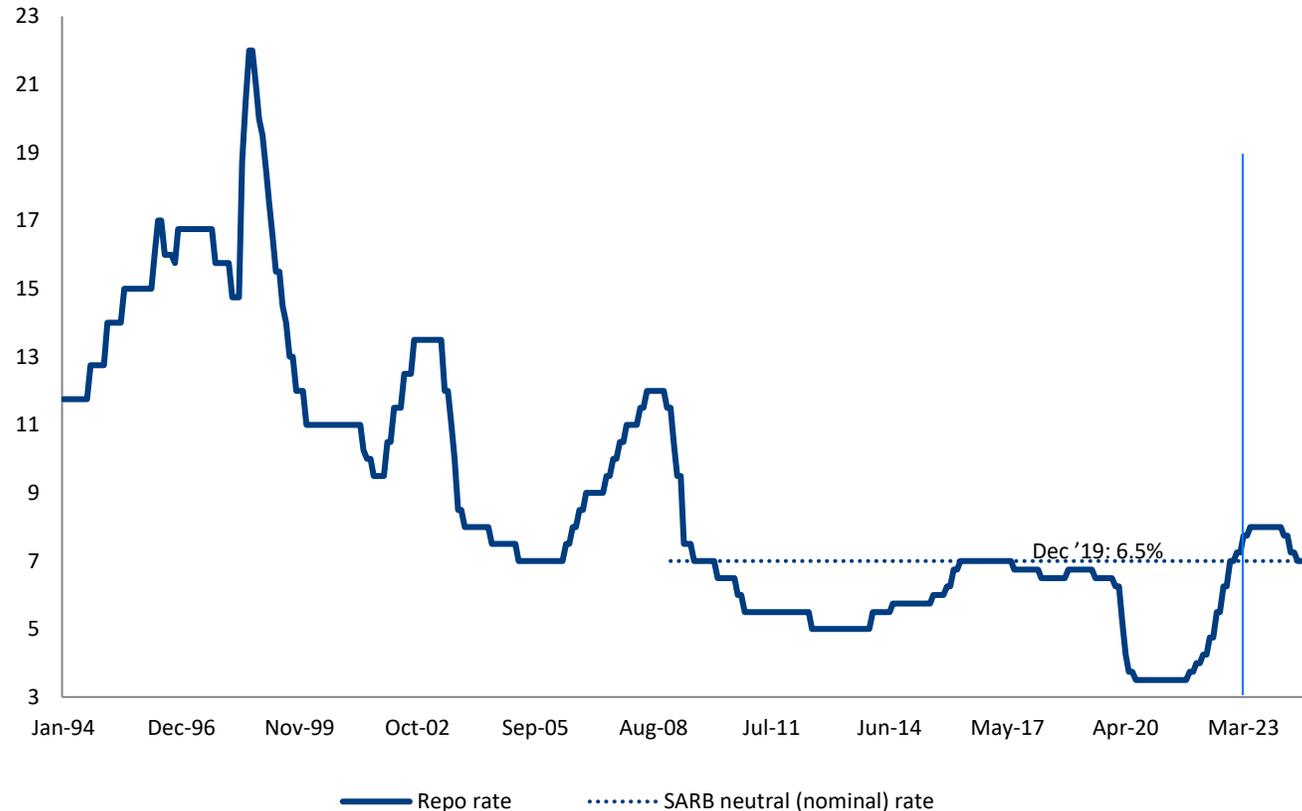
y-o-y % change



Policy interest rate hiking cycle nearing an end

Nominal policy rate now above the SARB's estimate of neutral

%



- Final 25bps repo rate hike end-May (to 8%)
- Then prolonged hold
- 100bps worth of rate cuts in 2024
- 3% inflation target?

Source: SARB, BER forecast

THANK YOU.

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