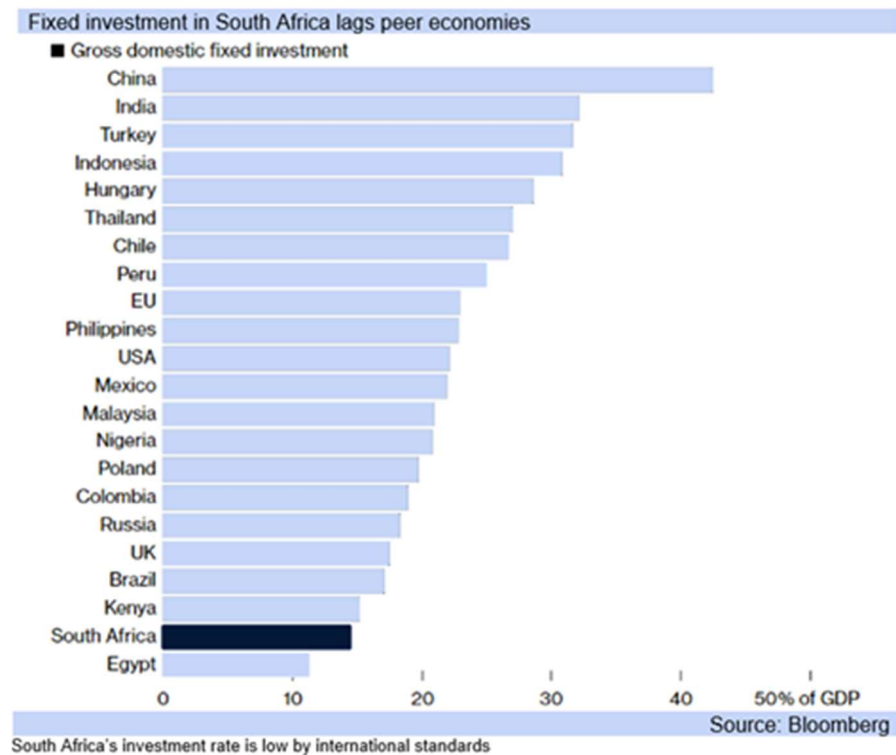


SA Economics

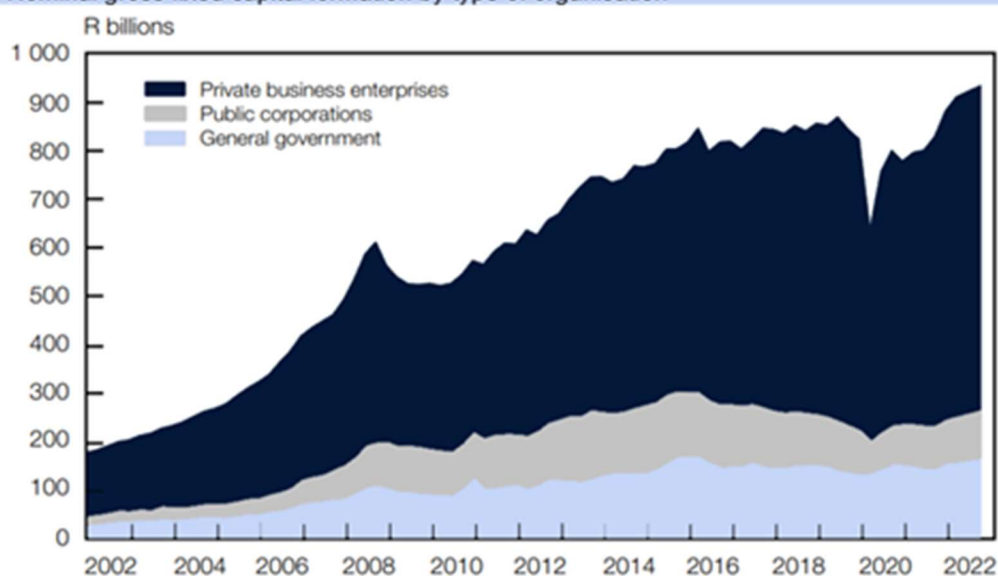


Fixed investment: Eskom's debt relief conditions bring hope for economy

Friday 24 February 2023

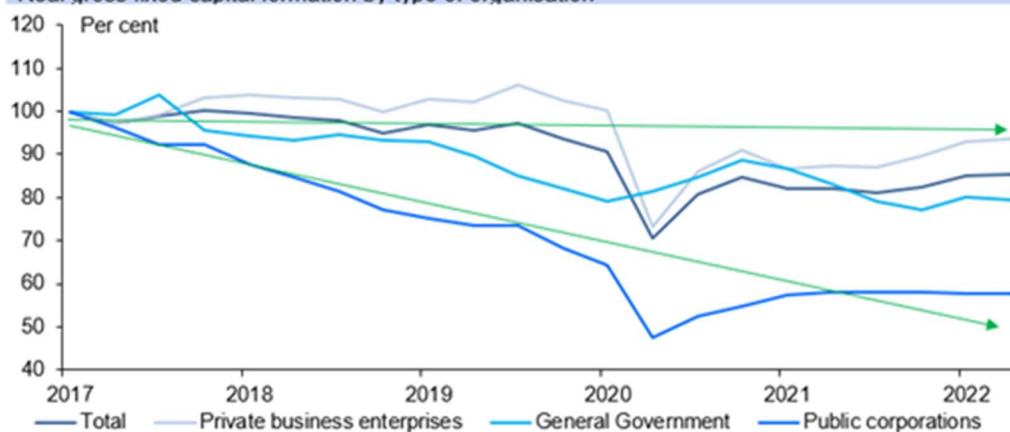


Nominal gross fixed capital formation by type of organisation



Source: Reserve Bank, Quarterly Bulletin December 2022

Real gross fixed capital formation by type of organisation



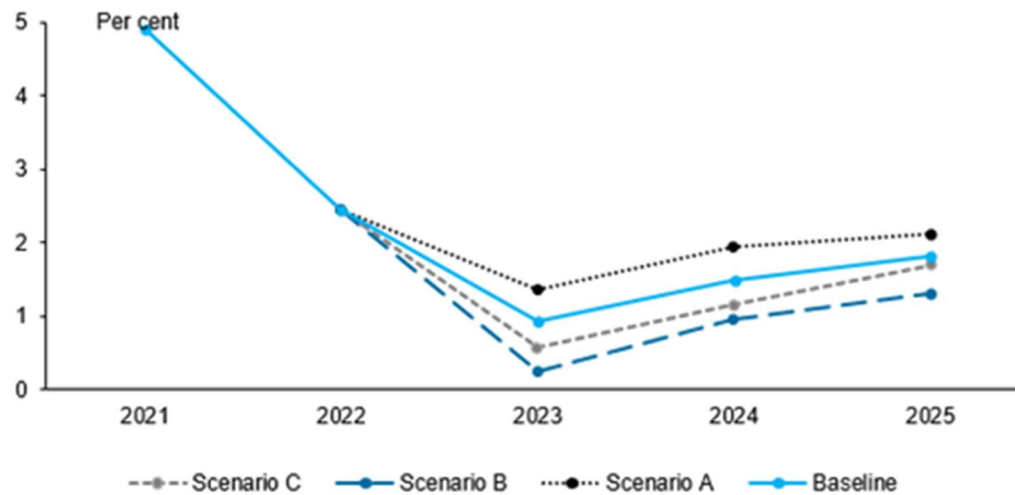
Note: Q1.17 = 100. Source: Quarterly Bulletin Q3.22

Public-sector infrastructure expenditure and estimates								
R billion	2019/20	2020/21	2021/22	2022/23 Revised estimate	2023/24	2024/25	2025/26	MTEF
			Outcomes			Medium-term estimates		Total
Energy	26.2	30.0	35.5	38.7	39.8	51.1	67.0	157.8
Water and sanitation	22.5	29.5	30.6	36.1	40.8	44.9	46.9	132.5
Transport and logistics	70.5	58.6	65.9	90.8	97.5	119.9	133.7	351.1
Other economic services	5.7	6.9	21.8	23.5	22.7	21.2	21.2	65.2
Health	12.2	14.7	16.4	14.2	14.1	14.0	14.6	42.8
Education	17.4	14.2	14.5	21.4	18.0	21.7	20.8	60.6
Human settlements ¹	20.9	13.3	13.4	14.3	14.9	15.1	15.8	45.9
Other social services	4.7	4.1	2.2	3.6	3.2	3.0	3.1	9.3
Administration services ²	7.4	12.1	12.0	12.5	12.5	12.2	13.1	37.8
Total	187.4	183.4	212.3	255.2	263.6	303.2	336.3	903.0
National departments	13.8	11.4	12.5	17.4	15.3	20.2	19.0	54.6
Provincial departments	61.0	51.8	57.7	67.1	69.3	69.1	71.4	209.8
Local government	41.2	55.6	62.1	62.8	61.4	63.0	65.9	190.3
Public entities ³	14.5	8.8	20.2	29.5	31.2	41.7	51.6	124.4
Public-private partnerships	5.6	4.9	6.5	7.1	7.1	7.3	7.5	21.9
State-owned companies ³	51.2	50.8	53.4	71.3	79.3	101.9	120.9	302.1
Total	187.4	183.4	212.3	255.2	263.6	303.2	336.3	903.0

Source: National Treasury, Budget 2023

1. Human settlements includes public housing and bulk infrastructure amounting to R45.9 billion over the MTEF period
2. Administration services include infrastructure spending by the departments of International Relations and Cooperation, Home Affairs, and Public Works and Infrastructure, and Statistics South Africa and their entities
3. Public entities are financed by capital transfers from the [fiscus](#) and state-owned companies are financed from a combination of own revenue and borrowings.

GDP growth scenarios



Source: National Treasury, Budget 2023

Note: The **upside Scenario A** assumes the full implementation of NECOM interventions to resolve the electricity crisis. These result in the elimination of load-shedding by the end of 2023 and support an additional R173 billion in medium-term investment. A stable electricity supply boosts business operations, supports export-intensive industries, stimulates consumer spending and raises the rate at which the economy can grow. In the upside energy scenario, growth averages 1.8 per cent from 2023 to 2025.

In the **downside Scenario B**, power cuts intensify in 2023 and 2024, with further delays in procuring new generation capacity. This deterioration erodes the economy's potential growth rate, especially in the short run. Real GDP growth slows to 0.2 per cent in 2023, only recovering to 1.3 per cent in 2025.

The **downside Scenario C** considers the impact of a sharper global slowdown in 2023 and a more tepid recovery in 2024, assuming several global risks discussed below materialise. Tighter financial conditions in emerging market and developing economies and heightened global risk aversion reduce demand for South African financial assets, while inflation remains elevated. Weaker global demand among South Africa's main trading partners lowers exports. GDP growth is estimated to slow to 0.6 per cent in 2023 before reaching 1.7 per cent by 2025. Growth is projected to average 1.1 per cent from 2023 to 2025.

- SOEs were a core focus of Finance Minister Godongwana's annual (Budget) review, and projections, of state finances and the economy, critically Eskom given the risk of repeated recessions on permanent, high stages of loadshedding for South Africa.
- The Budget recognises right at the start that "(p)rolonged power failures and poor operational performance of transport industries continue to hamper operations and investment in manufacturing, mining and agriculture."
- Core to the debt relief tabled for Eskom are the conditions "of key reforms that address the inadequacies of the transmission network and performance of existing power stations, which form part of the following obligatory conditions."

- Eskom, National Treasury and the Department of Public Enterprises will “design a mechanism for building new transmission infrastructure that will allow for extensive private-sector participation in the development of the transmission network.”
- “The National Treasury has appointed an international consortium with extensive experience in the operations of coal-fired power stations to review all plants in Eskom’s coal fleet and advise on operational improvements.”
- This review concludes mid-2023 with Eskom then required to implement the recommendations including which plants can be resuscitated to original equipment manufacturers’ standards.
- National Treasury has appointed an international consortium, reportedly led by Vgbe Energy and includes Dornier Power, KWS Energy, RWE Technology and Steag Energy, well regarded, international power specialist companies.
- Accessing National Treasury’s debt relief programme obliges Eskom to concession (transfer ownership and operational control to private companies for) all these power stations with clear targets for the electricity availability factor and operations.
- SOEs are being assessed for critical necessity, with the state running down its guarantees over SOE debt. Markets would have rallied more over the better than expected budget if the threat of grey listing was not hanging over SA, with the decision due today.

Please scroll down to the second section below

Responding to the FATF mutual evaluation report

Since late 2022, government has engaged with the Financial Action Task Force (FATF) and its team of reviewers on South Africa's work to address weaknesses in the country's legal and regulatory framework and deficiencies in its anti-money laundering enforcement regime.

Since the FATF published its mutual evaluation report in 2021, South Africa has made considerable progress in assessing vulnerabilities in the anti-money laundering system, the risks associated with high levels of proceeds-generating crime and corruption, and the challenges of building more effective enforcement.

Nevertheless, additional work across all these dimensions is needed over the medium term. A national strategy approved by Cabinet in November 2022 prioritises efforts to build a financial system that is less vulnerable to abuse, and where abuses are effectively prosecuted. In this regard, government is strengthening supervision of financial institutions (which are generally well supervised) and a range of non-financial businesses and professions that are sometimes used to launder the proceeds of crime. These include estate agents, lawyers, providers of crypto assets and services, and dealers in high-value goods. Changes in the relevant legislation have already been made, and increased resources will be provided to supervisory bodies to strengthen oversight. Government will identify and prosecute money launderers and their enablers in the financial system.

Two laws have been enacted to address what the FATF characterises as "technical" deficiencies in the legislative framework: the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Act (2022), and the Protection of Constitutional Democracy Against Terrorist and Related Activities Amendment Act (2022). Draft regulations for the former have been published for public comment and are expected to be finalised by April 2023.

Addressing several other concerns identified by the FATF is more complex – and here government is still engaging with the FATF on its progress. Key deficiencies identified include:

- Weak implementation of new beneficial ownership legislative requirements for legal entities like companies, trusts and non-profit organisations.
- Poor anti-money laundering controls in non-financial sectors such as the legal profession, estate agents, crypto (virtual) asset service providers and trust services providers.
- A need to sustainably increase investigations, prosecutions and asset forfeitures related to money laundering and terror financing.

At its February 2023 plenary, the FATF will pronounce on South Africa's progress and the extent to which it will face enhanced monitoring, including possible grey listing. Over the longer term, government has asked the FATF to formally reassess South Africa's compliance during its June 2023 plenary.

Source: National Treasury, Budget 2023

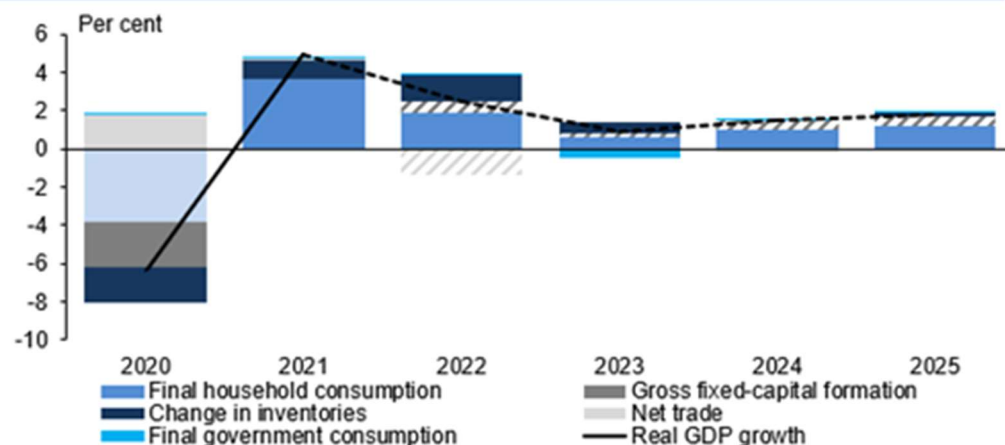
Public-sector infrastructure expenditure and estimates

R million	Termination for private party		Termination for force majeure		Termination for government default	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
National departments' exposure	2,580.3	2,880.9	3,400.5	3,262.3	3,893.0	3,882.9
Provincial departments' exposure	1,773.6	1,030.9	805.7	687.7	3,629.3	3,307.0
Public entities' exposure	300.4	255.4	254.8	216.5	377.3	320.7
Total	4,654.3	4,167.2	4,461.0	4,166.5	7,899.6	7,510.6

Source: National Treasury, Budget 2023

1. Municipalities are an autonomous sphere of government so their liabilities are not part of the fiscus

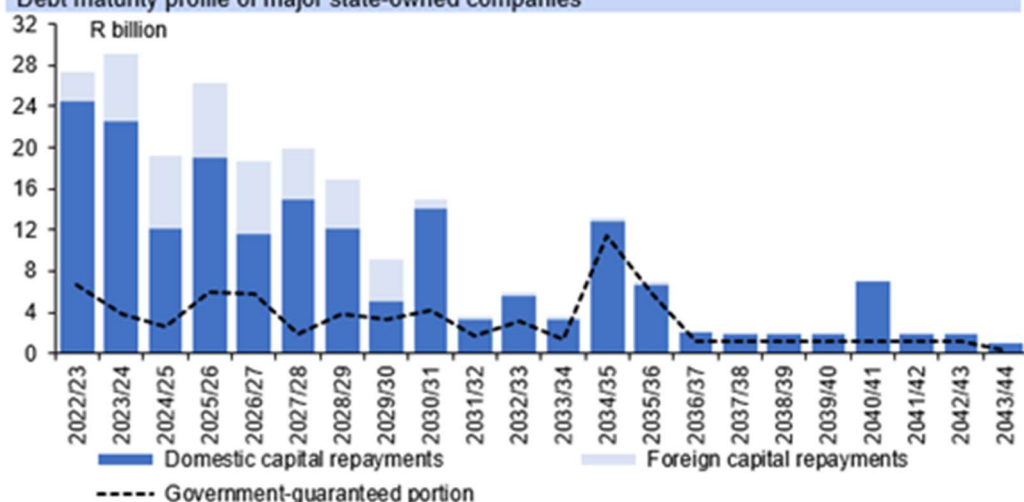
Macroeconomic outlook*



Source: National Treasury, Budget 2023

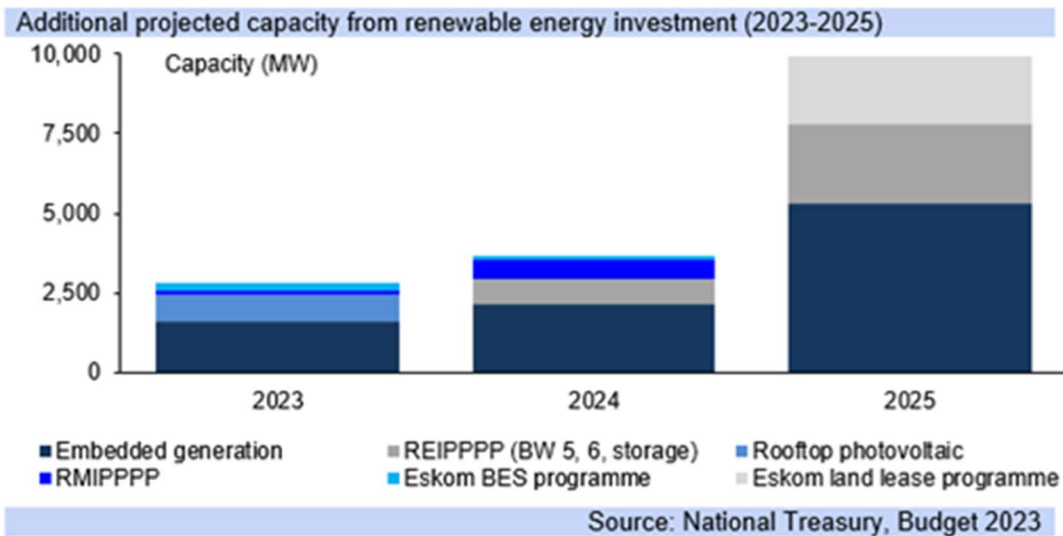
Note: Stacked bars indicate the contributions of each component to real GDP growth, while residual term has been omitted

Debt maturity profile of major state-owned companies*



Source: National Treasury, Budget 2023

**Airports Company South Africa, Denel, SANRAL, SAA, Trans-Caledon Tunnel Authority and Transnet. Eskom is excluded because it did not submit a maturity profile



- The planned concession agreements give operational control to the private sector company, who are also responsible for financing and maintaining the power station, typically for twenty to thirty years.
- Eskom will access the three year debt relief programme of R254bn (Eskom's full debt settlement requirement over the next three years), plus in 2025/26, government takeover up to R70bn of Eskom's loan portfolio only if it meets various conditions.
- These include Eskom's capital expenditure to be restricted only to transmission and distribution, besides use for "minimum emissions standards, flue-gas desulfurisation and required maintenance."
- "No other greenfield generation projects will be allowed during the debt-relief period. No new borrowing will be allowed from 1 April 2023 until the end of the debt-relief period, unless written permission is granted by the Minister of Finance."
- "Eskom may not use proceeds from the sale of non-core assets for capital and operating needs. All proceeds ... including the Eskom Finance Corporation and any property sales, will be used for the debt-relief arrangement."
- "The debt relief can only be used to settle debt and interest payments. Eskom may not implement remuneration adjustments that negatively affect its overall financial position and sustainability."
- "Positive equity balances in Eskom's derivative contracts (swaps/hedges) cannot be used to structure new debt or loan agreements without the approval of the National Treasury. Nor can any such balance be used as "margin financing" for another derivative contract or derivative overlays."
- "A failure by Eskom to achieve and/or adhere to specific conditions will cause the loan amount from that quarter to be repaid to the National Revenue Fund at market rates. Prior to such repayment, government will meet with Eskom to determine the cause of and timing to rectify non-compliance."

- The success of South Africa's electricity supply is currently dependent on Eskom. The conditions and debt relief are critical, and provide the only workable solution to the failing entity and SA's energy crisis, and so to deteriorating economic growth.

Projects at advanced stages of preparation			
Project name	Project description	Estimate of potential total investment (R million)	Progress to date
Lanseria Wastewater Treatment Works	The project entails the planning, design and implementation of the Lanseria wastewater treatment works and associated bulk outfall sewer. The objective is to construct and commission a module of 50 megalitres/day (ML/d) as part of a programme to deliver 150 ML/day	3,400	Feasibility studies completed
Olifants Management Model Programme	Development of raw water and potable water pipelines in five phases to deliver 250 ML/d. The project will benefit municipalities, industries and mines	24,900	Phases 2B and 2B+ have completed project preparation activities. BFI application is being packaged for the social component. Other phases are under preparation
One-Stop Border Posts	To modernise border post infrastructure to ensure efficient movement of goods and people through six inland border posts	9,100	Feasibility studies completed. Supplementary studies under way. The request for proposal was submitted in March 2022 and resubmitted in December 2022
Ngqura Manganese Export Terminal Project	Development of a world-class 16 million ton per annum (mtpa) manganese export facility at the port of Ngqura to complement 6mtpa from port of Saldanha to cater for projected demand of 22mtpa	10,000	Feasibility studies completed
Cape Town Container Terminal Expansion Project	Phase 2 was to increase the landside terminal capacity to 1.4 million twenty-foot equivalent units (TEUs) per annum, to match the "waterside" capacity. Part of the Phase 2 work was completed in 2009. This increased the landside terminal capacity from 800 000 to 1 million TEUs and was grouped as Phase 2A of the project	1,800	Feasibility studies completed
Student Housing Infrastructure Programme (Cluster 1 and 3)	The programme seeks to ensure that housing is developed into an attractive and reliable asset class for potential investors and to attract greater sources of financing into this market	5,200	Feasibility studies completed. Resolving legal arrangements with Department of Higher Education and Training
Total			54,400

Source: National Treasury, Budget 2023

Projects at advanced stages of preparation			
Project name	Project description	Estimate of potential total investment (R million)	Progress to date
eThekweni Avoca Node Phase 2	The programme is located on a 350-hectare site in the northern corridor of the KwaZulu-Natal metro. It consists of the Brickworks, Northfield, and Caneridge developments and will provide for industrial and social housing needs	12,000	Advanced project preparation
Leeuwpoot Integrated Human Settlements Project	The project is in a 1 300-hectare site with a variety of land uses including mixed-income residential, industrial, commercial, open space, education and other amenities. It is in Ekurhuleni across three sub-township extensions: Rieger Park, Parkdene and Sunward Park	15,600	Advanced project preparation
Six water and sanitation projects	To improve the integrity of the bulk water and sanitation infrastructure in selected priority district municipalities, to improve supply reliability	1,600	Feasibility studies being completed
Source: National Treasury, Budget 2023			

Projects at advanced stages of preparation			
Project name	Project description	Estimate of potential total investment (R million)	Progress to date
Salvakop Precinct PPP Project	Feasibility	Collaborative project between the three spheres of government to build four government headquarters, commercial buildings and a shelter for the vulnerable	R18 billion
Gauteng Schools PPP Programme	Feasibility	Construction, expansion, refurbishment and facilities management of 64 schools in Gauteng	R4.7 billion
Inkosi Albert Luthuli Central Hospital PPP Project	Procurement	Design, construction, operation and provision of ICT equipment	R10.4 billion
Renewable Energy for Public Buildings	Procurement	Procurement of renewable energy and energy efficiency for public buildings	R55 billion
Kopanong Precinct PPP Project	Procurement	Construction of Gauteng Provincial Government office to consolidate administration function of 19 buildings in the Johannesburg CBD	R6.5 billion
Rural Bridges Programme	Feasibility	Construction of rural bridges in various parts of the country	R7.8 billion
KwaMashu Wastewater Treatment Works	Feasibility	Design, finance, build and operate wastewater treatment works in KwaMashu, eThekweni municipality	R1.2 billion
City of Cape Town Water Desalination	Feasibility	Desalination of sea water for bulk and reticulation	R2.5 billion
Comprehensive Urban Management Programme	Feasibility	Improvement and maintenance of public spaces in various cities and towns to promote economic growth	R3.3 billion
Limpopo Central Hospital PPP Project	Implementation	Construction of a new 488-bed central hospital in Polokwane, which will form part of an academic health complex attached to the University of Limpopo's medical school	R4.5 billion
Boegoebaai Port and Rail Development PPP Project	Feasibility	Port and rail development in Boegoebaai in the Northern Cape	R13 billion
Gauteng Rapid Rail Network Extension Parts 1 and 2 (Gautrain 2) PPP Project	Feasibility	A two-phase extension of the existing Gautrain rail system	R65.4 billion
Midvaal Electricity Distribution Project	Procurement	Refurbishment and expansion of the existing distribution lines owned by the municipality	R1 billion
Solar Water Initiatives	Feasibility	Rollout of solar water heaters across the residential market through partnering with the insurance industry and banks	R6.8 billion
National Roads Programme – upgrades to existing non-concession national toll roads	Feasibility	Major upgrades to various sections of the N1, N2 and N3	R22 billion
Small Harbours Development Programme	Implementation	Upgrading and refurbishment of 12 proclaimed fishing harbours in the Western Cape, and nodal-based refurbishment and development of new harbours in the Northern Cape, Eastern Cape and KwaZulu-Natal	R7.1 billion
Source: National Treasury, Budget 2023			

Projects at advanced stages of preparation			
Project name	Project stage	Project description	Estimated project cost
Solar Water Initiatives	Feasibility	Rollout of solar water heaters across the residential market through partnering with the insurance industry and banks	R6.8 billion
National Roads Programme – upgrades to existing non-concession national toll roads	Feasibility	Major upgrades to various sections of the N1, N2 and N3	R22 billion
Small Harbours Development Programme	Implementation	Upgrading and refurbishment of 12 proclaimed fishing harbours in the Western Cape, and nodal-based refurbishment and development of new harbours in the Northern Cape, Eastern Cape and KwaZulu-Natal	R7.1 billion
Expansion of the MyCiTi Bus Rapid Transport System in Cape Town	Implementation	Expansion of the MyCiTi bus rapid transit system network to areas including Langa, Mitchells Plain and Khayelitsha	R7.1 billion
Tygerberg Hospital	Implementation	Construction of a 550-bed regional hospital	R4.2 billion
Klipfontein Hospital	Implementation	Construction of a new hospital to replace the GF Jooste Hospital	R4.3 billion
Bravos - Berg River Voëlmei Dam Pipeline (Western Cape)	Construction	Construction of a weir and abstraction works with a pump station on the Berg River, with a 6.3-km-long pipeline to the Voëlmei Dam	R1 billion
Vaal River System Phase 2	Construction	Bulk water infrastructure development	R32 billion
Makhulu Crocodile Water Project	Feasibility	Bulk water infrastructure development	R15 billion
Olifants Economic Development Project	Various stages	Bulk water infrastructure development	R20 billion

Source: National Treasury, Budget 2023

Other major public-sector infrastructure projects							
Sector	Project name	Quantity ¹	Capital costs (R million)	Approved BFI (R million)	Private-sector funding (R million)	Other grants/ equity (R million)	Progress to date
Human settlements	Hospital Street Social Housing Project	1,056	388	82	–	306	Construction
Human settlements	Goodwood Station Social Housing Project	1,055	457	121	–	336	Construction
Human settlements	Midrand Heights Social Housing Project	305	163	82	–	81	Due diligence
Human settlements	Greenfields Estate (Mohlakeng x16) Social Housing Project	1,080	416	20	–	396	Due diligence
Human settlements	Luthereng Mixed Use Development Project	11,000	7,700	3,400	2,150	2,150	Construction
Water and sanitation	Phase 1: Olifantspoort and Ebenezer Water Supply Programme	20,075	4,600	1,400	2,000	1,200	Procurement
Water and sanitation	Phase 1: uMkhomazi Water Augmentation Project	300,000	24,000	12,000	12,000	–	Procurement
Water and sanitation	Moretele North Klipvoor Bulk Water Supply Scheme	15,330	5,200	1,900	2,600	700	Procurement
Water and sanitation	Pilanesberg Bulk Water Supply Scheme	45,990	2,900	1,800	1,100	–	Procurement
Student housing	Tshwane University of Technology	3,500	1,089	338	210	541	Awaiting ministerial approval
Student housing	University of KwaZulu-Natal	3,000	973	200	188	585	Awaiting council approval
Student housing	Gert Sibande TVET College	1,500	504	188	109	207	Awaiting ministerial approval
Student housing	Majuba TVET College	1,500	477	174	103	200	Awaiting ministerial approval
All sectors	Total		48,866	21,705	20,460	6,701	

Source: National Treasury, Budget 2023

Note: The quantity for human settlement and student accommodation is in units, while the quantity for water and sanitation is in megalitres per annum