



Inflation rate note: rand weakness will slow inflation descent on state geopolitical choices

Thursday 1 June 2023

| SA inflation forecasts      | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|-----------------------------|------|------|------|------|------|------|
| Consumer Inflation (Av: %)  | 6.9  | 6.0  | 4.8  | 4.3  | 4.6  | 4.7  |
| (year-end: %)               | 7.2  | 5.3  | 4.2  | 4.4  | 4.7  | 4.5  |
| Producer Inflation (Av: %)  | 14.4 | 7.1  | 5.0  | 5.1  | 5.1  | 5.0  |
| (year-end: %)               | 13.5 | 4.7  | 4.9  | 4.8  | 5.3  | 4.9  |
| Salary & wage increases (%) | 3.6  | 4.8  | 5.0  | 5.4  | 5.2  | 5.4  |

Source: Investec, SARB, Stats SA

| Inflation expectations survey Q4.22 and Q1.23 |          |                 |                       |         |          |                 |                       |         |
|---|----------|-----------------|-----------------------|---------|----------|-----------------|-----------------------|---------|
| Survey conducted during                       | Analysts | Business people | Trade union officials | Average | Analysts | Business people | Trade union officials | Average |
| Headline CPI inflation during the year        |          |                 |                       |         |          |                 |                       |         |
| 2023  | 5.6      | 6.5             | 6.1                   | 6.1     | 5.6      | 6.8             | 6.5                   | 6.3     |
| 2024  | 4.9      | 6.0             | 5.8                   | 5.6     | 4.9      | 6.6             | 6.1                   | 5.8     |
| 2025  | -        | -               | -                     | -       | 4.6      | 6.2             | 5.8                   | 5.5     |

Source: BER

#### Dates when surveys were conducted

|         | Analysts, businesses and trade unions |                |                 | Households |                 |           |
|---------|---------------------------------------|----------------|-----------------|------------|-----------------|-----------|
|         | Mail questionnaire                    | Date of return | Process results | Fieldwork  | Process results | Fieldwork |
| 2018Q1  | 06-Feb                                | 13-Mar         | 14-Mar          | 26-Feb     | -               | 08-Mar    |
| 2018Q2  | 29-May                                | 03-Jul         | 04-Jul          | 20-Apr     | -               | 07-Jun    |
| 2018Q3  | 31-Jul                                | 06-Sep         | 06-Sep          | 24-Oct     | -               | 08-Nov    |
| 2018Q4  | 30-Oct                                | 04-Dec         | 06-Dec          | 23-Oct     | -               | 07-Dec    |
| 2019Q1  | 05-Feb                                | 12-Mar         | 13-Mar          | 04-Mar     | -               | 25-Mar    |
| 2019Q2  | 28-May                                | 02-Jul         | 04-Jul          | 21-Mar     | -               | 18-Apr    |
| 2019Q3  | 30-Jul                                | 05-Sep         | 06-Sep          | 12-Sep     | -               | 20-Sep    |
| 2019Q4  | 29-Oct                                | 03-Dec         | 04-Dec          | 12-Nov     | -               | 18-Nov    |
| 2020Q1  | 09-Jan                                | 20-Feb         | 21-Feb          | 17-Feb     | -               | 27-Feb    |
| 2020Q2* | 08-Jun                                | 25-Jun         | 26-Jun          | 01-Jun     | -               | 12-Jun    |
| 2020Q3* | 11-Aug                                | 27-Aug         | 28-Aug          | 11-Aug     | -               | 21-Aug    |
| 2020Q4  | 08-Oct                                | 03-Dec         | 04-Dec          | 23-Nov     | -               | 04-Dec    |
| 2021Q1  | 13-Jan                                | 25-Feb         | 26-Feb          | 22-Feb     | -               | 05-Mar    |
| 2021Q2  | 12-May                                | 24-Jun         | 25-Jun          | 07-Jul     | -               | 14-Jun    |
| 2021Q3  | 21-Jul                                | 02-Sep         | 03-Sep          | 16-Aug     | -               | 30-Aug    |
| 2021Q4  | 13-Oct                                | 09-Dec         | 10-Dec          | 14-Nov     | -               | 25-Nov    |
| 2022Q1  | 12-Jan                                | 24-Feb         | 25-Feb          | 21-Feb     | -               | 04-Mar    |
| 2022Q2  | 11-May                                | 23-Jun         | 24-Jun          | 06-Jun     | -               | 20-Jun    |
| 2022Q3  | 20-Jul                                | 01-Sep         | 02-Sep          | 15-Aug     | -               | 22-Aug    |
| 2022Q4  | 21-Nov                                | 08-Dec         | 09-Dec          | 14-Nov     | -               | 23-Nov    |
| 2023Q1  | 20-Feb                                | 09-Mar         | 10-Mar          | 27-Feb     | -               | 09-Mar    |

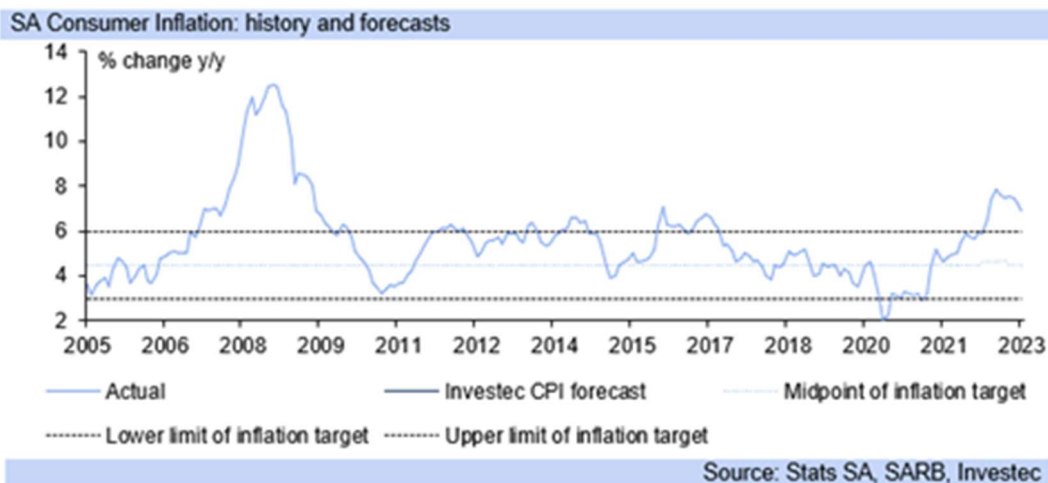
Source BER

\*Online survey only

#### South African CPI inflation excl. food, petrol, administered prices



Source: Stats SA



- While SA's CPI inflation trajectory is expected to be one of falling inflation this year, there are a number of upside risks, which include the operating costs of load shedding to the economy and marked rand weakness.
- The extreme rand depreciation over the past fourteen months has supported CPI inflation at a higher rate than would have occurred in a stable currency environment, and the currency depreciation pass through impact has increased.
- Load shedding has placed extreme strain on the economy, which has added to costs and so inflationary pressures, while also severely subduing economic growth and so job creation and business confidence.
- The Council for Scientific and Industrial Research (CSIR) notes "(p)ower from a generator is as much as 408% more expensive than power from the municipal grid", which is damaging business activity and placing upwards pressure on inflation.
- The South African Reserve Bank (SARB) notes "load-shedding may add 0.5 percentage points to headline inflation in 2023. Severe stages of load-shedding ... (are) inflationary ... (with) higher operating costs ... passed to consumers."
- "Load-shedding concerns will continue to weigh on investor sentiment, in turn raising South Africa's risk premium and placing pressure on the exchange rate." Rand weakness raises the cost of imported goods, and goods prices in hard currency.
- The rand's weakness has been impacted by the greylisting, along with SA's involvement with Russia on a number of fronts, including looking to host the Russian President at a BRICS summit this year in SA.

- A number of government officials have visited Russia this year and US Secretary Yellen warned SA on “(v)iolation of ... sanctions by local businesses or by governments” will see the US “respond to quickly and harshly.”
- SA remains in a high risk environment, with many of the domestic factors specific to South Africa dragging down the economic outlook, worsening the exchange rate and exerting upwards pressure on inflation, as well as on interest rates.

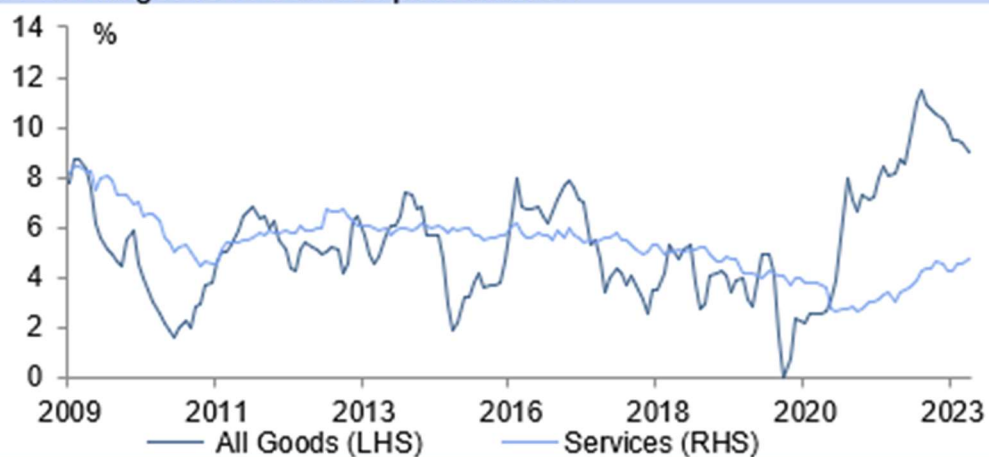
Please scroll down to the second section below

Economic Scenarios: note updated expected and downside qualitative

|                   |   | Q1.23 | Q2.23 | Q3.23 | Q4.23 | Q1.24 | Q2.24 | Q3.24 | Q4.24 |
|-------------------|---|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Extreme</b>    | USD/Rand (average)  | 17.76 | 17.60 | 16.50 | 15.50 | 15.00 | 14.60 | 14.50 | 14.40 |
| <b>Up case</b>    | Repo rate (end rate)  | 7.75  | 7.50  | 7.25  | 7.00  | 6.50  | 6.50  | 6.25  | 6.00  |
| <b>1%</b>         | SA economic growth very quickly rises to 3–5%, then 5–7%. Good governance, growth-creating reforms (structural constraints eradicated), strong property rights, no nationalisation or expropriation without compensation. High business confidence and fixed investment growth, substantial FDI, fiscal consolidation drives debt to low ratios of 2000s. Very subdued domestic inflation on extreme rand strength, very favourable weather conditions. <b>Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings to investment grade.</b> Very short grey listing. Quick transition to renewable energy from fossil fuels.  |       |       |       |       |       |       |       |       |
| <b>Up case</b>    | USD/Rand (average)  | Q1.23 | Q2.23 | Q3.23 | Q4.23 | Q1.24 | Q2.24 | Q3.24 | Q4.24 |
| <b>1%</b>         | Repo rate (end rate)  | 17.76 | 18.20 | 17.40 | 17.00 | 16.90 | 17.10 | 16.90 | 16.60 |
|                   |   | 7.75  | 7.75  | 7.75  | 7.50  | 7.00  | 7.00  | 6.75  | 6.50  |
|                   | Economic growth lifts towards 5.0% y/y, rising business confidence and investment, structural constraints eroded, global growth strong, global financial markets risk-on. No nationalisation or expropriation without compensation. Low domestic inflation on favourable weather and global conditions, rand strength, lower inflation on increased privatisation. <b>Credit rating upgrades on fiscal consolidation, markedly lower borrowings.</b> Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. Grey listed for less than eighteen months.   |       |       |       |       |       |       |       |       |
| <b>Base</b>       | USD/Rand (average)  | Q1.23 | Q2.23 | Q3.23 | Q4.23 | Q1.24 | Q2.24 | Q3.24 | Q4.24 |
| <b>case</b>       | Repo rate (end rate)  | 17.76 | 19.00 | 18.40 | 18.00 | 17.65 | 17.75 | 17.95 | 17.65 |
| <b>46%</b>        |   | 7.75  | 8.25  | 8.25  | 8.25  | 8.00  | 7.50  | 7.50  | 7.00  |
|                   | Economic growth modest lifts towards 3.0% y/y on reforms, global financial market risk sentiment is neutral to positive. SA remains in the BB credit rating category bracket on fiscal consolidation (debt to GDP stabilisation). The rand stabilises, then strengthens somewhat. Inflation is impacted by weather patterns via food price inflation. A transition to renewable energy and slow move away from fossil fuel usage occurs and measures to alleviate the impact of climate change on the economy are modestly implemented. The Russian/Ukraine conflict eases. Little to no expropriation without compensation. Temporary grey listing.  |       |       |       |       |       |       |       |       |
| <b>Lite</b>       | USD/Rand (average)  | Q1.23 | Q2.23 | Q3.23 | Q4.23 | Q1.24 | Q2.24 | Q3.24 | Q4.24 |
| <b>(domestic)</b> | Repo rate (end rate)  | 17.76 | 19.70 | 20.50 | 20.90 | 20.50 | 20.00 | 19.60 | 19.00 |
| <b>Down</b>       |   | 7.75  | 8.50  | 9.00  | 9.50  | 9.50  | 9.50  | 9.50  | 9.50  |
| <b>case</b>       | The lite down case has the same expected international environment as the base case, but the domestic environment differs. Business confidence depressed, <b>substantial electricity and water shedding, very weak rail capacity</b> , civil and political unrest, little investment growth, swing toward left leaning policies recession. <b>Temporary increase in state borrowings, risk of credit rating downgrades rise, then occur later in period, but sees eventual fiscal consolidation</b> Expropriation of private sector property is very limited and has a modestly negative impact on the economy. High inflation on unfavorable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate climate change. Lengthy greylisting.   |       |       |       |       |       |       |       |       |
| <b>42%</b>        |   |       |       |       |       |       |       |       |       |
| <b>Severe</b>     | USD/Rand (average)  | Q1.23 | Q2.23 | Q3.23 | Q4.23 | Q1.24 | Q2.24 | Q3.24 | Q4.24 |
| <b>down</b>       | Repo rate (end rate)  | 17.76 | 20.50 | 21.60 | 22.30 | 23.00 | 23.00 | 22.80 | 23.30 |
| <b>case</b>       |   | 7.75  | 9.25  | 10.50 | 11.00 | 11.00 | 11.50 | 11.50 | 12.00 |
| <b>10%</b>        | Lengthy global recession, global financial crisis – insufficient monetary and other support domestically and internationally. <b>ANC/EFF coalition in 2024. Widespread, severe services load shedding, severe civil and political unrest.</b> Government borrows from increasingly wider sources, SA rated single B from all three key agencies, eventually CCC grade, <b>increased risk of default, sinks deeper into a debt trap.</b> Failure to transition to renewable energy and to sufficient measures to alleviate the impact of climate change on the economy. Very high inflation on very adverse weather conditions, severe rand weakness. Full implementation of expropriation without compensation occurs (particularly for land held for speculative purposes), with a significant negative impact on the economy. SA blacklisted. |       |       |       |       |       |       |       |       |

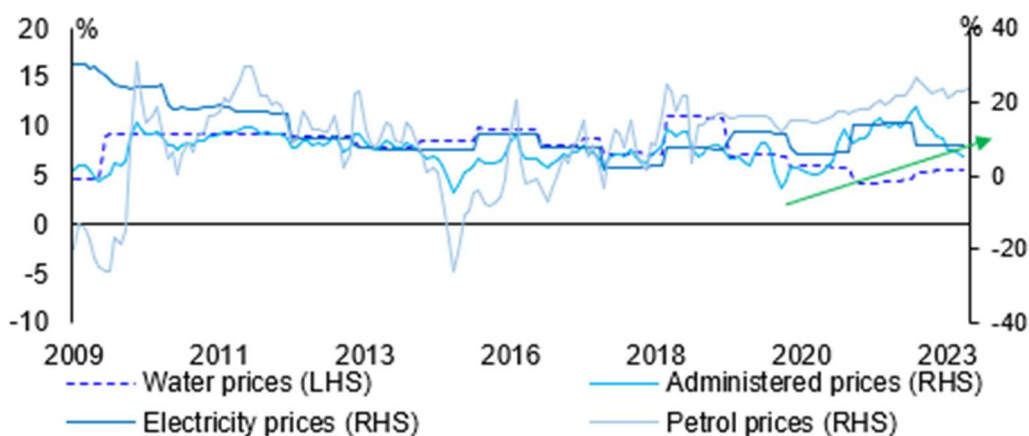
Note: Event risk begins Q2.23. Source: Investec

SA CPI all goods vs services price inflation



Source: Stats SA

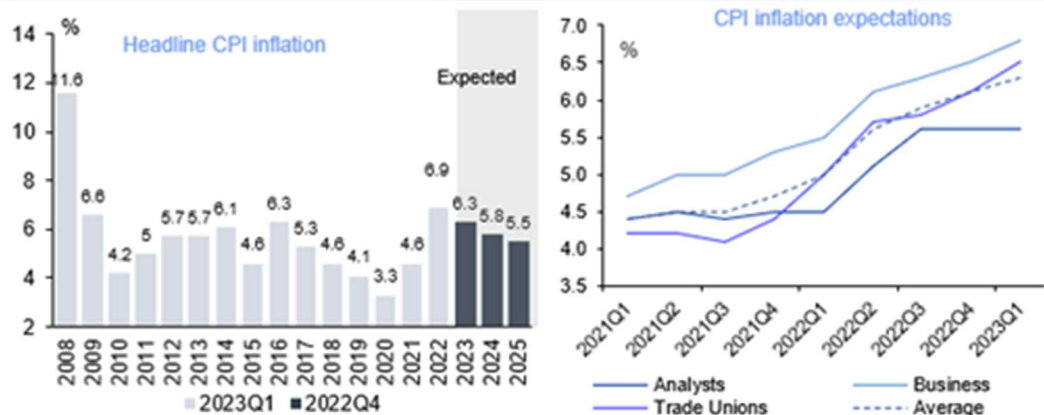
Inflation rate of administered prices in SA - inflation target 3-6%



Source: Stats SA

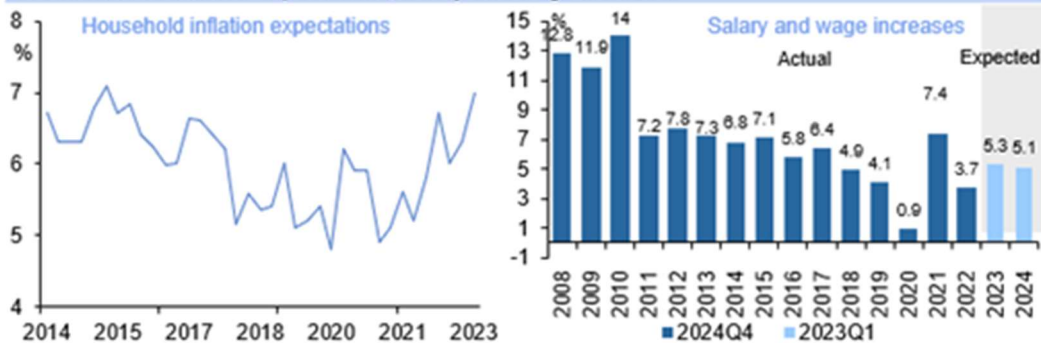


### SA headline CPI inflation and inflation expectations for 2023



Source: BER

### SA household inflation expectations; salary and wage increases

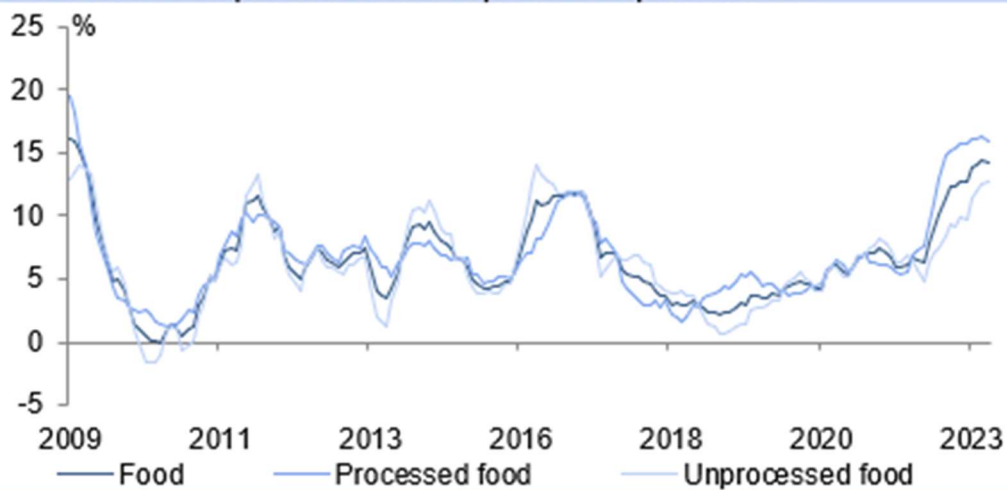


Source: BER

- The Reserve Bank warns of the negative effect on economic growth of damaging relations with SA's largest trading partners, specifically Europe, the US and the UK. The rand has reached R19.92/USD, weakening SA's economic fundamentals.
- The SARB warns "(t)he double impact of secondary sanctions and the recent FATF greylisting may cause severe and long-lasting damage to South Africa's reputation in the global financial system, with a range of adverse consequences."
- "As at 31 December 2022, 82.5% of foreign direct investment (FDI) into South Africa originated from the US, EU and UK, compared to 0.003% from Russia". Losing FDI from the UK, US and Europe would see substantial further rand weakness.
- As the rand weakens substantially it erodes the downwards path of inflation, with fuel prices determined by both the exchange rate and the international US dollar price of petroleum products, as SA imports its fuel, the country's largest import.

- Additionally, “South Africa’s favourable access to the US market in terms of the US African Growth and Opportunity Act (AGOA) may not be renewed when it expires in 2025, which will have severe consequences for corporates and industries”.
- “The South African banking sector’s claims on the UK amounted to R324 billion at the end of 2022, or close to 38% of the total banking sector’s claims on the rest of the world, while banking sector claims on the US was R70 billion, or 8% of total South African banking sector claims. Claims on Russia were immaterial”.
- “Foreign markets (in particular European markets) are a stable source of term funding for South African banks. Any secondary sanctions would constrain or even completely close off access to international capital markets for South African banks, other financial institutions and corporates. This will also spill over into the cost and availability of funding for the rest of the financial sector and the real economy”.
- “International market participants providing USD clearing, settlement and payment services to South African banks would either fundamentally reduce or completely halt such transactions and services, based on the aspects related to the imposition of secondary sanctions as described above.”
- “Many of the above factors would significantly increase regulatory capital requirements for banks and constrain revenues due to a loss of business, counterparties and clients.”

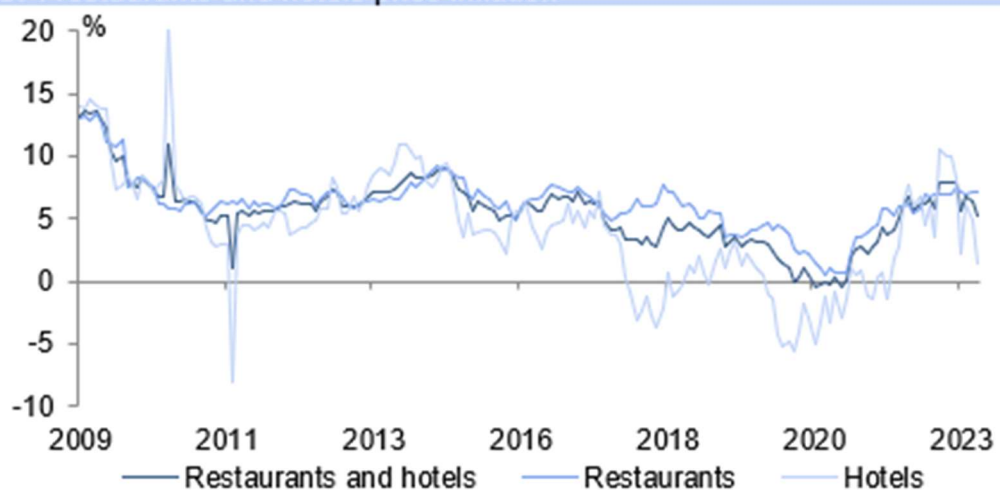
#### SA CPI: Food vs processed and unprocessed price inflation



Source: Stats SA

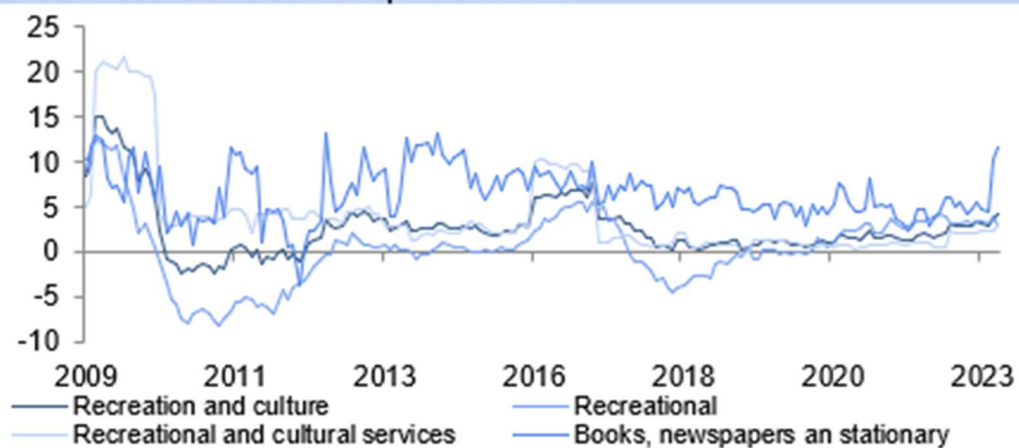


### CPI restaurants and hotels price inflation



Source: Stats SA

### CPI recreation and cultural price inflation



Source: Stats SA

## CPI forecast averages

| Date     | Index<br>Base<br>2016 | Annual<br>y/y | Monthly<br>m/m | Quarterly<br>y/y | Calendar<br>Year<br>y/y |     |
|----------|-----------------------|---------------|----------------|------------------|-------------------------|-----|
| Jan 2023 | 107.1                 | 6.9           | -0.1           |                  |                         |     |
| Feb 2023 | 107.9                 | 7.0           | 0.7            |                  |                         |     |
| Mar 2023 | 109.0                 | 7.1           | 1.0            | 7.0              |                         |     |
| Apr 2023 | 109.4                 | 6.8           | 0.4            |                  |                         |     |
| May 2023 | 109.8                 | 6.5           | 0.4            |                  |                         |     |
| Jun 2023 | 110.2                 | 5.7           | 0.4            | 6.3              |                         |     |
| Jul 2023 | 111.0                 | 5.0           | 0.8            |                  |                         |     |
| Aug 2023 | 111.5                 | 5.2           | 0.4            |                  |                         |     |
| Sep 2023 | 111.8                 | 5.4           | 0.3            | 5.2              |                         |     |
| Oct 2023 | 112.3                 | 5.4           | 0.4            |                  |                         |     |
| Nov 2023 | 112.6                 | 5.4           | 0.3            |                  |                         |     |
| Dec 2023 | 112.8                 | 5.3           | 0.2            | 5.4              | 2023                    | 6.0 |
| Jan 2024 | 113.4                 | 5.9           | 0.5            |                  |                         |     |
| Feb 2024 | 113.7                 | 5.4           | 0.3            |                  |                         |     |
| Mar 2024 | 114.4                 | 5.0           | 0.6            | 5.4              |                         |     |
| Apr 2024 | 114.9                 | 5.0           | 0.4            |                  |                         |     |
| May 2024 | 115.2                 | 5.0           | 0.3            |                  |                         |     |
| Jun 2024 | 115.5                 | 4.8           | 0.2            | 4.9              |                         |     |
| Jul 2024 | 116.4                 | 4.8           | 0.8            |                  |                         |     |
| Aug 2024 | 116.6                 | 4.6           | 0.2            |                  |                         |     |
| Sep 2024 | 117.0                 | 4.6           | 0.3            | 4.7              |                         |     |
| Oct 2024 | 117.2                 | 4.4           | 0.2            |                  |                         |     |
| Nov 2024 | 117.5                 | 4.4           | 0.3            |                  |                         |     |
| Dec 2024 | 117.6                 | 4.2           | 0.1            | 4.3              | 2024                    | 4.8 |
| Jan 2025 | 118.4                 | 4.4           | 0.7            |                  |                         |     |
| Feb 2025 | 118.9                 | 4.5           | 0.4            |                  |                         |     |
| Mar 2025 | 119.5                 | 4.4           | 0.5            | 4.5              |                         |     |
| Apr 2025 | 119.7                 | 4.2           | 0.2            |                  |                         |     |
| May 2025 | 119.9                 | 4.0           | 0.1            |                  |                         |     |
| Jun 2025 | 120.1                 | 4.0           | 0.2            | 4.1              |                         |     |
| Jul 2025 | 121.4                 | 4.3           | 1.1            |                  |                         |     |
| Aug 2025 | 121.8                 | 4.4           | 0.3            |                  |                         |     |
| Sep 2025 | 122.2                 | 4.4           | 0.3            | 4.4              |                         |     |
| Oct 2025 | 122.3                 | 4.3           | 0.1            |                  |                         |     |
| Nov 2025 | 122.5                 | 4.2           | 0.2            |                  |                         |     |
| Dec 2025 | 122.8                 | 4.4           | 0.2            | 4.3              | 2025                    | 4.3 |
| Jan 2026 | 123.5                 | 4.3           | 0.6            |                  |                         |     |
| Feb 2026 | 124.0                 | 4.3           | 0.4            |                  |                         |     |
| Mar 2026 | 124.6                 | 4.3           | 0.5            | 4.3              |                         |     |

Source: Stats SA, Investec

| Consumer Prices, annual variation in % |             |             |             |             |            |
|--|-------------|-------------|-------------|-------------|------------|
|  | 2020        | 2021        | 2022        | 2023        | 2025       |
| <b>World</b>                           | <b>2.5</b>  | <b>4.0</b>  | <b>8.0</b>  | <b>6.1</b>  | <b>4.3</b> |
| United States                          | 1.2         | 4.7         | 8.0         | 4.2         | 2.6        |
| Euro Area                              | 0.3         | 2.6         | 8.4         | 5.6         | 2.7        |
| China                                  | 2.5         | 0.9         | 2.0         | 2.0         | 2.3        |
| Japan                                  | 0.0         | -0.2        | 2.5         | 2.6         | 1.6        |
| <b>Sub-Saharan Africa</b>              | <b>17.2</b> | <b>12.5</b> | <b>14.6</b> | <b>13.8</b> | <b>9.8</b> |
| Angola                                 | 22.3        | 25.8        | 21.4        | 11.1        | 10.3       |
| Botswana                               | 1.9         | 6.7         | 12.2        | 7.3         | 5.6        |
| Cameroon                               | 2.4         | 2.3         | 6.2         | 4.4         | 3.2        |
| Code d'Ivoire                          | 2.4         | 4.2         | 5.2         | 3.6         | 1.9        |
| DR Congo                               | 11.4        | 9.0         | 9.3         | 11.7        | 7.8        |
| Ethiopia                               | 20.3        | 26.8        | 33.9        | 29.9        | 18.2       |
| Ghana                                  | 8.7         | 10.0        | 31.9        | 36.3        | 16.0       |
| Kenya                                  | 5.4         | 6.1         | 7.7         | 7.9         | 6.4        |
| Mozambique                             | 3.5         | 6.4         | 10.3        | 8.1         | 6.8        |
| Nigeria                                | 13.2        | 17.0        | 18.8        | 20.0        | 15.4       |
| Rwanda                                 | 9.9         | -0.4        | 17.7        | 23.1        | 7.6        |
| Senegal                                | 2.5         | 2.2         | 9.7         | 6.3         | 2.8        |
| South Africa                           | 3.3         | 4.6         | 6.9         | 5.8         | 4.8        |
| Tanzania                               | 3.3         | 3.7         | 4.2         | 4.7         | 4.2        |
| Uganda                                 | 2.8         | 2.2         | 7.2         | 7.1         | 4.6        |
| Zambia                                 | 15.7        | 22.0        | 11.0        | 10.4        | 9.3        |
| Zimbabwe                               | 557.2       | 98.6        | 193.4       | 126.0       | 67.3       |
| Source: Focus Economics June 2023      |             |             |             |             |            |