

SA Economics



Macro-economic outlook: South Africa's electricity crisis dims the economic growth outlook

Friday 24 March 2023

Summary, % real growth rates	2022	2023	2024	2025	2026	2027
GDP (real, %)	2.0	0.2	0.9	1.4	1.8	2.1
HCE (real, %)	2.6	1.7	1.4	1.8	1.9	2.2
GCE (real, %)	0.9	-2.2	-0.6	0.0	0.7	1.2
GFCF (real, %)	4.7	3.0	3.8	4.0	4.5	5.0
GDE (real, %)	3.8	1.0	1.0	1.7	2.1	2.4
Export (goods & non-factor services) - (real, %)	7.5	-0.5	3.0	2.6	3.1	3.5
Imports (goods & non-factor services) - (real, %)	14.2	1.9	3.3	3.3	3.9	4.4
Balance: Current Account - (% of GDP)	-0.5	-2.9	-2.7	-2.7	-2.9	-3.2
Imports as % of GDP	29.1	29.6	30.3	30.8	31.5	32.2
Exports as % of GDP	27.6	27.4	28.0	28.3	28.7	29.1

Note: The GDP figures are from the expenditure side and so include the residual. Source: SARB, Investec

Consumption Expenditure	2022	2023	2024	2025	2026	2027
HCE, total (real, %)	2.6	1.7	1.4	1.8	1.9	2.2
HCE as % of GDP	66.5	67.5	67.8	68.1	68.1	68.2
Unemployment rate (%)	33.5	32.9	32.9	32.8	32.8	32.7
Population (million)	59.9	60.4	61.0	61.7	62.3	62.9
Employment growth rate (%)	5.9	1.7	1.5	1.8	1.7	1.8
Compensation of employees (%)	5.2	5.0	6.2	6.1	6.1	6.3
GCE as % of GDP	19.6	19.2	18.9	18.6	18.4	18.3

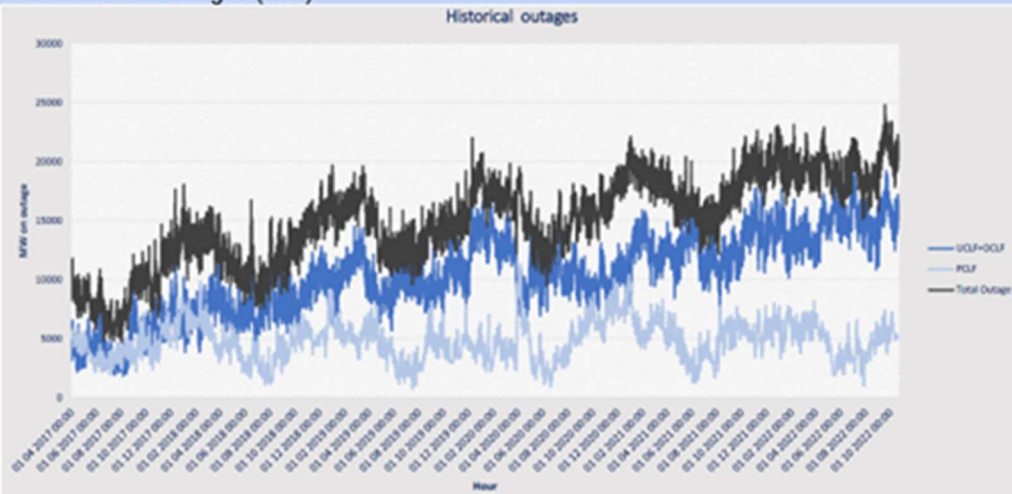
Source: SARB, Investec

Gross Fixed Capital Formation	2022	2023	2024	2025	2026	2027
GFCF, total (real, %)	4.7	3.0	3.8	4.0	4.5	5.0
GFCF as % of GDP	14.4	14.8	15.2	15.6	16.0	16.5
Private sector (real, %)	7.3	3.1	3.6	4.0	4.5	4.8
Government (real, %)	-1.3	2.7	4.2	4.0	4.5	5.3
Non-residential GFCF (real, %)	8.7	3.2	3.5	3.9	4.4	4.8
Residential buildings (real, %)	1.1	2.7	4.0	4.5	4.8	5.0

Source: SARB, Investec

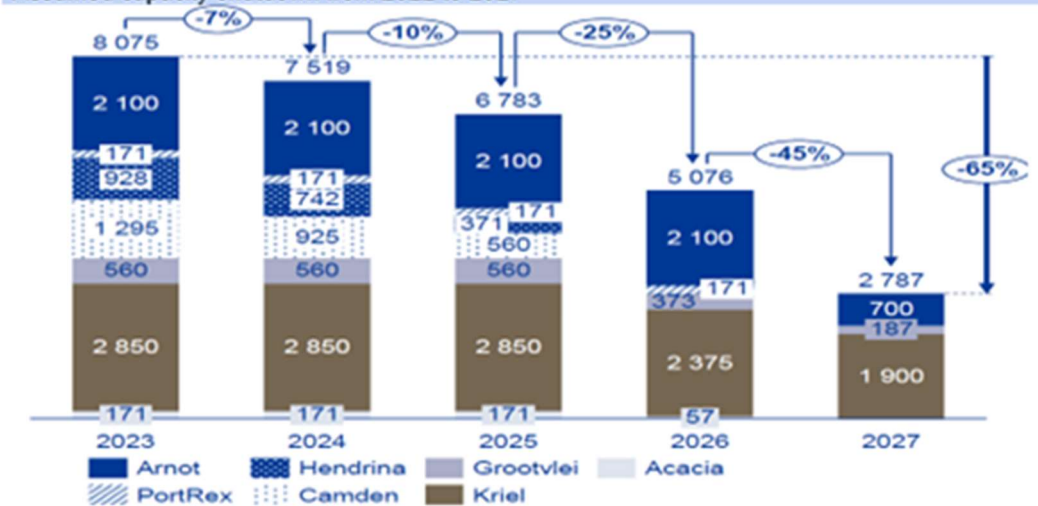
Please note: all data may be subjected to historical revisions

Historical total outages (MW)



Source: Eskom

Assumed capacity shutdown from 2022 to 2027



Source: Eskom

- South Africa's economic growth outlook has tipped lower on the weakening in GDP in Q4.22 which creates a low base for 2023 to roll off on, and on the deepening energy crisis. Combined this is expected to limit 2023's GDP growth to 0.2% y/y.
- Q1.23 is likely to see economic activity contract further, by -0.5% qqsa (quarter on quarter, seasonally adjusted) from Q4.22's -1.3% qqsa, which will yield a recession on a technical basis as loadshedding cuts into productive capacity.
- Electricity supply is failing to consistently meet demand, giving rise to severe bouts of load shedding, with 2023's Energy Availability Factor (EAF) at 52.8% of the potential output of installed capacity available, on deteriorated production ability.

- Last year the country's EAF was higher, at 58%, although lower than forecast in Eskom's October 2022 Medium Term System Adequacy Outlook (MTSAO), which "expects a downward trend in plant performance to continue in the medium term".
- This is seen to be "fueled by increasing unplanned full and partial load losses", while "Eskom's generation fleet is expected to reduce by 5 288 MW between 2023 and 2027 because of plants reaching their turbine dead-stop dates (DSD)."
- Loadshedding has added to input costs for production in SA, with self-generation more expensive, while production losses (and wastage particularly for food) increase, with food the highest weighted item and biggest driver of inflation.
- March is likely to see the MPC deliver a 25bp hike, following the FOMC's move of the same magnitude this week. The rand gained somewhat from the Fed's less hawkish tone but is still trading above R18.00/USD, reaching R18.23/USD today.
- The domestic currency is likely to remain volatile, with the Fed leaving the door open for further rate increases. The dot plot of members' expectations shows one further 25bp lift, but markets are less certain, factoring in cuts this year.
- South Africa's energy crisis is having a severely suppressing effect on growth and job creation, and shows little immediate likelihood of being resolved, reducing business and consumer confidence, and further weakening the growth outlook.

Please scroll down to the second section below



GDP Summary, % real growth rates (incl. residual)	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
GDP (real, qqsa %)	1.6	-0.8	1.8	-1.3	-0.5	0.5	0.8	0.8	-0.4	0.0	0.2	0.3
HCE (real, qqsa %)	1.0	0.4	-0.3	0.9	0.6	0.4	0.3	0.3	0.4	0.4	0.4	0.4
GCE (real, qqsa %)	1.1	-1.0	0.6	-0.7	-0.7	-0.7	-0.6	-0.5	0.1	0.1	0.2	0.3
GFCF (real, qqsa %)	3.5	0.3	0.3	1.3	0.7	0.7	0.6	0.9	1.1	0.9	1.0	1.0
GDE (real, qqsa %)	2.1	0.7	0.7	-0.2	0.0	0.2	0.7	0.6	-0.2	0.1	0.4	0.5
Export (goods & non-factor services) - (real, qqsa %)	3.7	-0.1	3.8	-4.8	-1.5	1.9	1.9	2.2	0.0	0.0	0.1	0.0
Imports (goods & non-factor services) - (real, qqsa %)	5.2	5.4	0.1	-0.8	-0.5	0.8	1.5	1.2	0.5	0.3	0.8	0.8

Source: SARB, Investec

GDP Summary, % real growth rates (incl. residual)	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2	2027 Q3	2027 Q4
GDP (real, qqsa %)	0.3	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.5	0.6	0.6	0.6
HCE (real, qqsa %)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
GCE (real, qqsa %)	-0.2	-0.1	0.0	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
GFCF (real, qqsa %)	1.0	1.0	1.0	1.0	1.1	1.2	1.2	1.0	1.3	1.3	1.3	1.3
GDE (real, qqsa %)	0.3	0.5	0.4	0.6	0.5	0.5	0.5	0.5	0.6	0.7	0.7	0.6
Export (goods & non-factor services) - (real, qqsa %)	0.9	1.1	1.2	0.9	0.6	0.6	0.6	0.7	0.9	1.0	0.9	1.0
Imports (goods & non-factor services) - (real, qqsa %)	0.9	0.9	0.8	1.0	1.0	0.9	1.0	1.1	1.2	1.1	1.1	1.2

Source: SARB, Investec

Gross Fixed Capital Formation	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
GFCF, total (real, qqsa %)	3.5	0.3	0.3	1.3	0.7	0.7	0.6	0.9	1.1	0.9	1.0	1.0
Private sector (real, qqsa %)	4.4	0.7	-0.6	1.5	0.9	0.9	0.7	0.9	1.0	0.9	0.9	0.8
Government (real, qqsa %)	1.1	-0.6	2.4	0.8	0.3	0.3	0.6	0.9	1.5	0.9	1.0	1.6
Non-residential GFCF (real, qqsa %)	5.9	1.8	-2.9	2.2	1.2	1.0	0.7	1.0	0.9	0.8	0.8	0.7
Residential buildings (real, qqsa %)	-1.9	-4.8	11.1	-1.6	-0.6	0.2	0.4	0.8	1.3	1.2	1.3	1.1

Source: SARB, Investec

Gross Fixed Capital Formation	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2	2027 Q3	2027 Q4
GFCF, total (real, qqsa %)	1.0	1.0	1.0	1.0	1.1	1.2	1.2	1.0	1.3	1.3	1.3	1.3
Private sector (real, qqsa %)	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.2	1.3	1.3	1.3
Government (real, qqsa %)	0.7	0.8	0.8	0.8	1.2	1.4	1.4	1.1	1.3	1.4	1.4	1.3
Non-residential GFCF (real, qqsa %)	1.0	1.1	1.1	1.1	1.1	1.1	1.1	0.9	1.2	1.3	1.3	1.3
Residential buildings (real, qqsa %)	1.1	1.1	1.1	1.0	1.3	1.2	1.2	1.3	1.2	1.2	1.2	1.3

Source: SARB, Investec

- The IMF has dropped its economic growth forecast for SA for this year to 0.1% y/y, “mainly due to a significant increase in the intensity of power cuts, as well as the weaker commodity prices and external environment”.
- The IMF recommends that “South Africa must implement reforms to boost private-sector investment, promote good governance, and improve the efficiency of public spending to shore up an economy hamstrung by rolling blackouts”.
- “In the medium term, growth is expected to rebound, though only to about 1½ percent per year, with income per capita likely to stagnate as a result. This is

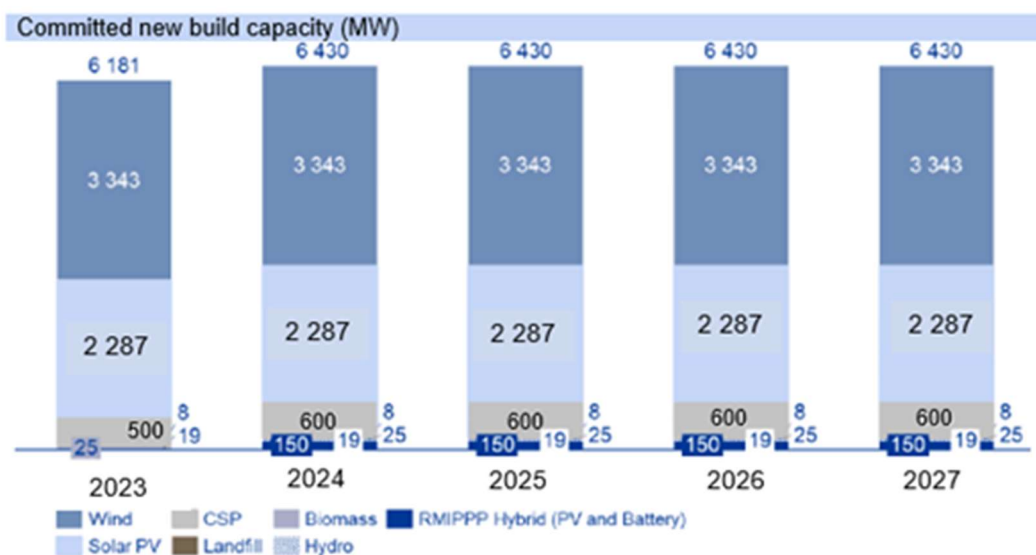
because of long-standing structural impediments, such as product and labor market rigidities”.

- The IMF adds “human capital constraints” to SA’s low growth outlook, with all these factors “offsetting expected improvements in energy supply, higher private spending on energy-related infrastructure, and a more supportive external environment.”
- “(R)isks include delays in addressing the energy crisis and Eskom’s and Transnet’s operational and financial weaknesses, slower-than-expected progress or reversal in reforms and policies, including fiscal consolidation, and increased political uncertainty.”
- South Africa is taking a very tardy approach to the resolution of its energy crisis, with no urgent plans for a substantial increase in the power supply in the short-term, and energy experts expect loadshedding to persist daily this year, worsening over winter.
- The lack of urgent investigation of whistleblowers claims of high levels of corruption and corruption-linked vandalism need to be addressed, and unnecessary breakdowns halted, while a strong repair and maintenance programme is needed.
- The new build of infrastructure takes a number of years, and is being inhibited by the reduction in the size of the construction industry, which shrank under the COVID-19 lockdowns on the economy that ceased business operations in the sector.
- The deteriorating state and insufficiency of electricity transmission is also a limitation on energy projects. The upwards interest rate hike cycle has had a small impact on growth in comparison to the loss of productive capacity from insufficient electricity supply.

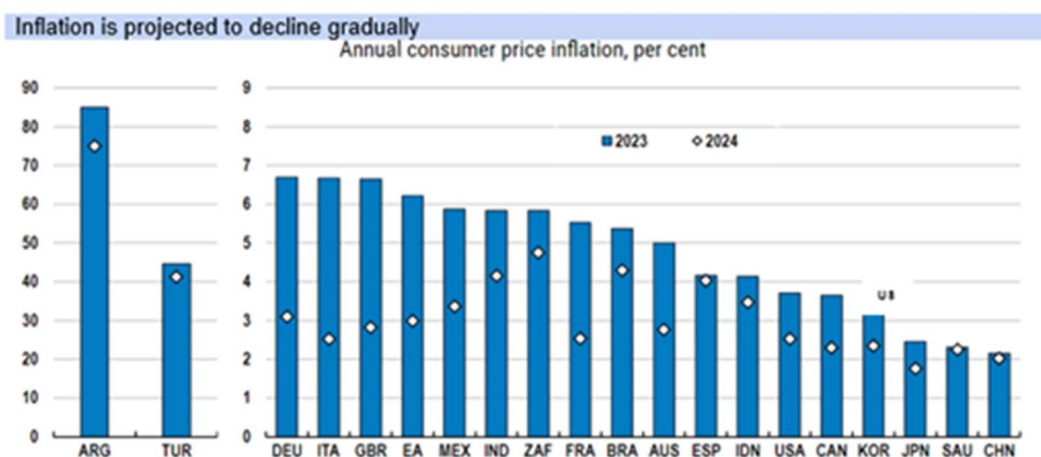
Monetary Sector	2022	2023	2024	2025	2026	2027
Repo Rate (year-end: %)	7.00	7.50	6.50	6.50	6.50	6.50
Prime Overdraft Rate (year-end: %)	10.50	11.00	10.00	10.00	10.00	10.00
SA rand bond (year-end: %)	11.55	10.90	10.50	10.10	10.00	9.90
Source: SARB, Investec						

Inflation	2022	2023	2024	2025	2026	2027
Consumer Inflation (Av: %)	6.9	5.3	4.6	4.3	4.6	4.7
(year-end: %)	7.2	4.4	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: SARB, Investec						

Exchange Rates: averages	2022	2023	2024	2025	2026	2027
USD/ZAR	16.36	18.28	18.00	17.60	17.33	17.35
GBP/ZAR	20.18	22.70	23.04	22.88	22.52	22.56
EUR/ZAR	17.21	20.14	20.70	20.59	20.27	20.30
ZAR/JPY	8.03	6.97	6.76	7.49	7.50	7.49
GBP/USD	1.24	1.24	1.28	1.30	1.30	1.30
EUR/USD	1.05	1.10	1.15	1.17	1.17	1.17
USD/JPY	131	127	122	132	130	130
Source: SARB, Investec						



Source: Eskom



Source: OECD, Interim Report March 2023

Note: Projections for India refer to fiscal years, starting in April