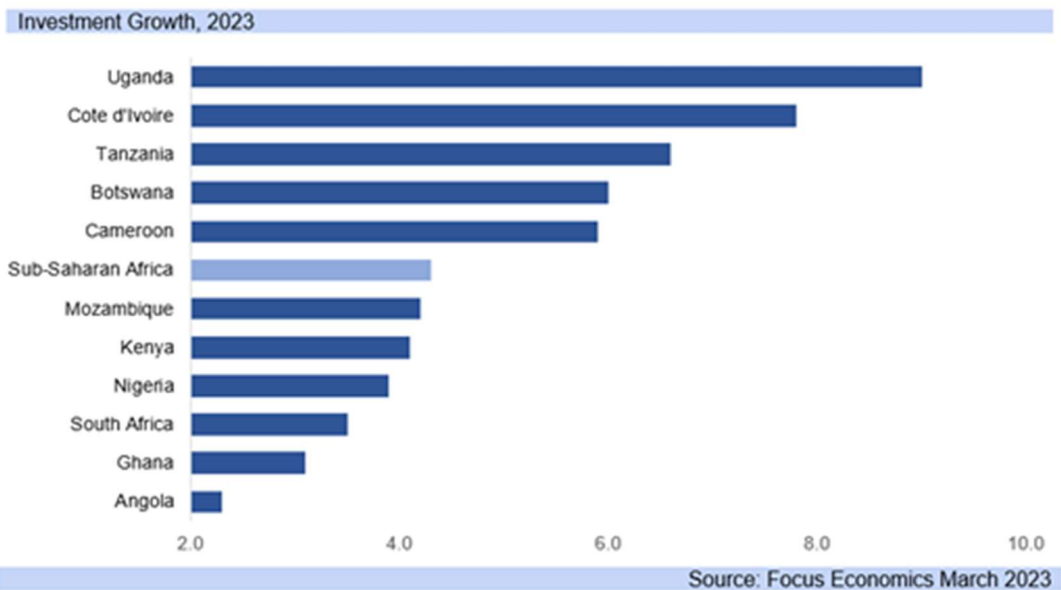


# SA Economics



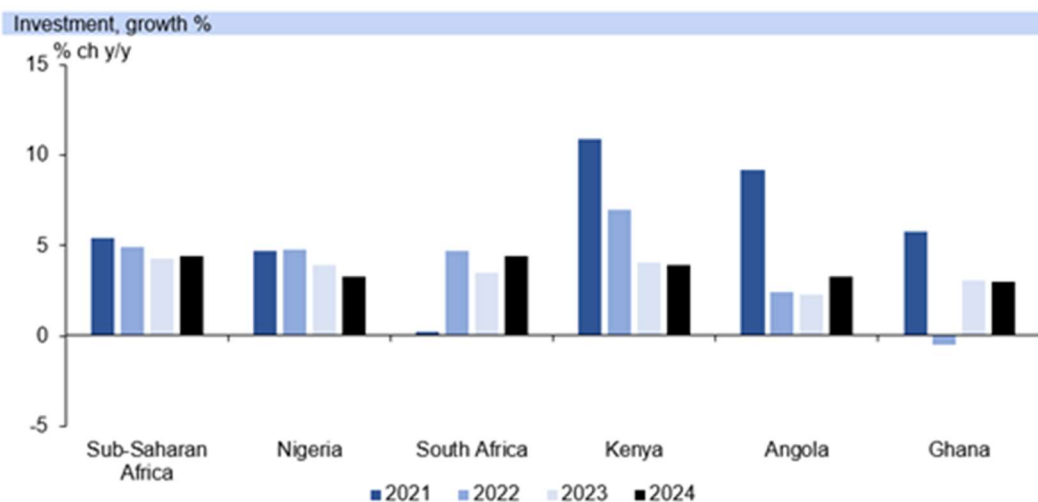
Economic growth: insufficient fixed investment stymieing growth outlook

Tuesday 7 March 2023

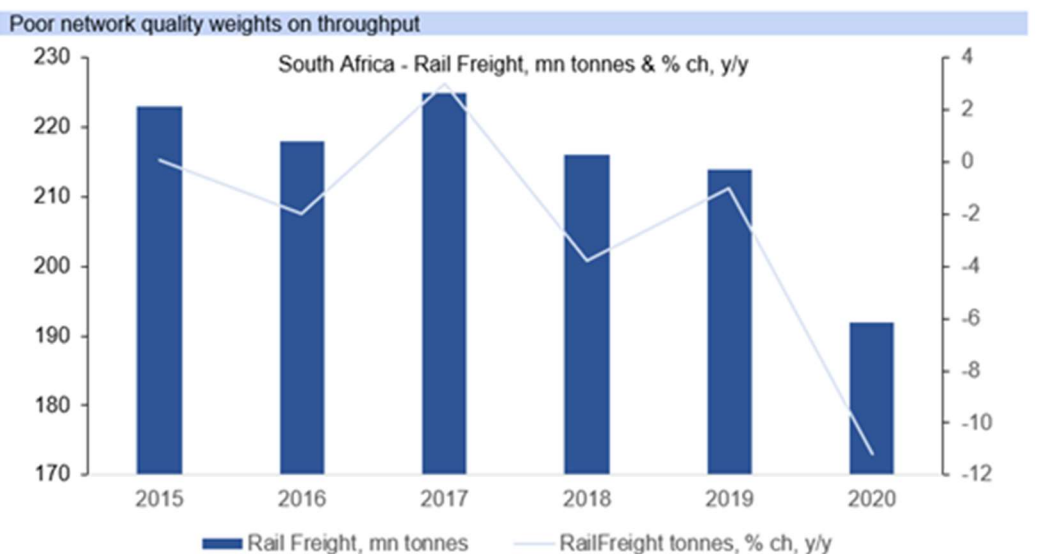


Investment, growth in %							
	2021	2022	2023	2024	2025	2026	2027
Sub-Saharan Africa	5.4	4.9	4.3	4.4	4.6	4.7	4.7
Angola	9.2	2.4	2.3	3.3	2.8	3.3	-
Botswana	0.3	5.3	6.0	4.6	4.9	4.1	4.2
Cameroon	9.8	5.8	5.9	5.6	4.5	4.7	4.3
Cote d'Ivoire	21.3	8.0	7.8	7.2	6.8	6.0	5.9
Ghana	5.8	-0.5	3.1	3.0	4.6	6.2	7.1
Kenya	10.9	7.0	4.1	3.9	5.7	5.9	6.0
Mozambique	-2.7	14.5	4.2	7.6	3.5	-2.2	-2.4
Nigeria	4.7	4.8	3.9	3.3	4.2	4.3	3.6
<b>South Africa</b>	<b>0.2</b>	<b>4.7</b>	<b>3.5</b>	<b>4.4</b>	<b>3.8</b>	<b>3.8</b>	<b>4.1</b>
Tanzania	5.1	6.2	6.6	6.7	6.5	7.0	6.8
Uganda	7.1	6.5	9.0	9.0	7.8	6.2	5.0

Source: Focus Economics March 2023



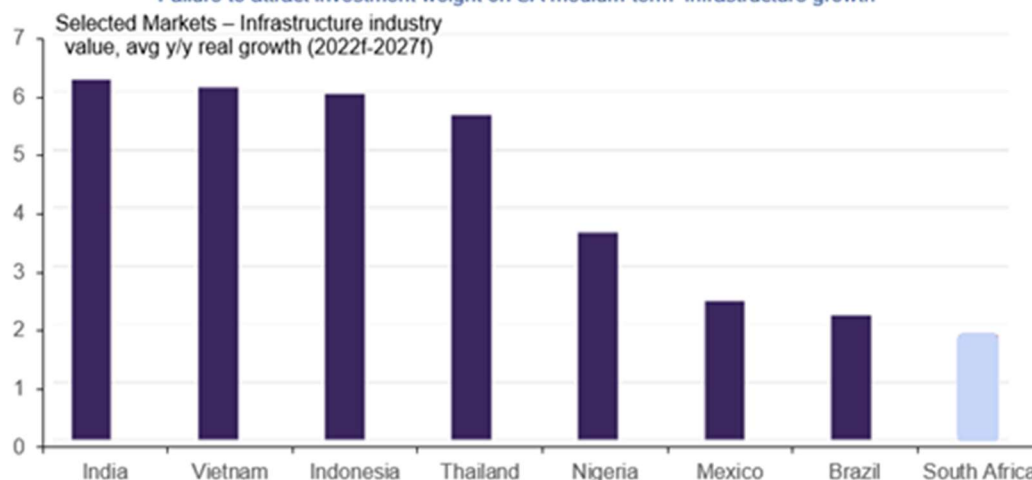
Source: Focus Economics March 2023



Source: Transnet, Fitch Solutions

## South Africa Infrastructure Industry to Underperform EM Peers

Failure to attract investment weight on SA medium-term infrastructure growth



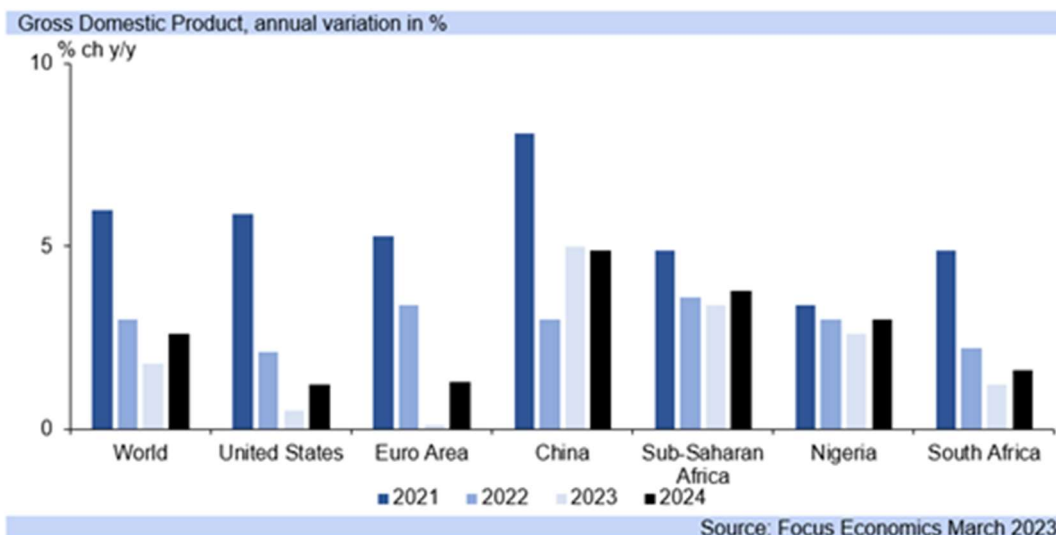
Source: Transnet, Fitch Solutions

Note f = Fitch Solutions Forecast

- Fitch has recently highlighted that “private infrastructure investment risks in South Africa include physical security challenges, particularly “(o)rganised crime groups ... (in) construction and infrastructure” which “reduces investment attractiveness”.
- Fitch further highlights “Implications for firms in the sector include the potential loss of income through disruptions, delays and forceful cooperation as well as elevated expenditure on private security to protect projects”.
- “Against this backdrop, despite frequent reports of intimidation and violent attacks affecting construction projects, the capability of state security forces to guard against these risks is limited, largely due to corruption risks and underfunding” (Fitch).
- Fitch is one of the three key global credit rating agencies, and its Solutions arm further warns “Eskom’s rolling blackouts remain the main strategic threat to ... economic performance impacting all sectors, including construction.”
- “In the absence of a sound recovery plan to stabilise the market’s power supply, infrastructure investments (such as .. new railways, roads and ports, and energy-intensive upgrades) risk losing their viability, ... increase(ing) ... cost overruns “.
- The rand weakened today after last night’s cabinet reshuffle, to R18.39/USD, R22.06/GBP and R19.61/EUR with some further strength from the USD too as the risk averse global financial market persists.
- International investors are aware of the security challenges in SA, with Fitch Solutions further highlighting “that developers and employees are threatened with demands including requests for a percentage of the construction contract”.
- “Key risk areas for firms operating in South Africa’s construction and infrastructure sector are intimidation and project disruption by active criminal groups (also locally known as the ‘construction mafia’ or ‘local business forums’).”

- The disincentivising effect on investment reduces economic growth and job creation. Fitch adds “(a)n understaffed, underfunded and perceptibly corrupt police force is a fundamental aspect in the continued operation of organised criminal groups.”

Please scroll down to the second section below



**Real GDP, annual variation in %**

	2020	2021	2022	2023	2024
<b>World</b>	<b>-2.9</b>	<b>6.0</b>	<b>3.0</b>	<b>1.8</b>	<b>2.6</b>
United States	-2.8	5.9	2.1	0.5	1.2
Euro Area	-6.3	5.3	3.4	0.1	1.3
China	2.3	8.1	3.0	5.0	4.9
Japan	-4.3	2.1	1.2	1.2	1.1
<b>Sub-Saharan Africa</b>	<b>-1.8</b>	<b>4.9</b>	<b>3.6</b>	<b>3.4</b>	<b>3.8</b>
Angola	-5.6	1.1	3.1	2.6	3.2
Botswana	-8.7	11.8	5.2	3.8	4.0
Cameroon	0.3	3.6	3.7	4.2	4.5
Cote d'Ivoire	2.0	7.4	5.9	6.4	6.6
DR Congo	1.7	6.2	6.3	5.9	6.1
Ethiopia	6.3	5.3	5.1	5.8	6.0
Ghana	0.5	5.4	3.5	2.7	3.8
Kenya	-0.3	7.5	5.3	4.7	5.1
Mozambique	-1.2	2.3	4.2	5.2	6.8
Nigeria	-1.9	3.4	3.0	2.6	3.0
<b>South Africa</b>	<b>-6.3</b>	<b>4.9</b>	<b>2.2</b>	<b>1.2</b>	<b>1.6</b>
Tanzania	4.8	4.9	5.1	5.3	5.8
Uganda	-1.4	5.9	5.0	5.9	6.2
Zambia	-2.8	3.6	2.9	3.4	3.5

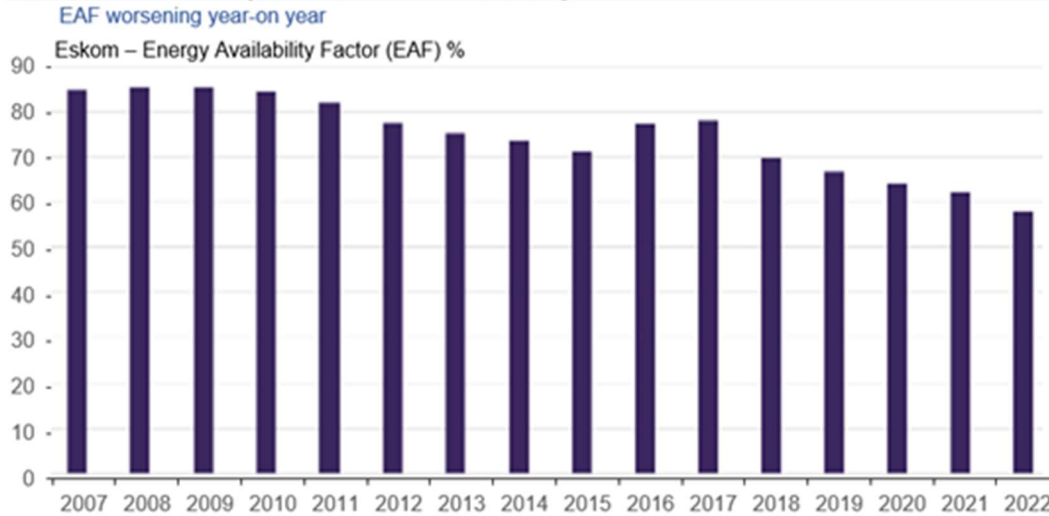
Source: Focus Economics March 2023

**Key Risks Summary – South Africa**

Risk	Risk Level	Impact
1. Organised crime	High	High
2. Inefficacy of police force	High	High
3. Political risk challenges	High	High
4. Exchange rate depreciation	High	Moderate
5. Depressed civil engineering confidence	Moderate	Moderate

Source: Fitch Solutions

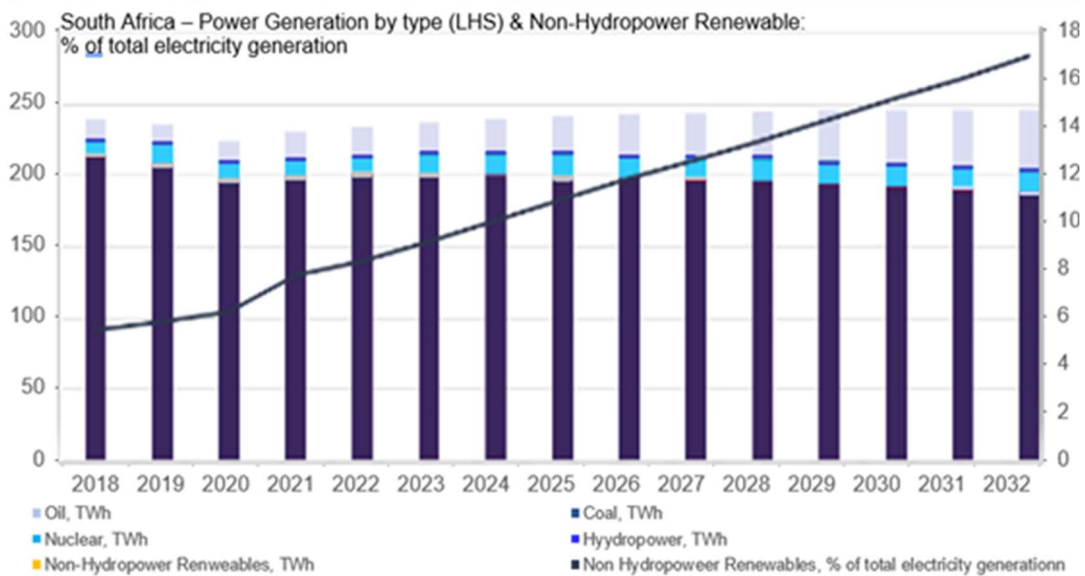
### Lower EAF leads to higher incidence of load shedding



Source: Transnet, Fitch Solutions

Note: Reducing EAF has led to the worst load shedding in 2022; Opens up strong possibilities for new power investment; On tract for 2023 to be worse than 2022 in terms of load shedding

### Overall Electricity Generation Growth Stagnating

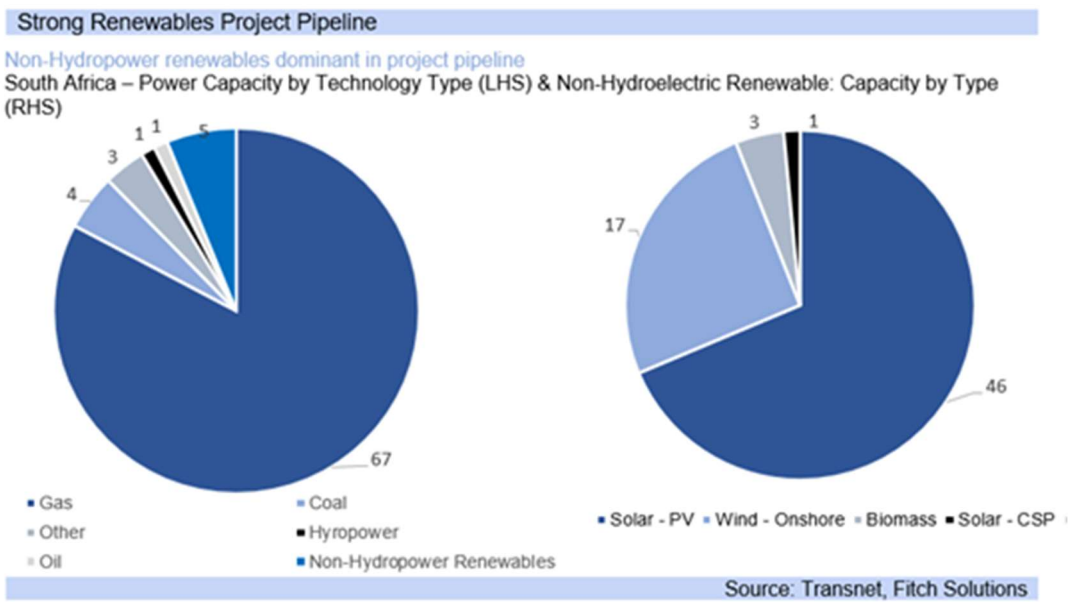


Source: Fitch Solutions

Note: Renewables to be primary growth driver of new generation; Total generation remaining flat overall; Coal power generation to gradually decline over next decade

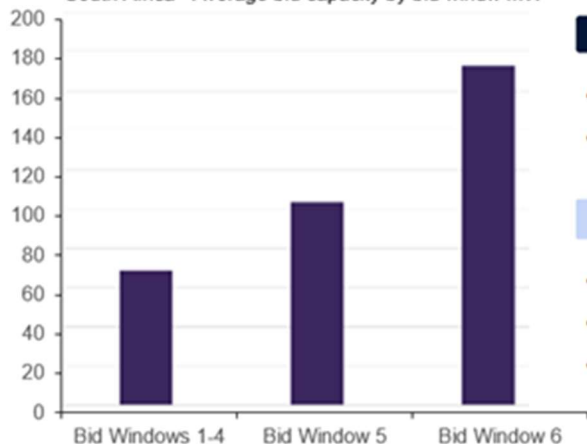
- The poor perspective this large international agency (Fitch) details includes insight into “a host of security and organised crime related risks that will deter private and international investors from participating in SA’s infrastructure sector.”
- Specifically, Fitch’s “Country Risk team maintain a bearish outlook for the rand for 2023, particularly as terms of trade worsen and euphoria in the wake of the ANC’s December 2022 elective conference dissipates.”

- “The expected depreciation of the rand has the potential to stifle local investment prospects in favour of offshore investing. This will result in fewer private participants in the country’s infrastructure sector”.
- “A longer-term outlook going into 2024 will also most likely see rand volatility in the months leading up to the country’s May 2024 election and if the current ruling party (the ANC) fails to secure a majority of seats in parliament”.
- For South Africa, sustainably achieving GDP growth of above 4.0% y/y will not be possible without substantial foreign direct investment due to the country’s low savings, even achieving growth of 2.0% y/y to 4.0% y/y is held back sharply.
- South Africa’s population growth rate exceeding its economic growth rate results in individuals becoming poorer, reducing the ability also of government to collect high tax revenues and substantially increase the social wage.
- Whistleblowing in SA has occurred against reported organised crime at Eskom, and SA is ranked very low at the eleventh worst out of thirteen countries in Southern Africa in Fitch’s operational; risk index with high crime vulnerability risk.
- Globally Fitch says SA is ranked one hundred and second out of two hundred and one countries for crime vulnerability and that security risks form structural barriers “which ... curtail rapid uptake by investors” for foreign direct investment into SA.
- Foreign investors are not unaware of the widely reported high incidences of corruption, malfeasance and crime in South Africa, with the state seemingly slow to investigate and prosecute those who emerge guilty to allay investor concerns.



## Opportunities and Risks in SA Power Sector Investment

Support for larger renewables projects  
South Africa - Average bid capacity by bid window MW



### Opportunities

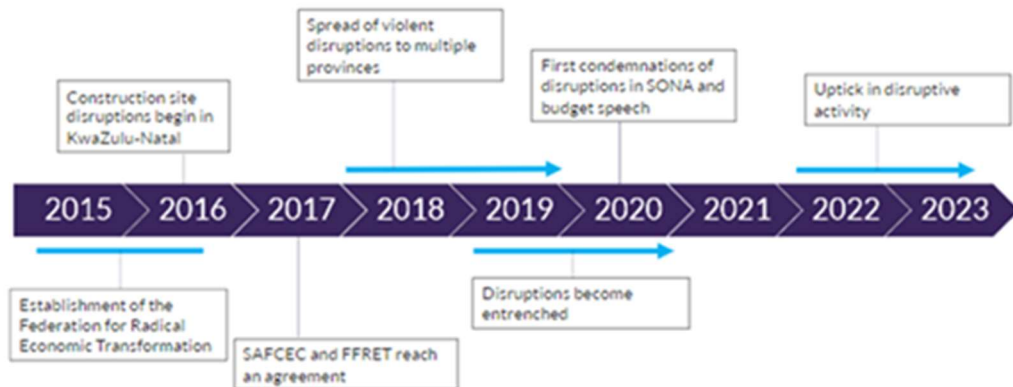
- 2023 Budget Speech - Eskom and the NTCSA.
- Tax rebates for both individuals and businesses investing in renewables.

### Risks

- Lack of policy agreement in government.
- Constrained electricity grid.
- Trade union pushback.

Source: Fitch Solutions

## Evolution off site disruptions



Source: Fitch Solutions

## Organised crime poses security challenges

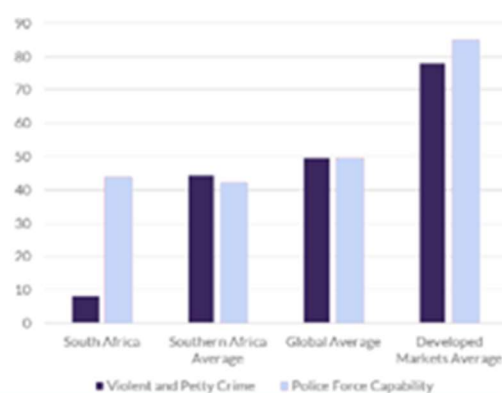
### Police Force Capabilities Deteriorating

South African Police Service Employees: By Programme (2011/2012 & 2021/2022)

Programme	2011/2012	2021/2022	Difference, %
Administration	35,929	33,248	-7.5
Visible Policing	109,053	91,377	-16.2
Detective Service	38,970	37,246	-4.4
Crime Intelligence	9,053	8,183	-9.6
Protection & Security Services	6,340	6,126	-3.4
<b>Total</b>	<b>199,345</b>	<b>176,180</b>	<b>-11.6</b>

### High Crime Vulnerability

South Africa & Selected Averages - Crime Vulnerability Components

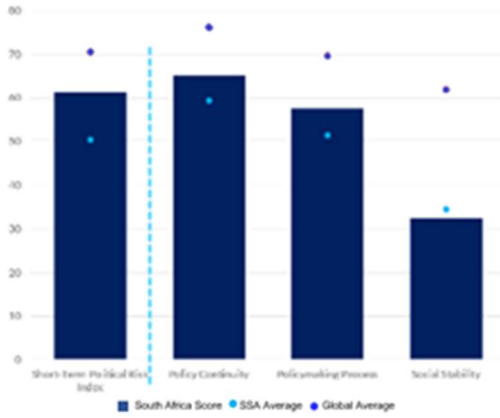


Source: Fitch Solutions

## Political risks challenges to stifle investment prospects

### Social Stability Remains A Weak Spot

South Africa - Short-Term Political Risk Index Scores & Selected Components



### Downward Trend In Political Stability

South Africa & Select Markets - Long-Term Political Risk Index Scores



Source: Fitch Solutions