South Africa Research
SA Macroeconomics
06 February 2023

South Africa Q1 23 Quarterly Perspectives

Big power cuts crash growth outlook

Near-term growth prospects have slumped due to intensified power cuts. We have cut our GDP forecast for Q4 22 to -0.5% q/q sa and also project a Q1 23 contraction. For 2023 as a whole, the impact of power cuts on activity levels, business confidence and private investment cuts our GDP forecast by 0.9pp to 0.7%. The consumer has proven surprisingly resilient in 2022 despite headwinds, but for 2023 we halve our household consumption forecast from 0.8% to 0.4%.

We expect regular load shedding through to the end of 2024 at least. The National Energy Crisis Committee's roadmap for ending load shedding aims to add up to 8822MW of additional power supply in 2023 from a variety of sources, but we expect it to achieve only about half of this. It will be hard to lift the performance of Eskom's existing plants and new power supply takes time to procure and construct. Other structural reform progress remains slow and patchy, although the government recently added four new important reforms to Operation Vulindlela's to-do list.

Inflation has peaked and should return to the target range by Q2 23. Base effects on fuel and food price inflation combined with modestly rising core CPI inflation should see headline CPI falling below 6% in May 2023, and sustainably return to the target mid-point by mid-2024. Against a backdrop of China's reopening, oil prices remain an upside risk for our forecast inflation trajectory, while business's expenditure on back up diesel generation in the face of intense load shedding is a cost-push upside risk. We forecast CPI inflation to average 5.5% this year.

The current account has returned to a mild deficit. This is due to weak global demand for South Africa's exports, a lift to imports from renewable energy capex and a weakening of the terms of trade, combined with South Africa's ongoing deficit in invisible flows. Against a backdrop of still-muted risk appetite, we now forecast a weaker rand at 18.00 USDZAR by end-year.

We believe the hiking cycle has now topped out. After a cumulative 375bp hike since November 2021, we believe that easing inflation amid dissipating adverse price shocks will allow the MPC to keep the repo rate on hold. We have pencilled in two rate cuts of 25bp each in September and November. However, the environment remains highly uncertain and we see risks of further tightening in the near-term and/or delayed easing if price pressures prove to be stubborn.

Fiscal performance has been robust with good personal and corporate income tax collections. We now forecast a main budget deficit this year of 4.6% of GDP, within the MTBPS target of 4.9%. We doubt a full Eskom debt deal will be unveiled at the Budget. Given the small contingency reserve for FY23/24, we expect the deficit to widen to 5.1% of GDP, given downside revenue risks and upside spending pressures. These include public sector wage talks, SOC bailout demands and the government's promise of a load shedding relief package for households and businesses. Credit ratings are likely on hold for some time.

Political risk has abated somewhat. The re-election of President Ramaphosa at the ANC's national conference along with a strong balance of allies has eased South Africa's political risk. However, the ANC risks losing its majority in general elections (as per polls) in a little over a year, with uncertain consequences for political stability and governance.

Economics
Peter Worthington
+27 21 927 6525
peter.worthington@absa.africa
Absa, South Africa

Miyelani Maluleke
+27 11 895 5655
miyelani.maluleke@absa.africa
Absa, South Africa

Andiswa Mdingi
+27 11 895 7036
andiswa.mdingi@absa.africa
Absa, South Africa

Sello Sekele
+27 11 895 5685
sello.sekele@absa.africa
Absa, South Africa

Strategy
Mike Keenan
+27 11 895 5513
mike.keenan@absa.africa
Absa, South Africa

Nikolaus Geromont, CFA
+27 11 895 6120
nikolausphilip.geromont@absa.africa
Absa, South Africa

www.absa.co.za

Contents

Completed: 06-Feb-23 5:42 GMT Released: 06-Feb-23 09:33 GMT

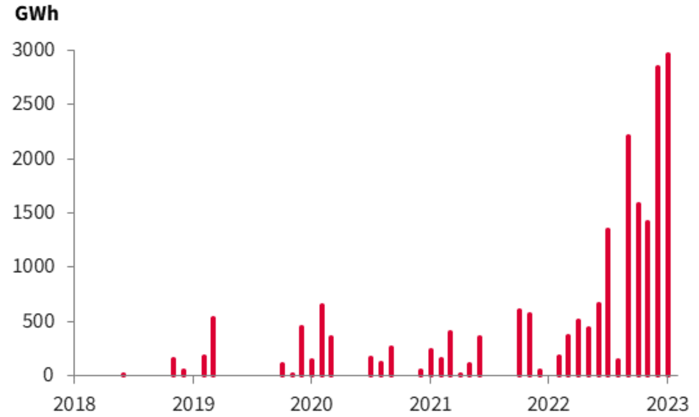
The Quarterly Perspectives series of reports outlines our macroeconomic forecasts for South Africa with a discussion of the key themes and issues for the quarters ahead. The forecasts in this report are based on the output of our proprietary demand-side macroeconomic model, enlivened with supply-side constraints. The model runs off a comprehensive macro data set until Q3 22, as published by Statistics South Africa and the South African Reserve Bank, with some adjustments to consider other relevant data published more recently.

Big growth setback from sharply escalated load shedding

GDP likely contracted in Q4 22, under the weight of sharply escalated load shedding and logistical constraints at Transnet

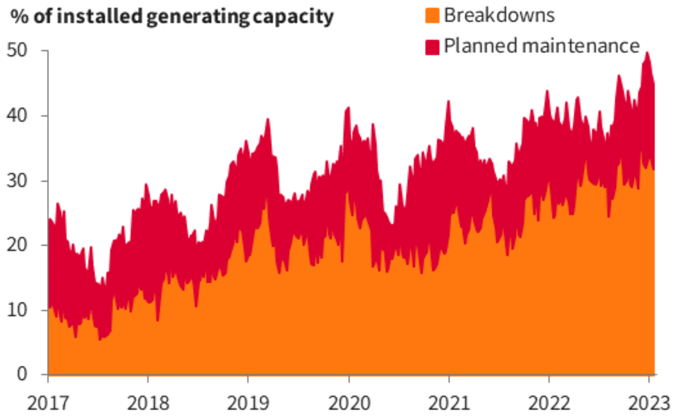
The South African economy proved pretty resilient last year, with a much stronger-than-expected Q3 GDP rebound of 1.6% q/q sa versus the consensus expectation of 0.6% and the SARB's November MPC forecast of 0.4%, despite extensive load shedding in the quarter. However, load shedding has escalated sharply further since then (Figure 1) as breakdowns of Eskom's generating plants have mounted materially (Figure 2), taking the energy availability factor below 50% at times. That said, Stats SA's high frequency activity data to November have been mixed. Mining and manufacturing production look set to subtract from growth in Q4 (Figure 3), while freight payloads have also been on a downward trend since mid-2022, exacerbated by the Transnet force majeures in October and November (Figure 4). However, average retailing and wholesaling volumes were up in the period from October to November, compared with Q3 (Figure 5). We believe that December, with its extreme load shedding, is likely to be negative across the board when the activity data are published this month. We have lowered our Q4 22 GDP forecast to -0.5% q/q sa from 0.3% growth previously. In its recent MPC meeting, the SARB disclosed that it now expected zero growth in Q4 22. Stats SA will publish Q4 22 GDP data on 7 March.

Figure 1: Power rationing has escalated dramatically…



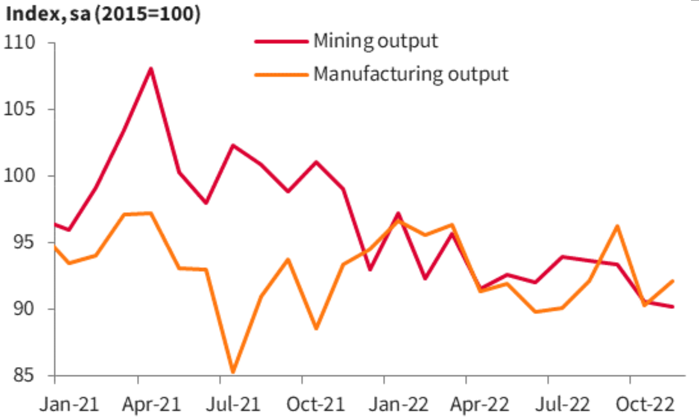
Source: Eskom, Absa Research

Figure 2: …as breakdowns of the generating plants have soared



Source: Eskom, Absa Research

Figure 3: Mining and manufacturing will likely subtract from growth in Q4

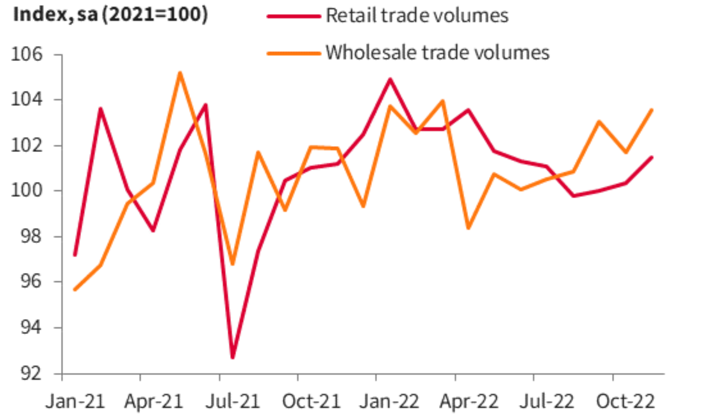


Source: Stats SA, Absa Research

Figure 4: Road and rail freight payloads have fallen since mid-2022

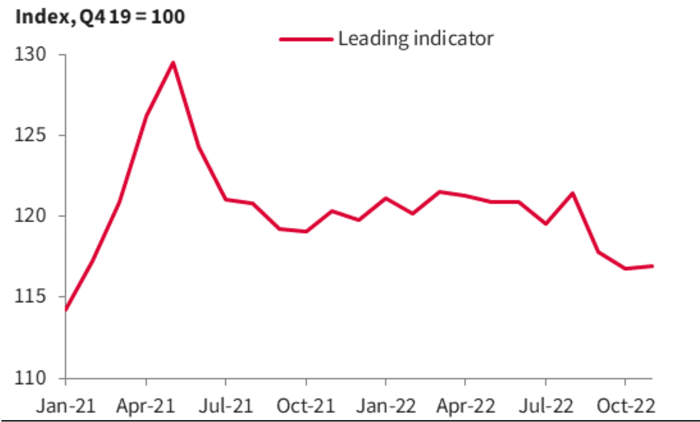
Source: Stats SA, Absa Research

Figure 5: But trade volumes were strong until mid-November at least



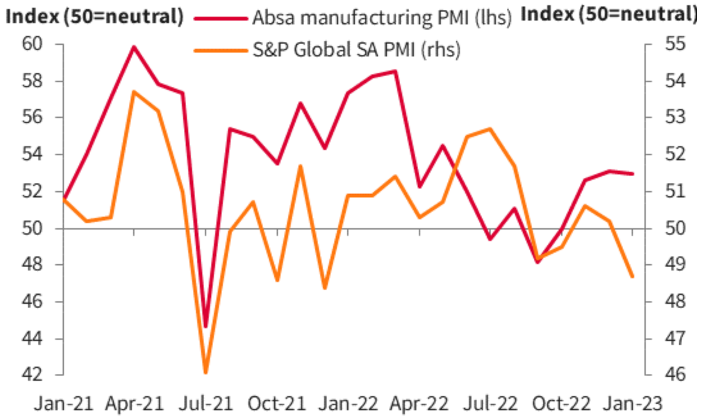
Source: Stats SA, Absa Research

Figure 6: The leading business cycle indicator points to a downturn



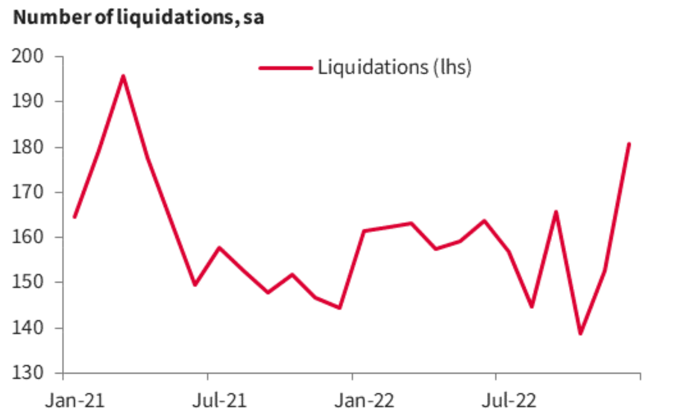
Source: SARB, Absa Research

Figure 7: The two PMIs pointed in divergent directions in January*



**seasonally adjusted; Source: BER, S&P Global, Absa Research*

Figure 8: Company liquidations surged in December



Source: Stats SA, Absa Research

Company liquidations have jumped in December and the media is full of anecdotal evidence of the damage wrought by load shedding

Even before the recent intensified load shedding, the SARB's leading indicator was pointing to a downturn (Figure 6). The heightened power cuts are crashing South Africa's near-term growth prospects further. Bizarrely, in our view, Absa's manufacturing sector PMI for January gave a rosy signal about the sector, but the S&P Global PMI (which covers the whole economy) pointed strongly in the other direction (Figure 7). Notably, towards the end of 2022 and into 2023, there was a flood of media coverage about small businesses struggling under the impact of load shedding, specifically due to the huge cost of back-up diesel generator electricity supply. Company liquidations showed a particularly sharp surge in December, a worrying sign since liquidations are a lagging indicator (Figure 8). Businesses that go bankrupt represent a long-lasting hit to output. And while bigger businesses may not be forced into liquidation, their profitability is suffering.

Power shortages are a huge constraint on growth

Also, power cuts weigh on confidence, dampening consumer and investor spending. But exactly how hard load shedding will curb growth in 2023 and beyond remains uncertain for two reasons. First, it is not entirely clear how quickly the government and Eskom can alleviate load shedding. Second, it is hard to pin down exactly the impact of any given quantum of power rationing on overall economic activity. Different assumptions and approaches to address this question yield different estimates. Our own econometric analysis found an elasticity of 0.16 between power cuts and GDP, meaning that for each 1% of electricity demand not satisfied due to a lack of supply, GDP is knocked back by 0.16% (see *South Africa: Mounting costs of power shortages*, 24 October 2022 for more details.)

We are sceptical that Eskom can quickly lift the performance of its existing power plants and believe it will take time to add new power supply to the grid

The National Energy Crisis Committee (NECOM) published a progress update on 21 January, disclosing that Eskom plans to focus its maintenance on six key generating plants to restore about 6,000MW of power supply (about 13% of installed capacity) to the system over the next 24 months. Specifically, the targets are to lift the energy availability factor (EAF) to 60% by end-March (from around 50% currently), 65% by March 2024 and 70% a year after. (An improvement of 5 percentage points in the EAF would equate to a little over 2 stages of load shedding.) However, we share the apparent scepticism of many independent energy experts that this can be easily achieved, given Eskom's track record and ongoing leadership turmoil, skills shortages, financial constraints, and time-worn under-maintained coal-fired plants. The NECOM roadmap also details plans to secure other sources of power, including imports, roof-top solar, and private distributed generation, to bring the total additional power supply in 2023 to 8822MW. We believe South Africa will probably only achieve about half of that. Although the abolition of the arbitrary 100MW threshold for private distributed generation projects and a new ministerial determination for about 18,000MW of new generation capacity from wind, solar and battery storage will make a huge positive difference over the long run, these new power projects cannot be contracted, constructed, and connected to the grid quickly. In particular, the distributed generation projects need a lot more transmission line capacity, which will take time to roll out.

We see a 1.6pp hit to GDP in 2023, and expect load shedding to persist until end-2024

Load shedding intensity averaged almost Stage 4 over December and January. For the purposes of our forecast, we assume an average of Stage 3.5 in February and Stage 3 in March. Then, assuming Eskom gets more diesel funding and/or it makes some progress on plant rehabilitation and/or secures some new power supply at the margins, we could go down to an average of Stage 2.5 in Q2, and perhaps Stage 2 over the remainder of the year. This assumption tallies to about 22k GWh of load shedding in 2023, compared with 12k GWh in 2022. With average hourly electricity demand of about 25,000MW, this quantum of load shedding in 2023 suggests a negative growth impact of about 1.6pp. This is a bit less than the SARB's recent estimate of 2pp hit, but its assumptions on load shedding work out to somewhat more unsatisfied electricity demand during the year. Given the length of time it will take to connect new power supply to the grid, we expect load shedding to persist until end-2024.

Mounting early indications of a looming El Niño drought could tank agricultural output, but on the positive side, global growth dynamic looks a bit more supportive

ther factors will also influence growth. Unfortunately, mounting indications of an El Niño weather pattern could adversely hit agricultural production, which has done well over the past few years thanks to successive La Niña rainfalls. Positively, however, fears of a big synchronised global recession have eased markedly in the past few weeks, with Europe riding out the energy crunch more comfortably than expected, raised hopes for a US soft landing, and China's sudden reopening. The IMF last week raised its forecast of global GDP growth in 2023 from 2.7% to 2.9%.

We forecast somewhat weaker household consumption and GDP growth in 2023, with the medium-term outlook remaining constrained because of pending reform progress

Clearly, regarding the growth outlook, many things are in flux and clouded with more uncertainty than usual. We now expect another GDP contraction in Q1 23 of 0.2% q/q sa, off an already weak Q4 22 base. This leaves our forecast for 2023 as a whole at 0.7%, 0.9pp lower than we previously forecast. We project that household consumption will grow just 0.4% in 2023, 0.4pp weaker than we previously forecast, as wage settlements are not likely to fully catch up to recent inflation, employment growth remains modest, and higher interest rates erode disposable income.

Over the medium term, higher growth depends on stronger business confidence and investment, which in turn depends on faster and broader structural reforms

Ultimately, medium-term trend growth in South Africa depends significantly on whether businesses invest in expanding the productive capacity of the economy or not. At present, South Africa's fixed investment rate sits at just over 14% of GDP, behind the rate of depreciation of capital. The lifting of the 100MW cap on embedded generation projects (with Minister Mantashe gazetting the change in mid-December) should unlock a big burst of investment into private generation, which will shore up the GDP data. That said, some of this demand stimulus is likely to 'leak out' via higher capex imports, especially with the reduced local content requirement for solar PV panels. In our view, a broader investment revival is dependent on stronger business confidence, which is unlikely to materialise against a backdrop of ongoing power cuts and the slow progress on structural reforms in general. An update published by the government in mid-December noted that of the 35 reforms on the Operation Vulindlela (OV) to-do list, only 7 had been completed and many were materially off track (see *South Africa: Some further progress on economic reforms*, 6 January, for more details). The OV update listed some further reforms that investors could watch out for between now and the end of March (Figure 9). Notably, one important reform promised by the government for the end of March (but not listed in the OV Q3 update, perhaps because it was announced in Q4), is the adoption of an online cadastral system for mining rights administration.

Figure 9: Near-term roadmap for the Operation Vulindlela reform programme

Reform	Absa Research comment
Establish a feed-in tariff and tax incentives for residential rooftop solar.	White collar trade union Solidarity is suing NERSA over its failure to provide a feed-in tariff structure. Tax incentives for residential rooftop solar are all well and good, but municipalities have no incentive to turn consumers into producers, without an alternative revenue source.
Establish a 'one stop shop' for all energy projects.	Could be helpful if it speeds up the multifaceted processes.
Appoint an independent board to operationalise the independent transmission entity.	It is unclear why it is taking the Minister of Public Enterprises so long for this.
Table the Electricity Regulation Act amendment bill in the Parliament.	The ERA would be a significant step forward in creating a level playing field between Eskom and private generators but tabling the legislation in the Parliament is only the first step forward. It needs to be debated by both the houses, passed, signed by the President, and then gazetted before it becomes operational.
Complete the migration of households to digital, with the switch off of analogue broadcasting by end-March.	Delayed multiple times, this step would free up the bandwidth to operationalise last year's long-delayed sale of spectrum.
Private partnerships in place for Durban and Ngqura container ports by January 2023.	No announcement was made before the end-January deadline, so it seems there is some delay. And when partners are selected, it seems unlikely that they can quickly and substantially improve the operational performance of the ports, ahead of a R100bn necessary infrastructure upgrade.
Announce further container freight rail slots for sale, using the lessons of relatively unsuccessful first auction attempt.	Allowing private participation on the container freight rail network will likely do nothing to fix the problems in Transnet's bulk commodity freight lines.
Table the National Water Resources Infrastructure Agency Bill in the Parliament.	Tabling of a Bill is only the first step in a long process.
Establish a steering committee on low-income housing titles to begin clearing the big backlog.	The steering committee would then need to identify and commence a process to unblock the backlog.

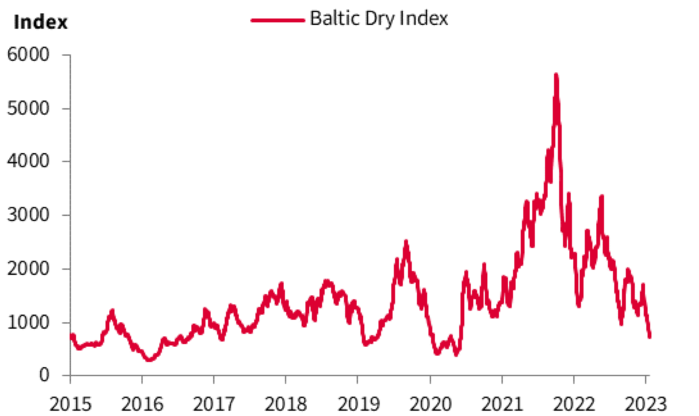
Source: National Treasury, Absa Research

Inflation should continue to moderate but uncertainty is high

Headline CPI inflation has eased in recent months as adverse price shocks started to abate

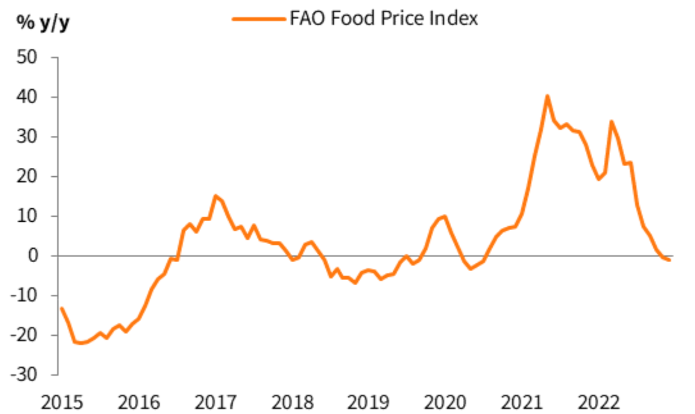
The big global inflation surge of the past couple of years is now clearly in the rear-view mirror, as many of the adverse price shocks, including supply bottlenecks, escalated shipping costs (Figure 10), and a war-induced surge in energy and food prices (Figure 11) have abated. Inflation in most advanced economies and many EMs, including South Africa, has clearly peaked. However, investors are now focused on understanding how quickly inflation will return to central banks' targets, given some evidence of second-order effects generating stickiness in inflation. After peaking at 7.8% y/y in the middle of last year, South Africa's headline CPI inflation eased to 7.2% at year-end. Fuel inflation has been a key driver of the softening, owing to the combination of some cooling in Brent crude oil prices and base effects. While fuel prices are important for the path of headline CPI inflation, these can also be highly volatile. A big 9.7% m/m drop in fuel prices in January was followed by a 0.9% m/m rise in February. In our baseline forecast, we have assumed that Brent crude oil prices track sideways just below USD90/bbl through the first half of the year, drifting slightly softer to about USD85/bbl by year-end and further to about USD80/bbl by end-2024. Given our exchange rate forecast, this leaves fuel inflation falling sharply from 26.1% y/y in Q4 22 to just 2.2% by Q2 23 and -7.4% by Q3 23 (Figure 12). Meanwhile, NERSA's recent announcement has cleared the uncertainty about electricity tariffs this year and in 2024, but these tariff hikes are larger than we had expected. We estimate that tariff increases that will kick in across various municipalities, and therefore in the CPI, will come in at 17.4% in July 2023 and 8.6% in July 2024 after the Eskom Retail Tariff and Structural (ERTSA) adjustments.

Figure 10: Global shipping costs have come down sharply…



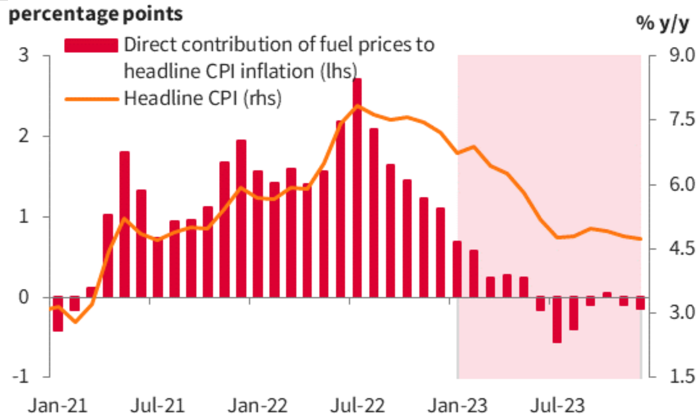
Source: Refinitiv, Absa Research

Figure 11: …as have global food prices



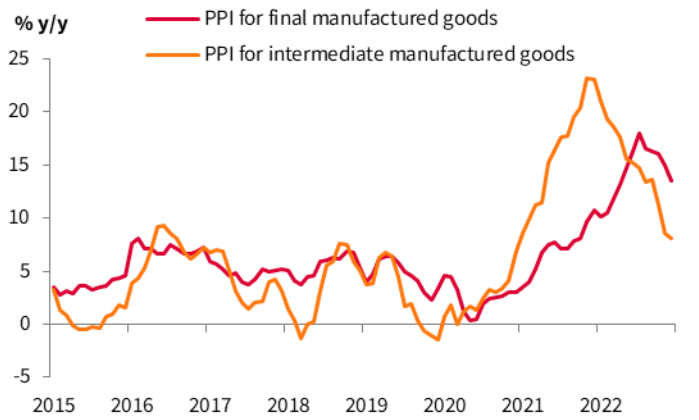
Source: United Nations, Absa Research

Figure 12: We expect fuel inflation to ease sharply this year



Source: Stats SA, Absa Research

Figure 13: Domestic producer inflation is on a clear easing trend

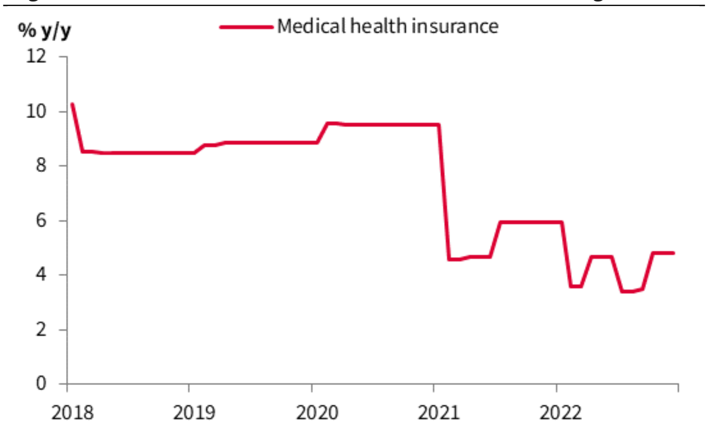


Source: Stats SA, Absa Research

We expect food inflation to ease to 7.6% this year from 9.2% in 2022, but we see upside risks to our forecast

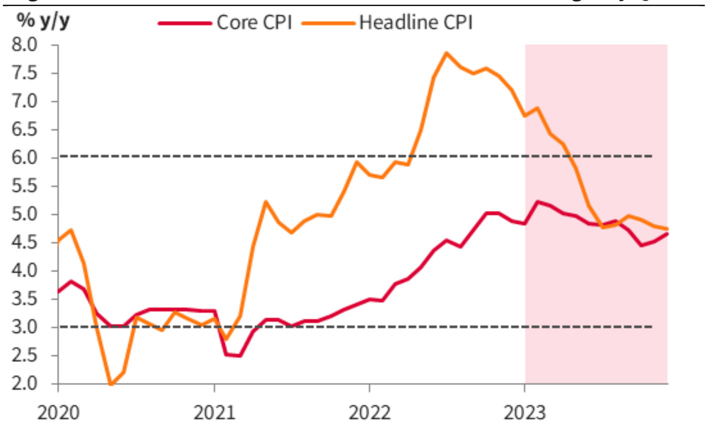
Food price pressures have started to ease. The FAO global food price index, which was up 34.0% y/y in March last year, moderated to -1.0% by December 2022 as prices dropped by 17% from the peaks shortly after Russia's invasion of Ukraine. Domestically, crop price trends have also broadly softened although maize futures have showed some volatility. Critically, lower crop prices appear to be transmitting to food producer prices. PPI for final manufactured food moderated for three consecutive months to 13.5% y/y in December after reaching 16.4% in October. Overall PPI inflation for final manufactured goods inflation and for intermediate manufactured goods is also softening (Figure 13). Consumer food inflation also appears to have peaked after easing just marginally in December for the first time in eight months to 12.4% y/y. With global food prices seemingly contained, we expect domestic food price inflation to ease further, averaging 7.6% this year and 4.6% in 2024 versus 9.2% in 2022. That said, there are elevated risks around this path. Intensified bouts of load shedding have not only disrupted domestic food production, but also lifted the costs of production significantly due to expensive diesel-based backup generation systems. Moreover, a possible shift from La Niña to El Niño could bring drought to South Africa with adverse consequences for food prices.

Figure 14: Medical health insurance inflation is set to 'reset' higher



Source: Stats SA, Absa Research

Figure 15: We forecast headline CPI inflation to ease into target by Q2 23



Source: Stats SA, Absa Research

We forecast headline CPI inflation to return into the target range from May this year, averaging 5.5% for the year and 4.8% in 2024

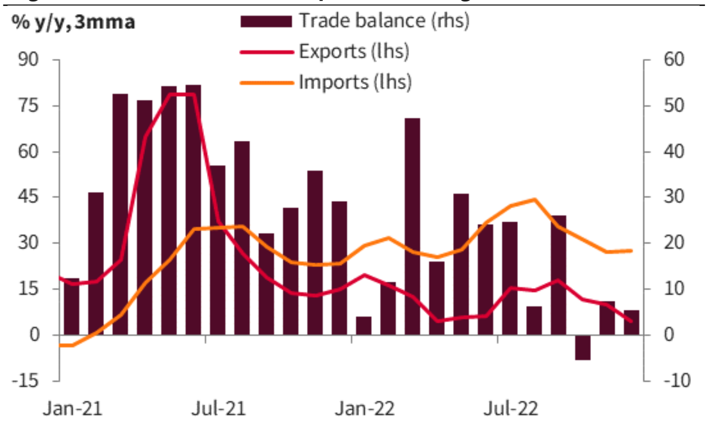
Away from the energy and food price dynamics, price pressures have broadened across the rest of the economy through last year. From an average of just 3.6% in Q1 22, core CPI inflation rose to an average 5.0% in Q4 22. That said, core CPI inflation surprised to the downside in the December data, easing slightly to 4.9% from 5.0% in November. There is uncertainty about the degree to which the recent price shocks will continue to propagate into the broader CPI basket of goods and services, and this is one of the key upside risks for the inflation outlook. Our view is that this propagation should be mostly contained given the tightening in monetary policy. That said, one 'idiosyncratic' category worth highlighting is medical health insurance inflation, which accounts for 7.1% of the CPI basket. Medical health insurance inflation appears to be 'resetting' as surpluses built by medical aid schemes during the height of the pandemic run out. Various medical aid schemes have already announced premia increases much higher than last year, albeit still lower than pre-pandemic levels. We believe this will push core CPI inflation slightly higher in Q1 23. Therefore, we expect core CPI inflation to peak at 5.2% in February and March 2023, averaging 4.8% for the year. Wage inflation will also be key to watch this year, especially as unions and workers will want catch-up pay adjustments after last year's inflation surge, and as workers' inflation expectations have also moved upwards. Firms' attempts to mitigate load shedding will likely raise the cost of doing business, but it is difficult to quantify how this will transmit to consumer inflation, as the SARB noted in the recent MPC meeting. Clearly, inflation dynamics have many moving parts, each with its own set of risks. Our baseline view is that headline CPI inflation will continue to ease, returning below the target range from May 2023 and ending this year at 4.7%. We expect CPI inflation to average 5.5% this year and 4.8% in 2024.

Current account likely to continue modest weakening

We estimate that the current account recorded a deficit of 0.6% of GDP in 2022 after two consecutive years of surpluses

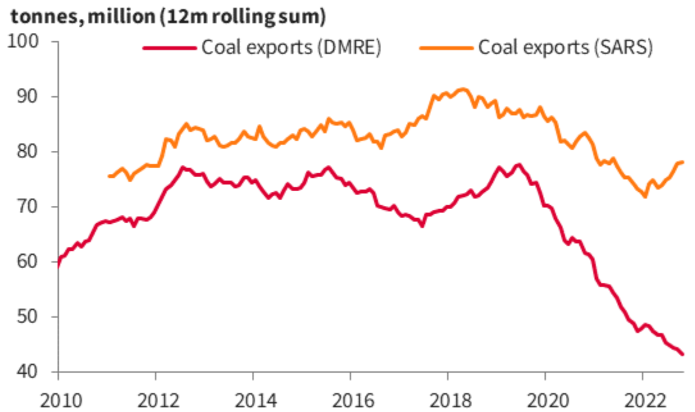
South Africa recorded annual surpluses in the current account of the balance of payments through 2020 and 2021, reflecting sharply weaker domestic demand and helpful terms of trade. However, these surpluses have now given way to deficits amid recovering domestic demand, fading terms of trade support and the deteriorating performance of critical transport logistics infrastructure. After seven consecutive quarters of surplus, South Africa's current account balance swung to a deficit of 1.6% of GDP in Q2 22, as dividend outflows spiked in a one-off manner before improving to a deficit of 0.3% in Q3 22. However, the available data suggest some renewed deterioration in Q4 22. Data published by the South African Revenue Service (SARS) show a seasonally adjusted and annualised merchandise trade surplus of just R37.3bn (or 0.6% of GDP) for Q4 22. Assuming no big changes in the deficit balance of net factor payments, service receipts and transfers, we believe that the current account will print a deficit of 2.8% of GDP for Q4 22 when the data are published on 9 March. This would leave the full year 2022 deficit at 0.6% of GDP.

Figure 16: Merchandise trade surplus is shrinking



Source: SARS, Absa Research

Figure 17: DMRE data show a sharp decline in coal exports



Source: Department of Mineral Resources and Energy, SARS, Absa Research

Headwinds that include less supportive terms of trade, load shedding and problems with Transnet's rail and port facilities are likely to keep the current account in deficit over the medium term

Various factors are likely to keep the current account in deficit territory going forward. The first is the expected slowdown in global economic activity, which is likely to weigh on export volumes. The latest IMF World Economic Outlook projects global economic growth of just 2.9% this year compared with as estimated 3.4% in 2022. Related to this is the softening terms of trade boost. South Africa's export commodity prices have tracked broadly softer in recent months. Our trade-weighted basket of key export commodity prices is down nearly 12% since the start of last December alone and down nearly a third since the March 2022 peak. Meanwhile, Brent crude oil prices have thus far proven to be relatively sticky coming into this year and may have further upside given China's reopening. Overall, our commodity price assumptions imply further deterioration in the terms of trade. Meanwhile, the continued gradual recovery in domestic demand will also have an adverse effect on the current account given the high degree of elasticity of merchandise trade imports to domestic demand, and the likely spurt of renewable energy investment will suck in imports of capital equipment, particularly solar PV panels after the local content requirement was cut. Moreover, domestic infrastructure problems are a big challenge for export performance. Not only do the ongoing bouts of load shedding constrain the economy's ability to produce, but Transnet's rail and port issues are also weighing on exports. For instance, coal exports have fallen sharply according to Department of Mineral Resources and Energy (DMRE) data although we note that SARS data are not showing as dramatic a decline (Figure 17). Against these factors, we expect the current account deficit to widen to 1.3% of GDP this year and further to 1.9% of GDP in 2024.

Global risk appetite appears to have improved but South Africa's ability to attract capital inflows may be challenged by idiosyncratic growth constraints

On the financing side of the balance of payments, South Africa's capital account shows continued net portfolio outflows in recent quarters. Monthly data from the SARB show net foreign sales of bonds and equities worth R38.3bn in Q4 22, compared with net outflows of R48.5bn in Q3. That said, net foreign direct investments have been positive for eight consecutive quarters to Q3 22, providing some offset to the net portfolio outflows. Although global risk appetite appears to have improved somewhat in recent weeks, South Africa may still struggle to attract capital flows given its idiosyncratic infrastructure problems and growth challenges.

Various factors seem likely to weigh gently on the rand in 2023

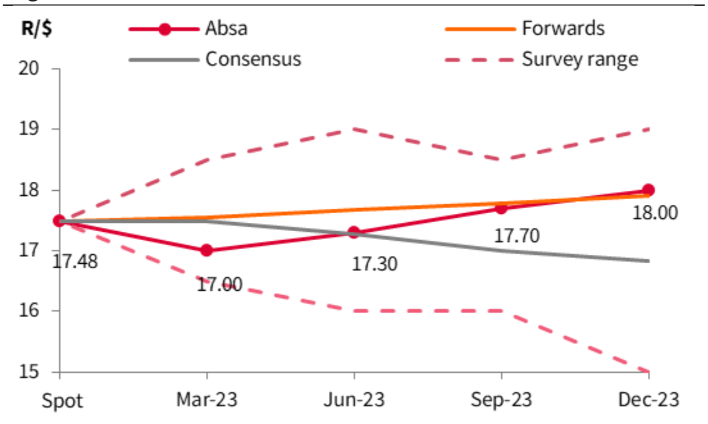
We expect a weakening trend for the rand in 2023

The rand strengthened to R16.69/USD at the start of the year amid Cyril Ramaphosa's re-election as ANC president and China's relaxation of its COVID-19 rules. Although the ZAR has subsequently weakened, it still remains too strong, according to our growth and yield differential (GYM) fair value model. While South Africa's growth differentials could improve relative to the US, its real bond yield differentials could deteriorate in 2023 if South African headline CPI inflation falls less than that in the US. In addition, when we compare our in-house local forecasts with Bloomberg consensus forecasts for other emerging economies, it seems likely that South Africa's growth, current account, budget balance and real policy rates could slip relative to other emerging economies in 2023. Therefore, even if global risk appetite remains on an improving trend (Figure 18), South Africa may struggle to attract capital inflows, especially amid persisting load shedding and other infrastructural constraints. Accordingly, we forecast that the rand will weaken further to R18.00/USD by year-end from R17.48/USD currently (Figure 19).

Figure 18: Global risk appetite is returning to the long-run trend

Source: Bloomberg, Absa Research

Figure 19: Our USDZAR forecasts are close to the forwards



Source: Bloomberg, Absa Research

South Africa has likely hit the peak for rates – in nominal terms at least

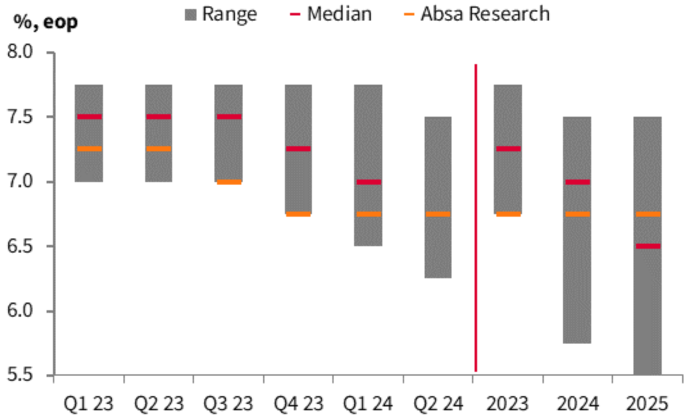
We believe that the hiking cycle has topped out after the SARB MPC hiked by 25bp in January

Since the SARB first started to roll back its extraordinary COVID-19 accommodation in late 2021, it has had to grapple with multiple upside price shocks that pushed headline CPI inflation to its highest level since the global financial crisis. Against this, the MPC has tightened monetary policy by a cumulative 375bp since November 2021, taking the repo rate to 7.25%. At the current level, the nominal repo rate is now at its highest in more than a decade. With headline CPI inflation having clearly peaked and set to slow further into 2023, but core CPI inflation having ticked up, the key question for monetary policy now is whether the SARB has done enough to sustainably lower inflation expectations back towards the mid-point of the target range. There is considerable uncertainty around the path of monetary policy going forward, part of which stems from ongoing risks to the inflation outlook. Furthermore, monetary policy actions work with a significant lag and with variable effect, which also raises uncertainty. That said, we believe that the hiking cycle has now topped out.

We expect the SARB to cut the repo rate by 25bp at the September and November MPC meetings, leaving the repo rate at 6.75%

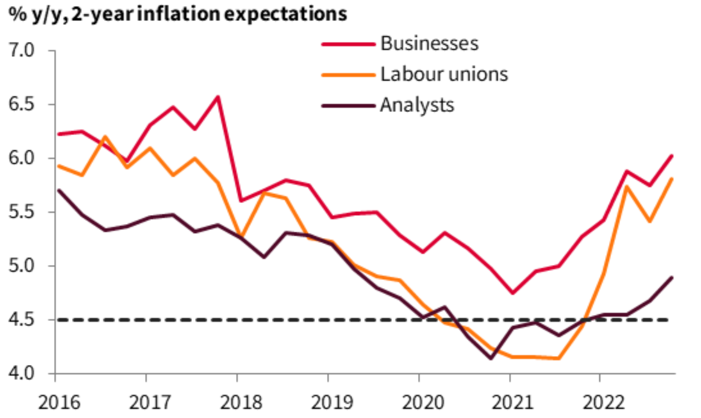
Our baseline view is that the repo rate will be on hold until Q3 this year. We expect two rate cuts of 25bp each at the September and November MPC meetings, leaving the repo rate at our projected terminal level of 6.75%. There are several reasons behind our view. Firstly, headline CPI inflation has already peaked, with both our and the SARB's forecasts showing a clear softening path. Secondly, the widening of inflationary pressures from the recent adverse price shocks has been surprisingly modest. We believe that core CPI inflation, a better measure of underlying inflation dynamics, will peak at 5.2% in February and March and begin to gradually drift lower. The SARB is slightly more pessimistic and forecasts core CPI to peak a little higher and a little later, at 5.4% in Q2 23, but even then, by later in the year it ought to be clear that core CPI is tracking to fall towards the midpoint of the target range. Moreover, with the real repo rate already marginally positive using CPI inflation one quarter ahead, we believe the MPC can stop the tightening and rely on falling inflation to deliver further tightening in the real repo rate in the quarters ahead.

Figure 20: The range of analyst forecasts for the repo rate is wide



Source: Thomson Reuters, Absa Research

Figure 21: Inflation expectations have drifted higher in the Q4 22 survey



Source: BER, Absa Research

Inflation may be coming down, but the risks are skewed to the upside

However, the environment remains highly uncertain. The SARB continued to characterise risks to the inflation outlook as tilted to the upside at its latest MPC meetings. With inflation expectations having drifted higher in the most recent survey (Figure 21), there is a risk that wage inflation rises in an environment of muted productivity growth. The MPC has also expressed concern about the possible inflationary effects from businesses running expensive diesel generators to offset load shedding. In its recent meeting, the MPC said that although load shedding generated some deflationary effects, on balance its impact would be inflationary, though it was unable to quantify exactly how much. And, of course, oil prices could move higher still as China reopens. Therefore, we see the risks of further tightening in the near term and/or delayed cuts if price pressures prove to be stubborn. For the SARB to begin cutting in September as we currently forecast, we believe that the Fed would need to clearly be on hold by then, the rand would need to be stable, and inflation expectations in South Africa would need to have softened materially. The fact that uncertainty is high is reflected by the spread of analysts' forecasts. The Thomson Reuters consensus forecast for the repo rate at end-2023 is 7.25%, but the range runs from 6.75% (ours) to 7.75%. For end-2024, the range runs from 5.75% to 7.50% (Figure 20).

We believe that the ANC's push to include an employment criterion to the SARB's mandate is unlikely to be implemented

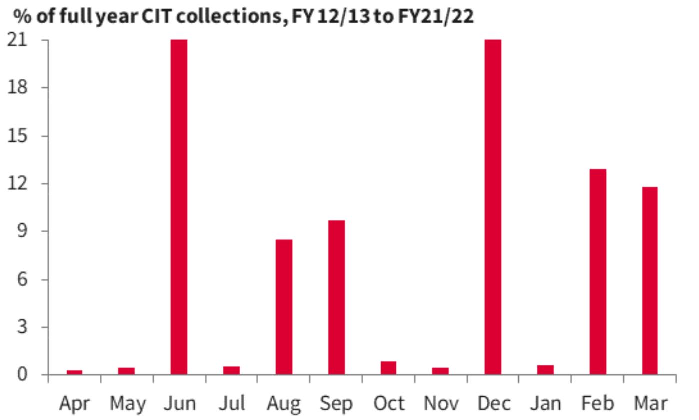
Away from the actual path of the repo rate, monetary policy has also come into the spotlight at the ANC's conference. An apparent decision by the ANC to push for an employment criterion to be added to the SARB's mandate has been downplayed subsequently by both President Ramaphosa and Finance Minister Godongwana. In our view, this is unlikely to be implemented, especially given that such a move would require a constitutional change that would need a 2/3 vote in the National Assembly, where the ANC controls just 57.5% of the seats. It is also worth mentioning that the outcomes of a broader macroeconomic policy review led by the National Treasury, wherein the inflation target will be reviewed, remain pending. It is doubtful that there will be any update on this work in the upcoming Budget on 22 February.

Fiscal performance is proving surprisingly robust

Strong CIT and PIT collections and good expenditure control should see the main budget deficit for FY22/23 come slightly within the MTBPS target

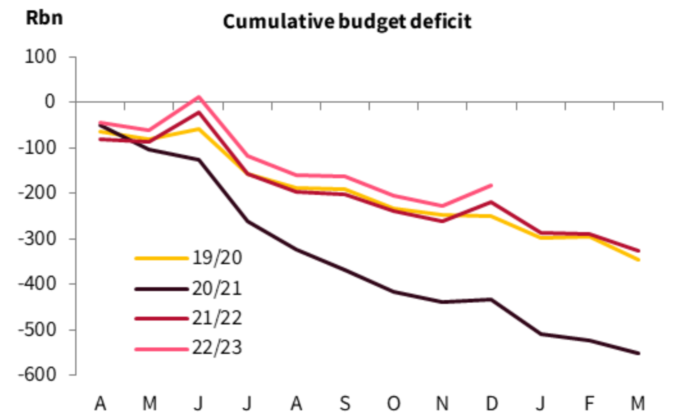
South Africa's fiscal performance has been better than expected so far in FY22/23, with good expenditure control and strong tax collections. In the first nine months of the fiscal year, main budget noninterest expenditures were up just 2.3% y/y, against the Medium Term Budget Policy Statement (MTPBS) target of 5.6% growth for FY22/23. Of course, the MTBPS target includes the R24bn bailout for SANRAL in FY22/23, which is not yet included in the monthly expenditure numbers. Meanwhile, main budget revenues were up 7.6% y/y in the first three quarters of this fiscal year, a little shy of the MTBPS target of 8.3%. However, personal income tax (PIT) receipts have shown strong y/y growth over the past couple of months after a mid-year lull. Also, corporate income tax (CIT) proceeds were strong in December, despite lower mineral production and prices, offering hope for the other important CIT months of February and March (Figure 20). The cumulative main budget deficit for April-December 2022 sits at R183bn, which is 16.4% smaller than the deficit in the same period of FY21/22 (Figure 21). Factoring in the SANRAL bailout and assuming a small amount of the usual capex underspending, we now forecast a main budget deficit of R310bn this year, which would equate to 4.6% of GDP. We see the risks to this forecast as lying in the direction of a slightly bigger deficit, but even then the outcome should compare well with the MTBPS target of 4.9% and an original 2022 Budget target of 6.0% of GDP.

Figure 22: Good CIT collections in December bode well for Feb and March



Source: National Treasury, Absa Research

Figure 23: Budget deficit YTD FY22/23 is tracking inside previous years



Source: National Treasury, Absa Research

Load shedding and softer commodity prices are likely to weigh on tax collections in FY23/24…

Unfortunately, in 2023 and beyond, upside spending pressures and downside revenue risks are likely to manifest. On the revenue side, intensified load shedding will likely weigh on tax collections, especially CIT, as companies' profitability suffers from sharply escalated spending on back-up power. For example, one big retailer reported at end-January that it had spent R500mn on diesel over the previous six months. We also see softer export commodity prices weighing on mining houses' CIT payments. Moreover, intensified load shedding is also likely to hit consumer spending, and hence, VAT and other consumption-related tax receipts to some degree. The MTBPS forecast gross tax collections in FY23/24 at R1,789bn, but we forecast collections at least R20bn lower, with risks probably tilted towards an even worse outcome. With the 2023 Budget due out in a few weeks on 22 February, it will be interesting to see whether the NT makes big downward revisions to its revenue forecasts.

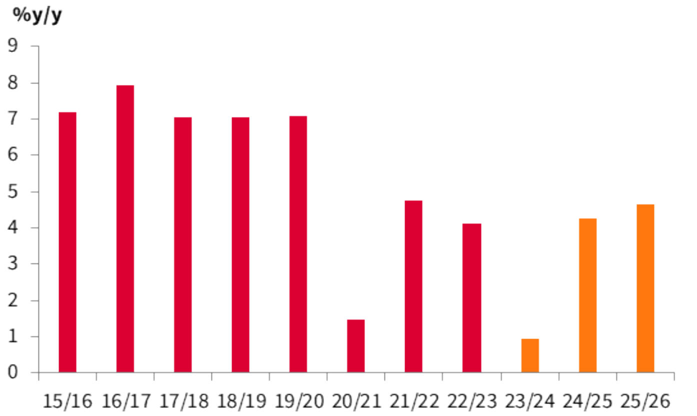
… while near-term upside spending pressure abound, including public sector wage demands and the government's plan to help households and firms cope with the load shedding costs

On the spending side, we believe the government will have to concede a public sector wage hike in FY23/24 that offers some degree of catch up after the government unilaterally imposed a 3% wage settlement for the current fiscal year. We have conservatively pencilled in a 5.5% all-in rise in public sector pay, in contrast to the MTBPS's unrealistic assumption of only a 1.5% automatic pay progression, no cost-of-living adjustment, and the cancellation of the cash gratuity, which amounts to a net increase in pay of just 1.0% (Figure 24). Also, the government has announced that it is working on a support programme to help households and small businesses with the costs of load shedding. The details have not been released yet, but we presume it would entail some cost to the fiscus, while some further bailouts for loss-making state-owned enterprises (SOCs) also seem possible. In our fiscal modelling for our Baseline scenario, we have factored in R15bn of spending above the MTBPS baselines for the next three fiscal years to finance some combination of the load shedding support, bailouts for SOCs, and disaster relief. We do not, however, assume any material expansion of the social safety net or any material funding for National Health Insurance. In FY23/24, there is only a R6bn contingency reserve pencilled into the MTBPS to offset some of these costs, but from FY24/25 onwards, there is also a large unallocated reserve in addition to the contingency reserves to accommodate some (but not all) extra spending pressures without blowing the overall envelope. We forecast a widening of the main budget deficit in FY23/24 to 5.1% of GDP in FY23/24.

We doubt that a full transfer of Eskom debt will be announced at the 2023 Budget

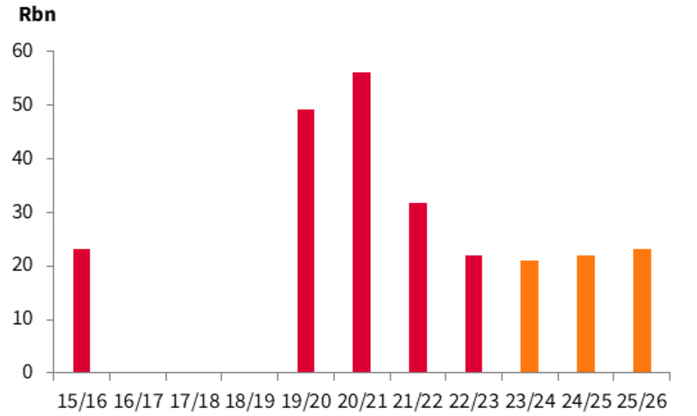
At the MTBPS, the NT said the Eskom debt deal covering between 1/3 and 2/3 of Eskom's R400bn debt would be unveiled with the 2023 Budget but added a caveat by noting that 'the specifics of the programme, including the selection of the relevant debt instruments and the method of effecting the relief, are still being finalised'. NT also said the programme will include 'strict conditions', both before and during the debt transfer, to ensure that Eskom manages its costs and starts to collect its municipal arrears, which have steadily risen to R56bn currently. We are sceptical that a full debt relief plan will be published with the Budget, in part because Eskom and the NT still do not seem to have agreed on the reform conditionality that Eskom would need to satisfy to unlock the funding from the NT. Furthermore, securing the necessary creditor consent for a debt exchange could prove challenging, as is currently the case with the legal separation of the transmission division that has suffered delays. Thus, for the upcoming fiscal year, we are inclined to expect simply the continuation of the annual transfers to Eskom, which were pencilled into the MTBPS as R21bn in FY23/24, rising to R23bn in FY25/26 (Figure 25).

Figure 24: MTBPS assumption for FY23/24 pay award seems unrealistic



Source: National Treasury, Absa Research

Figure 25: Even without a debt transfer Eskom will get big fiscal support



Source: National Treasury, Absa Research

Political risks have subsided greatly, but not completely disappeared

Near-term political risks seem to have subsided as the ANC re-elected President Ramaphosa and a strong balance of his allies to the top of party leadership, even as an important cabinet reshuffle looms

Reassuringly for markets, the ANC's 55th elective conference in December comfortably re-elected President Ramaphosa and a strong balance of his allies to the Top Six leadership of the party and the National Executive Committee (NEC). However, we see risks and uncertainty remaining from the continuing investigations into the Phala farm-gate saga (by the Public Protector, the SARB and the Hawks), with no obvious timelines for their conclusion. Next on the political agenda is the State of the Nation Address (SONA) on 9 February, where President Ramaphosa will lay out the government's agenda for the coming year. Judging from the policy resolutions that were hurriedly taken at the ANC's elective conference, there do not appear to be any big changes afoot in the way the party and the government aim to solve South Africa's challenges. President Ramaphosa also needs to announce a cabinet reshuffle fairly soon, given some vacancies and the failure of some ministers to be re-elected to the NEC. His options are rather limited, however, since he must choose all his ministers except two from the same body of parliamentarians. Nonetheless, his specific appointments could suggest whether he feels empowered enough to potentially side-line political opponents and ministerial nonperformers that hopefully open the way for more effective and reform-focussed governance.

General elections due in little over a year could see the ANC losing its majority (as per polls), potentially leading to an unstable coalition government

Attention will now turn to the national and provincial elections in Q2 24, where recent polls suggest that the ANC could lose its majority. One, conducted by the Brenthurst Foundation in late October and early November, put the ANC at 47.6% support, the DA at 24.0%, and the EFF at 10.7%. Meanwhile opposition parties, labour unions, and civil society groups are mounting increased protests and launching legal action against the government over the power supply/Eskom imbroglio. Dissatisfaction with the ANC and the government's handling of the issue is mounting and could further weigh on its political support. This unprecedented electoral pressure on the ANC would seem to raise the risk of populist policies, as evidenced by Ramaphosa's recent statement that he had asked Eskom not to implement the regulator's approved tariff increase for the utility, which he later had to walk back from when it was pointed out that such a step would be illegal. But, still compared with the run-up to the elective conference, we see the near-term political risks as having subsided somewhat for now.

Risks to the outlook have improved slightly but remain skewed to the downside

We continue to see the risks to our Baseline forecast as lying more to the downside than upside

Our views on the specific risks surrounding our Baseline forecast have improved a little since our last *Quarterly Perspectives* forecast in October. Growing El Niño signs are a new adverse risk. On load shedding, the outlook for its impact on the economy seems worse in the near term, but there is an accelerated reform push to at least partially alleviate it over the medium term. We see somewhat improved prospects for politics, the fiscus and the global economic cycle. However, we continue to view the balance of risks as tilted to the downside, as long as business sentiment remains weak overall and GDP continues to expand slowly. As noted above, our Baseline forecast (which we detail in a tabular form in Figure 26, along with the underlying assumptions in Figure 27) trims our near and medium-term growth forecasts slightly to about the same pace as population growth, with persistent and widespread socio-economic deprivation as a consequence. Especially against this backdrop, potential negative shocks tend to be more numerous, more substantial, and have bigger adverse knock-on effects than potential upside shocks. As usual, we present two alternative macroeconomic scenarios, which we term Down and Up, in Figures 28 and 29. As before, our Down scenario is a lot more deviated from our Baseline scenario (with lower growth, higher inflation and interest rates and a weaker fiscal performance) than our Up scenario, which is closer to our Baseline forecast. Over the long run, South Africa has proven remarkably resilient, but without a whole raft of difficult interventions, the country remains in something of a 'polycrisis' and at risk of a rupture.

Figure 26: Economic growth is likely to be weak this year as the global economy slows, while CPI inflation has peaked but remains elevated

	2022				2023				2024									
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	2021	2022F	2023F	2024F	2025F	2026F
Output (% q/q sa)																		
Real GDP	1.7	-0.7	1.6	-0.5	-0.2	0.4	0.4	0.4	0.4	0.5	0.5	0.5	4.9	2.3	0.7	1.8	2.0	2.1
Real GDP (%y/y)	2.7	0.5	4.0	2.2	0.2	1.4	0.2	1.1	1.8	1.8	1.8	1.9	4.9	2.3	0.7	1.8	2.0	2.1
Household consumption	1.2	0.6	-0.3	0.1	-0.2	0.4	0.4	0.4	0.4	0.3	0.3	0.3	5.6	2.8	0.4	1.4	1.5	1.6
Public consumption	1.1	-0.8	0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.1	0.0	0.0	-0.1	0.6	1.1	-1.8	-1.0	0.3	1.0
Investment	3.4	0.4	0.3	0.5	0.6	0.7	0.8	1.0	1.0	0.9	0.9	0.9	0.2	4.6	2.5	3.7	3.8	3.8
Exports	3.8	-0.2	4.2	-1.3	1.0	0.8	0.6	0.5	0.3	0.4	0.4	0.4	10.0	8.7	3.1	1.7	1.7	1.8
Imports	5.1	5.5	0.6	0.5	0.3	0.4	0.4	0.4	0.6	0.6	0.6	0.7	9.5	14.8	3.0	2.1	2.5	2.6
Employment and wages																		
Employment, Δ '000s	370	648	203	137	13	25	28	44	26	164	-83	59	-480	1358	110	166	196	199
Unemployment rate, %	34.5	33.9	32.9	32.6	32.8	32.9	33.0	33.1	33.2	32.8	33.4	33.4	34.3	33.5	32.9	33.2	33.6	33.7
Average wage, %y/y	6.1	0.8	-4.3	0.1	0.5	5.3	8.2	4.4	5.4	7.3	3.9	5.0	9.5	0.7	4.6	5.4	4.8	4.9
Prices (% y/y)																		
CPI	5.8	6.6	7.7	7.4	6.7	5.7	4.9	4.8	5.2	5.0	4.5	4.6	4.6	6.9	5.5	4.8	4.4	4.7
Core CPI	3.6	4.1	4.6	5.0	5.1	5.0	4.8	4.5	4.6	4.4	4.4	4.5	3.1	4.3	4.8	4.5	4.5	4.5
Food & NAB CPI	6.1	7.4	10.9	12.3	11.5	9.2	5.7	4.5	4.7	4.7	4.5	4.4	6.1	9.2	7.6	4.6	4.4	4.4
PPI	10.8	14.7	17.0	14.8	11.7	6.9	3.8	3.8	4.3	4.4	4.2	4.1	7.1	14.4	6.4	4.3	4.0	4.2
External and government accounts (% of GDP)																		
Current account	2.4	-1.6	-0.3	-2.8	-1.7	-1.1	-1.2	-1.3	-1.8	-1.9	-2.0	-2.1	3.7	-0.6	-1.3	-1.9	-2.1	-2.2
Fiscal balance*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-5.2	-4.6	-5.1	-4.9	-4.2	-3.7
Primary balance*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-0.9	0.0	-0.4	-0.2	0.5	0.9
Government debt*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	68.0	71.2	71.6	72.3	72.3	72.2
Credit variables																		
Bank lending to corporates, % y/y	5.7	8.1	11.9	7.7	6.6	6.0	3.1	6.0	5.7	6.0	6.4	6.7	-0.1	7.7	6.0	6.7	8.1	9.6
Bank lending to households, %y/y	6.1	6.9	7.2	7.7	6.4	6.1	5.6	4.8	5.2	5.2	5.2	5.3	5.4	7.7	4.8	5.3	5.6	5.8
Household debt, % of disp. Income	62.5	63.0	62.8	63.2	62.6	63.2	62.5	62.4	61.8	62.4	61.7	61.7	64.3	62.9	62.7	61.9	61.3	61.0
Household debt service, % of disp. Inc.	6.9	7.1	7.5	8.5	8.8	8.9	8.8	8.6	8.5	8.7	8.6	8.6	7.0	7.5	8.8	8.6	8.6	8.6
Interest rates (eop) and exchange rate (average)																		
Repo rate, % eop	4.25	4.75	6.25	7.00	7.25	7.25	7.00	6.75	6.75	6.75	6.75	6.75	3.75	7.00	6.75	6.75	6.75	6.75
Prime rate, % eop	7.75	8.25	9.75	10.50	10.75	10.75	10.50	10.25	10.25	10.25	10.25	10.25	7.25	10.50	10.25	10.25	10.25	10.25
USDZAR, avg	15.21	15.58	17.04	17.60	17.02	17.15	17.50	17.85	18.15	18.45	18.75	19.08	14.78	16.37	17.38	18.61	19.76	20.59

**For fiscal years starting 1 April, i.e., 2022 refers to the period from 1 April 2022 to 31 March 2023.*
Source: Stats SA, SARB, SARS, National Treasury, Refinitiv, Absa Research

Figure 27: The load shedding assumption has changed markedly since the last forecast round

Variable	Absa Research assumptions	SARB assumptions (January 2023 MPC meeting)	General comments and risks to our assumptions
Key Global Economic Assumptions			
Global growth	We base our global growth assumptions on Bloomberg consensus. For G7, real GDP grows 0.2% in 2023 and 1.3% in 2024, while China's growth is 4.7% in 2023 and 4.9% in 2024. The IMF projects slightly stronger growth for China in 2023.	Growth of SA's major trading partners is projected to be at 1.6% in 2023 and 2.6% in 2024.	The Absa Research and SARB global growth assumptions are not strictly comparable, but both show weaker growth in 2023 than in 2022, but some acceleration into 2024.
Brent crude	We base our assumption for oil prices on the latest Consensus Economics forecast. We assume an average of USD86/bbl in 2023 and USD84/bbl in 2024.	Brent to average USD89/bbl in 2022 and USD85/bbl in 2024.	Absa's crude price assumption is broadly in line with the SARB's for both 2023 and 2024. We see upside risk to these assumptions.
Non-oil commodity prices	Using consensus-based inputs, our rand-denominated export commodity price index falls by 7.3% in 2023 and a further 2.6% in 2024.	The SARB does not reveal any specific commodity price assumptions. Instead, it assumes non-oil international commodity prices will fall by 18.0% in 2023 and -12.2% in 2024.	The Absa Research and SARB commodity price assumptions are not strictly comparable. South Africa's key export commodity prices may ease further but probably have some fundamental support.
Key Domestic Economic Assumptions			
Load shedding	We assume load shedding averages Stage 3 in H1 23 and Stage 2 in H2 23, with total load shedding of about 22k GWh in 2023 and 15k GWh in 2024.	The SARB has detailed its load shedding assumptions and they amount to 27k GWh in 2023, 13k GWh in 2024 and 7k GWh in 2025.	The trajectory for energy supply over the next two years is the biggest uncertainty hanging over the macroeconomic outlook.
Fuel taxes and levies	We assume a 10c/l rise in distribution margins each December and a 35c/l increase in the general fuel levy in April 2023.	Taxes and levies on fuel are expected to rise by 7.7% and 1.1% in 2023 and 2024, respectively.	Given the pressures of elevated inflation, higher interest rates and load shedding, the government may consider a smaller increase in the fuel levy than what we have pencilled in.
Electricity prices	We estimate that NERSA's recent announcement on Eskom tariffs implies municipal hikes of 17.4% in mid-2023 and 8.6% in mid-2024. These translate to average increases of 13.0% in 2023 and 12.7% in 2024.	The SARB expects average electricity increases of 12.9% in 2023 and 14.5% in 2024.	Our electricity tariff increase for 2023 is broadly in line with that of the SARB's but lower in 2024.
Government wage rate	We expect government wage inflation of 6.0% for fiscal year 22/23 and 4.8% in the subsequent fiscal year.	The SARB does not publish its government wage rate forecast but it projects aggregate nominal wage inflation of 6.9% in 2023 and 5.5% in 2024.	The medium-term outlook remains highly uncertain given the shift to one-year (as opposed to multi-year) wage deals and strong union pressure for 'catch up' wage deals.
Government employment	We expect fiscal restraint to prevent any growth in public employment over the forecast period.	The SARB does not reveal any specific assumptions on government employment.	An active programme to downsize the public sector is unlikely, given union resistance.
Government consumption	We forecast real government consumption growth to contract by 1.8% and 1.0% in 2023 and 2024, respectively.	The SARB does not reveal any specific assumptions on government consumption.	The need to lower government indebtedness necessitates tight curbs on government consumption spending.
Potential growth	We base our assumption on the SARB's forecast for potential growth.	Potential growth is estimated at 0.0% for 2023 and 0.6% for 2024.	Assumptions about potential GDP growth and the output gap are tricky as they are not directly observable and can be affected by exogenous supply shocks.
Neutral real interest rate	Absa's model makes no explicit assumption about the neutral real interest rate.	The neutral real interest rate is estimated to be 2.4% in 2023 and 2024.	There is big debate about where the neutral real interest sits, even within the SARB MPC.
Exchange rate	In Absa's macro model, our exchange rate is an exogenous input. Our baseline forecast for USDZAR generates an average NEER depreciation of 5.5% and 8.1% in 2023 and 2024, respectively.	The SARB's QPM model endogenously determines the exchange rate path, forecasting a NEER depreciation of 3.2% and 1.5% in 2023 and 2024, respectively.	The exchange rate is one of the key variables in any forecast, regardless of whether it is set as an exogenous assumption or endogenously determined, as with the SARB's QPM. The volatility of the rand and the uncertainty about its path over the forecast horizon generates forecast risk.
Interest rates	We believe that the repo rate of 7.25% represents a peak, though risks are tilted in the direction of another 25bp hike in March. We also see some risks of delay in our view that the MPC will cut by 25bp in September and again in November, leaving the repo rate at a terminal level of 6.75%.	The SARB's QPM projects the repo rate at an average of 7.08% in Q4 23 and 6.91% in Q4 24.	We are considerably more dovish than the QPM for end-2023, but the QPM projections are only a guide – one of many inputs into the SARB MPC's decision.

Source: SARB, Refinitiv, Bloomberg, Consensus Economics, Absa Research

Figure 28: Our Down scenario assumes higher oil prices and persistent intense load shedding

	2022				2023				2024									
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	2021	2022F	2023F	2024F	2025F	2026F
Output (% q/q sa)																		
Real GDP	1.7	-0.7	1.6	-1.0	-1.4	0.5	0.5	0.4	0.4	0.4	0.3	0.3	4.9	2.2	-0.8	1.6	1.0	1.1
H'hold consumption	1.2	0.6	-0.3	-0.3	-0.9	0.0	1.4	0.4	0.2	0.3	0.3	0.3	5.6	2.7	-0.4	1.6	1.1	1.2
Investment	1.1	-0.8	0.5	-0.1	-0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.2	4.4	0.4	1.8	2.0	2.1
Prices (% y/y)																		
CPI	5.8	6.6	7.7	7.4	7.8	8.0	7.1	7.3	6.9	5.9	5.2	5.0	4.6	6.9	7.5	5.7	5.1	5.4
Core CPI	3.6	4.1	4.6	5.0	6.0	6.4	6.2	6.1	5.8	5.7	5.6	5.5	3.1	4.3	6.2	5.6	5.3	5.1
External and government accounts (% of GDP)																		
Current account	2.4	-1.6	-0.3	-3.3	-2.2	-2.3	-2.4	-2.5	-2.6	-2.7	-2.8	-2.8	3.7	-0.7	-2.4	-2.7	-2.9	-3.0
Fiscal balance*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-5.2	-4.9	-5.7	-5.9	-5.4	-5.8
Government debt*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	68.0	71.5	72.7	75.3	76.6	79.4
Interest rate (eop) and exchange rate (average)																		
Repo rate, % eop	4.25	4.75	6.25	7.00	7.75	8.50	8.50	8.25	8.25	8.00	8.00	8.00	3.75	7.00	8.25	8.00	8.00	8.00
USDZAR, avg	15.23	15.54	17.03	17.62	17.52	18.40	19.18	19.87	20.46	21.01	21.55	22.09	14.78	16.35	18.74	21.28	23.24	24.72

**For fiscal years starting 1 April, i.e., 2022 refers to the period from 1 April 2022 to 31 March 2023; Source: Stats SA, SARB, SARS, National Treasury, Refinitiv, Absa Research*

Figure 29: Our Up scenario sees much faster implementation of reform that lifts confidence and private sector investment

	2022				2023				2024									
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	2021	2022F	2023F	2024F	2025F	2026F
Output (% q/q sa)																		
Real GDP	1.7	-0.7	1.6	-0.3	0.2	0.8	0.5	0.6	0.6	0.6	0.6	0.6	4.9	2.4	1.6	2.4	2.4	2.6
H'hold consumption	1.2	0.6	-0.3	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.6	5.6	2.8	1.5	2.3	2.3	2.4
Investment	1.1	-0.8	0.5	0.7	0.9	1.1	1.3	1.5	1.5	1.5	1.5	1.5	0.2	4.6	3.5	6.0	6.4	6.5
Prices (% y/y)																		
CPI	5.8	6.6	7.7	7.4	6.4	5.0	3.7	3.5	4.0	4.1	3.9	4.1	4.6	6.9	4.6	4.0	3.8	4.0
Core CPI	3.6	4.1	4.6	5.0	4.8	4.6	4.3	3.9	4.2	4.1	4.2	4.3	3.1	4.3	4.4	4.2	4.1	4.0
External and government accounts (% of GDP)																		
Current account	2.4	-1.6	-0.3	-1.8	-0.8	-0.9	-1.2	-1.2	-1.2	-1.3	-1.6	-1.8	3.7	-0.3	-1.0	-1.5	-1.9	-2.0
Fiscal balance*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-5.2	-4.5	-4.0	-3.6	-3.0	-2.6
Government debt*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	68.0	70.4	69.8	69.3	68.5	67.7
Interest rate (eop) and exchange rate (average)																		
Repo rate, % eop	4.25	4.75	6.25	7.00	7.25	7.00	6.50	6.25	6.00	6.00	6.00	6.00	3.75	7.00	6.25	6.00	6.00	6.00
USDZAR, avg	15.23	15.54	17.03	17.62	16.52	15.90	15.82	15.83	15.84	15.89	15.95	16.06	14.78	16.35	16.02	15.94	16.28	16.45

**For fiscal years starting 1 April, i.e., 2022 refers to the period from 1 April 2022 to 31 March 2023; Source: Stats SA, SARB, SARS, National Treasury, Refinitiv, Absa Research*

Absa Research Team

FICC Research

Jeff Gable
Head of FICC Research
+27 11 895 5368
jeff.gable@absa.africa
Absa, South Africa

Peter Worthington
Macroeconomics South Africa
+27 21 927 6525
peter.worthington@absa.africa
Absa, South Africa

Miyelani Maluleke
Macroeconomics South Africa
+27 11 895 5655
miyelani.maluleke@absa.africa
Absa, South Africa

Sello Sekele
Macroeconomics South Africa
+27 11 895 5685
sello.sekele@absa.africa
Absa, South Africa

Andiswa Mdingi
Macroeconomics South Africa
+27 11 895 7036
andiswa.mdingi@absa.africa
Absa, South Africa

Sivenathi Marwarwa
Credit Strategy South Africa
+27 11 895 5722
sivenathi.marwarwa@absa.africa
Absa, South Africa

Nicolus Khampepe
Credit Strategy South Africa
+27 11 506 7735
nicolus.khampepe@absa.africa
Absa, South Africa

Mike Keenan
FI/FX Strategy South Africa
+27 11 895 5513
mike.keenan@absa.africa
Absa, South Africa

Nikolaus Geromont, CFA
FI/FX Strategy South Africa
+27 11 895 6120
nikolausphilip.geromont@absa.africa
Absa, South Africa

Ridle Markus
Macroeconomics Sub-Saharan Africa
+27 11 895 6690
ridle.markus@absa.africa
Absa, South Africa

Mpho Molopyane
Macroeconomics Sub-Saharan Africa
+27 11 895 7032
mpho.molopyane@absa.africa
Absa, South Africa

Tlhologelo Thoka
Macroeconomics Sub-Saharan Africa
+27 11 895 6690
tlhologelo.thoka@absa.africa
Absa, South Africa

Equity Research

Niel Venter, CFA
Head of Equity Research
Telecoms & Media
+27 11 895 6444
niel.venter@absa.africa
Absa, South Africa

Gerhard Engelbrecht
Energy & Mining
+27 11 895 7050
gerhard.engelbrecht3@absa.africa
Absa, South Africa

Darren Cohn, CFA
Retail
+27 11 895 7639
darren.cohn@absa.africa
Absa, South Africa

Jono Bradley
Telecoms & Media
+27 11 350 1905
jono.bradley@absa.africa
Absa, South Africa

Mpumelelo Mthembu
Energy & Mining
+27 11 895 5670
mpumelelo.mthembu@absa.africa
Absa, South Africa

Samantha Naicker
Food Producers & HPC
+27 11 895 6004
sam.naicker@absa.africa
Absa, South Africa

Khaya Mthembu
South Africa Financials
+27 11 895 7323
khaya.mthembu@absa.africa
Absa, South Africa

Brent Madel, CFA
South African General Industrials
+27 11 895 5130
brent.madel@absa.africa
Absa, South Africa

Adedayo Ayeni
Sub-Saharan Africa Consumer & Industrials
+ 27 11 895 5123
adedayo.ayeni@absa.africa
Absa, South Africa

Lonwabo Damane
South Africa Financials
+27 11 3509791
lonwabo.damane@absa.africa
Absa, South Africa

Mahir Hamdulay
Property
+27 21 816 4589
mahir.hamdulay@absa.africa
Absa, South Africa

Fayyaad Amien
Property
+27 21 816 4644
fayyaad.amien@absa.africa
Absa, South Africa

Timothy Wambu, CFA
Kenyan & Nigerian Banks
+254 20 42 54 630
timothy.wambu@absa.africa
Absa, South Africa

Linet Muriungi
East African Industrials
+25 420 425 4679
linet.muriungi@absa.africa
Absa, South Africa

DISCLAIMER

This publication has been produced and distributed by Absa Bank Limited (Registration No.: 1986/004794/06.) acting through its Corporate and Investment Bank division, a member of Absa Group Limited ("Absa"). Absa is an authorised financial services provider, a registered credit provider Reg No NCRCP7. Absa is regulated by the South African Reserve Bank. Absa distributes this material in South Africa. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Where this publication states on the front page that it is intended for institutional investors, distribution to retail investors is strictly prohibited. Any other persons who receive this communication should not rely on or act upon it. Absa accepts no liability for use of the contents of this report by unauthorized recipients. The information contained in this publication has been obtained from sources that Absa believes to be reliable, however, Absa does not represent or warrant that it is accurate or complete. Prices shown are indicative and Absa is not offering to buy or sell or soliciting offers to buy or sell any financial instrument. Absa is not responsible for, and makes no warranties as to the information or opinions contained in any written, electronic, audio or video presentations of third parties that are accessible via a direct hyperlink in this publication or via a hyperlink to a third-party web site ('Third-Party Content'). Any such Third-Party Content has not been adopted or endorsed by Absa, does not represent the views or opinions of Absa, and is not incorporated by reference into this publication. Third-Party Content is provided for information purposes only and Absa has not independently verified its accuracy or completeness. The views in this publication are those of the author(s) and are subject to change, and Absa has no obligation to update its opinions or the information in this publication. If this publication contains recommendations, those recommendations reflect solely and exclusively those of the authoring analyst(s), and such opinions were prepared independently of any other interests, including those of Absa and/or its affiliates. This publication does not constitute personal investment advice nor does take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Investors must independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they deem necessary. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Bank Limited acting through its Corporate and Investment Bank division in South Africa,15 Alice Lane, Sandton, 2196. Person or entities which are domiciled outside of South Africa wishing to effect a transaction in any security discussed herein must ensure that such transaction complies with the local regulations of its home jurisdiction. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results. Absa or its employees may, from time to time, maintain a long or short position in securities referred to in this publication or in related futures or options; purchase or sell, make a market in, or engage in any other transactions involving such securities or issuers, earn brokerage or other compensation in respect of the foregoing; and provide investment banking, credit or other services to any party referred to in this publication. Absa may have acted as manager or co-manager of a public offering of securities discussed in this publication in the past three years. We disclaim any liability for any direct, indirect or consequential damage or losses that you may suffer from using or relying on the information on contained in this publication even if notified of the possibility of such damage or loss and irrespective of whether or not you have obtained independent advice.

In the event that this publication is distributed to client/s or potential client/s in Mauritius by Absa Bank (Mauritius) Limited, a registered bank in the Republic of Mauritius with business registration number C10068913 and with its registered office at Sir William Newton Street, Port Louis (ABML); for all intent and purpose this publication is not, nor is intended to be, an advice, opinion or otherwise as defined and/or contemplated in the Banking Act 2004, the Financial Services Act 2007, the Securities Act 2005 or other pieces of legislation, as applicable or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. You have to obtain your own advice prior to taking any action whatsoever based hereon. ABML disclaims all liability for any direct, indirect or consequential damage or losses that you may suffer from using or relying on the information contained herein. This publication is neither an offer to sell nor a solicitation of an offer to buy any of the securities and/or financial or investment products or services (the Products). Any pricing included in this publication is only indicative and is not binding on ABML. All the risks and significant issues related to or associated with the Products are not disclosed in this publication. ABML does not predict actual results, performances and/or financial returns and no assurances, warranties or guarantees are given in this regard.

In the event that this publication is distributed to client/s or potential client/s by Absa Bank Tanzania Limited, a registered bank in the United Republic of Tanzania with company registration number 38557 and with its registered office at Absa House, Ohio Street, P. O. Box 5137, Dar es Salaam, United Republic of Tanzania (ABT). The report is distributed in compliance with the Statistics Act, Cap 351. The publication is not targeted at individual investors, retail clients or the general public and is intended for specified institutional clients, policymakers, regulators and relevant financial professionals at appropriate corporate entities.

ABT disclaims any liability for any direct, indirect or consequential damage or losses that you may suffer from using or relying on the information contained herein. This commentary is neither an offer to sell nor a solicitation of an offer to buy any of the securities and/or financial or investment products or services (the Products). ABT does not predict actual results, performances and/or financial returns and no assurances, warranties or guarantees are given in this regard. Any pricing included in this commentary is indicative and is not binding on ABT. You are required to obtain your own advice prior to taking any action whatsoever in respect of the Products. You further acknowledge that there may be risks associated with the Products and accept that not all the risks and/or material issues related to or associated with the Products are disclosed in this publication.

Important Information for EU & United Kingdom Persons

This report is a non-independent marketing communication and does not constitute, nor should it be interpreted as, investment advice or investment research.

Important Information for U.S. Persons

Disclaimer

This communication is issued and approved by Absa Bank Limited ("ABL"), which is solely responsible for its content.

This communication may be distributed in other jurisdictions by other entities within the Absa group of companies, which includes companies directly or indirectly owned by Absa Group Limited ("Absa Group"). Absa Group Limited is incorporated in the Republic of South Africa. Registration number: 1986/003934/06. Authorized financial services and registered credit provider (NCRCP7), JSE share code: ABG; ISIN: ZAE000255915.

The opinions expressed in this document reflect the viewpoint of ABL as of the date of its release and may be subject to change without prior notice.

ABL does not assure the update of this document. ABL has no obligation to update, modify or amend this document or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The content is informational only and based on information available when created. Prices and availability of financial instruments are also subject to change without notice.

This document is not a research report. Nor does this material constitute a recommendation. This communication may refer to information covered in research material published by ABL. This material should not be construed as on offer to sell, or a solicitation of an offer to buy any security or other financial instrument or to develop an ongoing securities business relationship. The prices of any instruments described in this document are indicative prices only and do not constitute firm bids or offers. Distribution to individual persons in the U.S. is prohibited.

Members of the Absa Group may choose to make a market for any instrument referred in the document but are not obligated to do so. Any such market-making activities may be discontinued at any time without notice. The prices of any financial instruments described in this document are indicative prices only and do not constitute firm offers or bids.

Members of the Absa Group may trade for their own account or for the account of their clients in any instruments that may be referred to in this document and may have a business relationship with the entities referred to. Members of the Absa Group may act as placement agent, advisor or in other capacities with respect to financial instruments or issuers referenced in this document.

Members of the Absa Group may also engage in securities transactions in a manner inconsistent with this document and with respect to information or opinions covered in this document.

This document is provided for informational purposes only. Members of the Absa Group will not accept any responsibilities for any loss resulting from the use of the information or opinions referred in this document.

The financial instruments discussed in this document may not be suitable for all investors and investors must make their own investment decision using their own independent advisors as they believe necessary and based on their specific situations and investment goals. If a financial instrument is denominated in a currency other that an investor's currency, a change in exchange rates may adversely affect the price or value of, or the income derived from the financial instrument, and such investor effectively assumes currency risk. In addition, income from an investment may fluctuate and the price or value of the financial instrument described in this communication, either directly or indirectly, may rise or fall. Furthermore, past performance is not necessarily indicative of future results.

This document is confidential and addressed to a restricted number of entities. If you are not an addressee of this communication, you should immediately destroy it. The dissemination or copy, in whole or in part, of this document is strictly prohibited.

This communication is not a research report and is not intended as such. This material has not been prepared in accordance with U.S. rules regarding the preparation of research reports.

This communication is not intended for distribution or use by individuals or persons. It is intended for distribution to entities only. It is not subject to all of the independence and disclosure standards applicable for research reports prepared for retail investors.

Recipients should assume information in this document is may not be independent of Absa Group's proprietary interests. Members of the Absa Group may trade in the securities referenced in this communication for their own accounts and on a discretionary basis on behalf of certain clients. Such interests may be contrary to, or entered, into in advance of this communication.