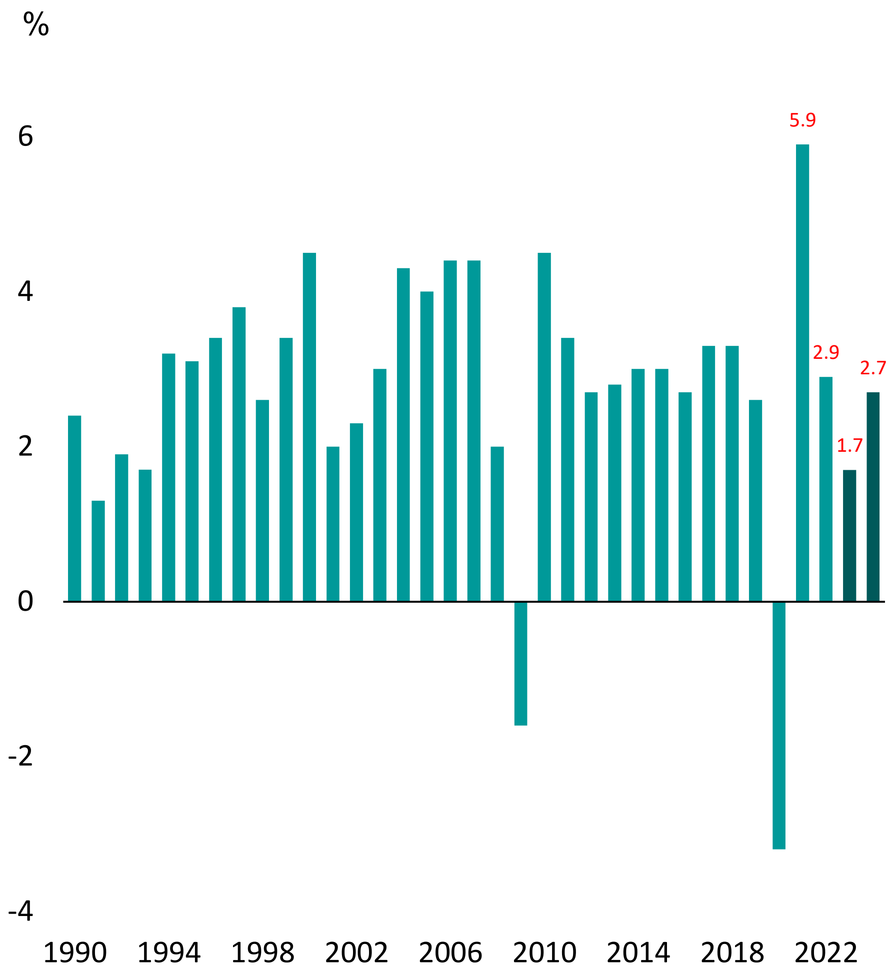
FNB Economics
Macroeconomic update

February 2023

Global growth is moderating and is expected to stay below pre-pandemic average throughout next year



Key global themes

- Global growth is moderating and is expected to stay below the pre-pandemic average throughout next year.
- Global inflation has peaked but is expected to remain elevated.
- Financial conditions remain tight amid coordinated monetary policy tightening
- China's reopening and slightly improved European growth prospects may limit the extent of the global slowdown.

Source: World Bank Economic Outlook, FNB Economics

Global growth slowing sharply, and risks are tilted to the downside

Persistent inflation

Geopolitical turmoil

Climate-related disasters

Unanticipated monetary tightening

Energy and food insecurity

Fragmentation of global trade, investment, and financial networks

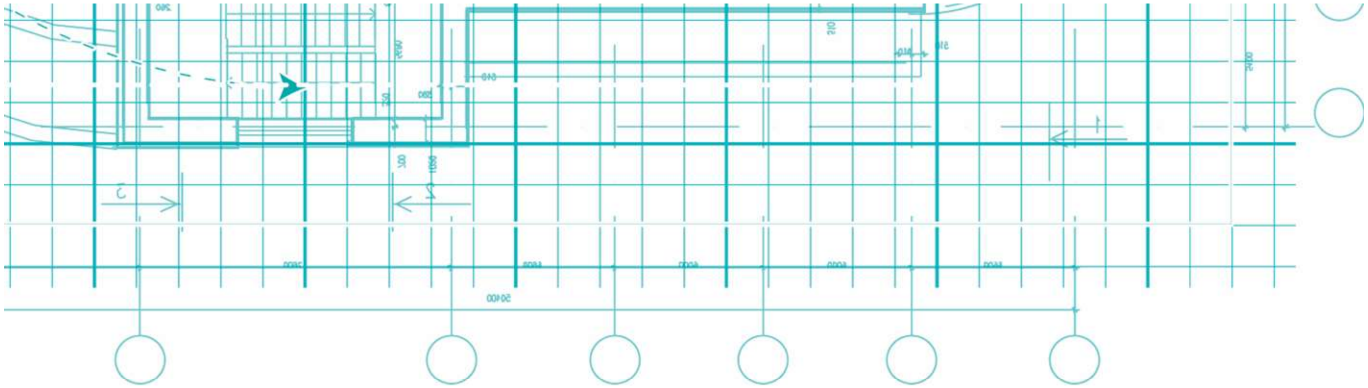
Financial stress

Social tensions

Weaker longer-term growth prospects and larger development challenges

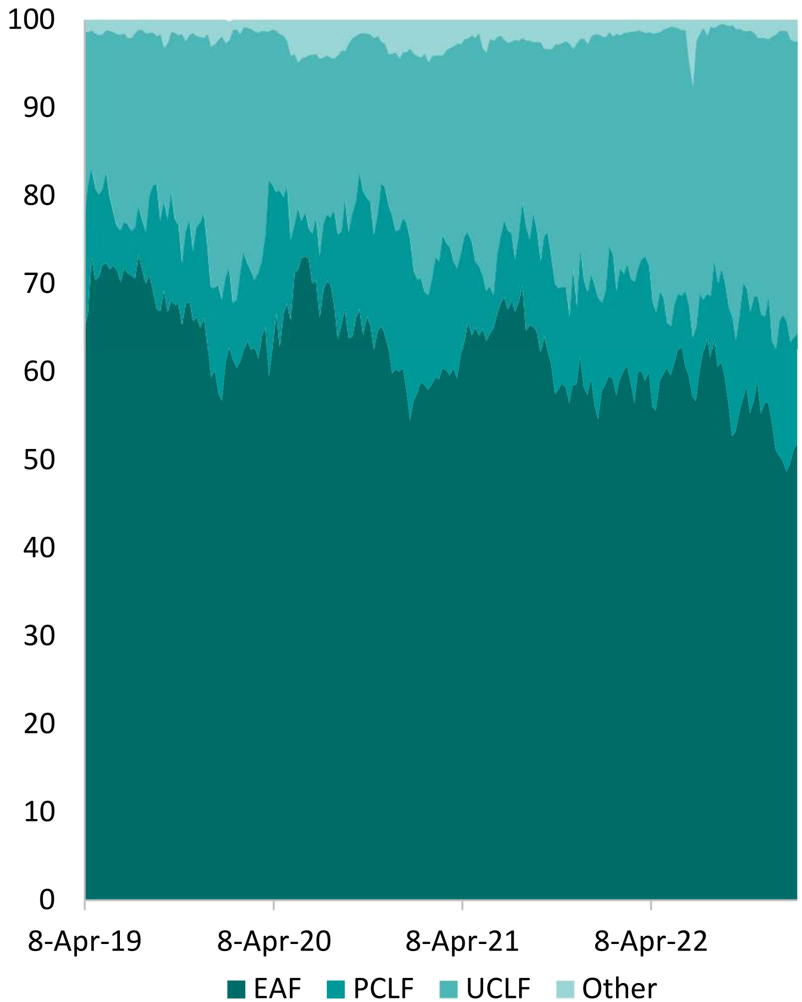
COVID-19 outbreaks

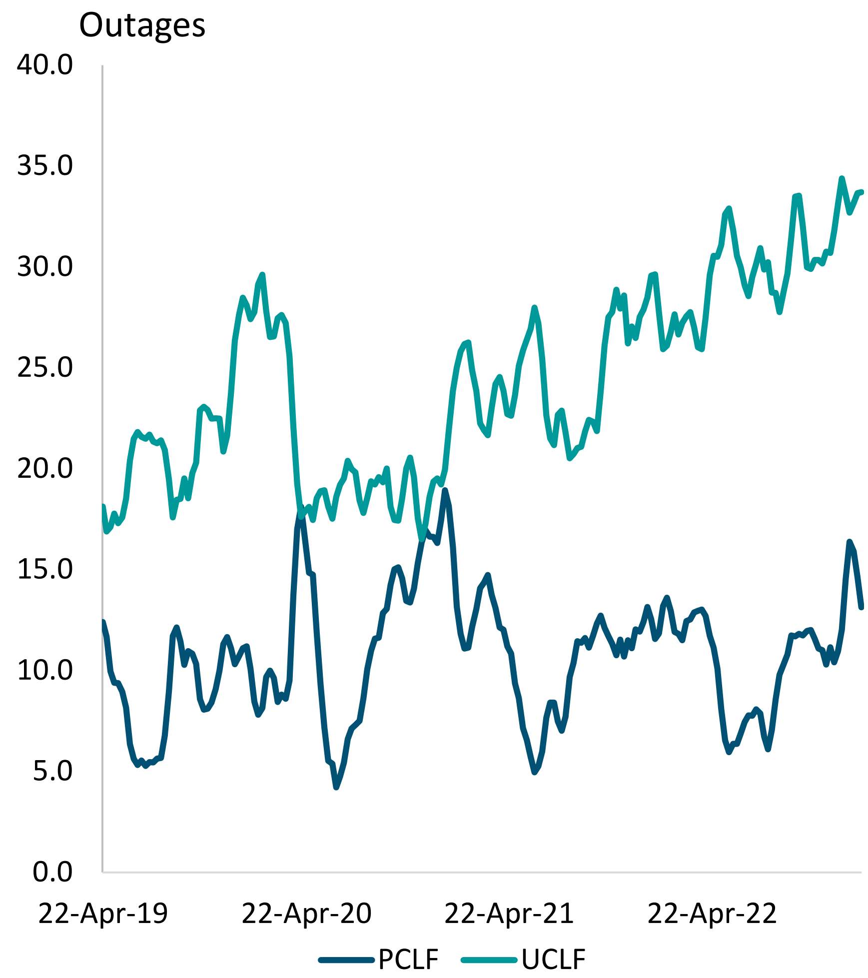
Source: World Bank Economic Outlook, FNB Economics



Domestic growth outlook

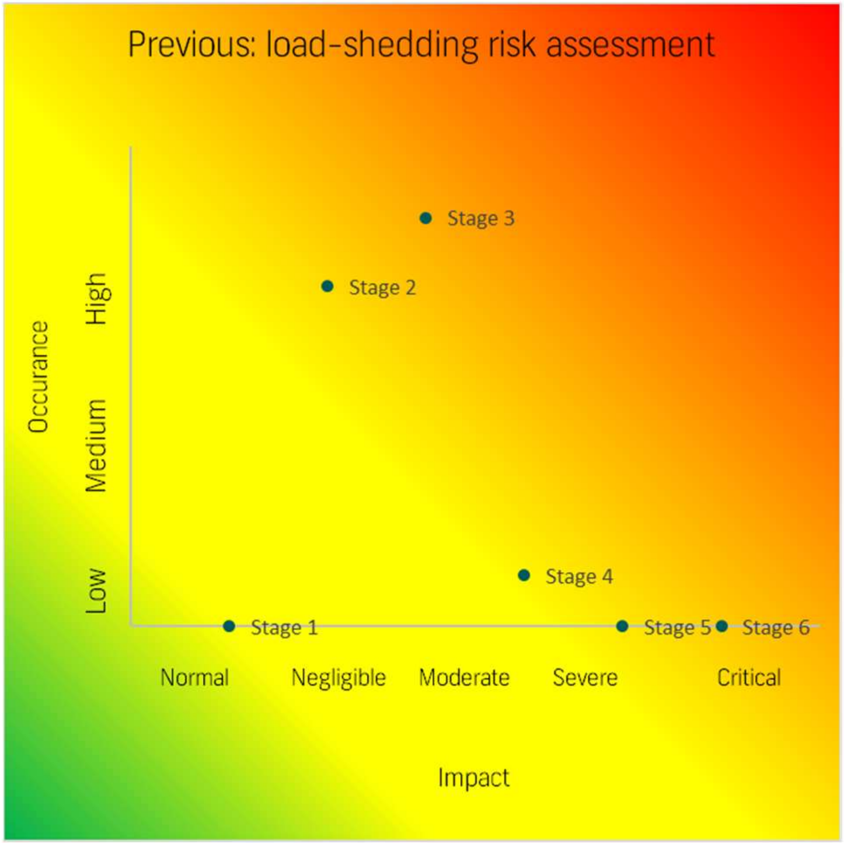
Load-shedding remains an important headwind on domestic economic activity

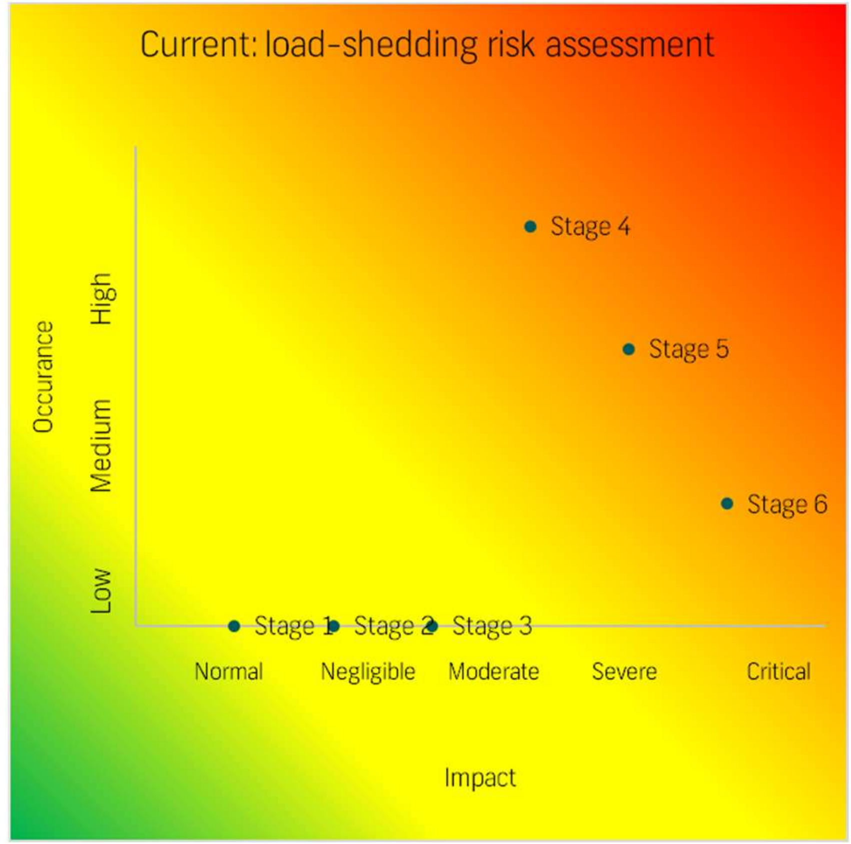




Source: FNB Economics

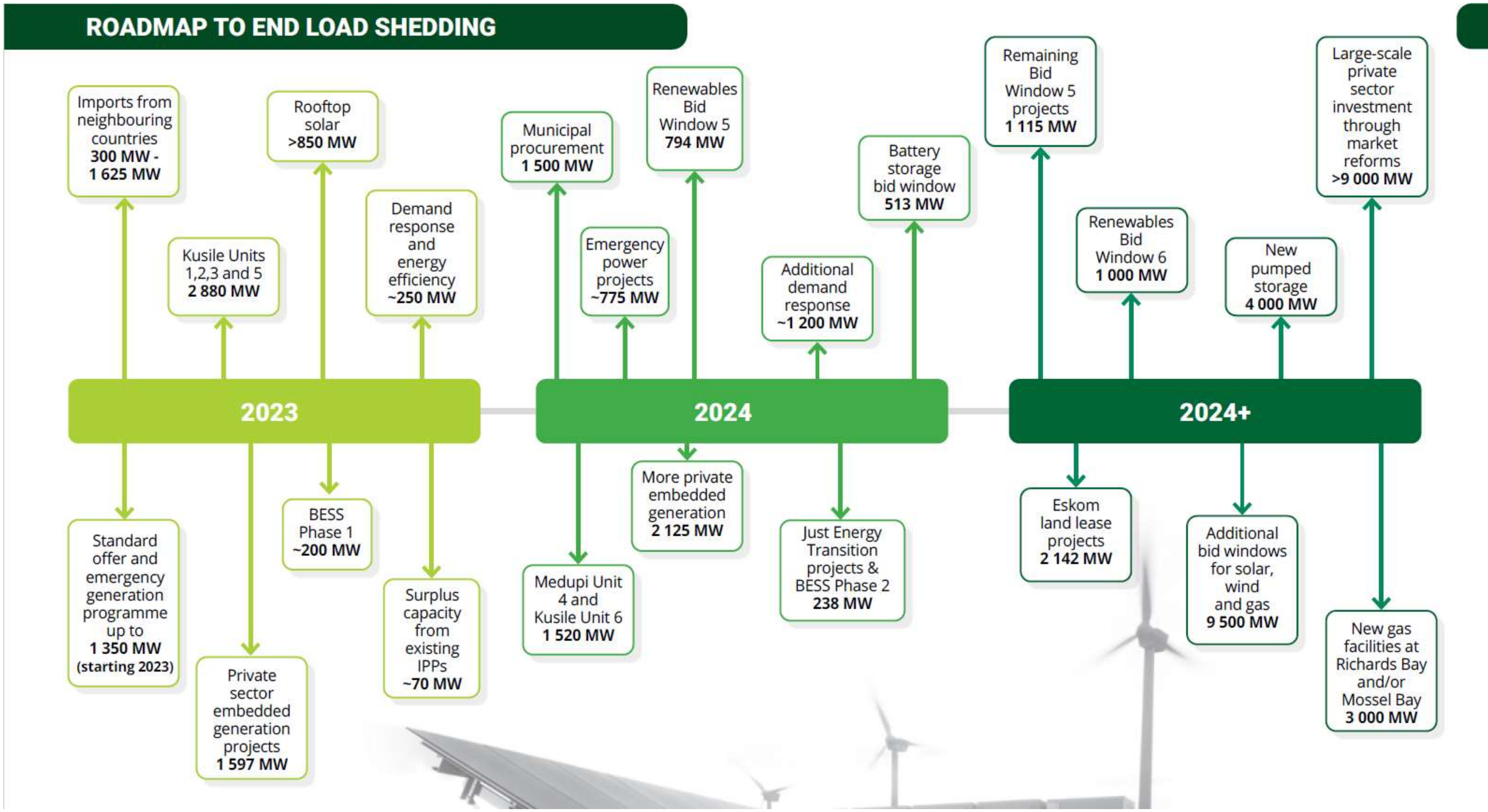
We assume permanent loadshedding averaging stage 4 but characterized by volatility between stages





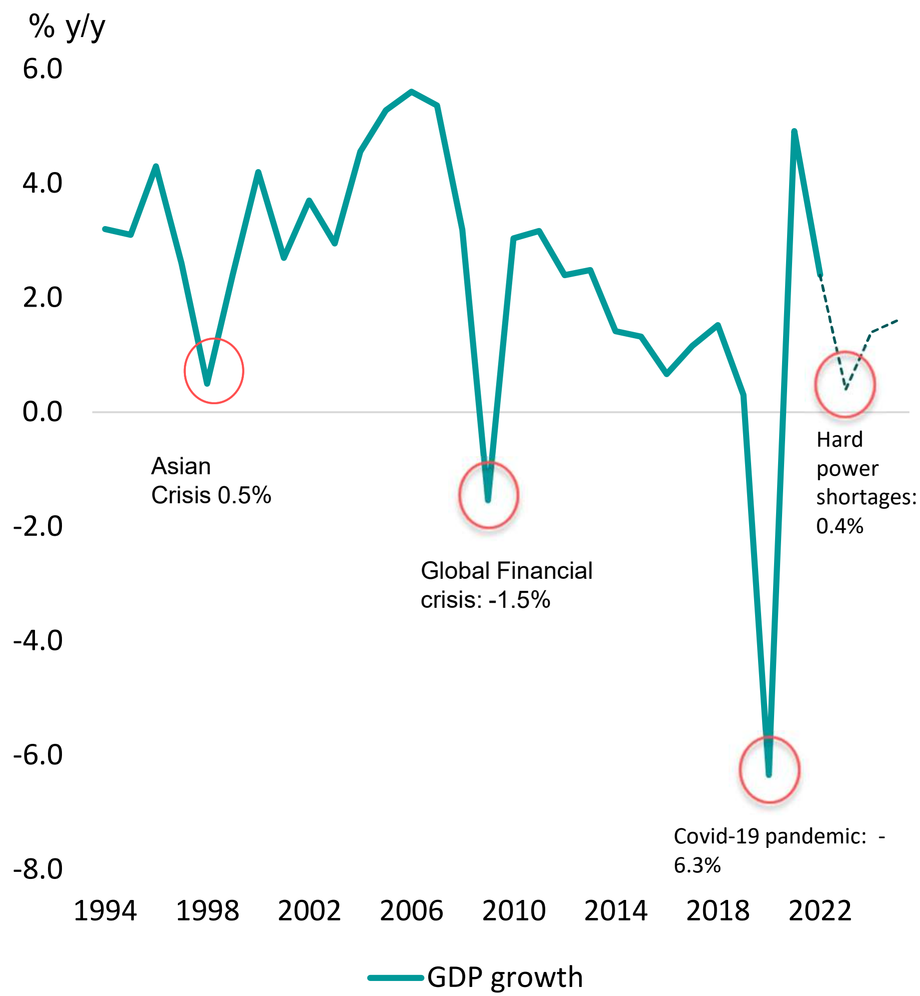
Source: FNB Economics

Energy action plan: Load-shedding intensity to ease over the next 18-24months



Source: Energy Action Plan,SA Government FNB Economics

Sentiment to remain depressed amid prevailing uncertainty

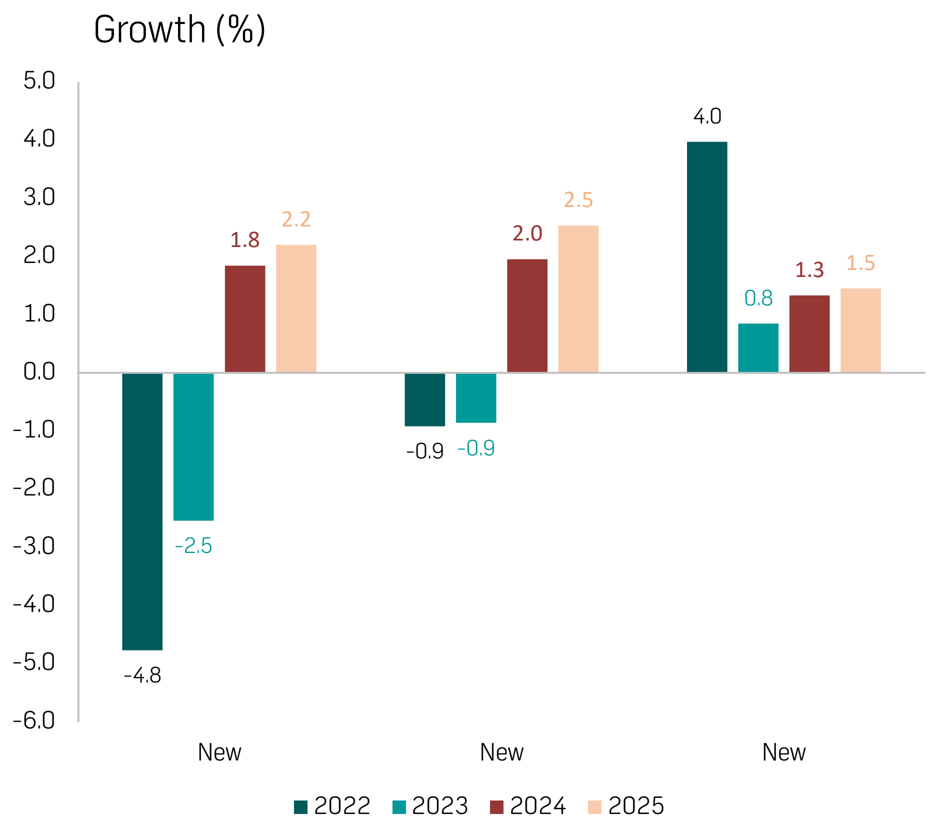


Key domestic themes

- Subdued consumption expenditure
- Ongoing replacement cycle and energy related investments to underpin private sector investment
- Slowing global growth and domestic constraints to weigh on domestic trade
- Sectorial impact to be mixed, high energy users to be impacted more heavily

Source: Stats SA, FNB Economics

Sectorial growth outlook: generally reflecting load-shedding



Primary sector

- Activity to be curtailed by frequent load-shedding at higher intensity
- Logistics constraints
- Slowing external demand, though China's reopening might provide some underpin

Secondary sector

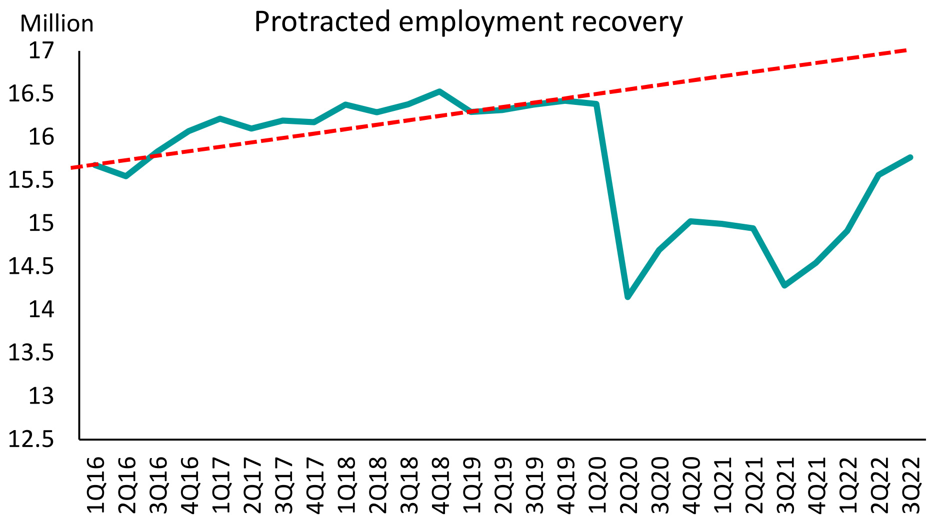
- Higher production costs and persistent load-shedding to affect **manufacturing activity**.
- Slowing domestic and external demand
- Weakness in the productive sectors of the economy does not bode well for the **construction sector**.
- Public sector infrastructure, as well as renewable energy-related investment could boost activity in construction

Tertiary sector

- Growth to moderate as consumer headwinds persist and credit growth slows following a 375bps cumulative hike in interest rates.
- Tourism-related sectors could benefit from gradual normalisation of activity
- Growth on **government services sector** should remain lacklustre as fiscal consolidation continues while inflation remain steep.
- In line with reduced consumer purchasing power and limited wage growth and low employment, the **personal services sector** is expected to moderate.

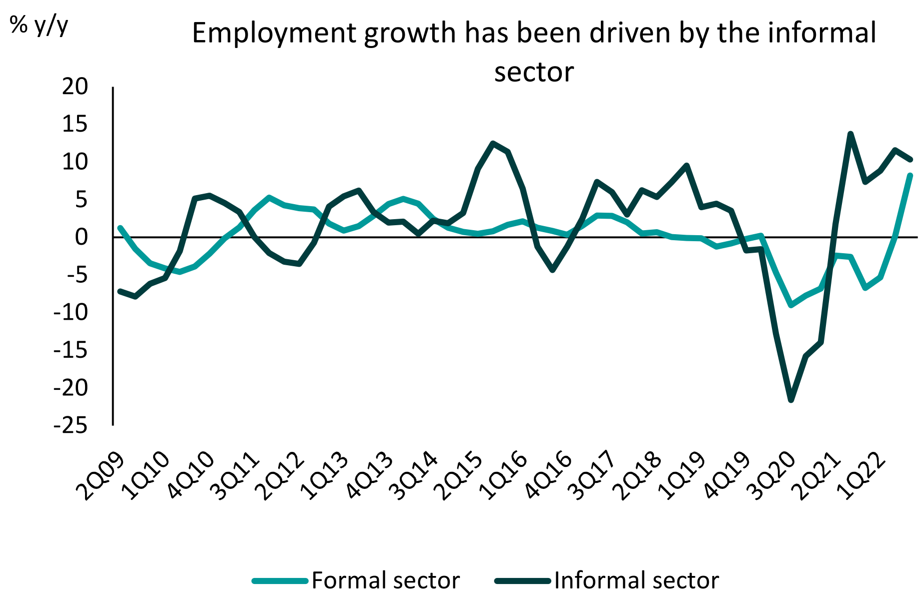
Source: Stats SA, FNB Economics

Employment gains supported by informal sector and part-time employment



- Number of employed still ~620k below pre-pandemic
- Informal employment is growing at a faster pace.
- In the formal sector, employment gains are largely driven by part-time jobs.

- Recovery in the wage bill/compensation continues, but held back by the stagnant headcount growth and higher inflation.



Source: SARB, Stats SA, FNB Economics

Operation Vulindlela reform: gradual progress

Overview of progress

OPERATION VULINDLELA

Supporting the implementation of priority structural reforms

Activity status	No. Of Activities	Overview
No data/reform not yet started	4	• Strengthen regulation of price and service standards in the water sector • Develop and implement a programme to enable private sector participation in source and bulk infrastructure • Expand visa waivers and explore visa recognition system • Develop a fit-for-purpose procurement regime for state-owned entities
Reform facing critical challenges, likely not to be achieved	1	• Improve Energy Availability Factor (EAF) to over 70%
Reform facing significant challenges, intervention required	9	• Procure new generation capacity in terms of IRP 2019 • Address institutional inefficiencies in municipal electricity distribution • Complete migration from analogue to digital signal • Finalise Rapid Deployment Policy and Policy Direction • Address institutional inefficiencies in municipal water distribution • Improve efficiency of ports • Expedite the issuance of title deeds for subsidized housing • Review and adjust the fuel price formula • Create a modern and efficient mining rights system

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Source: SA government, FNB Economics

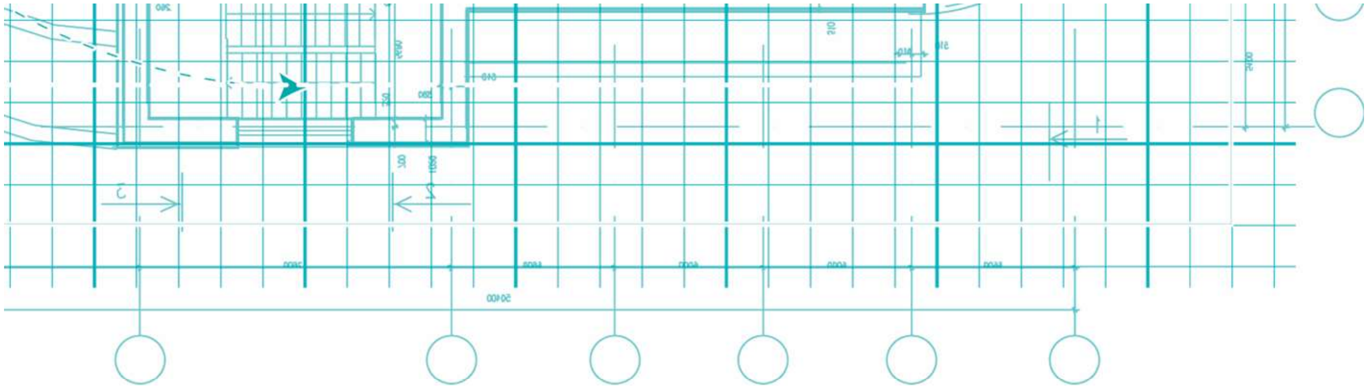
Overview of progress

OPERATION VULINDLELA

Supporting the implementation of priority structural reforms

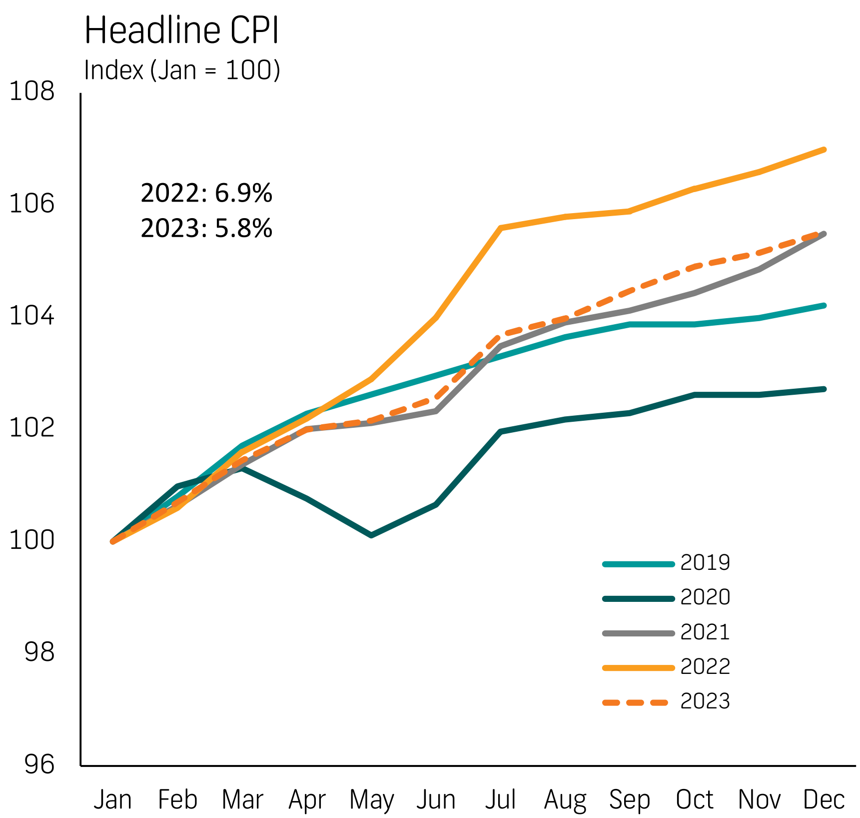
Activity status	No. Of Activities	Overview
Reform delayed/off track, but work underway	9	• Implement the energy action plan • Enable municipalities to procure power from independent power producers • Streamline process for wayleave approvals • Establish a National Water Resource Infrastructure Agency • Establish Transport Economic Regulator through Economic Regulation of Transport Bill • Implement third-party access to freight rail network • Finalise the revised raw water pricing strategy • Create an enabling legal and regulatory environment for hemp and cannabis • Develop a strategy for the devolution of passenger rail to local authorities
Reform progress on track	5	• Finalise the Electricity Regulation Act to establish a competitive electricity market • Complete restructuring of Eskom • Streamline and improve water-use license application process • Reinstate the Blue Drop, Green Drop and No Drop water quality monitoring system • Review policy framework and processes for work visas
Reform completed, no further work required	7	• Clear backlog of water use license applications • Publish revised Critical Skills List • Finalise the White Paper on National Rail Policy • Raise licensing threshold for embedded generation • Complete spectrum auction • Corporatise the Transnet National Ports Authority (TNPA) • Implement e-Visa system in fourteen countries, including China, India, Kenya and Nigeria

Source: SAgovernment, FNB Economics

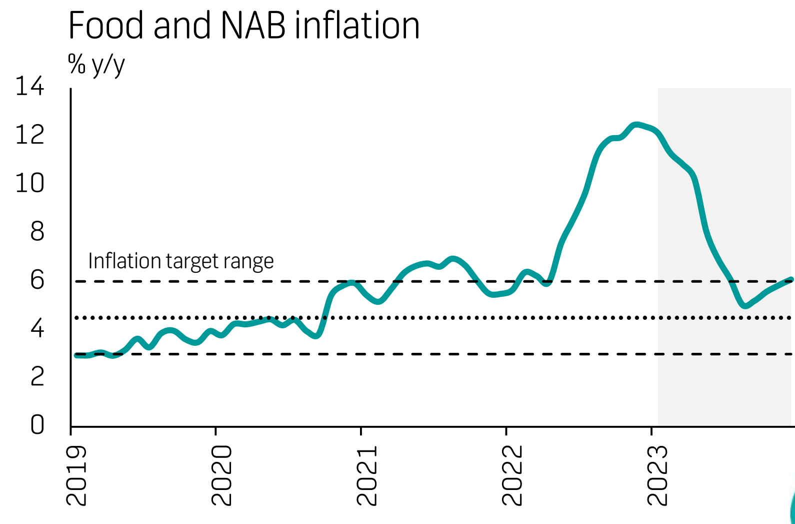


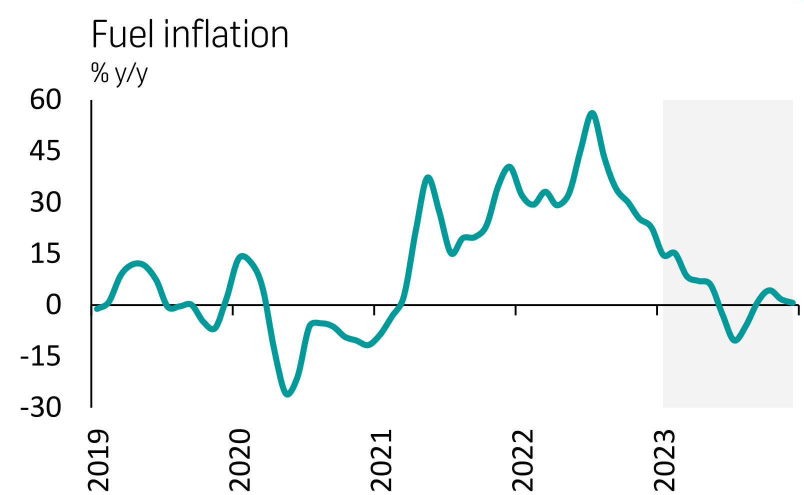
Inflation outlook

Local headline inflation moderates this year, annual average remains above target over forecast



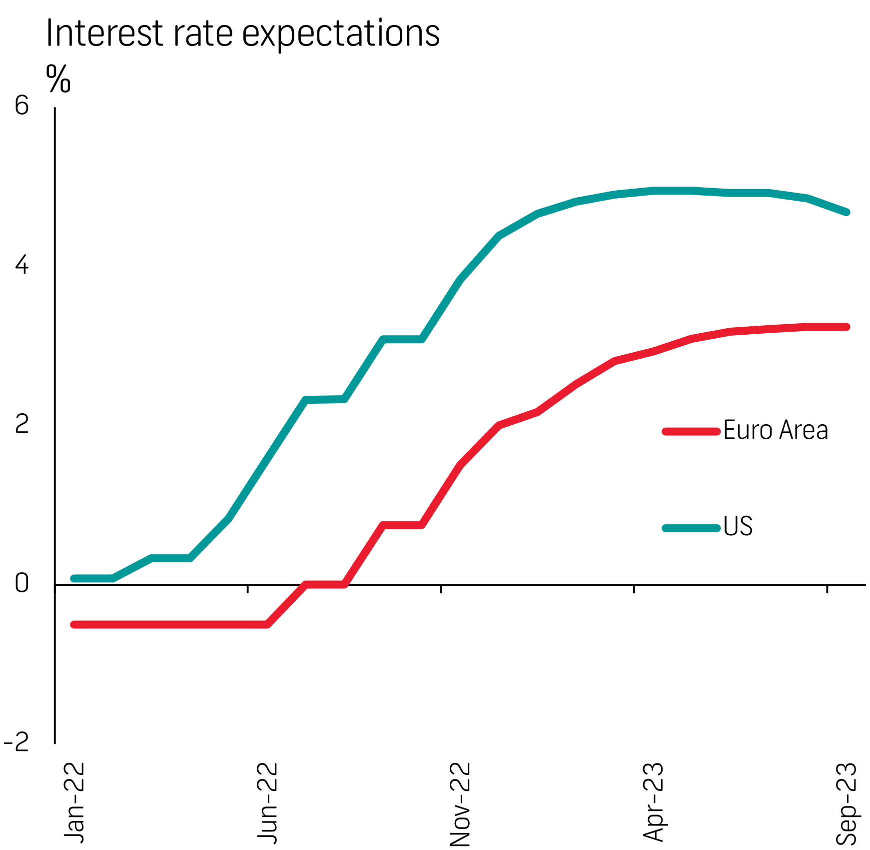
	2023	2024	2025
FNB	5.8	5.2	4.9
Consensus	5.6	4.7	NA
SARB	5.4	4.8	4.5

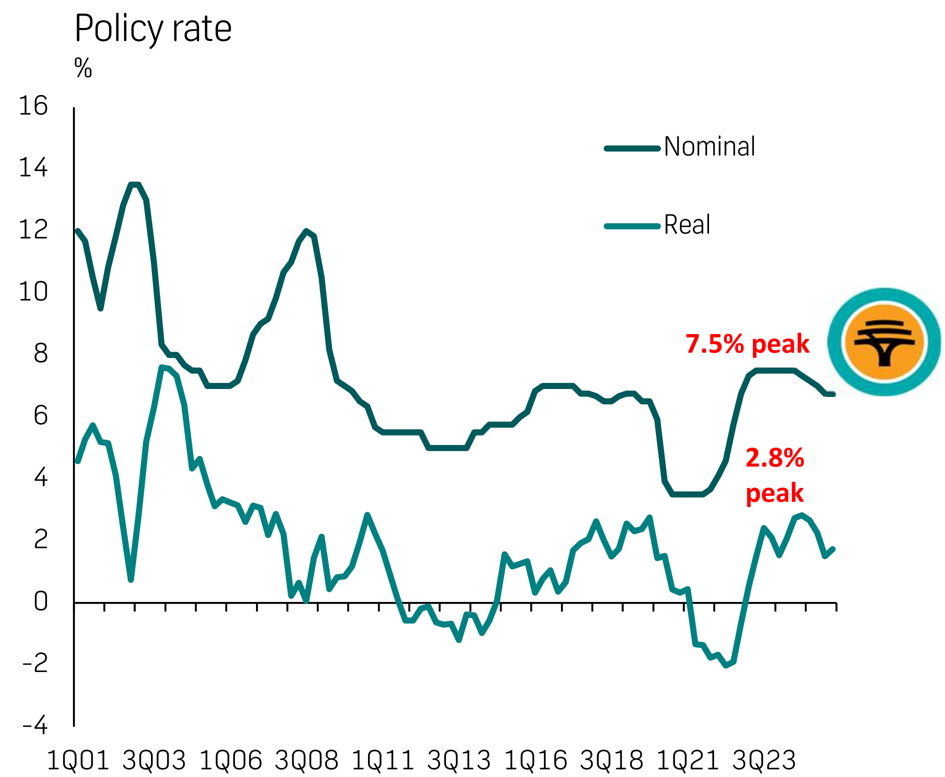




Source: Stats SA, FNB Economics

Repo rate near peak, rate cuts expected toward the end of the forecast





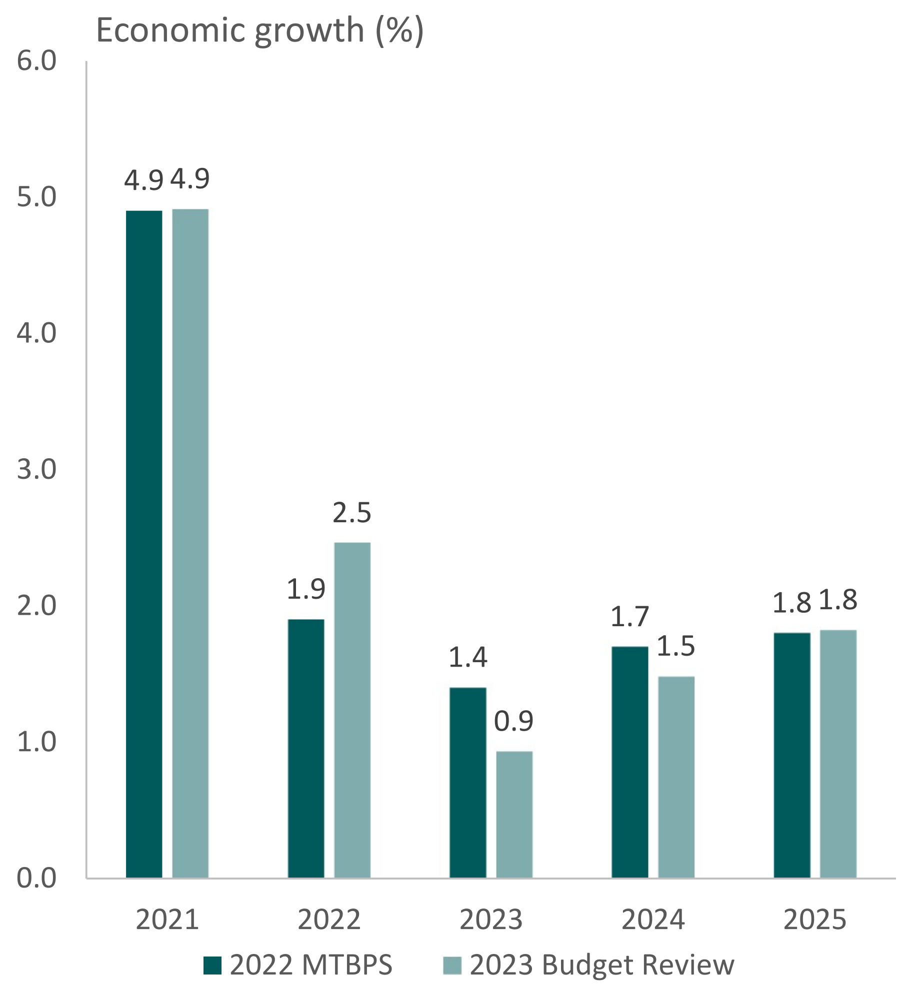
Source: Stats SA, SARB, BIS, FNB Economics

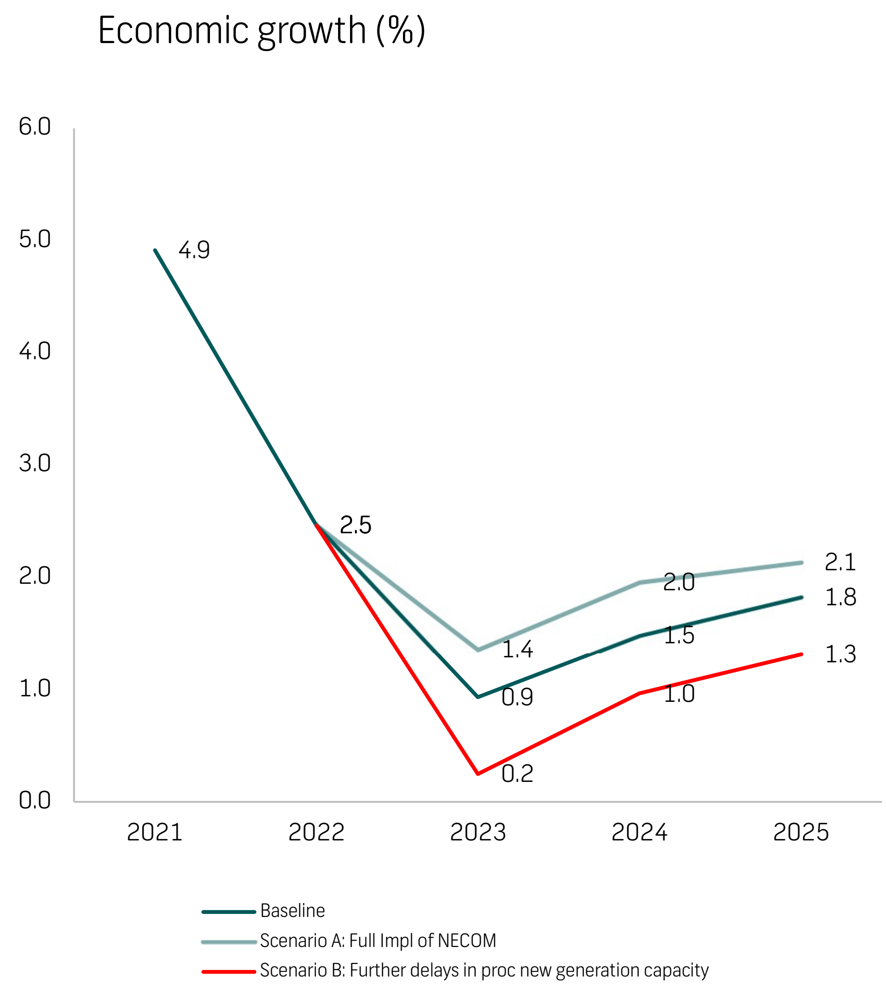
Key Points on Budget 2023

The budget continues to target dual objectives of achieving fiscal consolidation and enabling growth enhancing economic reforms to lift real GDP growth

- Tax revenue collection to benefit from improved collection efficiencies
- On expenditure reprioritization has allowed more allocation to improved service delivery and still show expenditure estimates slightly lower than presented n MTBPS
- National Treasury's estimates imply a further improvement in the fiscal deficit, while the debt to GDP ratio deteriorates in line with the addition of the Eskom debt to government's balance sheet.
- There are however several important execution risks to the budget:
  - The proposed wage bill consolidation and
  - The expectation for further SARS efficiency gains.
  - Export commodity prices,
  - Private sector becoming energy producers at scale.

Treasury's growth forecast average 1.4% over the medium term





Source: Treasury, FNB Economics

Revenue projections still higher than 2022 Budget projections

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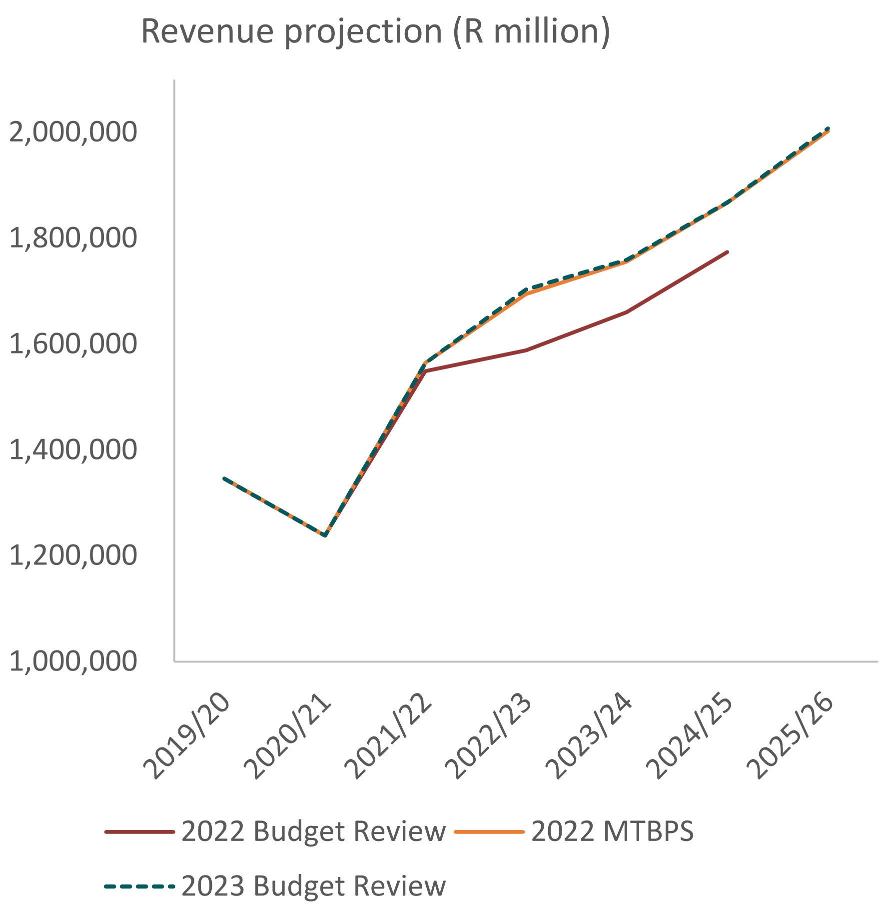
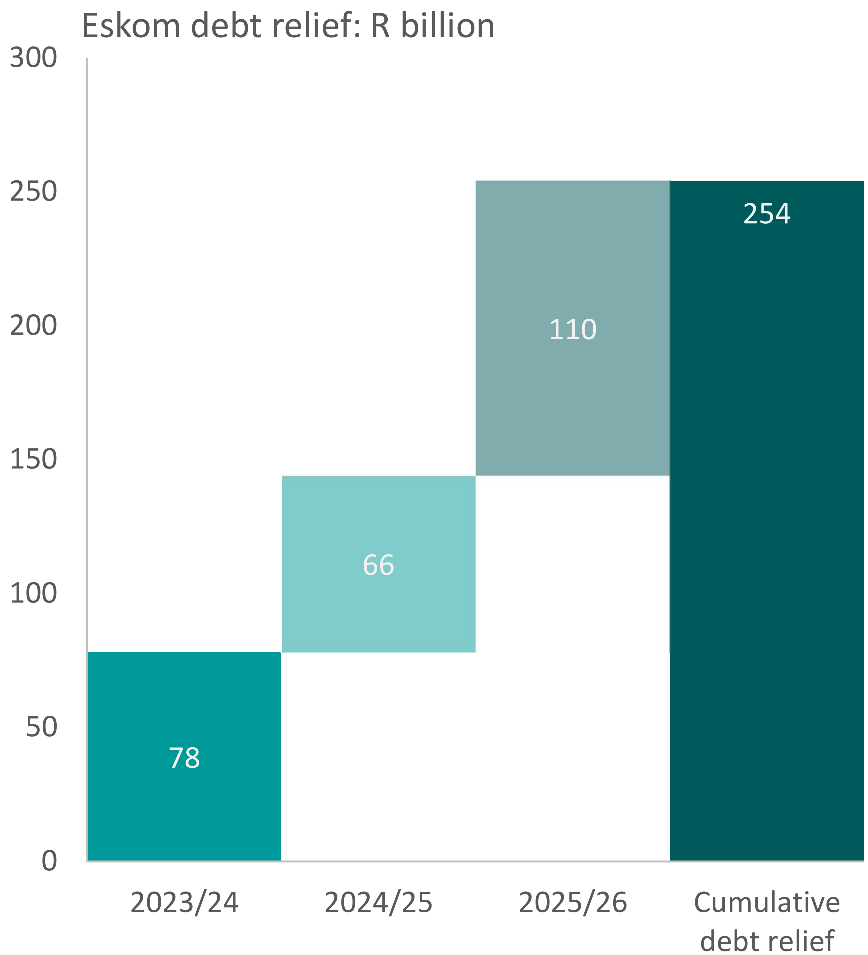


- Adjusting PIT brackets by expected inflation.
- Specific excise duties on alcoholic beverages and tobacco are increased by projected inflation
- The health promotion levy
- That the fuel levy, road accident fund levy, and custom and excise levy on petrol and diesel are kept stable.
- Significant changes to the programme for tax incentives on research and development
- ***The expansion of the renewable energy tax incentive for businesses***
- ***The introduction of a solar installation tax rebate for households up to R15,000***

2023 Budget Preview: Fiscal position tested by challenge conditions

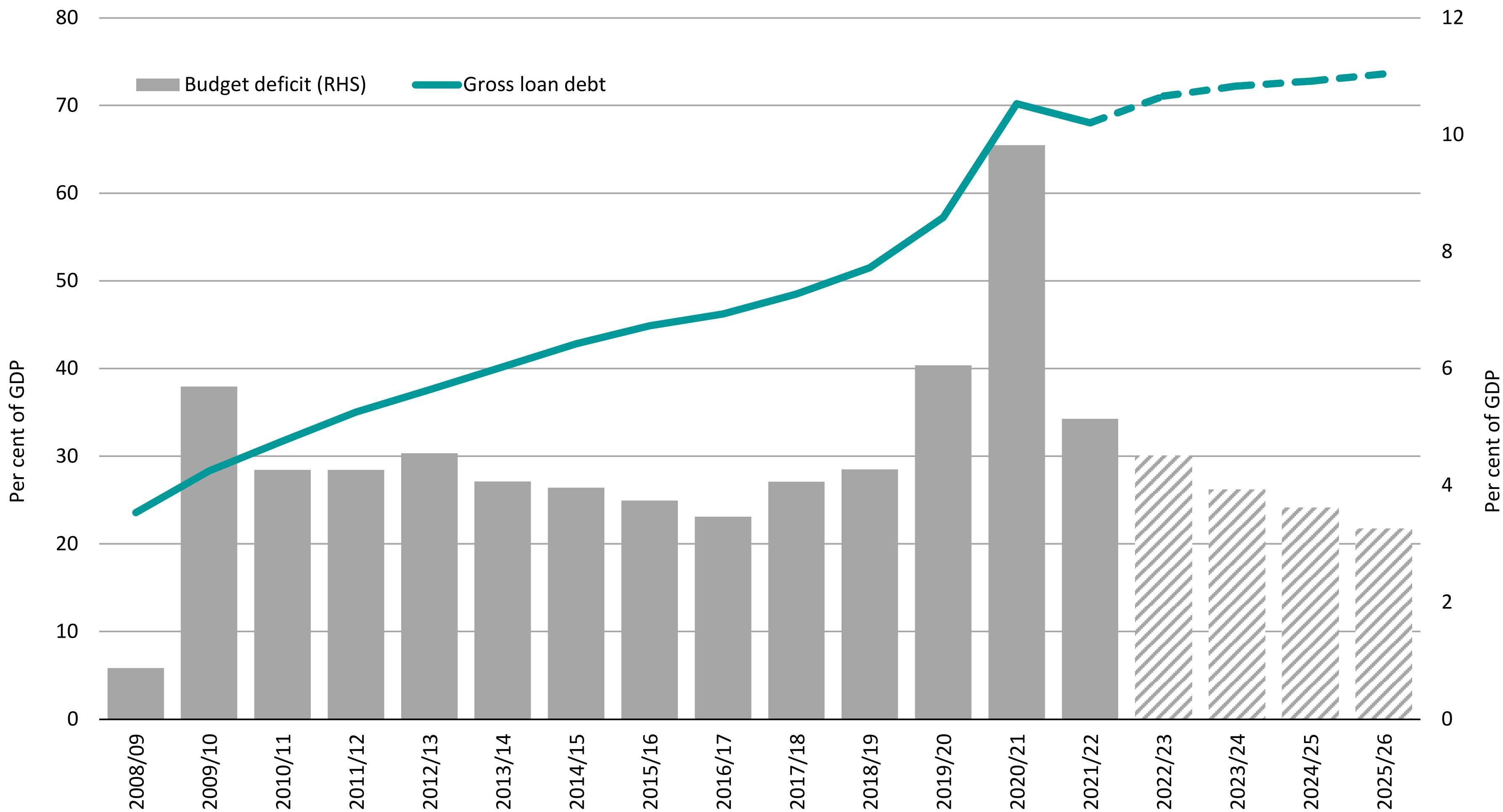
Eskom debt relief over the next three fiscal years amounts to R254 billion

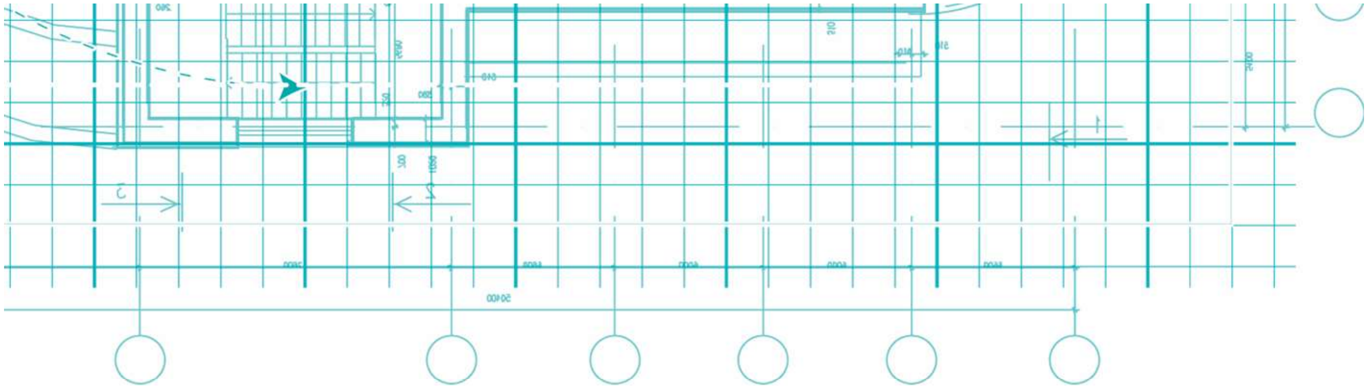


- The 2023 Budget proposes R254 billion in debt relief to Eskom (spread over three years). This arrangement, subject to strict conditions, will relieve extreme pressure on the utility's balance sheet, enabling it to conduct necessary maintenance
- Over the next three years, government will service R184.4 billion of Eskom's debt (capital repayments and interest payments) and, in 2025/26, will take over up to R70 billion of Eskom's debt.
- This will be financed by issuing both short- and long-term loans in the domestic markets. As a result, the gross borrowing requirement will increase from R515.6 billion in 2023/24 to R555 billion in 2025/26.
- The support will be structured as a loan from the National Revenue Fund to Eskom with strict conditions attached and a direct debt takeover of a portion of Eskom's loan portfolio.
- Importantly, Government guarantees for Eskom debt will be reduced in line with this transaction.

2023 Budget Preview: Fiscal position tested by challenge conditions

Government gross debt higher and peaks later





Thank you