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Economic outlook

In brief

- Following a weaker-than-expected third quarter, economic growth for 2021 has been revised down to 4.8 per cent, compared with 5.1 per cent estimated at the time of the 2021 *Medium Term Budget Policy Statement* (MTBPS).
- The medium-term growth outlook has improved moderately. The National Treasury projects real economic growth of 2.1 per cent in 2022, the year in which the economy is expected to return to pre-pandemic production levels. GDP growth is expected to average 1.8 per cent over the next three years.
- Significant risks to the economic outlook include new COVID-19 variants leading to new waves of infection, continued interruptions in power supply, rising inflation and fiscal risks. Faster-than-expected global interest rate increases would also have negative consequences for the economy.
- The 2022 *Budget Review* supports implementation of a wide range of reforms to bolster economic growth and employment over the medium and long term.

Overview

The economy grew by an estimated 4.8 per cent in 2021 compared with the 5.1 per cent projected in the 2021 MTBPS. The downward revision reflects a sharp third-quarter contraction driven by a new wave of COVID-19, the outbreak of public violence in July 2021, heightened global uncertainty and modest growth expectations for the fourth quarter following renewed power cuts. Nevertheless, the growth outlook for 2022 has improved slightly since the 2021 MTBPS.

Structural constraints have reduced potential economic growth for the past decade and remain an impediment to the recovery. During 2021, the economic effects of the pandemic – lost jobs and delayed investments – were exacerbated by inadequate electricity supply, with the highest levels of load-shedding to date.

There are signs that this combination of factors has led to scarring – defined as medium-term economic performance below pre-pandemic projections. Higher global inflation, monetary policy adjustments,

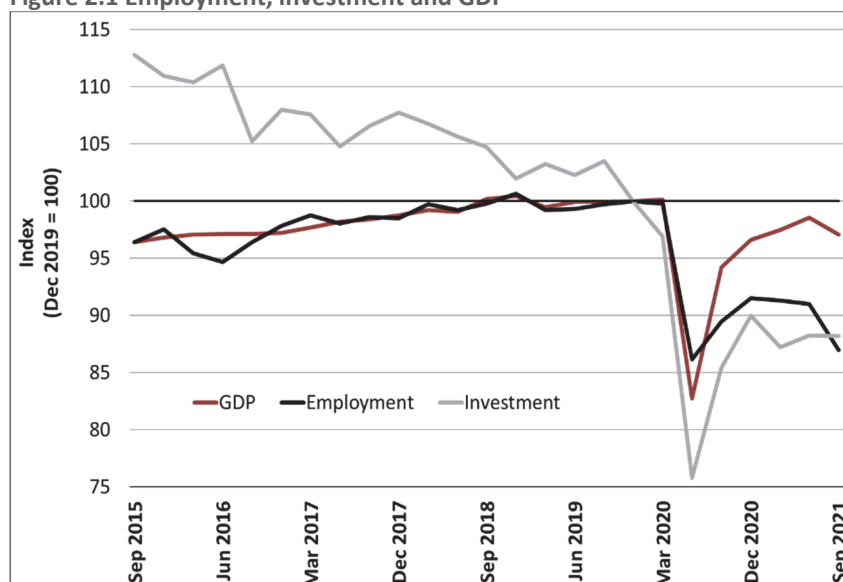


commodity price changes and emerging geopolitical risks also contribute to elevated uncertainty over the medium term. The initial recovery in economic growth during 2021 was not matched by higher employment or investment, and the slow take-up of vaccinations leaves the country vulnerable to new waves of COVID-19 infections. Real GDP growth of 2.1 per cent is projected for 2022, and growth is projected to average 1.8 per cent over the next three years.



Government's previously announced economic reforms are under way, though at an uneven pace. More rapid implementation of these reforms, complemented by fiscal consolidation to provide a stable foundation for growth, will ease investor concerns about South Africa, and support a faster recovery and higher levels of economic growth over the long term. Reducing regulatory constraints, providing effective services, and coordinating and sequencing economic interventions will bolster public and private investment, which will, in turn, increase resilience and support economic transformation.

Figure 2.1 Employment, investment and GDP



Source: Statistics South Africa

Creating a durable and resilient economy



In the recent State of the Nation Address, the President noted that “the key task of government is to create the conditions that will enable the private sector – both big and small – to emerge, to grow, to access new markets, to create new products, and to hire more employees”. Reforms that promote growth and employment are needed to build on the recovery observed over the past year. These include interventions to stimulate demand through investment in infrastructure, complemented by employment programmes and social transfers that will boost household consumption. Modernising network industries will support an increase in the economy's productive capacity, boost electricity production and reduce the cost of doing business.

The 2021 MTBPS detailed notable progress on structural reforms through Operation Vulindlela, including lifting the registration threshold for

embedded electricity generation to 100 megawatts (MW), corporatising the Transnet National Ports Authority, implementing an eVisa system and overhauling the water-use licence system. Work is under way to expedite the approvals required to register embedded electricity generation plants, complete the analogue to digital migration and auction spectrum, and clear the backlog of water-use licences.

Progress on the economic recovery plan: Interventions to support growth

Energy security

In October 2021, the Minister of Mineral Resources and Energy announced 25 projects for the fifth bid window of the Renewable Energy Independent Power Producer Procurement (REIPPP) Programme, with a total contracted capacity of 2 583 MW. Proposals for the sixth bid window are expected to procure additional capacity of 2 600 MW. In total, the programme is expected to procure additional capacity of 6 783 MW, with investment of at least R128 billion over the medium term. In addition, the risk mitigation power projects that are ready to proceed can generate up to 800 MW. Embedded generation projects in the mining sector can produce an estimated 4 000 MW and various municipalities are securing an estimated 1 400 MW of their own power.

Aligning with the National Development Plan's infrastructure goals

Government is prioritising 55 new infrastructure projects with an investment value of R595 billion that will significantly boost long-term GDP growth. One-third of the 62 strategic integrated projects gazetted in 2020 are under construction or completed. The remaining projects, which are in the early stages of development, are receiving additional project preparation support. The Infrastructure Fund and Infrastructure South Africa will improve the scale, speed, quality and efficiency of growth-enabling infrastructure spending. The Infrastructure Fund is collaborating with other public agencies to prepare six projects with an investment value of R96 billion in higher education accommodation, social housing, telecommunications, water and sanitation, and transport.

Promoting industrial growth

In 2021, the steel, furniture and global business services masterplans were launched. The 2022 State of the Nation Address noted significant industry contributions in the sugar and poultry industries to increase investment, improve productivity and accelerate transformation. In the clothing industry, a number of retailers have announced localisation sourcing plans. Business, government and labour continue to work together to increase production and create jobs through these masterplans.

Transnet has developed partnerships with the private sector to address cable theft and vandalism on the freight rail network through advanced technologies and additional security personnel.

Strengthening enabling conditions

A team tasked with cutting red tape has been set up in the Presidency to identify priority reforms for the year ahead, including mechanisms to ensure government departments pay suppliers within the required 30 days. It will support current initiatives to simplify processes relating to property registration, cross-border trade and construction permits.

The pandemic and the public violence in July 2021 took a severe toll on the labour market, with 2.1 million fewer jobs in the third quarter of 2021 than in the final quarter of 2019. There is a real risk that many of the jobs eliminated will not return. In addition, structural unemployment persists.

Reforms that lead to job creation and expand entrepreneurship would raise incomes and consumption expenditure over time, and lead to growth of the middle class. Post-COVID-19 recovery strategies have converged around job creation and income support. This includes stimulating the economy through public employment programmes and tax incentives, while implementing reforms that ease the skills constraint and make it easier to do business. In particular, a review of the policy framework and processes for work visas is under way. Labour-intensive, export-oriented sectors (such as tourism and agriculture) are receiving additional support. As confidence and investment rise, bolstered by reforms, employment is expected to recover.



Global outlook

After the resurgence of COVID-19 infections towards the end of 2021, the International Monetary Fund (IMF) lowered its expectation for global growth in 2022 from 4.9 to 4.4 per cent. Alongside new restrictions, elevated inflation, withdrawal of the US fiscal support package and the consequences of volatility in China's troubled real-estate sector have reduced growth projections.



A key risk is that new COVID-19 variants will prolong the pandemic and disrupt economic activity. Vaccination rates in developing countries are much lower than in their developed counterparts, and the emergence of new variants increases global vulnerability. There remains a high degree of uncertainty over the trajectory of the virus and policy responses.

The shape of the global recovery has exacerbated inequality across countries and sectors. By the end of 2022, developed countries will have returned to pre-pandemic output levels, but developing countries will not have fully recovered. In many cases, employment continues to recover more slowly than GDP.

Table 2.1 Economic growth in selected countries

| Region/country | 2020 | 2021 | 2022 | 2023 |
|--|-------------|------------|------------|------------|
| Percentage | Actual | Estimate | Forecast | Forecast |
| World | -3.1 | 5.9 | 4.4 | 3.8 |
| Advanced economies | -4.5 | 5.0 | 3.9 | 2.6 |
| United States | -3.4 | 5.6 | 4.0 | 2.6 |
| Euro area | -6.4 | 5.2 | 3.9 | 2.5 |
| United Kingdom | -9.4 | 7.2 | 4.7 | 2.3 |
| Japan | -4.5 | 1.6 | 3.3 | 1.8 |
| Emerging and developing countries | -2.0 | 6.5 | 4.8 | 4.7 |
| Brazil | -3.9 | 4.7 | 0.3 | 1.6 |
| Russia | -2.7 | 4.5 | 2.8 | 2.1 |
| India | -7.3 | 9.0 | 9.0 | 7.1 |
| China | 2.3 | 8.1 | 4.8 | 5.2 |
| Sub-Saharan Africa | -1.7 | 4.0 | 3.7 | 4.0 |
| Nigeria | -1.8 | 3.0 | 2.7 | 2.7 |
| South Africa ¹ | -6.4 | 4.8 | 2.1 | 1.6 |
| World trade volumes | -8.2 | 9.3 | 6.0 | 4.9 |

1. National Treasury forecast

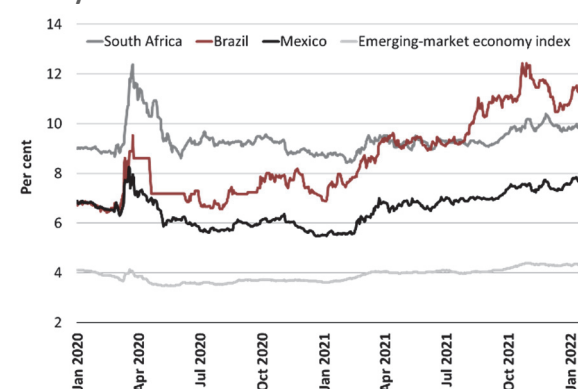
Source: IMF World Economic Outlook, January 2022

Inflation is proving more persistent than expected, particularly in the United States, as a result of disruptions to global supply chains and rising energy costs. In developed countries, consumer price inflation is expected to rise from 3.1 per cent in 2021 to 3.9 per cent in 2022. As supply imbalances diminish and monetary policy changes take effect, inflationary pressures are expected to start dissipating in 2023. In developing countries, consumer price inflation is expected to rise marginally from 5.7 per cent to 5.9 per cent in 2022, before falling to 4.7 per cent in 2023.

Prices in global equity markets declined towards the end of 2021 amid higher expected real interest rates, but remain relatively high as a result of strong corporate earnings. The IMF expects earnings to surpass pre-pandemic levels in most sectors in 2022. In 2021, global bond yields rose

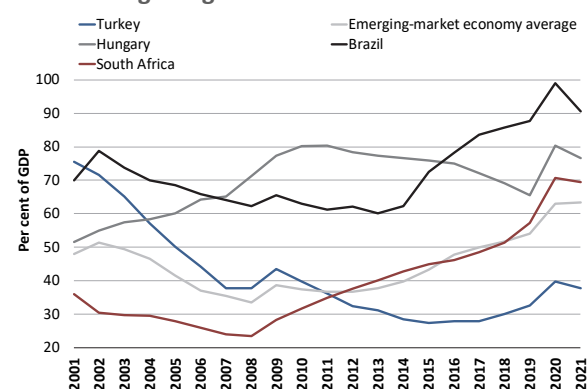
broadly in response to mounting inflation and expectations of tightening monetary policy. Low yields in developing countries have been supported by accommodative monetary policy in developed countries. As developed countries begin to raise interest rates, this will reverse. The US dollar strengthened significantly in 2021 on expectations that the Federal Reserve would raise interest rates, reinforcing rand depreciation that began in mid-2021.

Figure 2.2 Emerging market economies 10-year bond yields



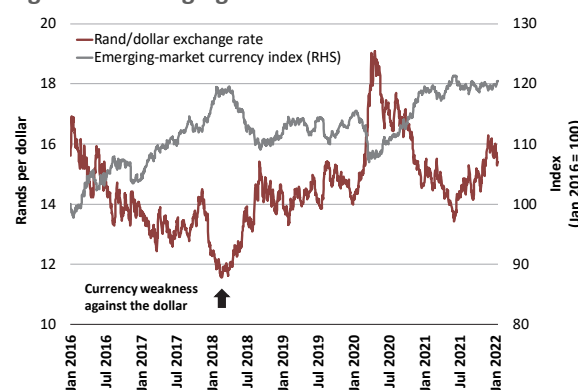
Source: Bloomberg

Figure 2.3 Emerging market and developing economies gross government debt-to-GDP ratios



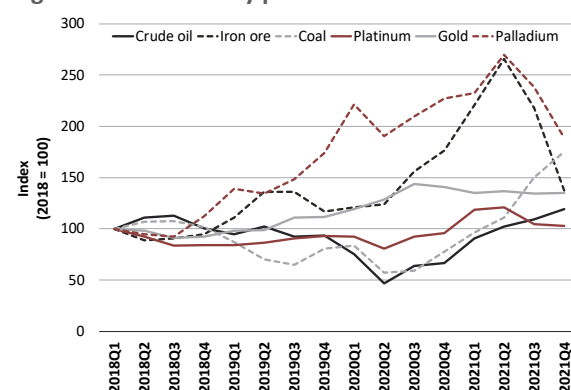
Source: Bloomberg

Figure 2.4 Emerging market currencies



Source: Bloomberg

Figure 2.5 Commodity prices



Source: IMF, Bloomberg, National Treasury calculations

Capital flows to developing economies, excluding China, have declined, posing a particular threat to highly indebted countries. Government debt-to-GDP levels in developing economies rose from 54 per cent at the end of 2019 to 63 per cent by the end of 2021. Tightening financial conditions put these economies at risk of financial stress and could slow their recovery.

While some major commodity prices declined during the second half of 2021, prices remain above pre-pandemic levels (final quarter of 2019) providing further support to commodity exporters. In the near term, a further easing in iron ore, platinum and palladium prices is expected. Conversely, oil and coal prices are expected to continue to increase in response to the recovery in demand. Over the longer term, easing coal and iron ore prices are expected to offset gradually rising precious metal prices.

Domestic outlook

The National Treasury projects real economic growth of 4.8 per cent in 2021 and 2.1 per cent in 2022, compared with 2021 MTBPS estimates of 5.1 per cent and 1.8 per cent, respectively. Real GDP growth is expected to moderate to 1.7 per cent in 2024. Although South Africa is still expected to return to pre-pandemic production levels this year, it is important to note that the economy was in recession before the outbreak of the pandemic – largely due to the impact of existing structural constraints.

Table 2.2 Macroeconomic performance and projections

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Percentage change | Actual | | | Estimate | Forecast | | |
| Final household consumption | 2.4 | 1.1 | -6.5 | 5.6 | 2.5 | 1.8 | 2.0 |
| Final government consumption | 1.0 | 2.7 | 1.3 | 0.3 | 0.4 | -2.0 | -0.8 |
| Gross fixed-capital formation | -1.8 | -2.4 | -14.9 | 1.2 | 3.2 | 3.8 | 4.1 |
| Gross domestic expenditure | 1.6 | 1.2 | -8.0 | 4.6 | 2.7 | 1.9 | 1.9 |
| Exports | 2.8 | -3.4 | -12.0 | 9.3 | 2.9 | 2.8 | 2.7 |
| Imports | 3.2 | 0.5 | -17.4 | 8.5 | 5.4 | 3.9 | 3.3 |
| Real GDP growth | 1.5 | 0.1 | -6.4 | 4.8 | 2.1 | 1.6 | 1.7 |
| GDP inflation | 4.0 | 4.5 | 5.3 | 6.7 | 1.5 | 3.3 | 4.4 |
| GDP at current prices (R billion) | 5 357.6 | 5 605.0 | 5 521.1 | 6 172.0 | 6 395.4 | 6 712.2 | 7 127.3 |
| CPI inflation | 4.6 | 4.1 | 3.3 | 4.5 | 4.8 | 4.4 | 4.5 |
| Current account balance (% of GDP) | -3.0 | -2.6 | 2.0 | 3.8 | 0.3 | -1.2 | -1.5 |

Sources: National Treasury, Reserve Bank and Statistics South Africa

Employment



The official unemployment rate breached a previous high yet again in the third quarter of 2021, reaching 34.9 per cent. The labour market came under strain amid renewed COVID-19 lockdowns and the outbreak of public violence in July. Of the 660 000 jobs lost in the third quarter, 309 000 were in the trade sector (retail trade, wholesale trade, motor trade, catering and accommodation), which was severely affected by the July violence. Trade sector employment fell to the lowest level since the Quarterly Labour Force Survey began in 2008. The lingering effect on sentiment may weigh on job prospects through 2022.

These events aggravated longstanding problems in the labour market. More than three-quarters of jobless people (78.5 per cent) are in long-term unemployment – defined as unemployment for a year or longer. Job losses continue to be more pronounced in lower-skilled occupations, including sales and services, craftspeople, clerks and elementary workers – many of which were highly sensitive to the pandemic restrictions.

There remain 2.1 million fewer people employed in the third quarter of 2021 compared with the final quarter of 2019. As such, government's reform agenda is crucial to foster growth and employment.

Household consumption

Household spending is estimated to have grown by 5.6 per cent in 2021, following a contraction of 6.5 per cent in 2020. Spending levels were recovering until July, but fell in response to the public violence, and remain

below pre-pandemic levels. Consumer confidence declined, and retail operations and supply chains were severely affected.

Household consumption is expected to grow by 2.5 per cent in 2022. Over the next three years, it is supported by sustained growth in private-sector wages, growth in household credit extension and relatively low borrowing costs. Consumption is supported in the near term by the extension of the *special COVID-19 social relief of distress grant* in 2022/23, and a relatively mild fourth wave of infections followed by further easing of COVID-19 restrictions at the end of 2021. Nonetheless, a weak employment outlook and higher inflation are likely to limit the pace of recovery in 2022. Sustained GDP growth and job creation are needed for higher consumption.

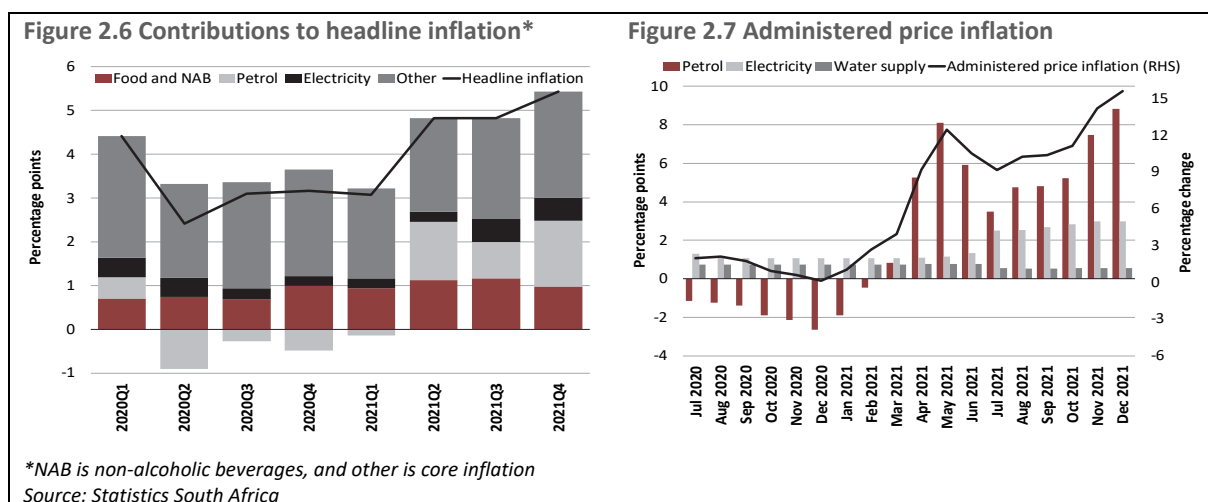


Inflation

Headline inflation is projected at 4.8 per cent in 2022 and 4.4 per cent in 2023. Food and energy prices – especially municipal rates from rising electricity prices, high domestic food inflation and elevated fuel prices – are expected to be the key sources of inflationary pressure in 2022.



Fuel prices were up 40.4 per cent in the year to December 2021 owing to higher global crude oil prices. Fuel prices are expected to ease during 2022, but remain elevated and above the 2019 average price level. Global supply-demand imbalances triggered an acceleration in the price of raw materials and intermediate inputs, which will continue to put upward pressure on consumer inflation.



Medium-term risks to the inflation outlook are to the upside, primarily as a result of price pressures from food and non-alcoholic beverages, along with petrol, energy and other administered prices. Although the forecast assumes 2022 and 2023 electricity prices rise in line with Eskom's application for a tariff increase in 2022/23, there is a risk that electricity inflation may exceed the assumption due to increasing costs of ensuring electricity supply.

Administered price reviews

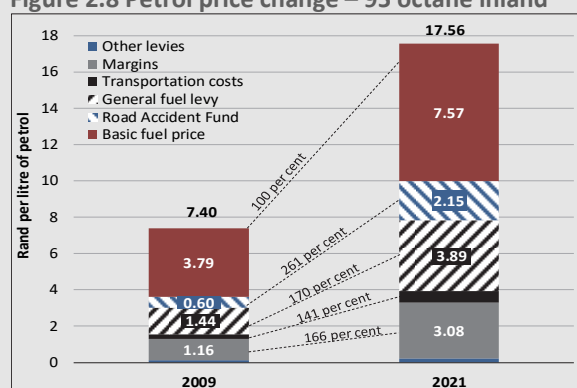
Government and regulators set many basic prices in South Africa. Rising prices affect the competitiveness of domestic firms and households' disposable income. The two largest components of administered price inflation – electricity and fuel prices – increased by an annual average of 8.2 per cent between 2011 and 2021, placing financial strain on households.

Regular reviews of prices and their underlying methodologies help policy makers understand inefficiencies in pricing models and additional costs imposed on society, and create incentives for competitive outcomes.

The fuel price affects a broad swathe of the economy, from public transport to road freight – and in turn consumer goods. Research on fuel price regulation¹ has found that a combination of regulatory amendments can reduce the petrol price by 103.82 cents/litre, increasing GDP by 0.67 percentage points, by 2028. These include amendments to the international component of the basic fuel price as proposed by the Department of Mineral Resources and Energy in 2018² (but not yet implemented) and changes to the methodology underlying regulated margins.

Since 2012, taxes and related levies for fuel have on average more than doubled as a share of the total fuel price. The National Treasury is considering reviewing the Road Accident Fund levy, as changes in the operational model are expected to improve the Fund's cash position by 2024/25. A comprehensive review of the fuel price could significantly reduce costs in the economy.

Figure 2.8 Petrol price change – 95 octane inland



Source: Department of Mineral Resources and Energy

1. Based on results from: Bohlmann, H. and Crompton, R. 2020. "The Impact on the South African Economy of Alternative Regulatory Arrangements in the Petroleum Sector". WIDER Working Paper 2020/153. Helsinki: UNU-WIDER. <https://doi.org/10.35188/UNU-WIDER/2020/910-5>.

2. Department of Mineral Resources and Energy. 2018. Discussion Document on the Review of the Basic Fuel Price (BFP) Structures for Petrol, Diesel and Illuminating Paraffin for Public Comment.

Investment



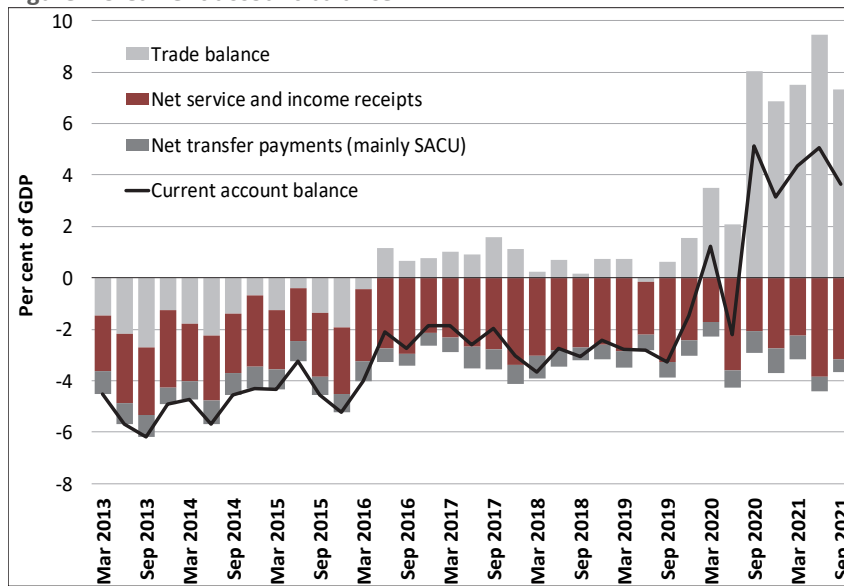
Gross fixed-capital formation contracted in the third quarter of 2021. As a result, investment remains about R84.6 billion below pre-pandemic levels – with private investment, the largest component of fixed-capital formation, accounting for 84 per cent of the shortfall. Renewed investment in fixed capital is vital to economic recovery and growth. Higher and more effective public-sector investment, specifically in network industries such as transport and energy, is needed to catalyse a sustained recovery.

Structural constraints, weak demand and low confidence are expected to weigh on private investment prospects in the short to medium term. As government stabilises and reduces its debt, real interest rates are likely to decline, creating more space for private investment. The rollout of energy infrastructure planned through the REIPPP, embedded generation projects and investment in bulk infrastructure will support both public and private investment over the medium term.

Balance of payments

The current account surplus as a share of GDP is expected to remain unchanged at 3.8 per cent in 2021, supported by a robust trade surplus, as the value of merchandise exports grew faster than imports. This was mainly due to a strong performance in mining, which accounts for just over 60 per cent of total exports – particularly iron ore, rhodium and coal. These net trade gains are expected to dissipate in 2022 as the prices of South African commodities ease over the short term and import volumes recover more substantially. The current account is expected to moderate to a marginal surplus in 2022 before moving into a deficit of 1.2 per cent and 1.5 per cent of GDP in 2023 and 2024, respectively.

Figure 2.9 Current account balance



Source: Reserve Bank

The balance on the financial account has been declining since 2019 due to diminished portfolio inflows. The deficit on the financial account narrowed to 2.1 per cent in September 2021.

Macroeconomic assumptions

Table 2.3 shows the macroeconomic assumptions underlying the forecast. The global demand index has been revised down in 2022, in line with the easing global growth outlook. The export commodity price index rose further in 2021 but at a slower pace than in 2020, due to some major commodity prices having eased in the second half of the year. The risk premium remains unchanged in 2021 before increasing marginally to 3.6 per cent in 2022 and 2023.

Table 2.3 Assumptions informing the macroeconomic forecast

| Percentage change | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---------|---------|----------|----------|---------|---------|
| | Actual | | Estimate | Forecast | | |
| Global demand ¹ | 2.3 | -3.5 | 5.5 | 4.4 | 4.2 | 3.3 |
| International commodity prices ² | | | | | | |
| Oil | 64.3 | 41.8 | 70.7 | 81.0 | 75.2 | 71.2 |
| Gold | 1 392.2 | 1 769.5 | 1 800.4 | 1 828.5 | 1 845.2 | 1 874.3 |
| Platinum | 863.6 | 883.3 | 1 091.5 | 1 036.9 | 1 046.2 | 1 058.2 |
| Coal | 71.3 | 65.2 | 125.6 | 146.1 | 120.2 | 113.2 |
| Iron ore | 93.6 | 108.1 | 157.6 | 119.3 | 119.0 | 117.6 |
| Palladium | 1 539.0 | 2 192.7 | 2 400.1 | 1 967.1 | 1 977.8 | 1 984.3 |
| Food inflation | 3.4 | 4.5 | 6.1 | 5.1 | 4.4 | 4.5 |
| Sovereign risk premium | 3.2 | 4.9 | 3.5 | 3.6 | 3.6 | 3.5 |
| Public corporation investment | -19.5 | -11.9 | 7.3 | 6.8 | 6.9 | 7.4 |

1. Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, January 2022)

2. Bloomberg futures prices as at 26 January 2022

Source: National Treasury, Bloomberg and Statistics South Africa

Risks to the domestic growth outlook



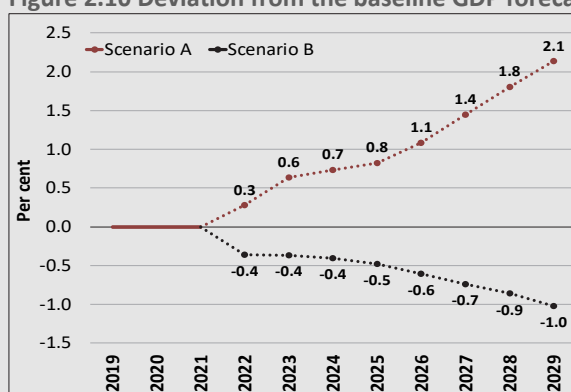
There are significant risks to the global and domestic outlook over the medium term. The evolution of the COVID-19 pandemic and slow progress in global vaccine rollout is a risk to the economic recovery, although the successful navigation of the fourth wave in South Africa has eased uncertainty. Global growth could slow more rapidly if supply-chain bottlenecks persist, leading to sustained price pressures and rising inflation expectations, or if Chinese growth slows. Faster interest rate increases could tighten financial market conditions and increase market volatility.

Economic scenarios

Scenario A: Economic reform. This upside scenario assumes that the fiscal consolidation is complemented by accelerated economic reforms. These include ensuring energy security, reducing red tape and lowering the cost of doing business through improved transport and communication infrastructure. These reforms help create an enabling environment for improved private-sector participation. Confidence levels improve, supporting a marked easing of sovereign risk and lowering economy-wide borrowing costs. These changes bolster private investment levels and consumer demand. GDP increases above the baseline forecast and is 0.7 percentage points higher by 2024 (Figure 2.10). The cumulative effect of these gains is compounded over the long term, raising potential growth.

Scenario B: Weaker global growth and more persistent global inflation. This scenario quantifies the impact of slower global growth and persistent inflationary pressures. Higher global inflation leads to a rapid tightening of monetary policy. Mounting risk aversion takes its toll, as South Africa's risk premium and borrowing costs increase and feed into economy-wide borrowing costs. This in turn reduces local business investment and erodes consumer purchasing power. As weaker global demand depresses exports and commodity prices, GDP averages 0.4 percentage points below the baseline between 2022 and 2024. The delayed recovery entrenches scarring from the pandemic and reduces long-term potential growth. The weaker exchange rate, higher input costs and imported inflation push CPI inflation to 5.1 per cent in 2022, moderating to 4.5 per cent by 2024.

Figure 2.10 Deviation from the baseline GDP forecast



Source: National Treasury calculations

In South Africa, supply constraints linked to raw material shortages, disruptions in global supply chains and elevated production costs could lead to higher consumer inflation. Unreliable electricity supply remains a serious constraint on domestic growth. The implementation of revised licensing thresholds and energy reforms may raise fixed investment and the economic outlook over the medium term.

A further deterioration in the public finances due to spending pressures and the materialisation of contingent liabilities could trigger additional credit rating downgrades, increasing borrowing costs and crowding out both private and public investment.

Sector performance and outlook

Agriculture

The agriculture, forestry and fishing sector grew by 3.3 per cent in real value added over the first three quarters of 2021 compared with the same period in 2020. Good summer and winter rains, coupled with favourable prices, will sustain a second consecutive year of growth despite the third-quarter contraction. Although summer field crops and horticulture expanded over this period, the livestock sector confronted several animal



disease outbreaks. Agriculture is expected to continue growing during 2022 in response to broadly favourable conditions. Trade and logistics disruptions, and ongoing animal-health concerns, are risks to the sector.

Mining

Despite energy and transport constraints, mining production has reached pre-pandemic levels and expanded by 14.6 per cent in the first three quarters of 2021 compared with the same period in 2020. The sector was largely supported by higher commodity prices and strong demand in the global economy. The mining recovery is moderating, however, and production is likely to moderate over the medium term in response to high input costs, electricity shortages, inadequate rail availability and regulatory uncertainty.

Manufacturing



Manufacturing production increased by 10.3 per cent in the first three quarters of 2021 relative to the same period in 2020. Production remains well below pre-pandemic levels, with confidence indicators suggesting constrained business conditions, including supply chain disruptions and increased production costs. The sector is also susceptible to ongoing supply and logistical disruptions. The outlook remains subdued due to persistent raw material shortages and rising input costs. The effect of load-shedding and the three-week industrial strike in the steel and engineering sector will weigh on manufacturers in the short to medium term.

Construction

Growth in real value added in construction contracted by 1.5 per cent for the first three quarters of 2021, and its contribution to GDP has been negligible for four consecutive quarters. Despite rebounds in both the FNB/BER Composite Building Confidence Index and the Civil Construction Index from historic lows in 2020, confidence is muted. Construction has a high employment multiplier so its persistent poor performance will inhibit job creation. Project disruptions due to lawless behaviour, slow tendering processes, high labour turnover, low productivity and poor skills continue to inhibit performance.

Electricity

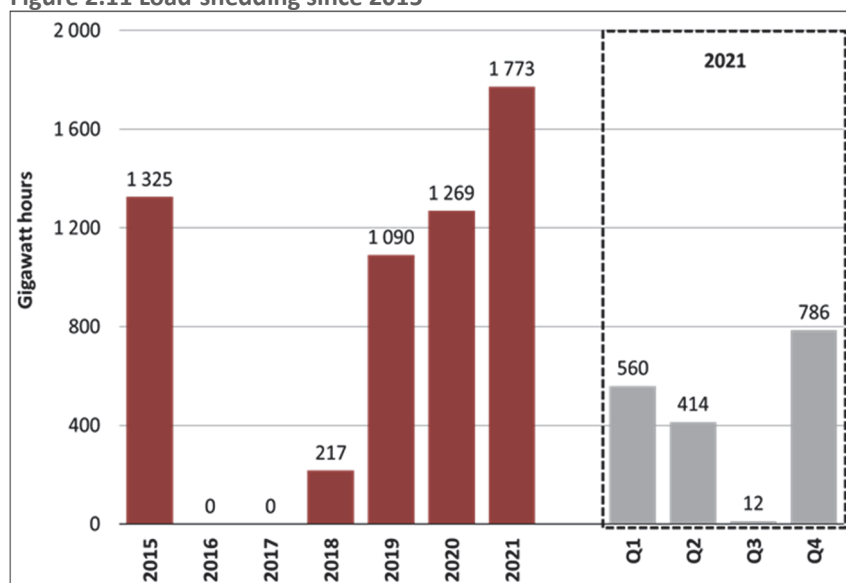


Gross value added in the electricity, gas and water sector grew by 4.1 per cent in the first three quarters of 2021 relative to the same period in 2020. Generation capacity remains constrained. The downward trend in generation capacity reflects the unpredictable performance of Eskom's coal-fired fleet, defects in new power stations and inadequate maintenance. The energy availability factor from coal-fired power stations – a measure of their reliability – has consistently declined, from 78.7 per cent in 2017 to 61.8 per cent in 2021.

Raising the licensing threshold for embedded generation and procuring new generation capacity in line with the Integrated Resource Plan 2019 will support higher investment, reduce pressure on the grid and lower the risk of power cuts over the medium term. However, inadequate electricity

supply remains a binding constraint to near-term GDP growth. Structural impediments – including rising tariffs, illegal connections and ageing infrastructure – will continue to weigh on performance.

Figure 2.11 Load-shedding since 2015



Source: Eskom and CSIR

Transport and communications

In the first three quarters of 2021, gross value added in the transport, storage and communication sector grew by 5.1 per cent relative to the same period in 2020. The sector's recovery was supported by improved freight transportation and passenger traffic and, in communications, continued demand for digital services for remote work. The communications regulator's decision to extend the provisional spectrum assignment will continue to support demand. Poor rail infrastructure and Transnet's logistical challenges – including locomotive availability, cable theft, rail vandalism and port delays – continue to weigh on the sector. Over the medium term, initiatives to improve port efficiencies and expand rail capacity such as third-party access, as well as the auction of spectrum, should create positive gains for the sector.



Finance and business services

In the first three quarters of 2021, the finance, real estate and business services sector recorded a 4.6 per cent expansion relative to the same period in 2020. Economic activity increased in financial intermediation, auxiliary activities and other business services. The continued resilience of the financial sector will depend on the speed and durability of post-pandemic growth. The exposure of domestic financial intermediaries to government liabilities remains elevated and may pose a risk to financial stability. Currently, the banking sector's holdings of these liabilities exceed regulatory requirements by 44 per cent, with much larger excess holdings in smaller banks.

Conclusion



Global uncertainties and an uneven domestic recovery will weigh on the economic outlook over the medium term. While the outlook for 2022 has been revised upward, persistent structural constraints continue to inhibit the pace of the recovery from COVID-19 and longer-term growth. Accelerated implementation of reforms is necessary to create jobs and encourage investment over the medium term.