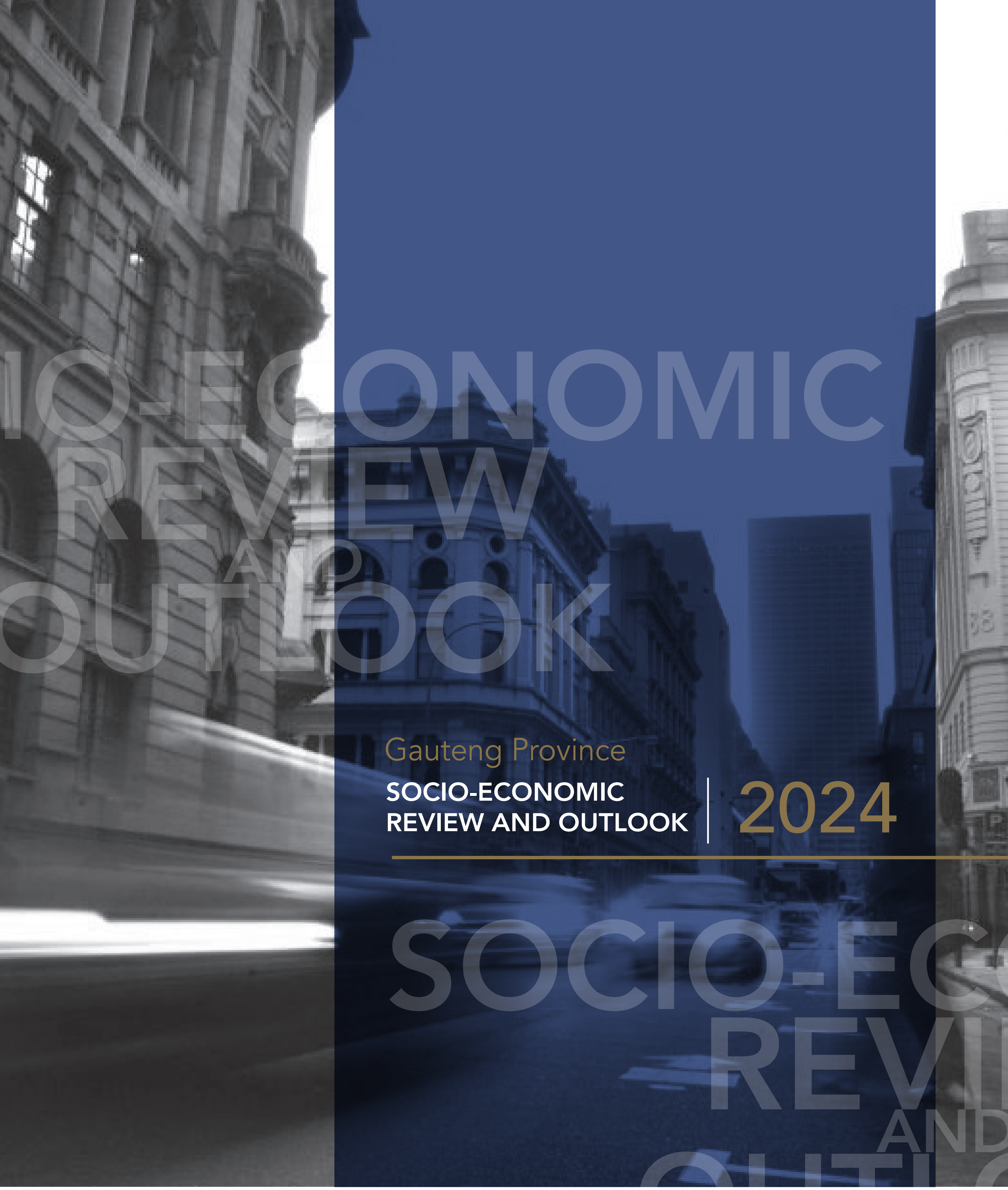

Gauteng Province

SOCIO-ECONOMIC REVIEW AND OUTLOOK 2024

GAUTENG PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

UNITY IN DIVERSITY

GGT2030
GROWING GAUTENG TOGETHER

SOCIO-ECONOMIC REVIEW AND OUTLOOK 2024

Gauteng Provincial Government

GAUTENG PROVINCE
TREASURY
REPUBLIC OF SOUTH AFRICA

The Socio-Economic Review and Outlook, 2024 is compiled using information from different sources. Some of this information is subject to revision.

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Foreword

The Gauteng Socio-Economic Review and Outlook (SERO) publication offers a comprehensive analysis of socio-economic indicators for the world, South Africa, Gauteng, and its municipalities. This marks the 17th edition of the SERO, concluding the 6th political administration. Given domestic constraints and external challenges, the current economic climate poses tough conditions for the fiscus. All levels of government must implement measures to restore public finances while safeguarding frontline services.

The International Monetary Fund (IMF) estimates global economic growth to have marginally slowed in 2023 compared to 2022. Despite challenges such as the pandemic, the Russia-Ukraine war, and inflationary pressures, economic activity has demonstrated resilience. Consumer inflation is decreasing faster than anticipated, indicating improvements in supply-side development. Global economic growth in 2024 is projected to remain steady, influenced by higher interest rates and the withdrawal of fiscal support due to elevated debt levels.

The subdued global economic performance extends to the domestic front, where economic activity is expected to have averaged 0.6 per cent in 2023. Growth is anticipated to rise to 1.3 per cent and 1.6 per cent in 2024 and 2025, respectively. However, projections for 2023 and 2024 have been scaled back due to persistent load shedding and port inefficiencies, impacting the country's fiscal position adversely.

In his 2024 State of the Nation Address (SoNA), the President emphasised the urgent need to implement structural reforms to boost economic growth. The government is working to resolve the most binding structural constraints to growth, which are the energy supply and logistics system. Resolving these constraints is crucial to unlock the full potential of the domestic economy.

During his 2024 State of the Province Address (SoPA), Premier Panyaza Lesufi reaffirmed the Gauteng Provincial Government's (GPG) commitment to addressing the province's socio-economic issues and fostering economic growth. The premier acknowledged the province's role in hosting the 5th South African Investment Conference, bringing about R22 billion in investments to the region, and creating opportunities for further development and growth. Additionally, over R2 billion has been dedicated to township businesses to stimulate economic opportunities and employment. Crime, is recognised as a significant impediment to economic growth and prosperity, has been prioritised at the core of the Gauteng' Provincial Government's (GPG) developmental agenda. Over the Medium-Term Expenditure Framework (MTEF), the province plans to increase the budget for the Department of Community Safety, enhancing its capabilities to combat crime in the region.

The analysis within the 2024 SERO delves into the factors influencing the economic and fiscal landscape of both the country and Gauteng. Comprising four chapters, the publication explores global developments, national economic performance, socio-economic review, and outlook of Gauteng and its municipalities. The information presented in the SERO aims to provide valuable insights for policy makers, empowering them to enhance the standard of living for Gauteng's citizens.

Finally, I extend my appreciation to, the Head of Department, Ms Ncumisa Mnyani, and her team at the Gauteng Provincial Treasury for their dedication in developing and finalising the 2024 SERO.

Jacob Mamabolo
MEC for Finance

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List of Abbreviations

BOP	Bank of Japan
CoE	City of Ekurhuleni
CoJ	City of Johannesburg
CoT	City of Tshwane
EAF	Energy Availability Factor
EAP	Energy Action Plan
ECD	Early Childhood Development
EMDEs	Emerging Markets and Developing Economies
Fed	Federal Reserve
FPL	Food Poverty Line
FY	Financial Year
GDP	Gross Domestic Product
GDP-R	Gross Domestic Product by Region
GFC	Global Financial Crisis
GFCF	Gross Fixed Capital Formation
GPG	Gauteng Provincial Government
GPT	Gauteng Provincial Treasury
GVA-R	Gross Value Added by Region
GW	Giga Watts
HDI	Human Development Index
IMF	International Monetary Fund
JET	Just Energy Transition
LAR	Labour Absorption Rate
LBPL	Lower Bound Poverty Line
LFPR	Labour Force Participation Rate
NDP	National Development Plan
MW	Mega Watts
MTEF	Medium-Term Expenditure Framework
NCOP	National Council of Provinces
NEET	Not in Education Employment or Training
NERSA	National Energy Regulator of South Africa
NSFAS	National Student Financial Aid Scheme
NTCSA	National Transmission Company of South Africa
OV	Operation Vulindlela
SARB	South African Reserve Bank
SERO	Socio-Economic Review and Outlook
SMMEs	Small Medium and Macro Enterprises
SoNA	State of the Nation Address
SoPA	State of the Province Address
Stats SA	Statistics South Africa
TNPA	Transnet National Ports Authority
TFR	Transnet Freight Rail
UBPL	Upper Bound Poverty Line
UK	United Kingdom
UNICEF	United Nations Children's Fund
US	United States

Executive Summary

The 2024 edition of SERO marks the end of the 6th Administration. The publication comprises four chapters, analysing the economic and fiscal context both globally and domestically.

Chapter One provides a global economic overview and examines policy developments affecting South Africa's economic performance. It explores emerging economic trends and past policy decisions impacting global economic prospects in 2024 and beyond. Despite the slow global economic expansion, positive factors like decreasing inflation, a robust US economy, and increased fiscal support in China could contribute to a speedy recovery.

The International Monetary Fund (IMF) expects global growth to have reached 3.1 per cent in 2023 and to remain unchanged in 2024. The slower growth is mainly attributed to advanced economies, which are experiencing a slight decline from 1.6 per cent in 2023 to 1.5 per cent in 2024. In contrast, emerging markets and developing economies (EMDEs) are expected to maintain a growth rate of 4.1 per cent in 2024, rising to 4.2 per cent in 2025.

The global economic outlook faces threats from emerging trade restrictions and fragmentation. Recent data reveals a significant increase in the number of global trade restrictions, surging to nearly 3 000 in 2022, up from just under 2 000 since 2010. The IMF has issued a warning, emphasing the imperative for countries to actively enhance global cooperation and economic integration. This proactive approach is crucial to safeguard against potential new shocks and effectively address the numerous global challenges, considering the probability of unforeseen shocks in the world.

Chapter Two provides an overview of South Africa's current economic environment, outlining the economic outlook, including expected budget cuts and rising debt levels. Additionally, it provides a socio-economic outlook for South Africa, with a specific focus on the potential demographic dividend and its impact on youth unemployment.

Economic growth saw an increase of 0.4 and 0.5 per cent in the first and the second quarters of 2023, respectively, before a decline of 0.2 per cent in the third quarter. Economic activity for 2023 is anticipated to have averaged 0.6 per cent and is projected to rise to 1.3 and 1.6 per cent in 2024 and 2025, respectively. The growth below 1 per cent is attributed to factors such as electricity supply shortages and logistical constraints. The country's budget deficit and debt-to-gross domestic product (GDP) ratio worsened due to low economic growth and the reversal of commodity revenue windfalls.

Over the years, progress has been made in poverty reduction, credited to growth in the social protection system, per capita GDP, and above-inflation wage increases. However, the impact of the 2008/09 global financial crisis, structural factors including low growth, misallocation of capital investment and economic concentration reversed this progress. In 2022, the food poverty rate reached 30.9 per cent, indicating that 18.9 million people in South Africa were living below the food poverty line.

Census results released by Statistics South Africa in 2022 revealed an increase in households with access to basic services between 2011 and 2022. Approximately 88 per cent of households had access to formal housing, up from 77.6 per cent in 2011, marking a 24 percentage points increase. Households with access to electricity increased from 84.7 per cent in 2011 to 94.7 per cent in 2022.

Chapter Three delves into the economic situation in Gauteng province, offering an analysis of vital economic sectors and a review of the labour market. Additionally, it examines the region's socio-economic indicators and evaluates their performance.

Economic activity in the province grew by 0.8 per cent and 0.6 per cent in the first and second quarters of 2023, respectively, before a 0.1 per cent decline in the third quarter. The decrease in the third quarter was driven by a decline in primary sector activities. It is estimated that economic activity in the province has slowed to 0.6 per cent for 2023, compared to the 2.3 per cent recorded in 2022.

Gauteng province boasts the largest labour force and labour participation rate, accounting for 24.3 per cent of the country's population. The unemployment rate in the province remained at 35.1 per cent in 2022, unchanged from 2021. Notably, the 15-24 age group had the highest unemployment rate at 65.3 per cent in 2023. In 2023, the finance sector, the largest contributor to the region's economy, employed he highest number of people at 23.5 per cent in 2023, with the community services sector at 22.8 per cent, and the trade sector at 21 per cent.

On the development side, data reveals that the percentage of the population living below the food poverty line has risen from 14.8 per cent in 2012 to 22.6 per cent in 2022. The percentage of people living below the lower-bound poverty line rose from

24.1 per cent in 2011 to 34.9 per cent in 2022. Additionally, the percentage of those living below the upper-bound poverty line has also increased by 10 percentage points, reaching 49.9 per cent of the total population over the same period.

Access to basic infrastructure services in Gauteng households improved between 2011 and 2022, with an increase in the number of households with access to formal housing from 79.8 per cent in 2011 to 88.5 per cent in 2022.

Chapter Four analyses Gauteng's municipalities, encompassing three metropolitan areas (metros), two district municipalities (districts), and six local municipalities. While each municipality has its own unique economic outlook, all are affected by national and international factors such as load shedding, geopolitics, weak global demand for goods and services, low commodity prices, and restrictive trade policies.

The City of Johannesburg (CoJ), the City of Ekurhuleni (CoE) and the City of Tshwane (CoT) experienced slower economic growth rates in 2022 compared to 2021. These metros grew by 2.9 per cent, 3.0 per cent and 2.7 per cent, respectively. The trend of moderating economic growth is expected to have continued in 2023, with growth rates of 0.8 per cent in CoJ, 0.7 per cent in CoE and -0.1 per cent in CoT

In the districts, Sedibeng's economic growth rate is anticipated to have declined from 2.7 per cent in 2022 to 1.5 per cent in 2023. Similarly, the West Rand experienced a growth rate of 0.8 per cent in 2022 and is expected to have slowed to 0.4 per cent in 2023.

Gauteng municipalities are grappling with high levels of unemployment in the labour market, as many people flock to these regions in the hope of finding jobs. Consequently, the metros recorded a high rate of unemployment with weak employment levels across all sectors in 2022.

Regarding socio-economic indicators, the population has increased in all three metros and the two districts in 2022. The human development index has shown improvement, along with the educational attainment of individuals aged 20 years and older, across all regions. Furthermore, there has been progress in access to basic services. However, poverty and inequality have remained stagnant, particularly between 2016 and 2022.

Chapter 1: A Steady Global Economic Recovery

1.1 Introduction

Global economic activity is anticipated to expand slowly in the coming years. Positive factors that could contribute to the recovery include, decreasing inflation, a strong United States (US) economy, and increased fiscal support in China. According to the International Monetary Fund (IMF), global growth is estimated at 3.1 per cent in 2023 and is forecast to remain unchanged in 2024. The slow expansion in global economic growth is primarily attributed to the performance of advanced economies, which are expected to experience a slight decline in growth from 1.6 per cent in 2023 to 1.5 per cent in 2024. In contrast, emerging markets and developing economies (EMDEs) are expected to maintain a growth rate of 4.1 per cent in 2024, rising to 4.2 per cent in 2025.

In 2024, advanced economies are expected to experience subdued growth, while EMDEs are anticipated to show improvement. In some emerging markets, interest rate cuts are anticipated due to reduced inflation, potentially boosting economic growth prospects. However, emerging markets still confront challenges, including high debt and financing costs.

This chapter covers an overview of global economic and policy developments that influence South Africa's economic performance. It analyses how emerging economic trends and previous policy decisions will impact global economic prospects in 2024 and beyond.

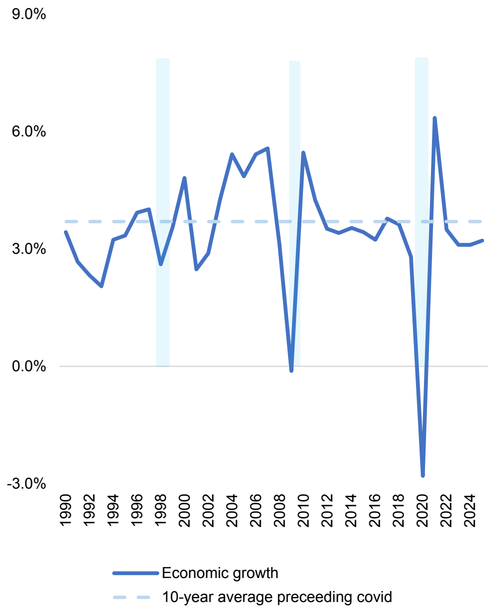
The chapter is divided into three sections. Section 2 delves into the challenging global economic environment and examines regional responses. Section 3 centres on the impact of increasing trade restrictions and fragmentation on global growth. Finally, section 4 evaluates the level of public debt in emerging markets and its implications for growth.

1.2 Factors Shaping Global Economic Activity

1.2.1 Broad-based Global Economic Slowdown

Global economic growth is showing signs of improvement, although the upturn remains fragile, at least by historical standards. Global growth slowed significantly in 2022, after a robust rebound following the pandemic shock in 2021. The swift rise in food and energy prices during 2022, driven by the Russia/Ukraine war propelled headline inflation to record highs in most countries, necessitating an aggressive tightening of monetary policy to curb inflation.

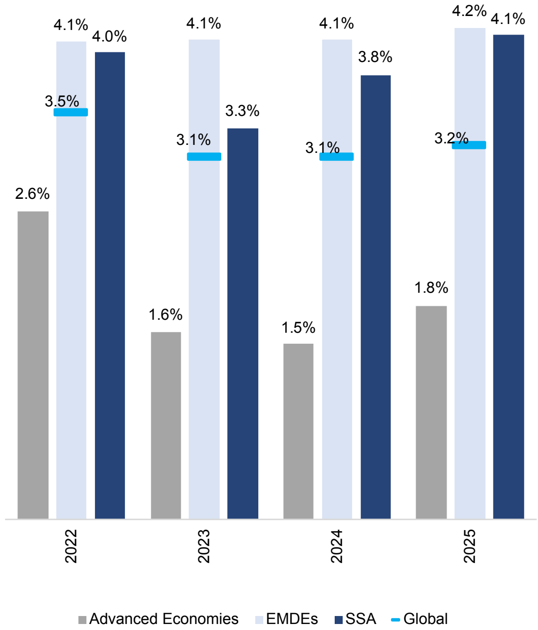
Figure 1.1: Historical Global Economic Growth and Impact of Shocks



Source: IMF's WEO October 2023
Notes: Estimates from 2023.

After rebounding by 6.3 per cent following the impact of COVID-19 in 2022, the global economy is estimated to have decelerated by 3.1 per cent in 2023, a rate significantly below the average growth rate of 3.7 per cent in the decade proceeding the COVID-19 pandemic. The fragility of the global economic recovery stems, in part, from inflation persisting more stubbornly than initially anticipated, the property crisis in China, (the world's second-largest economy) and the overall impact of the raising interest rates, which are increasingly being felt worldwide.

Figure 1.2: Global Economic Outlook by Region



Source: IMF's WEO October 2023
Notes: Estimates from 2023

After the COVID-19 pandemic, global economic activity was on a sturdy recovering, having accelerated to 6.3 per cent in 2021. The expectation was for this recovery to persists in 2022 and 2023, driven by global vaccination efforts and countercyclical economic policies in advanced economies. However, Russia's invasion of Ukraine in February 2022 had a profound impact, reversing much of the progress made earlier. The war exacerbated inflationary pressures and introduced new negative supply shocks for the world economy, thereby impeding the ongoing global economic recovery.

Supply chain disruptions worsened inflation due to the inefficiencies caused by time delays, labour shortages, and congestion on transportation routes, resulting in high-cost implications and raising prices for consumers. The war also had a significant impacted on the supply and pricing of global food commodities. Russia and Ukraine collectively account for 29 per cent of global wheat exports and 17 per cent of global corn exports. The surge in wheat prices not only affected the cost of bread and other wheat-based products, but also increased the cost of feed, subsequently driving up the prices of meat and dairy products. Energy prices were also affected, given that Russia is the world's third-largest oil exporter, reinforcing the inflationary pressures that began materialising in 2021.

Governments needed to intervene to shield consumers against the impact of higher energy prices, and central banks needed to take action by increasing policy rates to curb inflation. Despite headline inflation showing signs of easing in many economies, the underlying inflationary pressures persists, necessitating central banks to uphold a restrictive monetary policy. However, while this policy stance is deemed necessary, its effects are increasingly being felt broadly , placing strain on households' budgets and businesses and dampening consumer sentiment.

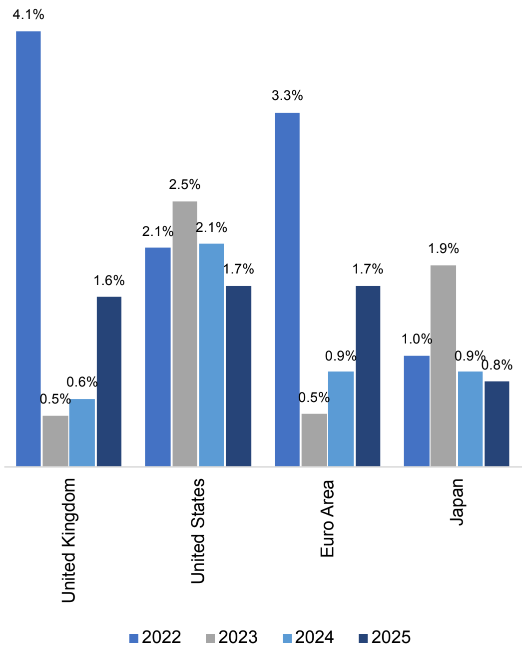
The global economic growth is now anticipated to have slowed to 3.1 per cent in 2023, down from 3.5 per cent in 2022. The forecast indicates that growth will persists at 3.1 per cent in 2024 before experiencing a moderate increase to 3.2 per cent in 2025. The deceleration in economic growth in 2023 is largely attributed to advanced economies more than EMDEs. Advanced economies saw growth decline to an estimated 1.6 per cent in 2023 from 2.6 per cent in 2022, while growth in EMDEs remained unchanged at an estimated 4.1per cent in 2023. The disparities in expected growth outcomes in regions underscore the widening global economic divergence, a phenomenon discussed in the following sections.

.

1.2.2 Advanced Economies

The anticipated slowdown in advanced economies is primarily attributed to weaker-than-expected growth in the Euro Area. Despite declining energy prices, the United Kingdom (UK) is also projected to undergo a significant deceleration in growth. However, the US economy is expected to offer some support, displaying stronger-than-expected momentum. Meanwhile, Japan's economy is predicted to have accelerated to 1.9 per cent in 2023 driven by strong domestic demand, up from 1 per cent in 2022, and is forecasted to slow to 0.9 per cent in 2024.

Figure 1.3: Economic Growth in Advanced Economies

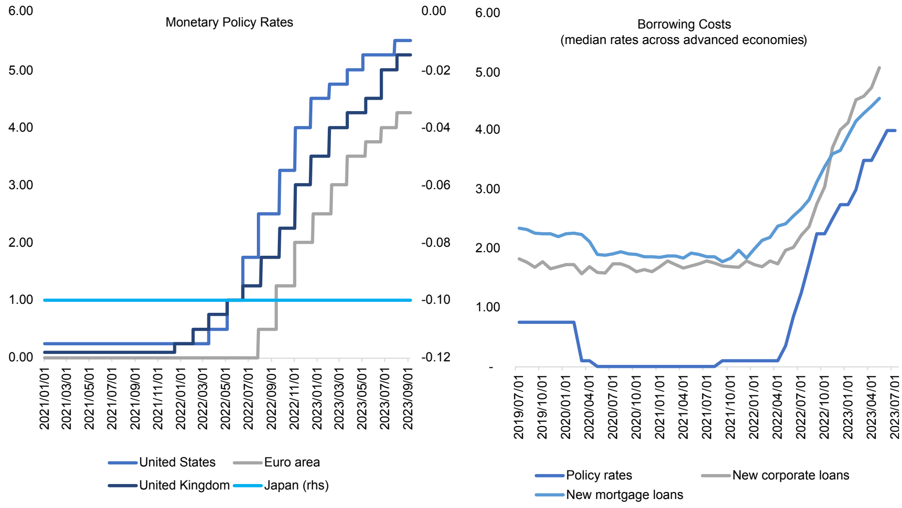


Source: IMF's WEO October 2023
Notes: Estimates from 2023

While there is divergence in economic growth among advanced economies, a common factor affecting this this group is the constraint on growth due to lingering impacts of high interest rates. The necessity for these high interest rates stems from the swift escalation of inflationary pressures, which led to tight monetary policy stance (as shown in Figure 1.4). These high rates are anticipated to persists well into 2025.[1]

1 IMF. World Economic Outlook: *Navigating Global Divergence*. Washington, DC.

Figure 1.4: Monetary Policy Rates and Borrowing Costs in Advanced Economies



Source: IMF WEO October 2023

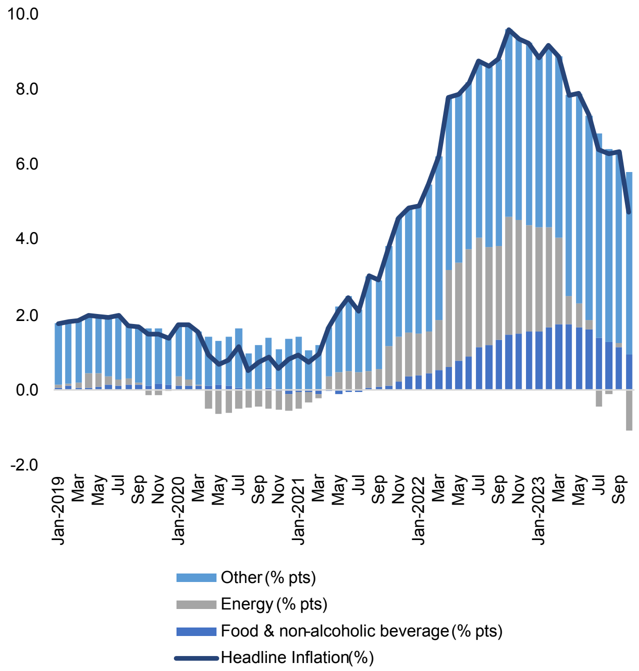
The implementation of a tighter monetary policy had led to more restrictive financial conditions, resulting in an increase in borrowing rates for both businesses and households. Currently, interest rates in most advanced economies are at their highest levels since the early 2000s. Specifically, in the US, interest rates have reached levels last observed in 2005, and in the UK, they have reached levels last recorded in 2007.

However, Japan's central bank has pursued a negative-rate policy since 2016 to revitalise the country's struggling economy. This has created a monetary policy divergence between Japan and other advanced economies, as illustrated in Figure 1.4. The Bank of Japan (BOJ) has maintained its ultra-loose monetary stance, making it an outlier among major central banks, which have raised interest rates since 2022 to control rising inflation.

United Kingdom (UK)

The modest growth in the UK in 2023 is primarily attributed to sluggish private and government consumption. Household income has weakened, exerting significant pressure on consumption, even though inflation has started to fall (as depicted in Figure 1.5). The lingering effects of higher interest rates will persist, further slowing activity in the housing market and exacerbating the already weak business investment.

Figure 1.5: Headline Inflation and Contributions



Source: OECD, 2023

Headline inflation remains at a high level, having reached 4.7 per cent year-on-year in October, and is anticipated to only return to 2 per cent target by the latter part of 2024. Even though inflation has started to recede on the back of falling energy prices, monetary policy is not expected to ease until the second half of 2024. Two cuts of 25 basis points are expected in the third and fourth quarters as core inflation converges towards the central bank's target.[2] Additionally, business investment is projected to remain subdued due to elevated borrowing costs and lingering uncertainty.

United States (US)

Real GDP is estimated to have grown by 2.5 per cent in 2023, with a forecasted growth of 2.1 per cent in 2024. The robust growth momentum in 2023 is attributed to stronger business investment in the second quarter and buoyant consumption growth, which accounts for 65 per cent of GDP, driven by a tight labour market. Although inflation is gradually improving due to falling energy and food prices, it remains persistently higher than expected. There is also consensus that the Federal Reserve (Fed) may have reached the peak in its interest rate hiking cycle. However, even with the gradual decline in inflation, it still exceeds Fed's target of 2.0 per cent . If it persists at a high level despite the economy's continued resilience, further monetary policy action may be necessary to bring it down to the target.

US growth is projected to slow to 2.1 per cent in 2024 as the labour market tightness eases and wage growth moderates. Demand is also expected to slow, reflecting an anticipated slowdown in employment, with the unemployment rate projected to gradually increase to about 4 per cent in 2024. Headline inflation is projected to slow to 2.7 per cent in 2024, approaching the 2.0 per cent Fed target.

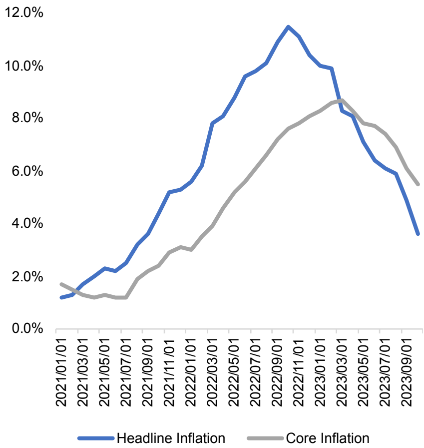
There is a potential risk to the projected growth of the US economy if inflation rises to a level requiring further interest rates increase. This could constrain the income of households and businesses. Conversely, if there is a higher demand for labour, it could lead to a faster decline in wage growth, prompting a quicker moderation of inflation and allowing the Fed to ease monetary policy earlier than anticipated.

Euro Area

Growth in the Euro Area is anticipated to have significantly decreased to 0.5 per cent in 2023, compared to its growth rate of 3.3 per cent in 2022. This decline is attributed to notable differences between countries, including a slight contraction in Germany in contrast to other robust Western European economies, such as France. The waning growth momentum in 2023 was driven by weak consumption and subdued external demand.

The Euro Area, heavily reliant on Russian energy imports, suffered the most from the Russia/Ukraine conflict, resulting in a sharp increase in energy prices and a substantial slowdown in economic activity. However, the impact of the war has been effectively contained, and headline inflation has receded from its peak of over 10 per cent in October 2022. Furthermore, fiscal measures have mitigated the declining real income of households by compensating for higher energy prices. Labour markets in the region remain tight, with rising wage growth and increasing wage demands in many countries.

Figure 1.6: Year-on-Year Inflation in Euro Area



Source: Bloomberg, 2023

2 OECD. (2023). *OECD Economic Outlook, Volume 2023 Issue 1, No. 113.* OECD Publishing, Paris.

While headline inflation has slowed, the underlying inflation dynamics remain robust. Core inflation, excluding food and energy prices, has increased at a faster pace than headline inflation, although the momentum is somewhat easing (refer to Figure 1.6). It is anticipated that the interest rate hikes have concluded, although monetary policy still maintains a restrictive stance.

The Euro Area is poised to experience an increase in economic growth in 2024, with a projected increase of 0.9 per cent. This can be attributed to a reduction in inflation, as pressures from food and energy prices are easing. Moreover, the global economic outlook appears more promising, expected to offer additionally support for growth in the Euro Area.

Japan

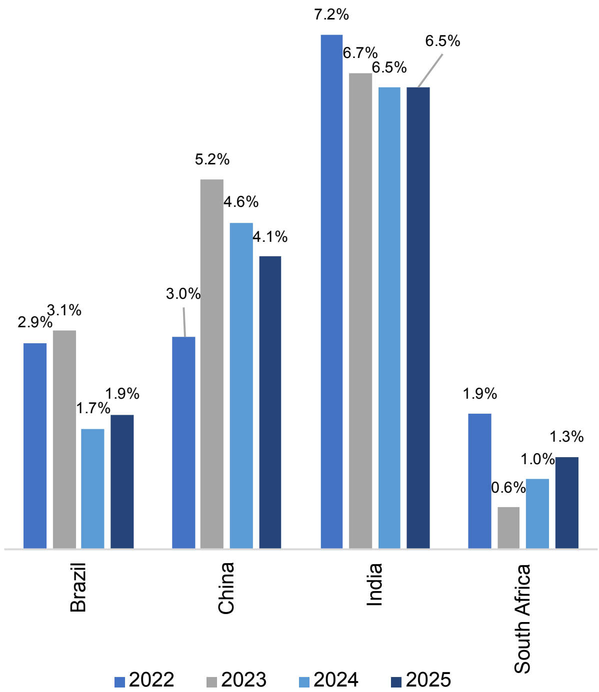
The Japanese economy is expected to have grown by 1.9 per cent in 2023, up from 1.0 per cent in 2022. The main drivers of economic growth in 2023 were strong domestic demand, a resurgence in inbound tourism activity, and accommodative policies, including government energy subsidies and negative interest rates. A rebound in exports in the automotive sector followed the easing of supply chain issues. However, the weak global economy has generally dampened external demand, with exports of goods and services anticipated to slow by 0.9 per cent (from 2.1 per cent) in 2023.

In comparison to other advanced economies, Japan experienced inflation later and has generally seen less of it. Despite inflation persistently being above the central bank's 2.0 per cent target, the Bank of Japan (BOP) has continued with a loose policy stance. It is expected that headline inflation will remain above the target in 2024. Wage growth is also expected to rise as labour markets tighten due to a slowdown in the rate of increase in female and senior workforce participation. As such, real GDP is projected to slow to 0.9 per cent in 2024.

1.2.3 Emerging Markets and Developing Economies (EMDEs)

The projection indicates that the most substantial global growth in 2023 would have originated from the EMDEs countries. These countries are anticipated to have experienced a robust growth of 4.1 per cent primarily propelled by India's strong performance and better-than-expected growth in Brazil, among other countries. Meanwhile, China's economy is expected to encounter challenges, particularly due to uncertainties in its property sector. It is predicted that the real GDP in the EMDEs will experience a slight improvement, reaching 4.1 per cent in 2024, driven primarily by India and other economies.

Figure 1.7: Economic Growth in EMDEs



Source: IMF October WEO, 2023

China

The Chinese economy is weighing on the global economic outlook, with its growth expected to slow to 4.6 per cent in 2024 from an estimated 5.2 per cent in 2023. This anticipated rate will mark the slowest growth in over three decades, excluding the pandemic-affected years of 2020 and 2022. Developers in the property sector are grappling with renewed financial pressures, leading to a decline in property prices and sales. [3] Fixed investment growth remained weak in 2023, largely due to a contraction in real estate investment and slower growth in infrastructure investment. Despite the government's various stimulus measures, such as lowering interest rates and deposit requirements for property purchases, consumer confidence remained weak, likely to impact private consumption in 2024.

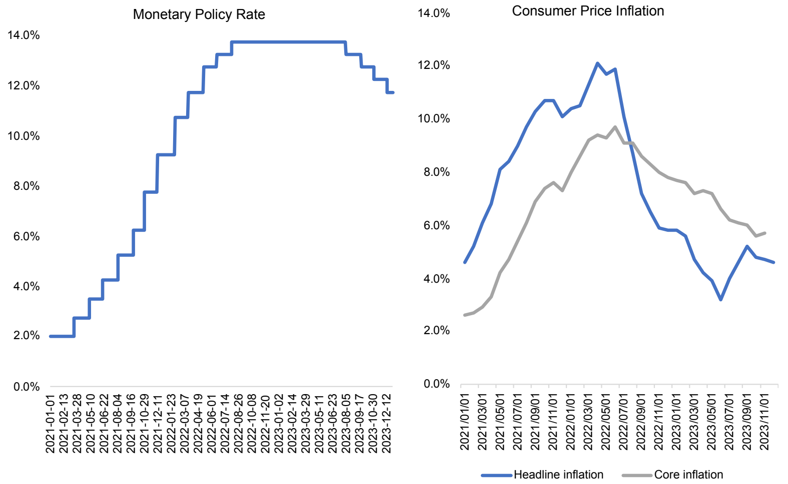
In an effort to stimulate the economy, the Chinese government adopted a rare fiscal stance in late 2023, issuing US$141 billion of additional sovereign bonds to finance infrastructure spending. However, growth is expected to decelerate further in 2025 to 4.1 per cent.

3 World Bank. (2024). *Global Economic Prospects*. Washington, DC.

Brazil

The economy of Brazil is anticipated to have expanded by 3.1 per cent in 2023, up from 2.9 per cent in 2022, propelled by robust performance in the agriculture and services sectors. Private consumption has also proven resilient, aided by fiscal stimulus. However, a slowdown is projected with growth expected to be 1.7 per cent in 2024, reflecting moderating agricultural harvests. Nonetheless, as both headline and core inflation gradually decrease, interest rate cuts are expected to provide additional support to investment prospects and consumption, thereby acting as a cushion for the economy.

Figure 1.8: Interest Rates and Consumer Price Inflation in Brazil



Source: Central Bank of Brazil and Bloomberg, 2024

Both core and headline inflation have seen a decline in 2023. The Central Bank of Brazil initiated interest rate cuts ahead of other emerging markets. In December 2023, the bank lowered its benchmark interest rate by 50 basis points, marking the fourth consecutive interest rate cut.[4] Due to the ongoing disinflation, additional cuts are expected, although the central bank has maintained a steady outlook for its upcoming meetings.

India

India's economic growth remained robust, estimated at 6.7 per cent for 2023 and is projected at 6.5 per cent in 2024. This growth is primarily driven by strong domestic demand, with fixed investment expected to continue expanding rapidly due to increased public infrastructure spending and strong credit growth in the private sector.

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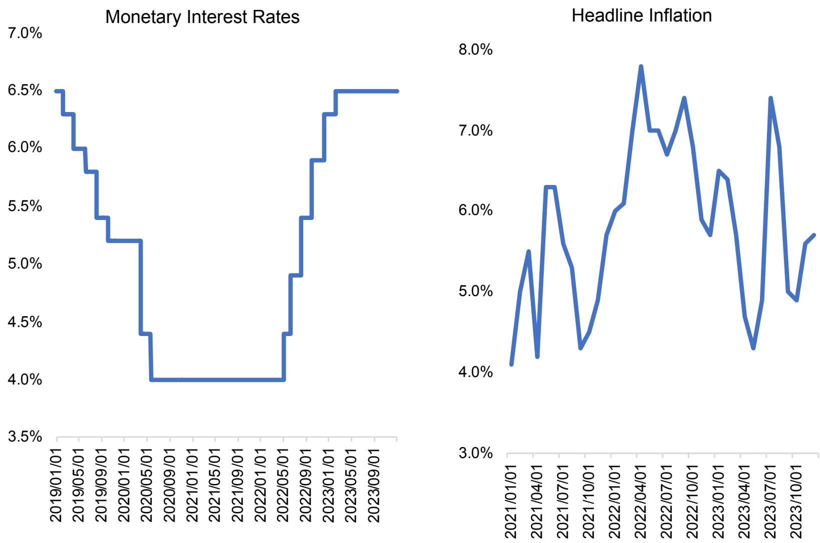
Figure 1.9: Interest Rates and Consumer Price Inflation



Source: Bloomberg, 2024

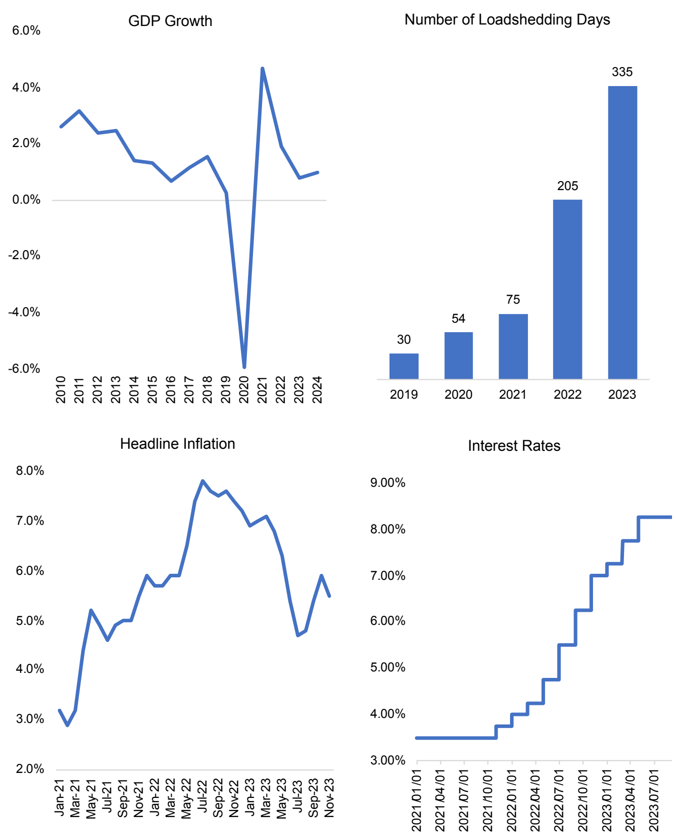
4 Reuters. (2023). *Brazil Central Bank Cuts Rates By 50 Bps, Signals Same Beyond January.* (Accessed on 10th January 2024). www.reuters.com.

Headline inflation continues to remain well above the Central Bank of India's target of 4 per cent and it is expected to persist well into the second half of 2024 due to high food and volatile oil prices. Consequently, it is likely that the central bank will be slow to cut interest rates.

South Africa

South Africa's economy grew by 1.9 per cent in 2022 but is anticipated to have slowed down to 0.6 per cent in 2023 due to the negative impact of electricity constraints on the supply side of the economy. Load shedding has reached unprecedented levels, significantly affecting the domestic economy in 2023.

Figure 1.10: South Africa's Economic Indicators



Source: Stats SA, The Outlier, SARB, 2023

The inflation rate has also been affected by food and oil price pressures. Consumer inflation started to decline in April 2023 (to 6.8 per cent) and continued to slow down throughout the year, reaching 4.8 per cent in August. However, inflation increased to 5.9 per cent in September, touching the upper end of the South African Reserve Bank's (SARB) target band. The main risks to the inflation target are the uncertainty surrounding the global economy and domestic constraints that increase the cost of doing business. These risks are likely to delay the start of the Reserve Bank's interest rate-cutting cycle.

In 2024, South Africa's economy is predicted to grow marginally by 1 per cent, reflecting domestic setbacks such as load shedding, Transnet's logistical infrastructure constraints, and the uncertain global economy.

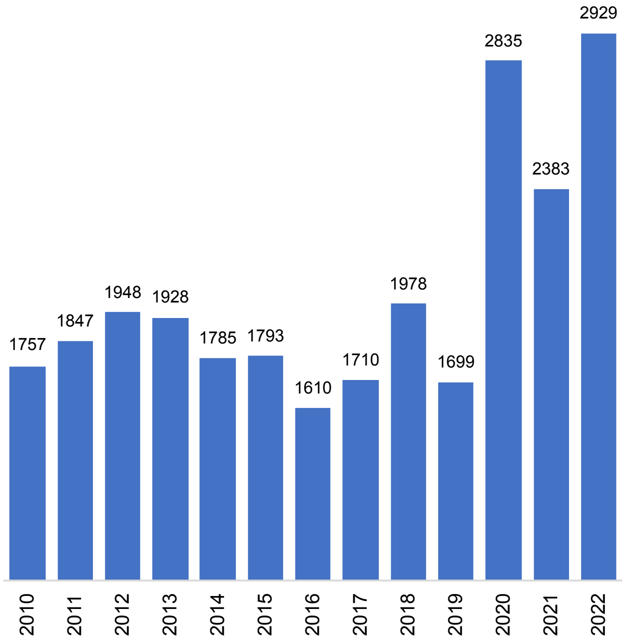
Overall, it is expected that in 2024-25, monetary policies will be more supportive of growth in EMDEs than in 2023. This is because inflation is projected to continue declining, and policy rates have already decreased in some EMDEs. As a result, domestic interest rates are expected to be lower, and real incomes are expected to improve, likely supporting both consumption and business investment in 2024.

1.3 Growing Trade Restrictions and Impact on Global Growth

The past decade has been characterised by various economic shocks, casting doubt on the progress and developments related to globalisation and economic integration. The global financial crisis (GFC) of 2008/09 was succeeded by the UK's withdrawal from the European Union (also known as Brexit), the US-China trade war, and various geopolitical conflicts. Just as the effects of these events on economic integration were starting to reverse, the occurrences of COVID-19 and the Russia-Ukraine war further heightened protectionism among economies.

This increased protectionism could lead to geoeconomic fragmentation, defined as a process of escalating barriers to trade and investment. Ultimately, this fragmentation may result in countries breaking into rival economic blocs and imposing greater restrictions on trade in goods and services.[5] With the world becoming more uncertain and experiencing increasing shocks, global cooperation among economies is crucial to strengthen the collaboration needed to protect against new shocks and address global challenges.

Figure 1.11: The Number of Trade Restrictions Imposed with No Removal Date



Source: Global Trade Alert, 2024

According to data from the Global Trade Alert database, there has been an increase in trade restrictions imposed by countries across different sectors, as seen in Figure 1.11. The total number of trade interventions imposed across various sectors has risen to nearly 3 000 in 2022 from less than 2 000 between 2010 and 2019.

The Cost of Trade Protectionism

Growing geopolitical tensions and national security concerns pose challenges for companies and policymakers aiming to share technology or integrate supply chains. These restrictions have significant cost implications for the global economy, undermining global cooperation and fostering protectionism. In the event of economic shocks, countries lacking technology and financial resources will be unable to bear the burden alone, impacting not only their domestic economies but also causing ripple effects worldwide.

The effects of geoeconomic fragmentation vary among countries, with the IMF estimating that restrictions on the flow of high-tech goods, services, and knowledge across countries could reduce global economic output by up to 7 per cent in the long term.[6] Trade barriers can also lead to severe disruption in commodity markets, creating food and energy insecurity. For instance, Russia's blockade of Ukraine's wheat exports resulted in a 37 per cent

5 Foreign Affairs. (2023). *The Price of Fragmentation: Why the Global Economy isn't Ready for the Shocks Ahead.* (Accessed on 23rd November 2023): www.foreignaffairs.com.

6 IMF Blog. (2023). *The High Cost of Global Economic Fragmentation.* (Accessed on 10th November 2023): www.imf.org.

increase in global wheat prices in 2022.[7] The fragmentation of capital flows would also impact global growth, prompting investors and countries to divert investment and financial resources to similar nations. The 2018-19 US-China trade dispute exemplifies the economic costs of trade restrictions, significantly impacting economic welfare by passing on tariffs to domestic consumers and importers, leading to increased input costs and fewer jobs.[8]

On a regional scale, the IMF simulations indicate that most emerging markets, including South Africa, will lose approximately 5 per cent of their GDP if trade restrictions deepen, while other emerging markets could face losses of over per cent of their GDP.[9] The losses for emerging markets are relatively higher compared to advanced economies given the latter's better access to technologies and know-how.

Regardless of the quantification of protectionism and fragmentation, the costs indicate lower global productivity growth, leading to reduced living standards, increased poverty, and diminished investment in social sectors and infrastructure. Emerging markets and low-income countries are likely to be significantly impacted.

Policy Mitigations

The global economy is susceptible to shocks, necessitating countries devise ways to mitigate the negative impact on their economies and citizens. Building economic buffers, such as international reserves, is one approach. Foreign currency holdings offer accessible sources of financing for countries when confronted by shocks. In addition to reserves, multilateral institutions should provide access to insurance mechanisms to complement individual countries.

Countries must also address the unsustainable accumulation of debt, particularly in emerging markets and low-income economies. More recently, rising interest rates and increasing economic challenges have left this group of economies grappling with a pressing issue of escalating debt levels. By the end of 2022, average debt levels in emerging market countries had reached 58 per cent of GDP, a significant increase from a decade earlier when that figure stood at 42 per cent.[10] Average debt levels in low-income countries had risen even more sharply over that period, from 38 per cent of GDP to 60 per cent. Reducing public debt is a crucial policy consideration to diminish a country's level of risk exposure.

In conclusion, while national security concerns may justify inward-looking policies, policymakers should steer clear of protectionism-driven measures that could harm the global economy.

7 Foreign Affairs. (2023). *The Price of Fragmentation: Why the Global Economy Isn't Ready for the Shocks Ahead.* (Accessed on 10th November 2023): www.foreignaffairs.com.

8 IMF. (2023). *Staff Discussion Notes: Geoeconomic Fragmentation and the Future of Multilateralism*. Washington, D.C.

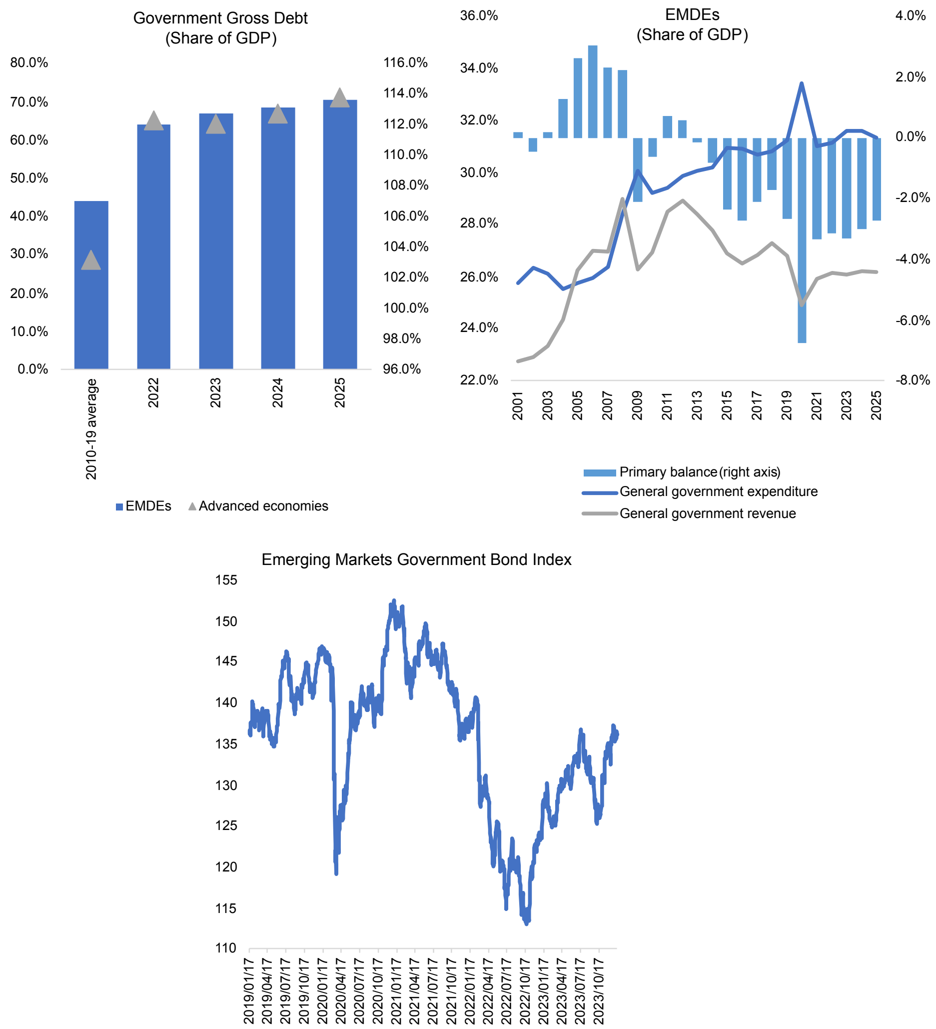
9 IMF. (2023). *Charting a Course through Rough Seas: How Emerging Markets Can Navigate Tougher External Conditions*. Keynote Address at the SARB Biennial Conference, September 1, 2023, by Gita Gopinath. (Accessed on 10th November 2023): www.resbank.co.za.

10 Foreign Affairs. (2023). *The Price of Fragmentation: Why the Global Economy isn't Ready for the Shocks Ahead.* (Accessed on 10th November 2023): www.foreignaffairs.com.

1.4 Government Debt in Emerging Markets and Implications for Growth

Over the past few decades, global public debt has been on the rise, a trend that has accelerated significantly due to multiple crises in recent years. Consequently, the global public debt has surged more than four times since the year 2000, outpacing the growth of the global GDP, which tripled over the same time. Developing countries constitutes nearly 30 per cent of the US$92 trillion global public debt recorded in 2022, with China, India, and Brazil contributing to approximately 70 per cent of this total.[11]

Figure 1.12: Fiscal Policy Indicators



Source: IMF and Bloomberg, 2024

Public debt has surged at a faster rate in EMDEs compared to advanced economies. Government gross debt in EMDEs rose from an average of 44 per cent of GDP before COVID-19 during the period 2010-19 to an estimated 67 per cent in 2023. While government debt in advanced economies also increased during the same period, it did so at a much slower pace in comparison to EMDEs. The significant increase in debt in emerging markets can be attributed mainly to the impact of the pandemic, climate change, and the effects of shocks on revenues as illustrated in Figure 1.12. Additionally, the need to shield the most vulnerable from the pandemic's effects has contributed to escalating debt levels.

Most countries in emerging markets entered the pandemic with limited fiscal space, making it challenging to sustain the numerous fiscal responses implemented during that period. The post-COVID-19 crisis, compounded by a cost-of-living surge and Russia's invasion of Ukraine further strained government budgets. The strain was more pronounced in emerging market economies and low-income countries with substantial portions of debt denominated in foreign currency.

11 United Nations. (2023). *A World of Debt. A Growing Burden to Global Prosperity*. (Accessed on 04th January 2024): www.unctad.org.

The concurrent currency depreciation and rising interest rates coupled with inflation, had a significant impact on borrowing costs. This left governments with higher interest bills and additional pressures to increase public spending, including wages (to cope with high inflation). Moreover, subdued economic activity and government policy responses maintained elevated public-debt-to-GDP ratios, while sovereign yields have widened, particularly in the first half of 2023 (excluding 2020 and 2021), leading to an increase in borrowing costs, as illustrated in Figure 1.12.

Consequently, the number of countries falling into or are at risk of debt distress has risen. According to the United Nations, the number of countries facing high levels of debt increased from only 22 countries in 2022 to 59 countries in 2023. [12] The World Bank also estimates that around 13 low-income countries and 23 middle-income countries have fallen into or are at high risk of debt distress.[13]

High levels of debt pose an emerging risk to global growth in 2024, especially in emerging markets. Elevated debt limits countries' abilities to spend money on essential public services and respond to unexpected events, such as external economic shocks. This constraint can impact the economies of emerging markets by reducing domestic demand and slowing economic growth, with potential spill-over effects on the global economy.

However, there is a positive sentiment regarding public debt in emerging markets, fuelled by the expectation of rate cuts in 2024. Receding inflation prompt some emerging markets to cut interest rates, typically preceding similar actions in advanced economies. This could improve economic growth prospects and lead to a decrease in bond yields.

1.5 Conclusion

The global economy is confronting various challenges linked to tighter monetary policy and stringent credit conditions. The world GDP is expected to expand by 3.1 per cent in 2024, unchanged from the 2023 growth rate. This will be largely driven by subdued economic activity in advanced economies, with growth forecasted to slow to 1.5 per cent in 2024 before rebounding to 1.8 per cent in 2025.

Conversely, economic activity in EMDEs is expected to improve due to anticipated interest rate cuts. The GDP of EMDEs is projected to rise by 4 per cent in 2024 and by 4.2 per cent in 2025. This positive outlook is attributed to the projected decline in inflation, coupled with already reduced policy rates in some EMDEs. Consequently, lower domestic interest rates and improved real incomes are expected to support both consumption and business investments in 2024. However, high debt levels, constraining government's fiscal space, remain a major risk to growth in emerging markets.

The global economic outlook is further threatened by emerging trade restrictions and fragmentation. Recent data reveals a substantial increase in the number of global trade restrictions, reaching nearly 3 000 in 2022, up from under 2 000 since 2010. In a world where shocks are highly probable, the IMF has issued a warning that countries must strive to strengthen global cooperation and economic integration to safeguard against new shocks and address global challenges.

12 United Nations. (2023). *A World of Debt. A Growing Burden to Global Prosperity.* (Accessed on 04th January 2024): www.unctad.org

13 World Bank. (2024). *Global Economic Prospects*. Washington, DC.

Chapter 2: South Africa's Socio-Economic Review and Outlook

2.1 Introduction

Consumer inflation has decreased globally, but economic activity is anticipated to decelerate due to central banks' focus on maintaining inflation within their target limits. In South Africa, the energy crisis and logistical constraints are expected to impact the economy, resulting in limited economic activity in the short term. The low economic growth has led to a decline in government revenue collection, with a projected revenue shortfall of approximately R56.1 billion in the 2023/24 Financial Year (FY). The budget deficit is estimated to average 4.9 per cent of gross domestic product (GDP) for 2023/23, while government borrowing is expected to slow to R428.5 billion by 2026/27FY. National Treasury has outlined a fiscal strategy to prevent a fiscal crisis and mitigation against systemic risks to the economy. However, this will negatively impact the government's ability to deliver on its social responsibility programs.

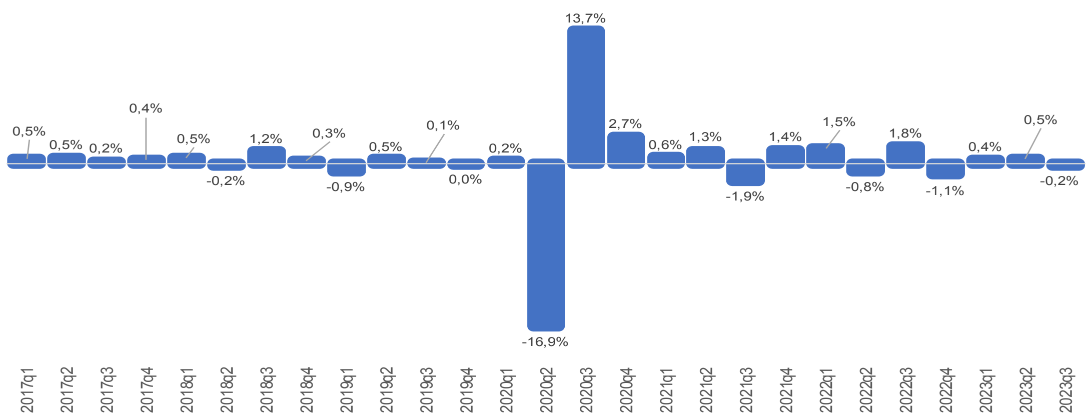
Despite a decrease in domestic consumer inflation since 2022, monetary policy remains restrictive, impacting household income and spending prospects. Overall, the domestic macroeconomic indicators remain unfavourable, and structural reforms are imperative to stimulate growth. Economic activity for 2023 is projected to average only 0.6 per cent. With this limited economic activity and structural challenges, revenue will likely remain lower than budgeted, adding pressure on the country's fiscal purse. Consequently, this chapter provides an overview of the current economic environment and outlines the domestic economic outlook, encompassing anticipated budget cuts and rising debt levels.

Section 2.2 of the chapter discusses the economic outlook of the country and the performance of different sectors amidst domestic challenges. The subsequent section, 2.3, focuses on investment, while Section 2.4 examines the performance of various economic sectors. In Section 2.6, the report explores the socio-economic outlook of South Africa, with a specific focus on the potential demographic dividend and its impact on youth unemployment. This section also assesses progress made in achieving the goals outlined in the National Development Plan (NDP). Finally, Section 2.7 analyses ongoing efforts to implement structural reform initiatives aimed at bolstering economic growth in both the short and long term.

2.2 The Challenging Economic and Fiscal Outlook

The domestic economy commenced 2023 on an encouraging note, registering growth for two consecutive quarters. However, the persistent issue of load shedding has led to a considerable decline in the economic activity forecast for 2023, and projections for 2024 are also being revised downward. This is expected to adversely affect revenue collection, with the National Treasury anticipating an under collection in the 2023/24FY.

Figure 2.1: Quarterly Economic Growth



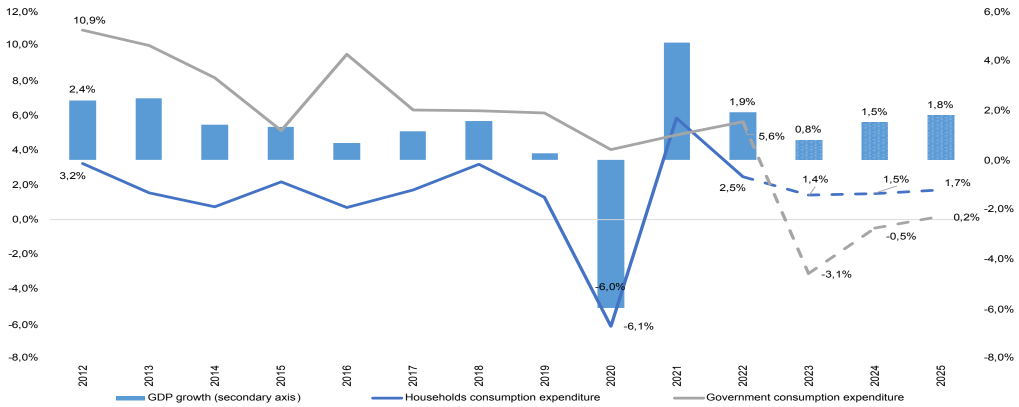
Source: Stats SA, 2023

Economic activity increased by 0.4 per cent and 0.5 per cent in the first and the second quarters of 2023, respectively, before declining by 0.2 per cent in the third quarter. This followed a decline of 1.1 per cent in the last quarter of 2022. Despite the two quarters of growth in 2023, both growth rates remained below the 1.7 per cent recorded before the COVID-19 pandemic.

The second quarter of 2023 saw improvements in the primary sector, with the agriculture sector growing by 4.2 per cent. The secondary sector also grew faster during that quarter, driven by performance of the manufacturing sector, which increased by 2.2 per cent during the same period. [1]

However, the contraction in the third quarter of 2023 was primarily due to a decline of 9.6 per cent in the agriculture sector. This decline was attributed to factors such as the avian flu outbreak and floods in the Western Cape, affecting field crops, horticulture, and animal products. The manufacturing sector declined by 1.3 per cent, and the construction sector decreased by 2.8 per cent.

Figure 2.2: Annual Economic Growth Performance and Outlook



Source: Stats SA, and SARB, 2024
Note: Estimates and forecasts from 2023

In 2023, economic activity is anticipated to have averaged 0.6 per cent, and is expected to rise by 1.3 and 1.6 per cent in 2024 and 2025, respectively.[2] The slowdown in economic for 2023 is attributed not only to load shedding and other supply-side constraints but also to the decline in government consumption expenditure by 3.1 per cent and the anticipated slowdown in household consumption expenditure, expected to reach 1.4 per cent in 2023, from previous year's 2.5 per cent. Household income limitations due to increased interest rates and the general rise in the cost of living have impacted consumer confidence, which, in return has remained low in 2023. This reflects the cumulative impact of 475 points increase in the repurchase rate.

The country's budget deficit and debt-to-gross GDP ratio have worsened due to low economic growth and the reversal in commodity revenue windfalls. The consolidated budget deficit is estimated at 4.9 per cent of GDP for the 2023/24FY, worse than the 4 per cent projection announced in the February 2023, and gross debt is estimated to increase from R5.2 trillion in 2023/24 to R5.5 trillion in the 2024/25FY, which is 74.1 per cent of GDP.[3]

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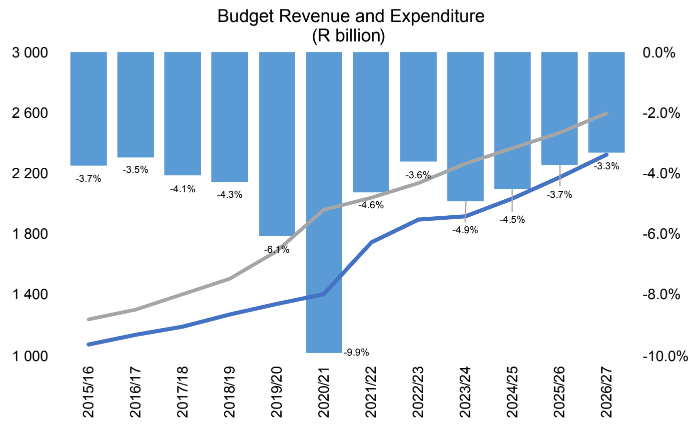
1 South African Reserve Bank. (2023). *Quarterly Bulletin September 2023*. Pretoria, South Africa.

2 South African Reserve Bank. (2024). *Monetary Policy Statement January 2024*. Pretoria, South Africa

3 National Treasury. (2024). *National Budget Review 21st February 2024*. Pretoria, South Africa.

Figure 2.3: Fiscal Indicators



Source: National Treasury, 2023

Note: Estimates and forecasts from 2023

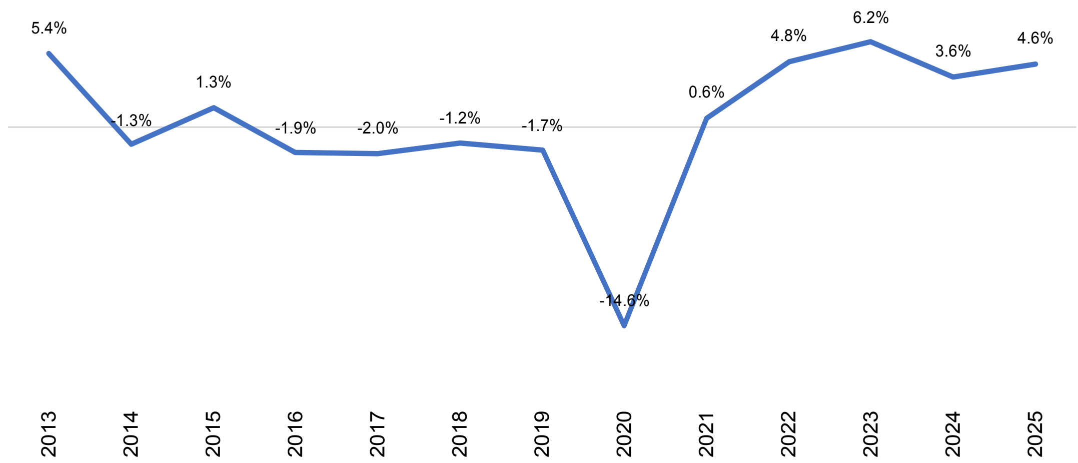
Following a slowdown to R1.409 trillion in revenue in 2020/21FY amid the effect of the pandemic, total revenue increased to R1.751 trillion in 2021/22FY and it reached R1.896 trillion in 2022/23FY. This growth was primarily attributed to higher commodity prices and increased mineral exports, leading to a rise in corporate tax revenue. Although tax revenue is estimated to have risen to R1.921 trillion for the 2023/24FY, it is R56.1 billion lower than the initial projection in the February 2023 Budget. Total tax revenue is forecast to reach R2.036 trillion by 2024/25FY.

The budget deficit as a proportion of GDP worsened in 2020/21FY due to the government's efforts to balance fiscal policies and mitigate the pandemic's impact on the domestic economy. This trend is expected to continue to persist throughout the review period, indicating a concerning financial situation for the country and its ability to manage the budget deficit. The projected economic growth is low, and there are challenges with domestic energy and port inefficiencies, which further hinder economic activity. The National Treasury has outlined a fiscal strategy to prevent a fiscal crisis and mitigate systemic risks to the economy as indicated earlier. [4]

2.3 Investment

The worsening state of public finances may hinder the government's ability to initiate other planned capital expenditure projects. This, in turn, may also affect municipal infrastructure grants as the fiscal resources continue to decline and so is infrastructure investment that is crucial for economic growth. However, investment, particularly from the private sector, will become a much-needed catalyst for growth as the energy crisis necessitates additional power generation capacity.

Figure 2.4: Gross Fixed Capital Formation



Sources: SARB, 2023

Note: Estimates and forecasts from 2023

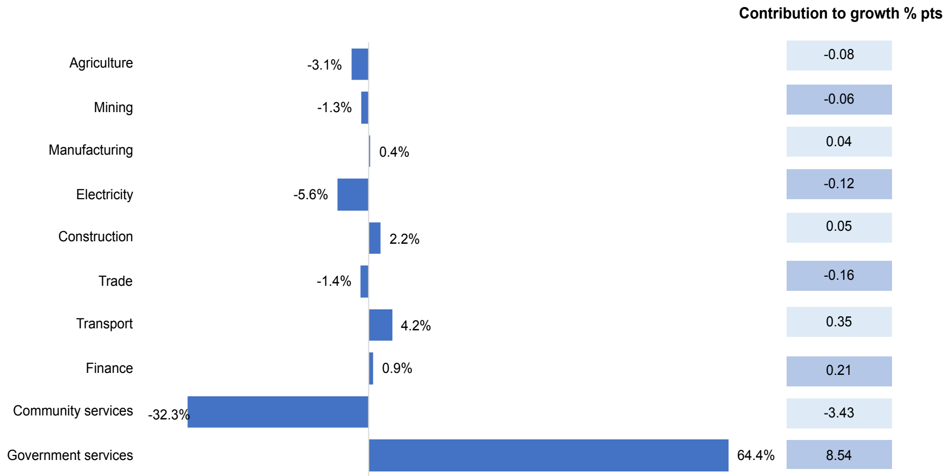
[4] National Treasury. (2023). *Medium Term Budget Policy Statement November 2023.* Pretoria, South Africa.

Gross fixed capital formation (investment) is expected to rise to 6.2 per cent in 2023 from 4.8 per cent in 2022. The first two quarters of 2023 saw investment rising by 3.9 and 1.8 per cent respectively, driven primarily by an upswing in private sector and public corporations' investments. However, in the third quarter, this trend reversed with a contraction of 3.4 per cent attributed to declines in investments in machinery and equipment. In 2024, factors such as high borrowing costs, weak global economic growth, and a challenging business environment are expected to impede investment growth, which is projected to slow to 3.6 per cent.

2.4 Economic Sectors Performance

Global economic performance, particularly among South Africa's major trading partners, has often had an influence on the performance of the domestic sectors of the economy. In the main, the performance of the domestic mining sector is subject to global commodity prices, and the decline in China's demand for minerals impacts domestic mining activity. Power outages and logistical constraints continue to affect production in mining and manufacturing sectors, while low generation capacity continues to weigh on the output of the electricity sector.

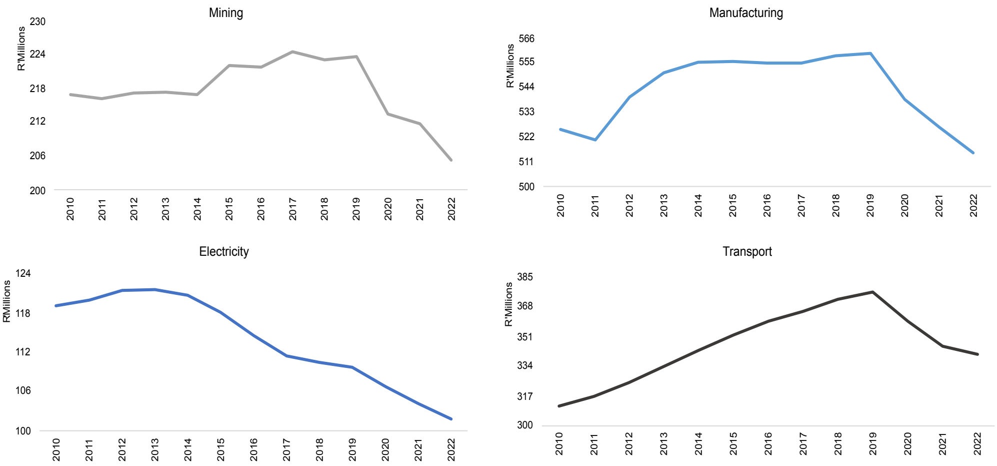
Figure 2.5: Sector Output Growth and Contributions in 2023



Source: Stats SA, 2023

In the first three quarters of 2023, manufacturing's value added increased only by 0.4 per cent compared to the corresponding period in 2022. Similarly, the value added by mining was 1.3 per cent lower in the first three quarters of 2023 compared to the same period in 2022. The electricity sector contracted by 5.6 per cent compared to 2022, reflecting low electricity generation capacity, resulting in frequent power outages. Notably, government services, construction, and transport sectors experienced growth in the first three quarters of 2023. The transport sector grew despite the ongoing challenges with rail and port services.

Figure 2.6: Impact of Structural Constraints on Key Sectors



Source: Stats SA, 2023

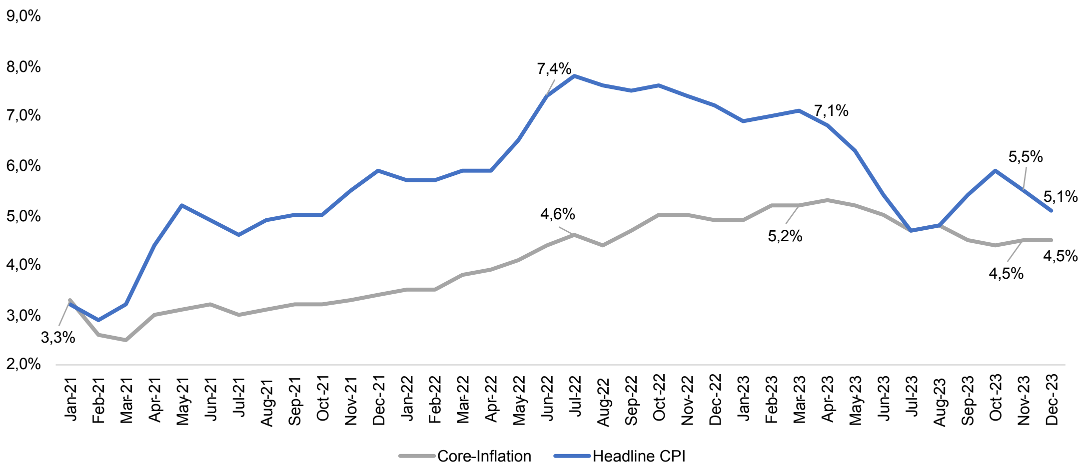
The domestic economy continues to grapple with chronic power outages and freight transport challenges, significantly impacting trade, particularly the exports of goods. The manufacturing, mining, and electricity sectors are specifically vulnerable to these challenges. The industrial sector, responsible for consuming approximately 51 per cent of the total energy supplied, has been adversely affected by load shedding, leading to negative impact on both total mining and manufacturing activities.

This means that load shedding has had a negative impact on both total mining and manufacturing activities. For the mining sector, the persistent energy crisis is felt in the processing, smelting and refining plants. Additionally, the sector relies on a stable energy supply to ensure the safe return of personnel from underground operations. For smelters, a sudden loss of energy can result in damage, as they require sufficient time to ramp down. The increase in electricity tariffs at the start of the 2023/24FY, is expected to have added further pressure to the sector, with operating costs anticipated to have increased by an additional 4 percentage points. Power outages are estimated to have led to a 6 per cent reduction in mining activity in 2022.[5]

2.5 Domestic Inflation

Domestic inflationary pressures eased somewhat since July in 2023, following a series of interest rates hikes that commenced in November 2021. However, despite the decrease in headline inflation rate, it continues to hover stubbornly high and uncomfortably close to the upper end of the inflation target range. Monetary policy remains broadly restrictive, with the repurchase rate remaining at 8.25 per cent, unchanged in four consecutive meetings. While headline consumer inflation recorded three consecutive months of increase since August, this trend has reversed with decreases in the months of November and December.[6]

Figure 2.7: Headline Consumer and Producer Inflation



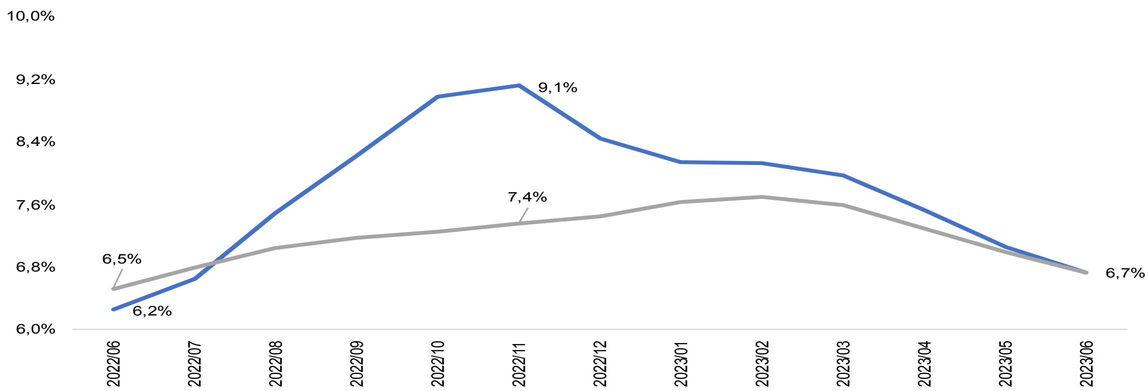
Sources: Stats SA and SARB, 2023

Headline inflation peaked at 7.8 per cent in 2022, driven by high oil and food prices, as well as supply-side constraints. Subsequently, oil prices have significantly eased, contributing to inflation returning to the South African Reserve Bank (SARB) target range at 5.4 per cent in June 2023. However, headline inflation began to rise again in August, mainly due to increasing food prices and services inflation. The average headline inflation for 2023 stands at 6 per cent, at the upper end of the target range. Meanwhile, core inflation is displaying signs of easing, having slowed to 4.4 per cent in October.

[5] Department of Minerals Resources & Energy. (2021). *The South African Energy Sector Report 2021*. Pretoria, South Africa

[6] South African Reserve Bank. (2023). *Monetary Policy Review October 2023*. Pretoria, South Africa.

Figure 2.8: Growth in Credit Extended to Private Sector and Households (3mma, y/y)



Source: SARB, 2023

A tighter monetary policy has significantly increased borrowing costs, affecting both households and businesses. Although there has been recent growth in credit extended to households, indicating increased credit uptake to supplement constrained incomes, the rate of growth in credit extension to both households and the private sector has slowed overtime, as illustrated in Figure 2.8.

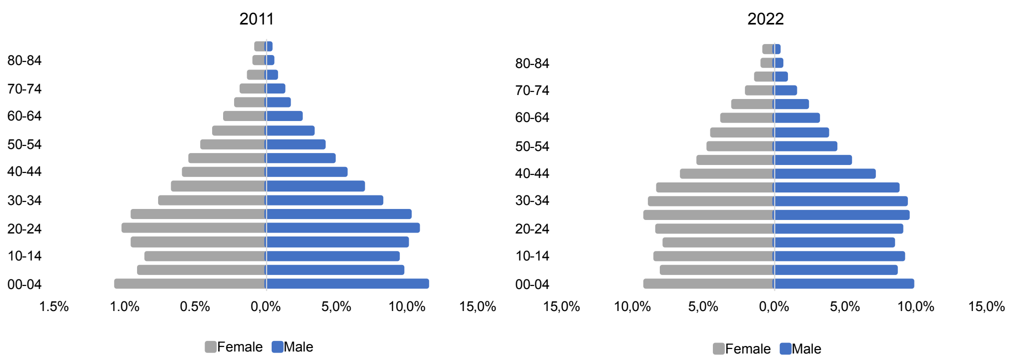
Credit extension to households and companies is expected to further slowdown, influenced by higher interest rates, weak economic growth, and a high unemployment rate. The rise in consumer inflation observed in August, September, and October, may add to the pressure on borrowing costs, as interest rates are likely to rise in the first quarter of 2024.[7] Consumer inflation to averaged 6 per cent for 2023 and is projected to reach 5 per cent by 2024. It is forecast to remain at the upper end of the target range throughout 2026 at 4.5 per cent.

2.6 Socio Economic Overview

2.6.1 South Africa's Potential Demographic Dividend and Youth Unemployment

South Africa's population remains relatively young and youthful, with a large part of the population concentrated in the ages of 00 and 14 as well as 15 and 34 years. In 2022, there were 16.3 million (26.4 per cent of the total population) people between the ages of 00 to 14, and about 21.6 million (34.8 per cent of the total population) people regarded as youth (15-34 years). The proportion of the youth population to the total population had decreased somewhat from the 37.6 per cent recorded in 2011. However, the number of youths in the country increased from 19.4 million in 2011 to 21.6 million in 2022. This indicates that the composition of the country's working age population is predominantly youthful, reflecting a youth bulge - a phenomenon where young people constitute a disproportionally large percentage of the population. [8]

Figure 2.9: South Africa's Population Structure



Source: Stats SA, 2023

7 South African Reserve Bank. (2023). *Quarterly Bulletin September 2023.* Pretoria, South Africa..

8 Statistics South Africa. (2023). *Census 2022.* Pretoria, South Africa.

Figure 2.9 shows a slight shift in South Africa's population structure between 2011 and 2022. Although the proportion of the youth population decreased marginally, the country still maintains a younger demographic that is expanding and contributing to a larger workforce. A young and expanding workforce can lead to economic growth, known as a demographic dividend. This occurs when there is a change in the age structure of the population due to declining fertility and mortality rates. However, for South Africa to fully harness the benefits of the demographic dividend, it must ensure that its growing population is educated and employed to realise its productive potential.

Despite concerted efforts to address this situation, South Africa continues to grapple with persistently high rates of youth unemployment, as detailed in the subsection below. A signification number of young South Africans are unable to secure employment due to inadequate education, compounded by the scarcity of job opportunities in the market. As such, unemployment remains a major challenge facing many young people in the country.

Labour Characteristics by Age Group

The population pyramid in Figure 2.9 shows that the working-age population constituted 62.8 per cent of the total population in 2011, and this increased to 72.5 per cent in 2022. Those aged 15 to 34 accounted for 34.8 per cent of the total working-age population in 2022, indicating that, the youth make up the highest share of the working age population. Due to low growth in economic activity, particularly in labour absorbing sectors such as manufacturing, most of this youth population is unable to find work. This challenge hampers the country's ability to leverage its youthful workforce for enhanced productivity.

Table 2.1: Labour Characteristics by Age Group

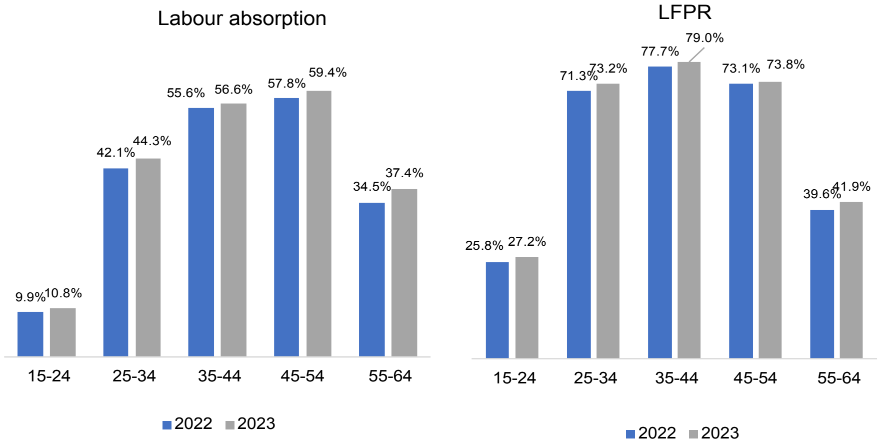
		2022		
('000)				
Age group	**Labour Force**	**Employed**	**Unemployed**	**Unemployment rate**
15-24	2 635	1 015	1 619	61,5%
25-34	7 457	4 406	3 051	40,9%
35-44	6 840	4 893	1 946	28,5%
45-54	4 767	3 766	1 000	21,0%
55-64	1 679	1 462	217	12,9%
Total	**23 378**	**15 544**	**7 834**	**33,5%**
		2023		
('000)				
Age group	**Labour Force**	**Employed**	**Unemployed**	**Unemployment rate**
15-24	2 782	1 105	1 677	60,3%
25-34	7 719	4 663	3 055	39,6%
35-44	7 081	5 072	2 010	28,4%
45-54	4 938	3 975	963	19,5%
55-64	1 809	1 613	196	10,9%
Total	**24 329**	**16 428**	**7 901**	**32,5%**

Source: Stats SA, 2023

Note: Data for 2023 is until the third quarter.

In 2022, of the total labour force, those aged between 25 and 34 accounted for 7.5 million, and this number increased to 7.7 million in 2023. This age cohort also had the highest number of unemployed people in both the review periods. The 35 to 44 age group had the highest employment rate, with 4.9 million employed individuals, which slightly decreased to 4.7 million in 2023. The age cohort with the highest unemployment rate was those between the ages of 15 and 24 at 61.5 and 60.3 per cent in 2022 and 2023, respectively. The high unemployment rate of this cohort can be partly explained by the fact that they are new job market entrants and have little to no work experience and still learning how the job market works. In the main, a huge proportion of the youth remains unemployed, struggling to find work opportunities and relying on social support, thereby exerting additional pressure on the already strained fiscal budget.

Figure 2.10: Labour Absorption and Participation



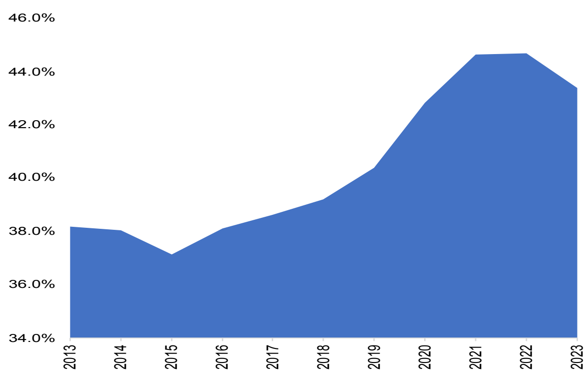
Source: Stats SA, 2023
Note: Data for 2023 is until the third quarter

Figure 2.10 shows both the labour absorption rate and the Labour Force Participation Rate (LFPR) by age groups for both 2022 and 2023. The absorption rate tends to peak among the 45 to 54 age cohort, attributed to their extensive experience and highest level of education. In 2022, about 57.8 per cent of the country's absorption rate was amongst those aged 45 to 54, and this increased to 59.4 per cent in 2023. The LFPR was the highest in the 35 to 44 age group at 77.7 per cent in 2022 and this increased to 79 per cent in 2023.

Youth Not in Education and Not in Employment

Over the past decade, the rate of South African youth between the ages of 15 and 34 who were not in education, employment, or training (NEET) has consistently remained above 30 percent and has worsened. The NEET rate is a crucial indicator of the labour market for young people and highlights the disengagement of this age group from the labour market. It also signifies that they are not actively enhancing their skill base through education and training.

Figure 2.11: The Proportion of Youth That is not In Education, Employment or Training (NEET)



Source: Stats SA, 2023
Note: Data for 2023 is until the third quarter

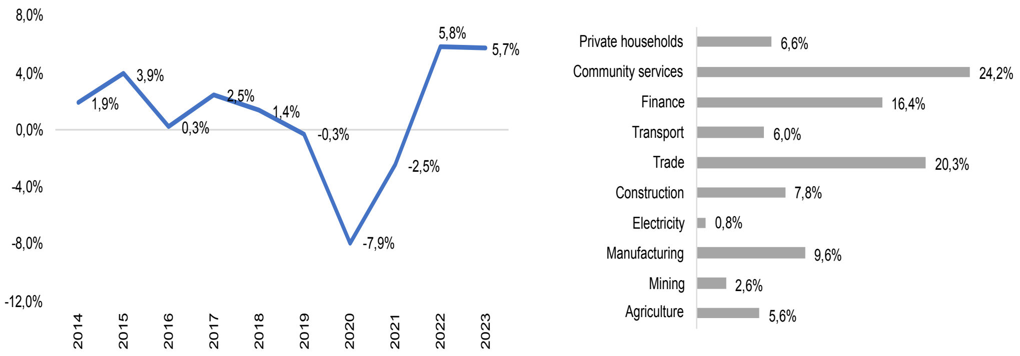
The proportion of young people NEET has been on the rise over the years. In 2013, the NEET rate stood at 38 per cent, but it increased to over 40 per cent in 2023, with some fluctuations in between. The rate of increase was particularly high during and after the COVID-19 pandemic, reflecting the negative impact that COVID-19 has had and continues to have on education and the job market.

A high NEET rate is a cause of concern, as it has the potential to undermine social cohesion and leads to political and economic tensions. This is because many young NEETs may become frustrated and impatient, which could result in social unrest and instability.

Employment Trends

Figure 2.12 illustrates the total employment growth and the share of employment by sector. The pandemic brought economic activity to a halt, leading to negative employment growth from 2019 to 2021. Nevertheless, there was an improvement as employment growth increased to 5.8 per cent in 2022, although it saw a slight decrease to 5.7 per cent in 2023.

Figure 2.12: Employment Growth and Sector Share



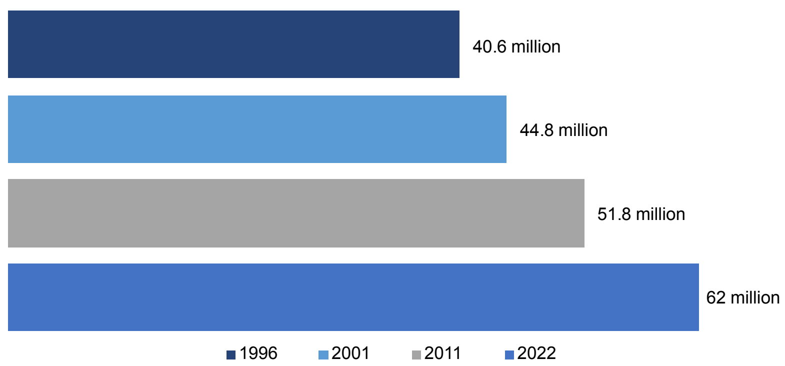
Source: Stats SA, 2023
Note: Data for 2023 is until the third quarter

In 2023, the community services (24.2 per cent), trade (20.3 per cent), and finance sectors (16.4 per cent) were the largest employers in the country. Manufacturing was ranked as the fourth highest employer at 9.6 per cent.

2.6.2 Other Population Dynamics

In 2022, South Africa's population reached a new record, surpassing 62 million people. Since the 2011 census, the country has experienced an average annual growth rate of 1.8 per cent.

Figure 2.13: Population of South Africa



Source: Stats SA, 2023

The country's population increased by 19.8 per cent or 10.2 million people between the 2011 and 2022 censuses population count. Between the 2001 and 2011 censuses, South Africa's population increased by 15.5 per cent, while between 1996 and 2001 censuses, the country's population increased by 10.4 per cent.

The breakdown of the total population by population group reveals that in 2022, 81.4 per cent of the country's population was Black, followed by the Coloured population at 8.2 per cent, while 7.3 per cent was White, and Indian at 2.7 per cent. Between 2011 and 2022, there was a 23.1 per cent increase in the Black population group, while the Coloured group rose by 9.5 per cent, and Indians increased by 31.9 per cent. Conversely, the White population group decreased by 1.8 per cent over the same period.

Figure 2.14: Population by Gender in 2022

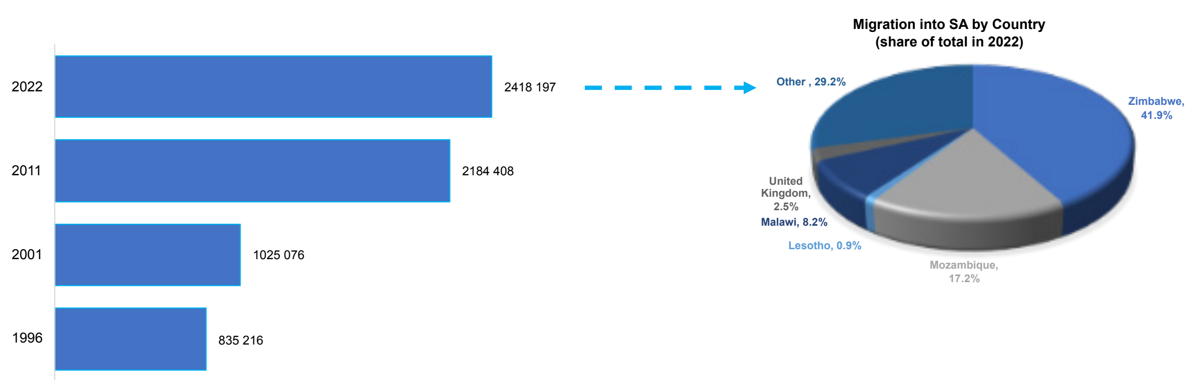
Source: Stats SA, 2023

The 2022 census revealed that females made up 51.5 per cent of the total population, while males accounted for 48.5 per cent. Compared to the gender breakdown in the 2011 census, there were increases of 19.4 per cent and 20.2 per cent for females and males, respectively.

South Africa Migration Patterns

Labour migration has played a significant role in South Africa's labour market during the 20th century. However, after the apartheid era, a new pattern of migrations emerged, bringing about different economic and developmental implications for both the sending and receiving countries. These implications range from remittances[9] sent back to countries of origin, leading to increased economic activities and reduce poverty levels, to contributing to human capital formation, as most of the income is spent on education and health. For receiving countries, the benefits include an increased supply of the labour force and access to different types of skilled labour. Nevertheless, an increased labour force supply may pose risks, especially when the country's economy cannot create sufficient employment opportunities for everyone. Therefore, analysing migration patterns is crucial for determining the population and labour structure of the country[10]

Figure 2.15: International Migration into South Africa



Source: Stats SA, 2023

The data presented in Figure 2.15 indicates the number of individuals residing in South Africa who were not born in the country and provides information on their countries of origin. According to the 1996 census, the number of people born outside South Africa was 835 000. However, this number increased significantly to 2.4 million in the 2022 census. Among the total number of migrants entering the country in 2022, the majority (41.9

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[9] Remittances refer to a sum of money sent in payment or as a gift from one party to another usually overseas. They are usually sent by foreign workers to their relatives in their home country.

[10] World Bank. (2011). *Impact of Migration on Economic and Social Development: A Review of Evidence and Emerging Issues.* Washington, DC. United States.

per cent) were from Zimbabwe, followed by 17.2 per cent from Mozambique and 8.2 per cent from Malawi. The United Kingdom contributed 2.5 per cent of international migrants, while Lesotho accounted for less than 1 per cent of the total..

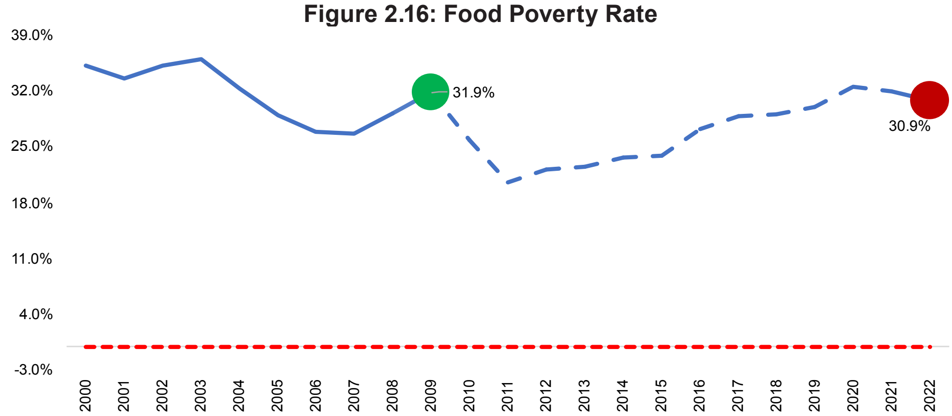
2.6.3 Progress on Poverty, Inequality and Education Goals of the National Development Plan

The National Development Plan (NDP) is the national policy and planning document, first published in June 2011 by the National Planning Commission. It is aimed at addressing three major challenges in the country; high levels of poverty, inequality, and unemployment.[11] The year 2022, marked the tenth year since the National Development Plan (NDP) 2030 was adopted by the country's parliament in 2012. Through the National Planning Commission of South Africa, a ten-year review of the NDP was conducted with the determination that, less than ten years are remaining to realize the objectives of the NDP by 2030.

Poverty Eradication

The NDP has set a goal to eliminate poverty and reduce inequality by 2030. To achieve this target, the economy must grow faster and inclusively. The objective is to double GDP growth to 5.4 per cent by 2030, which will contribute to the reduction of income inequality. The NDP aims to reduce the proportion of the population living below the income poverty line of R419 (in 2009 prices and R760 in 2023 prices) from 39 per cent in 2009 to zero by 2030. This implies that 31.9 per cent of the population currently falling below the food poverty line and unable to afford a basic basket of food will be lifted out of poverty, as shown in Figure 2.16.

Figure 2.16: Food Poverty Rate



Source: S&P Global, 2023

Some progress was made in reducing poverty levels in some years over the review period. The success was attributed to high levels of economic activity, growth in the social protection system, per capita GDP growth, above-inflation wage increases and access to finance for the country's growing middle class, among other factors.

However, due to the protracted impact of the 2008/09 global financial crisis, structural factors such as low growth, misallocation of capital investment and economic concentration, the poverty trend has reversed. In 2009, about 16 million people were living below the food poverty line (31.9 per cent of the total population), and this number has increased to 19.4 million in 2020. In 2022, the food poverty rate was recorded at 30.9 per cent of the population, meaning that 18.9 million people in South Africa are living below the food poverty line of R760 (in 2023 prices). This is far from the 2030 set target of zero poverty in South Africa.

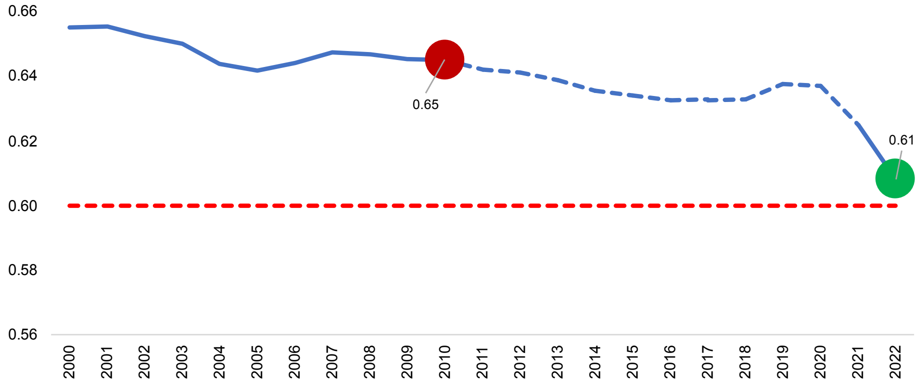
In order to achieve zero poverty by 2030, the NDP review suggests that GDP will need to grow significantly while reducing income inequalities. An integrated anti-poverty strategy is necessary to address the complex structural factors stemming from the apartheid system. Key strategies for eliminating poverty should prioritise increased access to economic opportunities for the poor and fiscal redistribution.

[11] National Planning Commission. (2023). *Ten Year Review of The National Development Plan 2012-2022.* Pretoria, South Africa.

Reducing Inequality

The NDP envisaged inequality, as measured by the Gini coefficient, to decline from 0.69 in 2010 to 0.60 by the end of 2030. South Africa is regarded as one of the most unequal countries in the world, with wealth inequality much larger and seemingly transferred from one generation to the next. The top decile of the country's population is estimated to own about 71 and 95 per cent of the nation's wealth, compared to the global averages of 55 and 65 per cent.[12]

Figure 2.17: Gini Coefficient



Source: S&P Global

The Gini coefficient, a measure of income inequality, generally shifts slowly and notably decreased between 2010 and 2018, declining to 0.63 in 2018 from 0.65 in 2010, before rising to 0.64 in 2020. Inequality fell to 0.61 in 2022, closer to the NDP target of 0.6 by 2030. Studies indicate that progressive taxation and social transfers are important in reducing existing inequalities, but they cannot address inequality in isolation from other measures.[13]

Educational Attainment

The NDP proposes that the primary education system should prioritise improving literacy, numeracy, and science outcomes until 2030. The goal is to increase the number of students eligible to pursue mathematics and science-based degrees at the university level, improve performance in international comparative studies, and retain more learners.

In recent times, there has been a noticeable improvement in Early Childhood Development (ECD), attributed to better access to books, a stronger focus on learner assessment, and clearer teacher instructions through a revised curriculum. For example, in 2022, 60.1 per cent of children aged between 0 and 4 years attended an ECD institution.[14] However, there has been no progress in the International Mathematics and Science Study since the first test was administered in 2015, and the results of the 2019 test showed no improvement.

Concerning post-school education and training, the budget for the National Student Financial Aid Scheme (NSFAS) has increased from R10 billion in 2017 to an estimated R52 billion in 2024. Despite this, the core funding for higher education infrastructure has been decreasing. Additionally, NSFAS funding does not prioritise the funding of key skills development that are in demand for the economy.[15] This includes skills in the information & technology, medical & health, and engineering sectors amongst others.

Access to quality education is essential for South Africans to reach their potential and take advantage of opportunities arising from economic growth.

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[12] National Planning Commission. (2023). *Ten Year Review of The National Development Plan 2012-2022.* Pretoria, South Africa.

[13] National Planning Commission. (2023). *Ten Year Review of The National Development Plan 2012-2022.* Pretoria, South Africa.

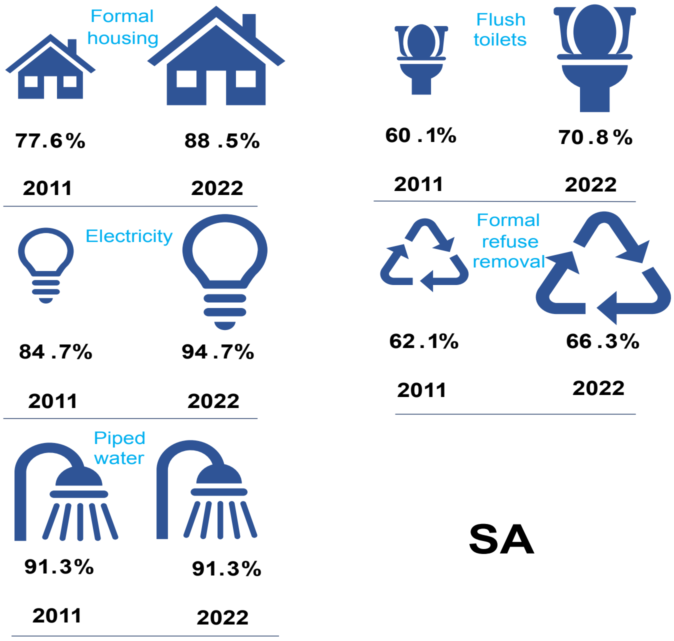
[14] Statistics South Africa. (2023). *Census 2022.* Pretoria, South Africa.

[15] National Planning Commission. (2023). *Ten Year Review of The National Development Plan 2012-2022.* Pretoria, South Africa.

2.6.4 Access to Household Services

The census results released by Statistics South Africa (Stats SA) in 2022 showed that between 2011 and 2022, more households had access to basic services, with the most significant improvement recorded in access to formal housing and flush toilets.

Figure 2.18: Access to Household Services



Source: Stats SA, 2023

About 88 per cent of households had access to formal housing[16], up from 77.6 per cent in 2011, indicating an increase of 24 percentage points. The data further shows that the proportion of households that reside in informal dwellings declined from 13.6 per cent in 2011 to 8.1 per cent in 2022. Households with access to electricity increased from 84.7 per cent in 2011 to 94.7 per cent in 2022, while the share of those with access to piped water remained unchanged between 2011 and 2022 at 91.3 per cent.

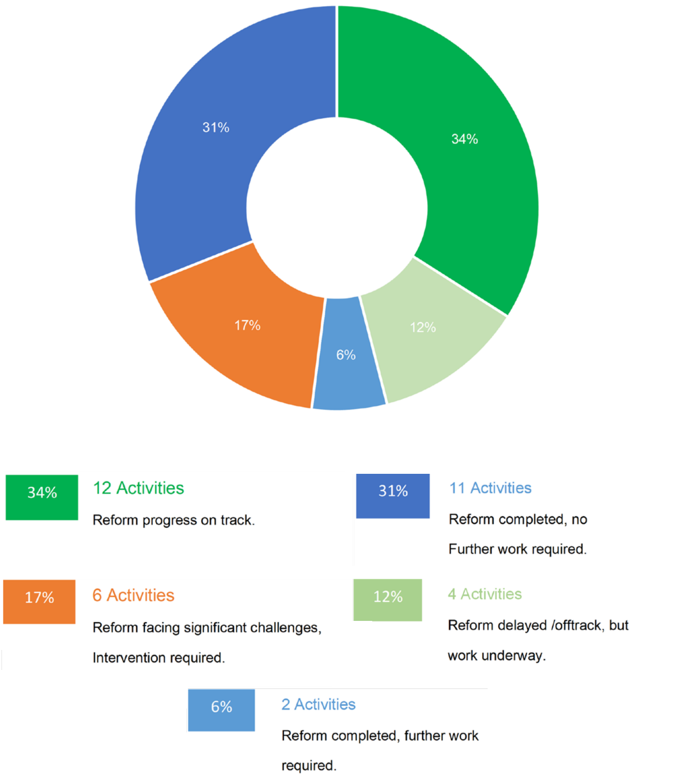
Access to clean water, electricity, sanitation, and refuse removal is crucial for measuring and planning basic service delivery. It also has a significant impact on the health of households, the environment, and the poverty level in the country.

[16] Formal dwellings include formal houses with a brick/concrete structure, flats and apartments, cluster houses, townhouses, semi-detached houses or any formal dwelling situated in a backyard, such as a room or garden cottage where a household or single person resides

2.7 Addressing South Africa's Structural Challenges

In October 2020, President Cyril Ramaphosa announced Operation Vulindlela (OV) as a joint initiative of The Presidency and National Treasury to accelerate reforms for economic growth and job creation. The initiative is now in its third year, and noticeable progress in the implementation of priority structural reforms has been made[17] Over 70 per cent of the reforms are either completed or on track to be finalised by the 2024/25FY. However, some reforms, particularly in the municipal space, will extend beyond the 2023/24FY.

Figure 2.19: Progress Update on Operation Vulindlela Projects, 2023Q4



Source: The Presidency, 2023

By the end of the fourth quarter of 2023, 31 per cent of all OV reforms had been successfully completed and required no further work. Another 34 per cent were on track to be completed on time, while 6 per cent had been completed but still required additional work. However, 17 per cent of the reforms were facing significant challenges and required interventions to be completed. The remaining 12 per cent were delayed, but work was underway to fast-track them.

The ***completed reforms*** that required no further work included finalising the White Paper on National Rail Policy, increasing the energy licensing threshold for embedded generation, enabling municipalities to procure power from independent power producers, completing the spectrum auction, implementing the e-Visa system in 14 countries, and clearing the backlog of water use license applications.

The ***reforms that were on track*** included the development of a strategy for the decentralisation of passenger rail to local authorities, restructuring Eskom, enhancing the role of private sector participation in the water sector, and strengthening regulation of price and service standards in the water sector.

However, some ***reforms were facing significant challenges and delayed,*** such as improving the Energy Availability Factor (EAF) to over 70 per cent, addressing institutional inefficiencies in municipal electricity and water distribution, improving the efficiency of ports, implementing third-party access to the freight rail network, and reviewing and adjusting the fuel price formula.

[17] The Presidency and National Treasury. (2023). *Operation Vulindlela Progress: Supporting the Implementation of Priority Structural Reforms, Update Q2 2023 Report*. Pretoria, South Africa

Progress on The Two Most Pressing Reforms in Quarter 3 and 4 of 2023

Electricity Reforms

The electricity reforms have shown signs of improvement, particularly in Eskom's Energy Availability Factor (EAF), which reached 59 per cent in the second quarter of 2023, up from a low of 49 per cent at the end of 2022. A significant milestone in addressing the country's energy crisis has been the tabling of the Electricity Regulation Amendment Bill to Parliament, which has been published for public comment. The Portfolio Committee concluded public hearings on 30th of November 2023, following the introduction of the Energy Action Plan (EAP) designed to alleviate power rationing.[18]

Notable achievements of the EAP in the third and fourth quarter of 2023 include increasing the pipeline of private sector generation projects, which saw the South African Renewable Energy Grid Survey reveal about 66 Giga Watts (GW) of wind and solar energy projects, with18GW at an advanced stage of their development.

The South African government has made significant strides in procuring new-generation capacity. Three projects from the Risks Mitigation Independent Power Producer Procurement Programme totalling 150 Mega Watts (MW) concluding the construction stage. Two projects are now operating at 100MW, while the remaining 50MW was expected to connect to the grid by the end of December 2023. Additionally, two projects totalling 200MW have reached legal close in the third quarter, while three hybrid projects totalling 420MW were also expected to reach legal close by the end of December 2023. About 12 projects, that were in Bid Window 5 are in construction stage totalling 1 160MW. Moreover, six preferred bidders have been announced under Bid Window 6, which will add 1 000MW of new capacity[19]

On the unbundling of Eskom into separate entities for generation, transmission and distribution, progress has been made including the establishment of the National Transmission Company of South Africa (NTCSA), which is an independent subsidiary of Eskom. To this effect, the National Energy Regulator of South Africa (NERSA) has granted NTCSA licenses for transmission, electricity trading and importing & exporting of electricity. The appointment of the NTCSA board is in the final stages to ensure that the entity can be operational by April 2024.

There was improvement on Eskom’s operational performance, with Kusile Unit 3 returning to service in September 2023, expected to add 800MW to the grid at full capacity. Unit 1 and 2 of Kusile returned online in October and November 2023, adding 1 600MW to the grid.

Furthermore in 2023, the National Energy Regulator of South Africa (NERSA) gave the power utility the green light to move forward with important Just Energy Transition (JET) projects. These projects include the installation of 194.5MW of solar PV at Komati, Lethabo, and the SERE, as well as 150MW of battery storage in Komati.

Transport Reforms

The decline of Transnet poses a significant threat to South Africa's economic growth. The country's rail market share has been decreasing, with Transnet Freight Rail (TRF) handling less than 40 per cent of rail-friendly freight tonne-kilometres. This logistics crisis has resulted in losses equivalent to 5.3 per cent of GDP in 2022. Daily economic losses due to Transnet inefficiencies is estimated at R1 billion, implying a projected loss of R353 billion for 2023. [20]

TRF made progress by completing the accounting separation of its operation and rail infrastructure units. This separation will establish an independent infrastructure manager, expected to be set up by the end of the year, promoting competition in the rail sector. Furthermore, in the third and fourth quarters of 2023, through a collaboration effort between the government and Transnet, the Freight Logistics Roadmap was finalised and approved by Cabinet. This will provide a clear reform path in resolving immediate operational challenges in the country’s rail and ports.

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[18] The Presidency and National Treasury. (2023). *Operation Vulindlela Progress: Supporting the Implementation of Priority Structural Reforms, Update Q2 2023* Report. Pretoria, South Africa

[19] The Presidency and National Treasury. (2023). *Operation Vulindlela Progress: Supporting the Implementation of Priority Structural Reforms, Update Q3 and Q4 2023* Report. Pretoria, South Africa

[20] The Presidency and National Treasury. (2023). *Operation Vulindlela Progress: Supporting the Implementation of Priority Structural Reforms, Update Q3 and Q4 2023* Report. Pretoria, South Africa

Another milestone related to Transnet includes the finalisation of the selection of an international terminal operator to partner with for the Durban Pier 2 container terminal. This partnership will bring in private investment, upgrade equipment, expand terminal capacity, and provide management expertise to improve operational performance.

The appointment of permanent board of directors for Transnet National Ports Authority (TNPA) by the Minister of Public Enterprise was one of the miles stones achieved in 2023. This means the replacement of the interim board, ensuring that the new board may provide critical direction and oversight as the entire sector undergoes much needed reform.

The National Council of Provinces (NCOP) has passed the Economic Regulation of Transport Bill, which will be submitted to the president for acceptance. The Bill provides a critical step needed in the reform of the entire logistical system.

2.8 Conclusion

Energy crises and logistical constraints are expected to continue harming the country’s economic outlook. Economic activity is expected to only average 0.8 per cent in 2023 and is estimated to increase slightly to 1 per cent in 2024. The low economic activity continues to impact revenue collection, affecting the government’s ability to meet its developmental goals. Total revenue for the 2023/24 fiscal year is estimated to be R1.921 trillion, while total expenditure is projected at R2.268 trillion, resulting in a budget deficit of 4.9 per cent of GDP. This puts further strain on the country's fiscal outlook.

Despite the decline in headline consumer inflation in 2023, the monetary policy stance remains restrictive and affects households’ consumption patterns. Consumer inflation is averaged 6 per cent in 2023 and is anticipated to slow to 5 per cent in 2024. Core inflation is estimated at 4.8 and 4.6 per cent in 2023 and 2024, respectively.

The census 2022 results show that there was a shift in the population structure of the country. However, the youth age cohort still makes up the largest share of the country’s population. About 34.8 per cent makes up the working-age population and had the highest unemployment rate at 39.6 per cent in 2023. The country has been unable to take advantage of its demographic dividend owing to high levels of unemployment. In the main, the domestic macroeconomic indicators remain unfavorable, and structural reforms are needed to boost growth, reduce debt levels, and create employment opportunities.

Chapter 3: Gauteng Socio-Economic Review and Outlook

3.1 Introduction

The economy of Gauteng has been adversely impacted by global and domestic tightening of monetary policy. Additionally, the presence of high levels of debt has prompted fiscal consolidation measures at all levels of government, further influencing the economic landscape. Provincial treasuries have been tasked with curtailing expenditure growth to aid stabilising the government's fiscal outlook. Consequently, additional budget cuts are anticipated over the Medium-Term Expenditure Framework (MTEF) period.

Furthermore, hinderance to economic growth in the province include challenges in electricity supply and logistical inefficiencies. Economic activity in 2023 is estimated to have seen a modest growth of 0.6 per cent, with marginal increase of 1.3 per cent and 2.8 per cent projected for 2024 and 2025, respectively. These minimal growth rates pose a threat to the province's developmental goals, specifically in reducing poverty and addressing high unemployment levels.

The chapter provides an economic outlook for the province, considering implemented cost-cutting measures aimed at restoring public finances. Section 3 delves into investment trends as a driving force for economic growth, while section 4 analyses key performing sectors of the economy before exploring the inflation outlook in section 5. Section 6 provides a detailed analysis of the province's labour indicators, categorised by age groups. Finally, Sections 7 to 9 review socio-economic indicators in the province within the context of the economic performance.

3.2 Key Constraints to Economic Growth

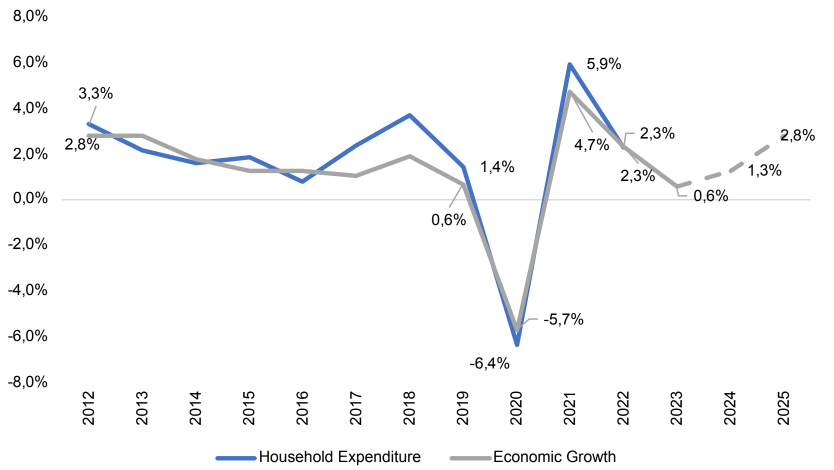
In 2023, the economy was mainly affected by increasing interest rates, necessary to control inflationary pressures. This affected the uptake of credit by households, leading to decreased demand and economic activity. Despite these challenges, the province recorded economic growth in the first two quarters of the year, before experiencing a decline in the third quarter. Similarly, to the national level, Gauteng faced structural challenges such as energy supply shortages, transport inefficiencies and the avian flu outbreak. These factors collectively contributed to a downturn in economic activity. Consequently, these developments affected revenue collection for both the country and the province.

Figure 3.1: Quarterly Economic Growth Rate

Source: Quantec, Easy Data, 2023

Economic activity in the province grew by 0.8 per cent in the first quarter and 0.6 per cent in the second, before declining by 0.1 per cent in the third quarter of the year. The decrease in the third quarter was driven by a decline in primary sector activities, with the agricultural sector decreasing by 9.7 per cent, followed by a 3 per cent decrease in the mining sector. The secondary sector also declined, with the construction sub-sector decreasing by 2.7 per cent and manufacturing declining by 1.3 per cent. Despite the challenges posed by electricity shortages and logistical constraints, the decline in provincial activity was mainly due to the avian flu outbreak, which affected the agriculture sector across the country.

Figure 3.2: Economic Growth and Household Consumption Expenditure



Source: S&P Global and Quantec, Easy Data, 2023

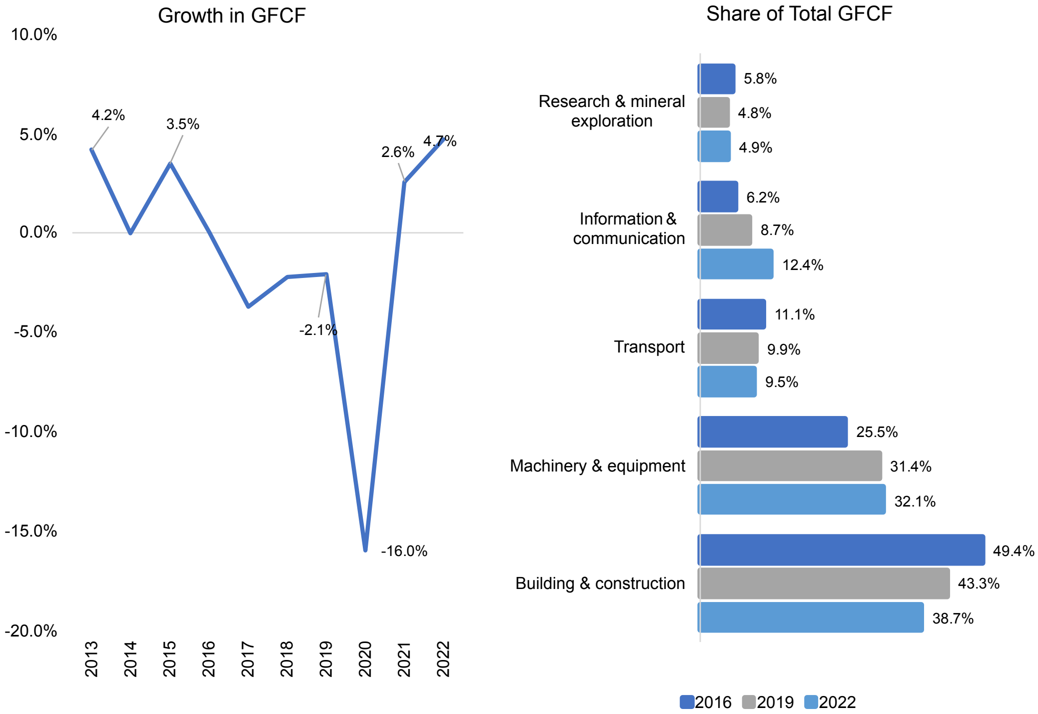
It is estimated that the economic activity in the province has slowed down to an average of 0.6 per cent in 2023, compared to the 2.3 per cent recorded in 2022. The trajectory of household consumption expenditure closely mirrors the province's economic growth over the analysis period, as illustrated in Figure 3.2. In 2021, household consumption expenditure grew by 5.9 per cent before slowing down to 2.3 per cent in 2022, coinciding with economic activity, which expanded by 4.7 per cent and slowed down to 2.3 per cent during the same period. These figures suggest that households' spending has been influenced by elevated inflationary pressures, coupled with a rise in interest rates and borrowing costs.

Due to the economic activity expected to be below 1 per cent for both the country and the province, tax revenue is expected to remain relatively low. However, expenditure commitments are projected to increase, despite the need to contain the budget deficit from the national government. This may have an adverse effect on the state's ability to meet its developmental objectives and deliver services to households.

3.3 Investment

The level of investment in key infrastructure and research & development is linked to the growth in economic activity in a country or region, among other factors. The provincial government's spending on investment will be affected by some of the budget cuts expected over the medium term. During this period of fiscal consolidation, national transfer in the form of grants will slow down, which will affect the levels of investment and constrain economic growth.

Figure 3. 3: Gross Fixed Capital Formation



Source: Quantec, Easy Data, 2024

In 2020, Gross Fixed Capital Formation (GFCF), which is the total investment, experienced a decrease of 16 per cent. However, it grew by 2.6 per cent in 2021 and increased by 4.7 per cent in 2022. Nearly half (49.4 per cent) of the overall investment in the province was directed towards building and construction. Machinery and equipment constituted 25.5 per cent of total investment in 2022, a decrease from 31.4 per cent in 2019, but still a substantial share. Research and mineral exploration contributed 5.8 per cent to the total investment in 2022, marking an increase from 4.8 per cent in 2019.

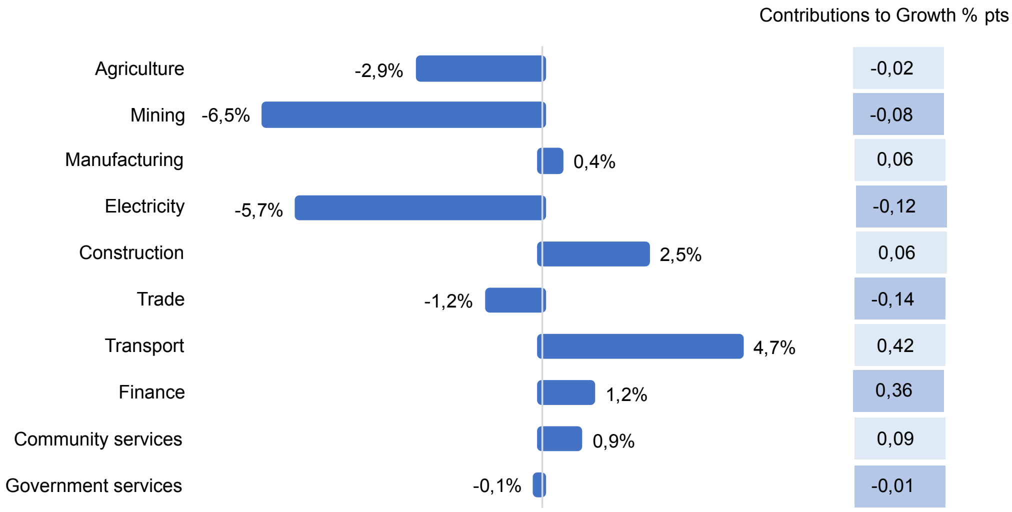
The underperformance of the economy had a negative impact on both national and provincial finances, resulting in cuts to conditional grants. This, in turn, will adversely affect both planned and ongoing investment projects. Information from the State of the Province Address (SoPA) shows that of the total R1.14 trillion that came from the 5th South Africa Investment conference held in 2023, about R22 billion is destined for the Gauteng province. Moreover, the province has attracted about R68 billion in investment from foreign companied in 2023.[1]

3.4 Performance of Key Sector of the Economy

Economic activity in Gauteng is mainly driven by the finance sector, which accounted for 33.9 per cent of total provincial activity in the first three quarters of 2023. The manufacturing and trade sectors followed at 15 per cent and 12.1 per cent, respectively. However, since some of these sectors rely heavily on energy availability, power outages have a significant impact on the province's economic activity.

[1] Gauteng Provincial Legislature. (2024). *State of the Province Address by The Premier of Gauteng, 19th February 2024*. Johannesburg, South Africa.

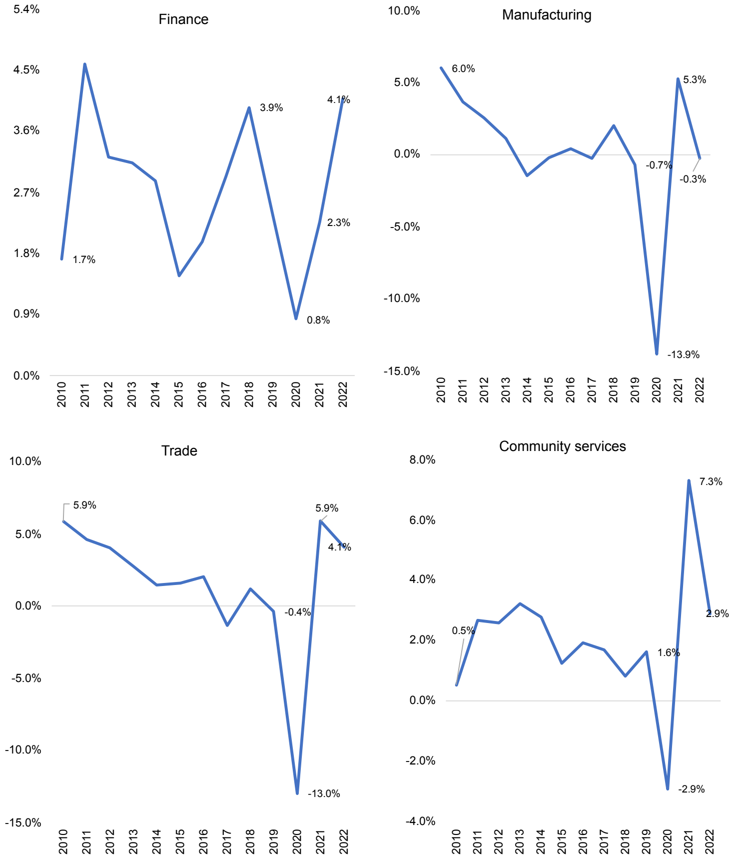
Figure 3.4: Sector Output Growth and Contributions for 3 Quarters of 2023



Source: Quantec, Easy Data, 2024

The economic activity in the first two quarters of 2023 showed growth and a decrease was experienced in the third quarter. As a result, the overall growth for the three quarters of the year was estimated to be 0.7 per cent. Notably, the transport sector demonstrated the highest growth of 4.7 per cent, contributing 0.42 percentage points. The finance sector also grew by 1.2 per cent, contributing 0.36 percentage points. Construction activity saw a growth of 2.5 per cent, contributing 0.06 percentage points. However, the mining sector faced a decline of 6.5 per cent, subtracting 0.08 percentage points. Additionally, the electricity sector declined by 5.7 per cent, subtracting 0.12 percentage points due to power outages. The agriculture sector was also affected by the avian flu, leading to a decline of 2.9 per cent in output and subtracted 0.02 percentage points from the overall growth in the three quarters.

Figure 3.5: Output Performance of Key Sectors



Source: Quantec, Easy Data, 2023

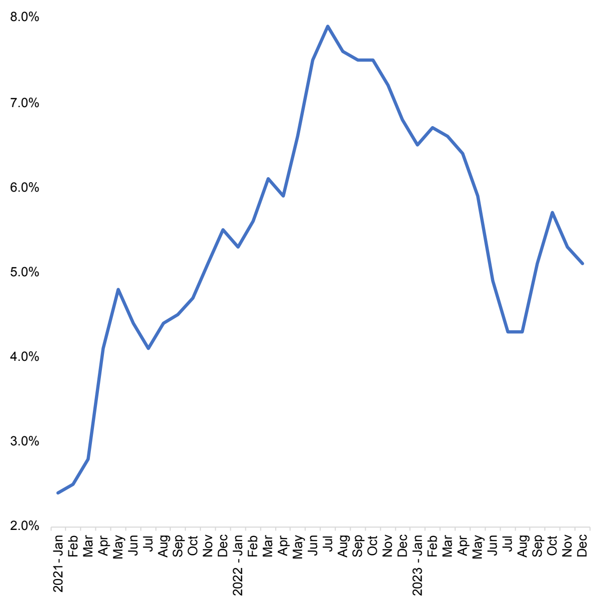
Figure 3.5 illustrates the performance of the sectors that experienced the highest share of economic activity in 2022. The finance sector's activity decreased by 0.8 per cent in 2020 but increased by 2.3 per cent in 2021 and reached 4.1 per cent in 2022. The manufacturing sector's activity has been declining in the province and reached negative territory in 2014. However, post the pandemic, it showed a notable growth of 5.3 per cent before experiencing a slight decline of 0.3 per cent in 2022. Similarly, the community services sector entered a negative territory in 2020 but increased by 7.3 per cent in 2021, slowing down to 2.9 per cent in 2022.

Unfortunately, most sectors of the province's economy continue to face domestic challenges such as a shortage of electricity supply and the inefficiency in the country's ports. As a result, some sectors have had to reduce operating hours, while those relying on alternative sources incur additional operational costs. Notably, ArcelorMittal has announced the closure of its operation in the province due to electricity supply interruptions and the breakdown of logistics and transport infrastructure, among other factors.[2] This development is anticipated to directly impact revenue collection for both the country and the province, potentially exacerbating the decline in government revenue.

3.5 Inflation Outlook

Despite the risks to inflation outlook being assessed to be on the upside, both global and domestic inflation is expected to moderate gradually. Headline consumer inflation for the country persisted on the upper end of the target band, with an average of 6 per cent for 2023. This trend is mirrored in Gauteng, where consumer inflation is estimated to have averaged 5.6 per cent during the same period.[3]

Figure 3.6: Gauteng Headline Consumer Inflation



Source: S&P Global, 2024

Figure 3.6 shows the headline consumer inflation for Gauteng province. Despite the South African Reserve Bank (SARB) maintaining the repurchase rate unchanged for the fourth consecutive time, the policy stance remains restrictive. Household borrowing costs remain relatively high, affecting credit uptake. Thus, elevated consumer inflation continues to affect economic activity. Inflation increased by 5.7 per cent in September 2023, subsequently slowing down to 5.3 and 5.1 per cent in November and December, respectively.

2 Mail & Guardian. (2023). *Closure of Steel Operations a Devastating Blow, as 3500 Jobs at Risks.* Accessed (28th January 2023), at www.mg.co.za.

3 Statistics South Africa. (2024). *Consumer Price Index December 2023.* Pretoria, South Africa.

3.6 The Performance of the Gauteng Labour Market

The labour market in the province presents a significant challenge due to its large labour force and high labour participation rate. This can lead to elevated unemployment levels if there are not sufficient job opportunities. As per the 2022 census result, the province has the highest share of the country's population, accounting to 24.3 per cent. Most of the population falls within the working age of 15 to 64 years old. [4]

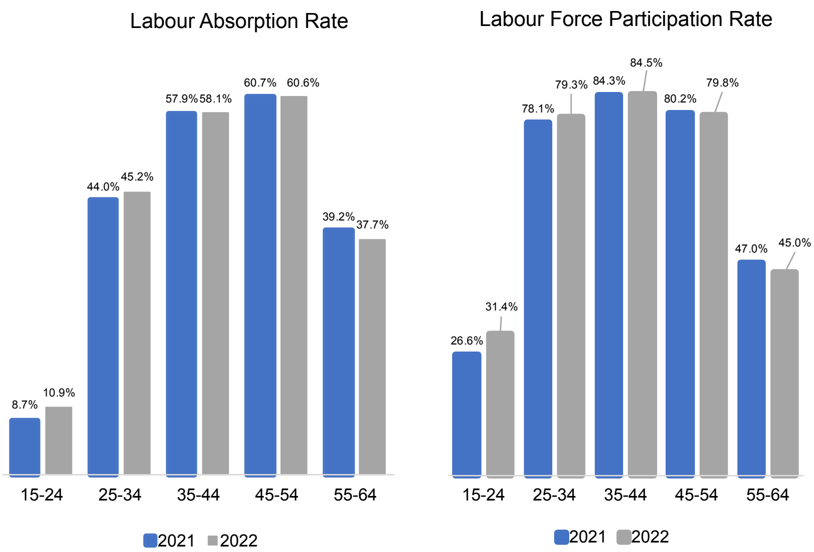
Table 3.1: Labour Characteristics by Age Group

		2021		
Age Group	**Labour Force**	**Employed**	**Unemployed**	**Unemployment Rate**
15-24	546 095	178 990	367 105	67,2%
25-34	2 073 931	1 167 772	906 160	43,7%
35-44	2 187 380	1 502 968	684 412	31,3%
45-54	1 542 846	1 167 051	375 795	24,4%
55-64	567 753	472 445	95 307	16,8%
Total	**6 918 006**	**4 489 227**	**2 428 779**	**35,1%**
		2022		
Age Group	**Labour Force**	**Employed**	**Unemployed**	**Unemployment Rate**
15-24	662 871	229 834	433 037	65,3%
25-34	2 096 813	1 195 605	901 208	43,0%
35-44	2 247 323	1 544 255	703 068	31,3%
45-54	1 582 938	1 202 483	380 456	24,0%
55-64	561 311	470 599	90 712	16,2%
Total	**7 151 257**	**4 642 775**	**2 508 482**	**21,9%**

Source: S&P Global, 2024

Table 3.1 displays labour indicators for different age groups in Gauteng. The unemployment rate for the 15-24 age group was the highest, reaching 67.2 per cent in 2021 and decreasing to 65.3 per cent in 2022. For the 25-34 age group, the unemployment rate was 43.7% in 2021 and reduced to 43 per cent in 2022. Generally, the youth experienced the highest unemployment rate, and rely on state support as they are unable to find work, which put pressure on the fiscal budget.

Figure 3.7: Labour Market Indicators



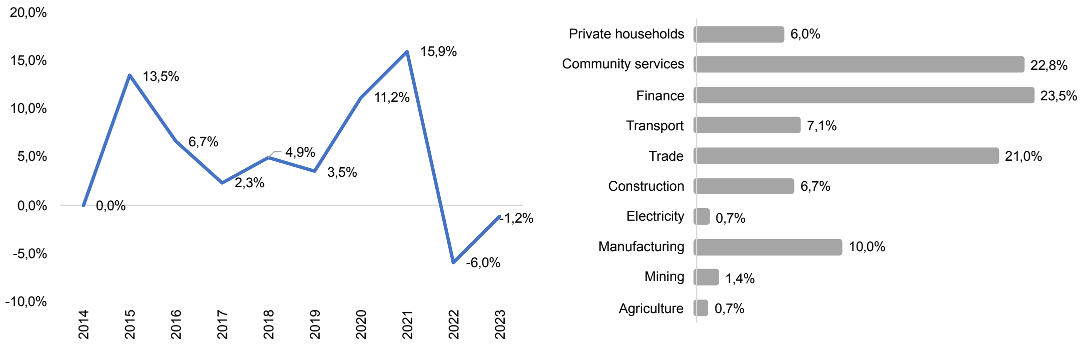
Source: S&P Global, 2024

Figure 3.7 expands on the province's labour indicators by looking at both the labour absorption rate and the Labour Force Participation Rate (LFPR) by age groups. The labour absorption rate refers to the proportion of

[4] Statistics South Africa. (2023). *Census 2022*. Pretoria, South Africa.

new entrants to the labour market who secure employment in the formal sector of the economy. The LFPR refers to an estimate of an active labour force in an economy. The labour absorption rate tends to be higher in the 35-54 age group as this cohort has work experience. The 45-54 age cohort experienced the highest absorption rate, reaching 60.6 per cent in 2022. The LFPR was the highest in the 35-44 age group at 84.3 per cent in 2021 and increased slightly to 84.5 per cent in 2022.

Figure 3.8: Employment Growth and Sector Share



Source: Stats SA, 2023

Figure 3.8 illustrates the total employment growth and the distribution of employment across sectors. Total employment growth for the province showed a negative trend in both 2022 and 2023, with declines of 6 and 1.2 per cent, respectively. The finance sector, which is the largest contributor to the region's economy, employed the highest number of people at 23.5 per cent in 2023. The community services sector came in second at 22.8 per cent, and the trade sector was third at 21 per cent.

3.7 Gauteng Response to Fiscal Constraints

As mentioned in previous chapters, both domestic and global economic performance has been subdued, especially when compared to historical standards. Although the impact of the COVID-19 shocks and the Russia/Ukraine war has lessened, lingering uncertainty continues to influence the economic outlook. Global growth is projected to remain stable at 3.1 per cent in 2024, while the domestic economy is expected to grow by 1.5 per cent over the same period. In addition to external shocks, the performance of the domestic economy has been limited by the constrained energy capacity and difficulties with the logistical system, both of which have led to increased costs of doing business.

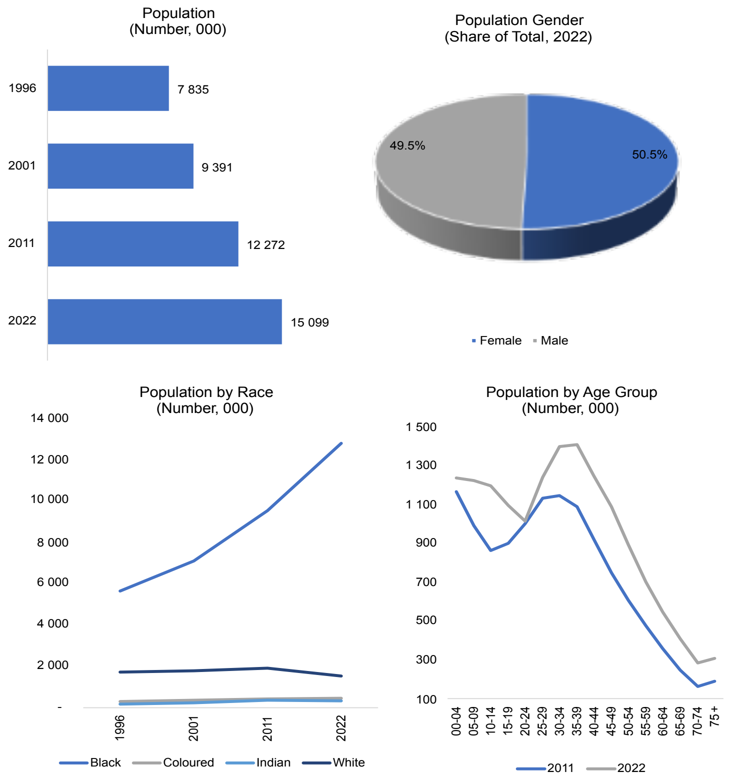
The weak economic performance has resulted in a significant drop in revenue, which has led to strict cost-cutting measures being implemented at all levels of government. The 2023 Medium-Term Budget Policy Statement (MTBPS) already saw the implementation of provincial conditional grant cuts, and even deeper cuts on the equitable share are expected over the 2024 MTEF. Given the current economic climate, it is expected that tax revenue will continue to be constrained. Additionally, the challenging operating environment for both consumer spending and fixed investment due to higher interest rates means that efforts to enhance own revenue will be difficult, and GPG growth in own revenue collection is likely to be moderate.

To address these fiscal challenges, the Gauteng Provincial Treasury (GPT) is working with revenue-collecting departments to identify alternative sources of revenue. This aims to ensure that frontline services remain uncompromised, prioritising programmes that foster growth, safeguarding essential social services for vulnerable members of society, and maintain the provision of basic services in the province.

3.8 Demographic Profile and Analysis

Gauteng is the most populous province in the country, thanks to its diverse and urbanized economy, which attracts those seeking economic and job opportunities. Its population has grown by 23 per cent (or by 2.8 million people) between 2011 and 2022, averaging about 2.3 per cent per annum during this period. The population has nearly doubled since 1996, with 15.1 million people residing there in 2022.

Figure 3.9: Population Dynamics

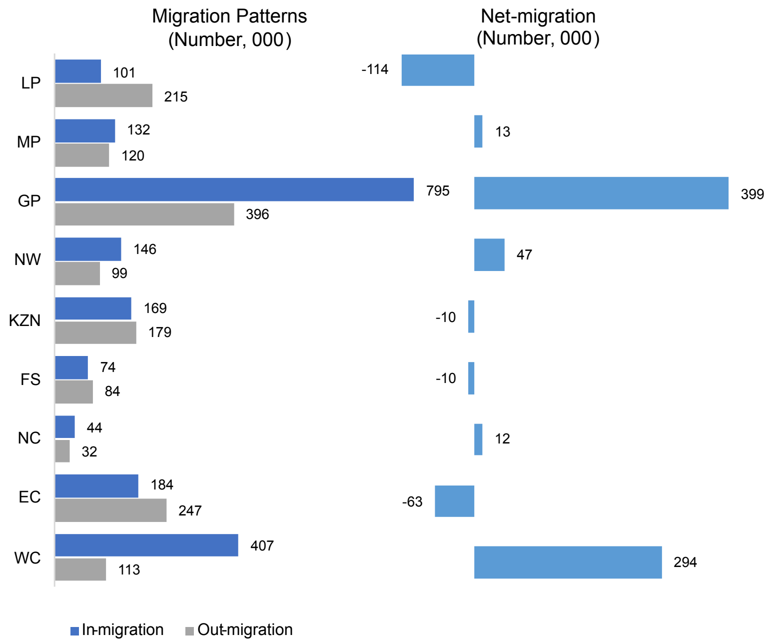


Source: Stats SA, 2024

In 2022, the population was almost evenly split between males and females, with 50.5 per cent of the total population female and 49.5 per cent male. Compared to 2011, there was a slight increase in the percentage of the female population. Disaggregation of the population by group, shows that the Black population has increased rapidly since 1996, accounting for 84.6 per cent of the total population in 2022. The Coloured and Indian population groups have also increased since 1996, although not at the same rate as the Black population group. However, even with an increase in their number, the share of these two groups declined in 2022. The Coloured population accounted for 2.9 per cent and the Indian population accounted for 2.2 per cent. Meanwhile, the White population group declined by just over 400 000 between 2011 and 2022, with its share declining from 15.6 per cent in 2011 to 10 per cent of the total population in 2022.

Gauteng remains a youthful province, with a significant portion of the population falling within the 15-34 years bracket. This cohort increased by 566 400 in 2022 from 4.2 million in 2011. However, the share of this group to the total population decreased to 31.1 per cent from 34.9 per cent in 2011. This declining share can be attributed to an increase in the share of people aged 35-64 years, rising to 38.5 per cent in 2022, from 35 per cent in 2011. The number of people within this age cohort also increased the most between 2011 and 2022, by over 1.5 million. The number of the elderly population (aged 65+) also increased by just over 400 000 people and its share of the total population by 2 percentage points, to 6.6 per cent in 2022.

Figure 3.10: Migration Patterns



Source: Stats SA, 2024

The relatively large population size in Gauteng can be attributed to the positive net-migration observed in the region. The province remains the most populous, accounting 24.3 per cent of the country's population, followed by KwaZulu-Natal at 20 per cent and Western Cape at 12 per cent. Gauteng is estimated to have received the highest number of in-migrants at 795 330 between the 2011 and the 2022, while out-migrants were at 395 977. Consequently, it had the highest number of net-migrants at 399 353, further explaining the region's highest share of the country's population. The Western Cape followed with 294 029 net-migrants.

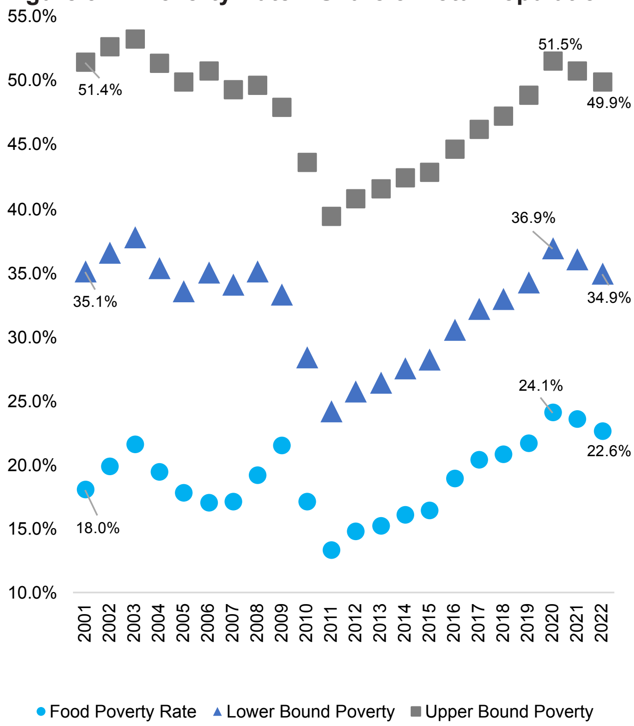
3.9 Analysis of Socio-Economic Conditions

The province has a great potential to expand as an economic hub of the country due to its youthful and sizable population. However, this potential needs to be harnessed and the environment should be made conducive for economic growth and development. As highlighted in previous sections, the Gauteng economy encountered stagnation and challenges, reflective of issues not confined to the province but prevalent at the national and global levels. The province is struggling in most measures of socioeconomic progress and has regressed from the progress made in the early 2000s.

3.9.1 Poverty and Income Inequality Income

Figure 3.11 presents poverty rates for Gauteng from 2000 and 2022, using food poverty, lower bound poverty, and upper bound poverty lines. The poverty rates show the proportion of people living below these poverty lines of R760 (food poverty), R1 058 (lower bound) and R1 558 (upper bound) per person per month.

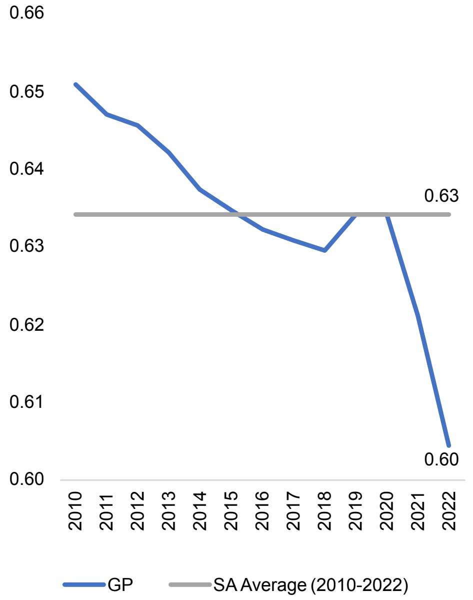
Figure 3.11: Poverty Rate – Share of Total Population



Source: S&P Global, 2024

The proportion of Gauteng's population living below different poverty lines has significantly increased since around 2011 and 2012. The percentage of the population living below the food poverty line rose from 14.8 per cent in 2012 to 22.6 per cent in 2022, following a decrease from its peak of almost 30 per cent during the global financial crisis in 2009. The percentage of people living below the lower-bound poverty line has increased from 24.1 per cent in 2011 to 34.9 per cent in 2022. Additionally, the percentage of those living below the upper-bound poverty line also increased by 10 percentage points, reaching 49.9 per cent of the total population over the same period.

Figure 3.12: Income Inequality as Measured by Gini Coefficient



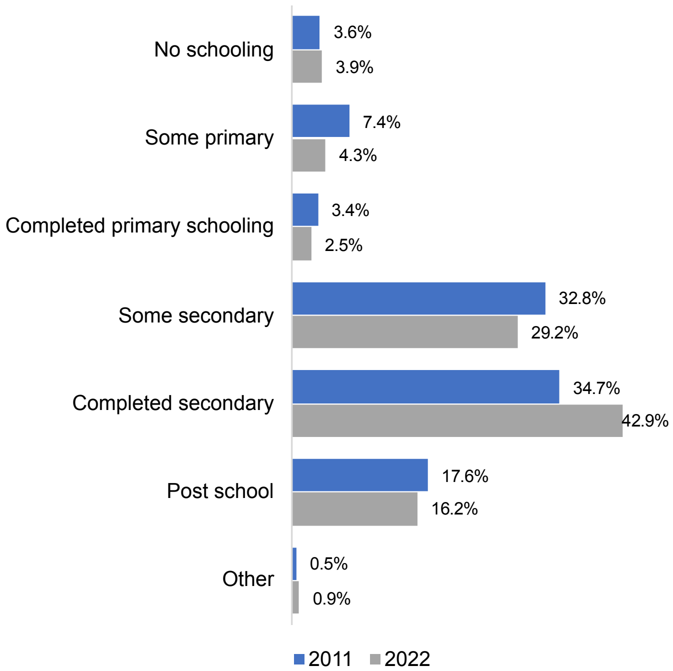
Source: S&P Global, 2024

The Gini coefficient, a measure of income inequality, has shown a decreasing trend in Gauteng over the reviewed period. However, it remains high at 0.60, which is only slightly lower than the national average of 0.63. This means that income distribution in Gauteng is highly unequal, as a Gini coefficient of over 0.5 indicates severe income disparity, according to the United Nations Children's Fund (UNICEF).

3.9.2 Educational Attainment and Human Development

Educational attainment in Gauteng has experienced significant improvement over the years. The percentage of the population who have not completed primary and secondary education has decreased from 2011 to 2022, reaching 4.3 per cent and 29.2 per cent, respectively. Conversely, the proportion of those who completed secondary school increased from 34.7 per cent to 42.9 per cent. However, there was a slight decrease in the proportion of the population with post-school education[5] , falling from 17.6 per cent to 16.2 per cent in 2022.

Figure 3.13: Educational Attainment for People Aged 20+



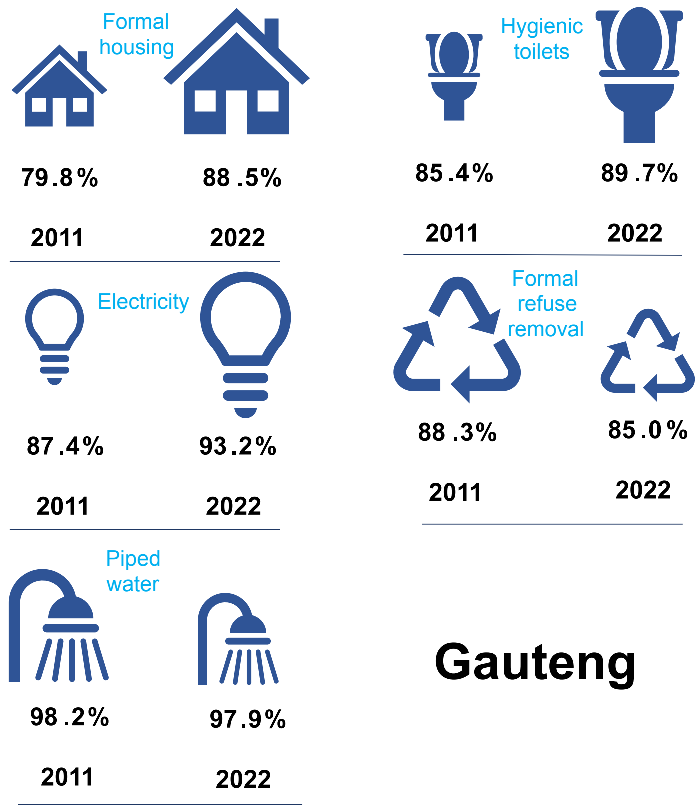
Source: Stats SA, 2024

[5] Post-school includes tertiary education obtained post matric. For example, a Diploma, Bachelors and/or Postgraduate Degree.

3.9.3 Service Delivery

Household access to basic infrastructure services in Gauteng has improved between 2011 and 2022. Although it remains below 90 per cent, there has been an increase in the number of households with access to formal housing, rising from 79.8 per cent in 2011 to 88.5 per cent in 2022. An even more substantial improvement was observed in the share of households with access to electricity, which increased from 87.4 per cent in 2011 to 93.2 per cent in 2022.

Figure 3. 14: Access to Household Infrastructure



Source: Stats SA, 2024

In contrast, there was a decline in the share of households with access to refuse removal and piped water during the same period. Access to piped water decreased slightly from 98.2 per cent of the total Gauteng population in 2011 to 97.9 per cent in 2022. Access to refuse removal was the indicator that decreased noticeably, declining from 88.3 per cent in 2011 to 85 per cent of the population in 2022.

3.10 Conclusion

The Gauteng province has faced several challenges, including a shortage of electricity, an outbreak of avian flu in the agriculture sector, and logistical constraints. These domestic issues resulted in the growth rate estimate of 0.6 per cent in 2023 and is projected to increase to 1.3 per cent in 2024. The low economic growth has implications for the province's own revenue collection over the MTEF period.

The finance sector remains the largest employing sector in the region, accounting for 23.5 per cent of the total employed. The trade sector is also crucial, with a share of 21 per cent of the total employed in the province in 2022. However, the unemployment rate in the province remains high at 35.1 per cent in 2022, with the youth being the most affected.

According to the 2022 Census, Gauteng remains the most populous province in the country. The province has a youthful population, with a significant portion aged between 15-34 years. Due to the struggling economy, this youthful population is facing difficulties in finding employment opportunities. Structural reforms are needed at both national and provincial levels to boost economic activity, manage public finances, and create job opportunities.

Chapter 4: Socio-Economic Review of Gauteng Municipalities

4.1 Introduction

The year 2023 has posed challenges for the global economy as it continues to recover from the COVID-19 pandemic. The inflationary shock resulting from Russia's war in Ukraine has led to higher interest rates worldwide, causing a significant impact. As a result, international demand has declined, global interest rates have risen, and ongoing exchange rate pressures persist. These factors, when combined, have created an acute funding squeeze, leading to a second-year decline in growth.

The domestic economy has also been affected by these global developments, alongside supply-side challenges currently facing the country. Consequently, domestic economic growth is anticipated to remain modest, with negative implications for government finances. A weak fiscal position complicates the government's ability to balance expenditures, particularly on socially related programmes, presenting a challenge for public finances. Low economic growth diminishes the prospect for employment creation, a crucial aspect in addressing poverty and inequality. Some of the listed challenges have impacted municipal economies, evident in high unemployment rates, poverty, and inequality levels. As a result, the pace of social progress is likely to have slowed in some instances, reversed.

This chapter analyses the economic performance and socio-economic trends in Gauteng municipalities against this background. Section 4.2 scrutinises economic performance and outlook in the three metros, two districts, and six local municipalities. Following this, section 4.3 provides a socio-economic analysis of the metros and local regions, encompassing topics such as demographics, poverty, inequality, human development, and household access to basic services. Section 4.4 looks at the implications of the prevailing economic environment on municipalities' financial resources.

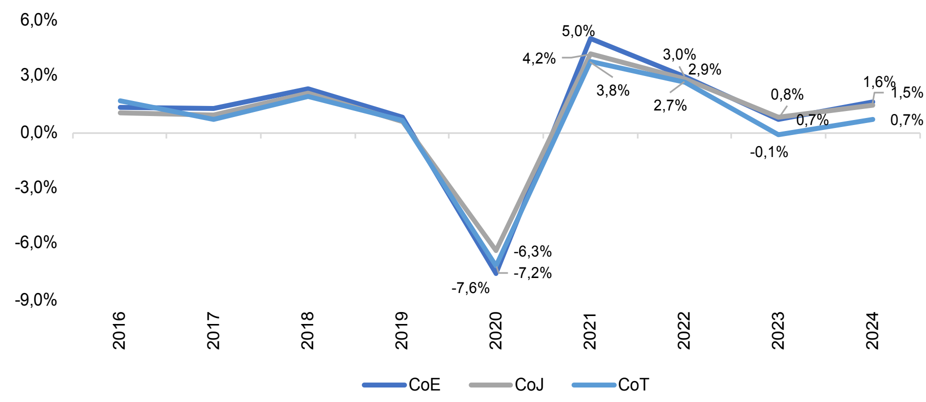
4.2 Economic Performance and Outlook

Research has shown that local economies play a significant role in shaping a country's economy.[1] Therefore, in this section, the economic analysis and outlook of Gauteng's 11 municipalities, including three metropolitan areas (metros), two district municipalities (districts), and six local municipalities, is conducted.

4.2.1 Metropolitan Municipalities

Each metropolitan municipality has its own unique economic outlook that is influenced by various factors such as its industrial profile and job market. However, these economies are also affected by national and international factors, such as load shedding, weak global demand for goods and services, low commodity prices, and trade policies.

Figure 4.1:Metros' Annual Average Growth



Source: S&P Global, 2023

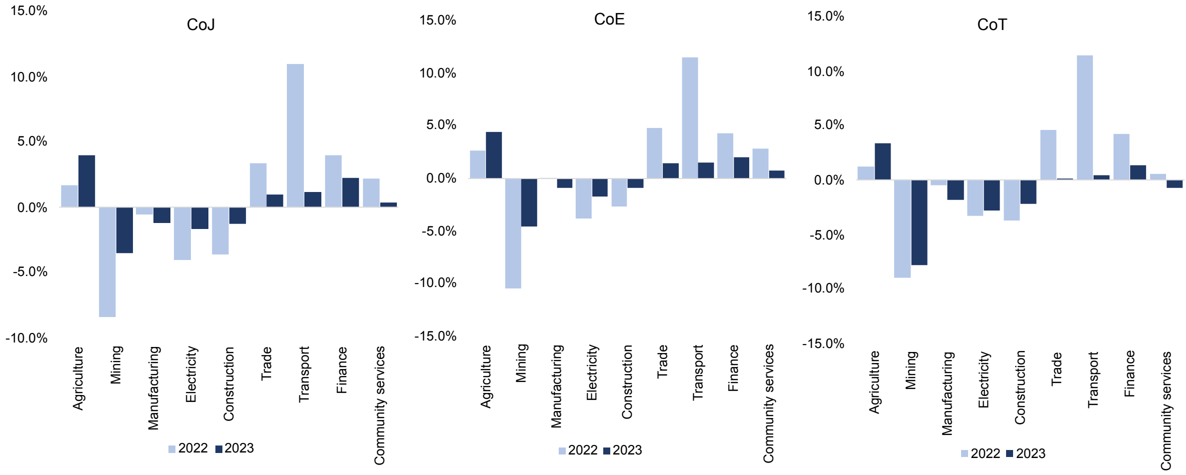
Note: Estimates and Forecasts from 2023

1 J Visagie & I Turok. (2022). Firing on all cylinders: Decomposing regional growth dynamics in South Africa. South African Journal of Economics. Vol 90, Issue1.

Figure 4.1 depicts the average annual growth for the three Gauteng metros for the period 2016 to 2024 using Gross Domestic Product by Region (GDP-R). After rebounding from the pandemic in 2021, the Gross Domestic Product (GDP) annual growth rate for the City of Johannesburg (CoJ) slowed to 2.9 per cent in 2022 and is projected to continue moderating to 0.8 per cent in 2023 before increasing to 1.5 per cent in 2024. This is indicative of the multiple headwinds faced by the local economy, including a weak outlook for household finances impacting household spending, the low business confidence weighing negatively on investment, a decline in global commodity prices reducing export receipts, and a weak currency increasing the cost of imports.

The City of Ekurhuleni (CoE) is also facing the same multiple headwinds, and this is indicated by the 2023 annual growth, which is expected to grow by 0.7 per cent, before recovering to 1.6 per cent in 2023. These forecasts come after the CoE GDP for 2021 grew by 3.0 per cent due to a rebound after the COVID-19 pandemic. The City of Tshwane (CoT) is also expected to experience a slowdown in economic growth in 2023, at 0.1 per cent, significantly down from the 2.7 per cent recorded in 2022. Growth is expected to pick up slightly in 2024 at just under 1 per cent.

Figure 4.2: Sector Output Growth



Source: S&P Global, 2023

Figure 4.2 presents a sector analysis for the three metros using the average annual growth for Gross Value Added by Region (GVA-R). The figure illustrates that in 2022, the CoJ economic growth was supported by the trade, transport, finance, community services and agricultural sectors. However, the mining, manufacturing, electricity, and construction sectors had a negative contribution to growth in 2022 and they are estimated to continue negatively contribute in 2023.

The CoE, is recognised as the province's manufacturing hub due to its significant industrial and logistical base, is expected to experience a decline of 0.9 per cent in manufacturing value-add in 2023, following a growth of 0.1 per cent in 2022. This contraction in manufacturing, along with agriculture, electricity, and construction, will slow down economic growth to 0.7 per cent for 2023. However, the growth in trade, transport, finance, community services, and agricultural sectors is expected to support economic growth in 2023.

The CoT has followed a similar pattern of economic growth as other metros. It is expected that the growth in the value added by mining, manufacturing, electricity, and construction will decline in 2023, which will have a negative impact on the already weak projected economic growth for 2023.

Labour Market Analysis

The Gauteng metros face significant levels of unemployment. This is because many people are attracted to the regions with the expectation of job opportunities. This issue can become more severe if the local economies are unable to accommodate a large influx of people migrating to these cities. Currently, around 65 per cent of Gauteng's working-age population resides in its three metros, with the CoJ accounting for the highest percentage. Of that proportion, 69.2 per cent had employment in 2022, which is slightly lower than the 69.3 per cent recorded in 2021

Table 4.1 Labour Market Indicators

Labour Indicators ('000)	CoE		CoJ		CoT	
	2021	2022	2021	2022	2021	2022
Labour Force	1 818	1 872	2 701	2 781	1 637	1 692
Employment	1 144	1 177	1 872	1 926	1 136	1 174
Not Economically active population	850	851	1 195	1 198	907	908
Unemployment - official	675	695	829	855	501	519
Unemployment rate	37.1%	37.1%	30.7%	30.8%	30.6%	30.6%
Labour absorption rate	42.9%	43.2%	48.0%	48.4%	44.6%	45.1%
Labour force participation rate	68.1%	68.7%	69.3%	69.9%	64.3%	65.1%
Youth unemployment rate (15-24)	67.8%	65.1%	62.0%	59.8%	63.1%	63.9%

Source: S&P Global, 2023
Note: Arrows show changes between 2021 and 2022. Green=improvement, red=deterioration.

Table 4.1 above displays the Gauteng metro labour indicators. The official unemployment rate has remained almost unchanged in all three metros in 2021 and 2022, except for a minor increase in the CoJ. However, the data shows a slight increase in the number of unemployed people. Along with this, the number of not economically active people also increased slightly in all three metros. Despite the increase in the number of not economically active people, the labour force participation rate also increased. This means that both the employed and unemployed, who form the workforce, whether they are currently employed or job searching, also slightly increased. The labour absorption rate, which measures the proportion of the total working-age population that is employed, also increased in all metros in the year 2022.

The high rate of youth unemployment in all three metros is a cause for concern at over 60 per cent in almost all regions. However, Table 4.1 shows that there has been a decrease in the rate since 2021.

In 2022, the CoJ recorded a youth unemployment rate of 59.8 per cent, down from 62 per cent the previous year. Similarly, the CoE also recorded a decrease in youth unemployment rates in 2022, with 65.1 per cent from 67.8 per cent. Although there has been a decrease in youth unemployment rates, the high rates are still alarming. It is important that job creation and opportunities should be prioritized, with particular attention given to supporting Small, Medium and Micro Enterprises (SMMEs) and entrepreneurs within the metros. SMMEs and entrepreneurs play a critical role in absorbing labour and contributing to the growth and development of the urban economy [2].

Sector Specialisation and Job Performance

As seen in Figure 4.3, the finance sector continues to be the primary area of specialisation in the CoJ, with a significant concentration of jobs in this sector. However, this sector experienced a decline in employment between 2018 and 2022, resulting in a loss of over 10,000 jobs. On the other hand, trade, another core specialisation sector, created employment opportunities during the review period, along with community services. Although mining and agriculture are not core to the CoJ's economy, some jobs were also created in those sectors.

The CoE has faced a significant industrial decline over the years, leading to job losses in the manufacturing sector specifically during the period 2018-2022. Additionally, the services sectors, such as trade, finance, and transport, also experienced job losses, despite being prominent drivers of economic activity in the region. The CoE is also more specialised in the community services sector, which includes the government, and this sector contributed the highest number of jobs in 2022, accounting for over 20 per cent of the total employment in CoE.

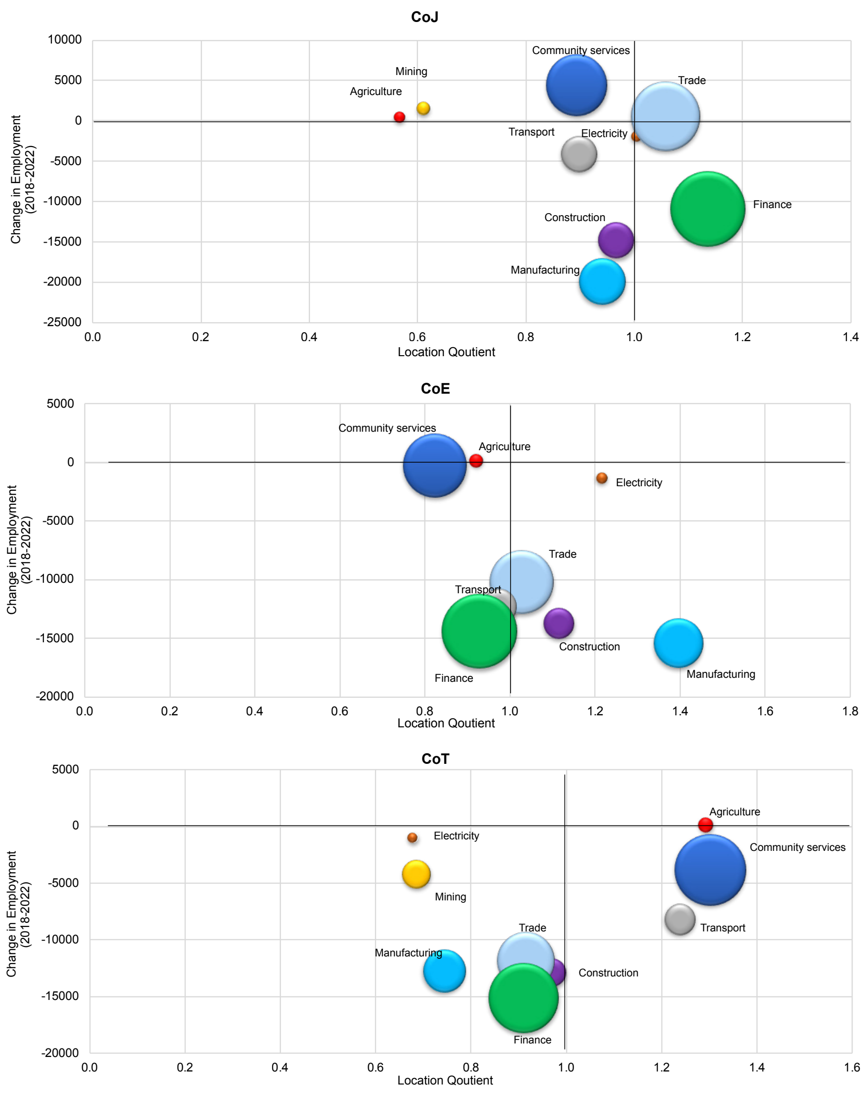
2 Republic of South Africa. (2016). South African Local Government Association. *Debt owed to municipalities, poor billing and critical success factors to billing*. Pretoria: SALGA..

Box 1: Interpretation of Sector Specialisation and Job Performance

Figure 4.3 illustrates a combination of the relative sector specialisation – indicated by the location quotient on the x-axis, employment size – demonstrated by the bubble size – and absolute employment change between 2018 and 2022 on the y-axis.

By analysing these indicators, we can determine which sectors are relatively specialised in each region and whether they have created new jobs in the past five years. This information can help assess the growth prospects of each region. If a sector falls on the upper right-hand side of the graph, it is a relative specialisation and has created new jobs during the reviewed period. A sector that falls on the bottom right-hand side of the graph is a relative specialisation but has lost jobs. On the other hand, those that fall on the upper left-hand side of the graph are not the primary drivers of economic activity but have created jobs. Finally, those on the bottom left-hand side of the graph are neither specialisations nor have they generated any new employment. The data used is from S&P Global's Regional Explorer.

Figure 4.3: A Combination Sector Specialisation and Job Performance



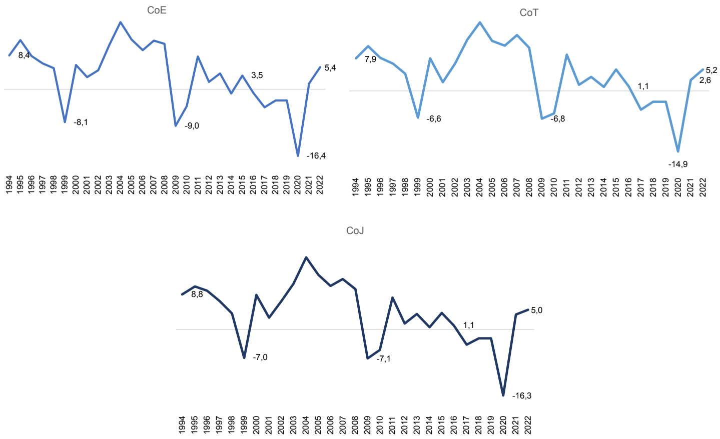
Source: GPT, 2023. Data used from S&P Global.

Lastly, in the CoT, community services, which includes government, continued to be the core specialisation sector, although employment in this sector declined over the reviewed period. The CoT was also more specialised in finance, trade, and transport, despite these sectors having experienced declines in employment in the past five years (between 2018 and 2022).

Sectors whose bubbles are on the far-right side of the graphs are important for each metro because these are sectors in which the metros need to be competitive to ensure future growth. However, it is observed across all the metros, that these sectors have all shed jobs over the reviewed period, except for trade in the CoJ. This is a worrying trend for the economic prospects of the metros.

Investment Prospects

Figure 4.4: Growth in Real Gross Fixed Capital Formation



Source: Quantec, 2023

Figure 4.4 displays the growth rates of Gross Fixed Capital Formation (GFCF) in the metros between 1994 and 2022. Real GFCF growth is a vital contributor to real GDP and economic growth. However, the real GFCF has been adversely affected by the economic shocks since the global financial crisis in 2008. This was further compounded by the COVID-19 pandemic in 2020. The pandemic resulted in a global recession due to extensive lockdown measures, travel restrictions, and disruptions to production and consumption patterns worldwide, leading to the largest contractions in all the metros.

Despite the adverse effects of the shocks, there has been gradual improvement in the annual real investment. In 2022, the CoT recorded growth of 5.2 per cent, while the CoJ and CoE recorded growths of 5.0 per cent and 5.4 per cent, respectively. The growth in these metros can be attributed to buildings and construction works, machinery and other equipment, transport equipment, and information and communication.

4.2.2 Districts and Local Municipalities

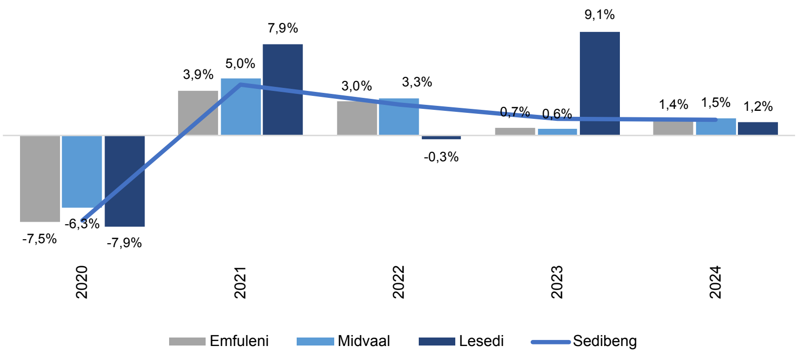
The Gauteng province consist of two districts and six local municipalities. When comparing the economic contributions of the two districts, the Sedibeng district makes a larger contribution to the province's economy than the West Rand district. In 2022, Sedibeng contributed 4.2 per cent of the gross value added to the total value added of Gauteng, whereas West Rand contributed 3.6 per cent.

Sedibeng District

Sedibeng constitutes the fourth largest economy in Gauteng, following the metros. It also holds the largest land size among districts. In 2022, it contributed 4.2 per cent to the total Gauteng economic output. In comparison to the West Rand, Sedibeng's economy is more diverse, with a mix of service and secondary sectors, particularly manufacturing driving the economic activity.

Economic Performance and Outlook

Figure 4.5 Sedibeng Annual GDP Growth Rates

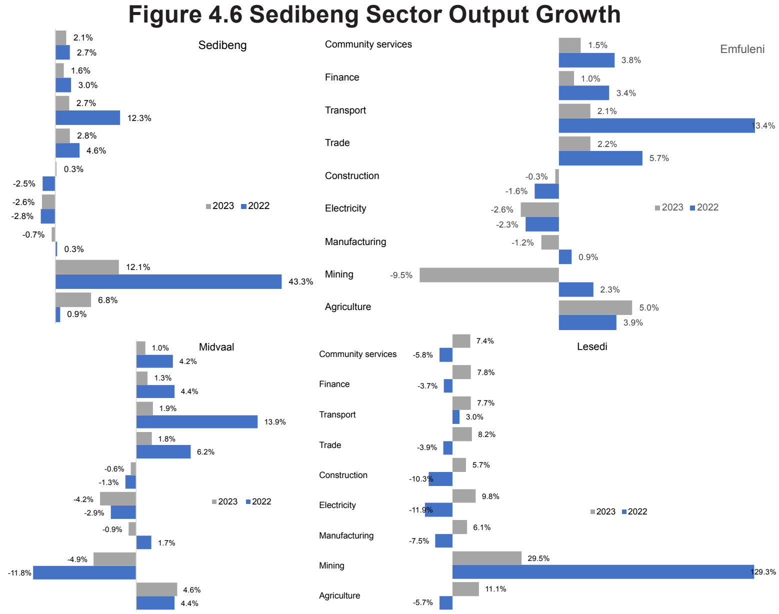


Source: S&P Global, 2023
Note: Estimates and Forecasts from 2023

Figure 4.5 displays the annual GDP growth rates for the Sedibeng district and local municipalities. The economic growth rate of Sedibeng is expected to decrease to 1.5 per cent in 2023 from 2.7 per cent in 2022. Among the three local municipalities, Midvaal and Emfuleni have followed the district's trend. In 2022, these two local municipalities had growth rates of 3.3 per cent and 3.0 per cent respectively and are expected to grow slightly in 2023 and 2024.

However, Lesedi local municipality's economic growth rate declined to 0.3 per cent in 2022, as almost all sectors except for mining recorded negative growth. Nevertheless, in 2023, economic growth rate is forecasted to rise to 9.1 per cent. This is due to base effects, as all sectors are expected to recover, and the mining sector is expected to continue its growth.

Figure 4.6 Sedibeng Sector Output Growth



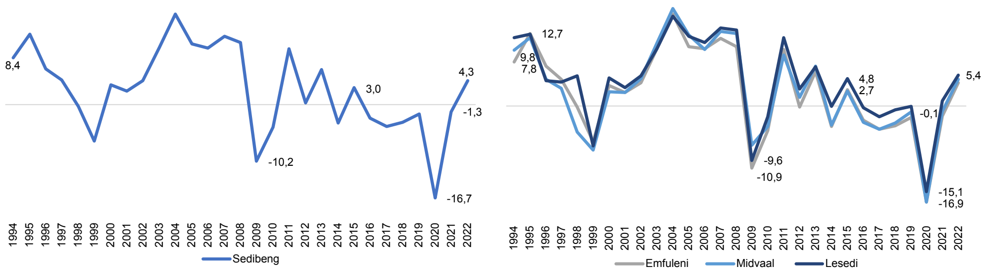
Source: S&P Global, 2023
Note: Estimates and Forecasts from 2023

All sectors except for electricity, construction, and manufacturing, contributed positively to economic growth in 2022. These sectors experienced declines in growths by 2.8 per cent, 2.5 per cent, and 0.7 per cent, respectively. However, in 2023, growth is expected to slow down, and the electricity and construction sectors are still predicted to contract. Manufacturing output is expected to slightly recover to 0.3 per cent in 2023. On the other hand, the growth of the mining sector in Sedibeng will be driven by mining activities in Lesedi local municipality, at an estimated 43.3 per cent.

Midvaal and Emfuleni local municipalities followed a similar trend of sectoral growth to Sedibeng for both 2022 and 2023. However, Lesedi local municipality had a different outcome as all sectors recorded negative growth except for the mining sector, which grew by 129.3 per cent in 2022. In 2023, the local municipality is expected to have a rebound in all sectors that contracted in 2022. As a result, the area is expected to record an annual economic growth rate of 9.1 per cent in 2023.

Investment Trends in Sedibeng

Figure 4.7: Growth in Real Gross Fixed Capital Formation



Source: Quantec, 2023

Figure 4. 7 above shows the real GFCF of the Sedibeng district and its local municipalities. After the impact of the COVID-19 pandemic, real investment in Sedibeng and its locals showed improvement.

The investment in the district grew by 4.3 per cent, driven by growth improvements in the local municipalities. Lesedi local municipality recorded the highest growth in real GFCF at 5.4 per cent in 2022, followed by Midvaal, which grew by 4.7 per cent, and Emfuleni which rose to 4.1 per cent in 2022. All of these were supported by growth in buildings and construction works, transport equipment and research, and mineral exploration and biological resources.

However, it is essential to note that the real investment in the district had already started to decline since the 2009 global financial crisis. The significant increase experienced in 2021 and 2022 was mainly due to base effects and is unlikely indicative of underlying investment activity taking place in the region.

Labour Market Analysis

Table 4.2 Sedibeng and Locals Labour Market Analysis

Labour Indicators ('000)	Sedibeng			Emfuleni			Lesedi			Midvaal		
	2021	2022		2021	2022		2021	2022		2021	2022	
Labour Force	384	410	↑	299	319	↑	41	44	↑	42	45	↑
Employment	144	160	↑	102	144	↑	17	19	↑	24	27	↑
Not Economically Active Population	319	306	↓	239	229	↑	41	40	↑	38	36	↓
Unemployment	239	249	↑	197	205	↑	23	25	↑	18	18	
Unemployment Rate - official	62,3%	60,8%	↓	65,9%	64,3%	↓	57,2%	56,6%	↓	42,3%	40,8%	↓
Labour absorption rate	20,6%	22,4%	↑	19,0%	20,8%	↑	21,5%	22,9%	↑	30,3%	32,8%	↑
Labour force participation rate	54,6%	57,2%	↑	55,6%	58,2%	↑	50,3%	52,8%	↑	52,5%	55,4%	↑

Source: S&P Global, 2023

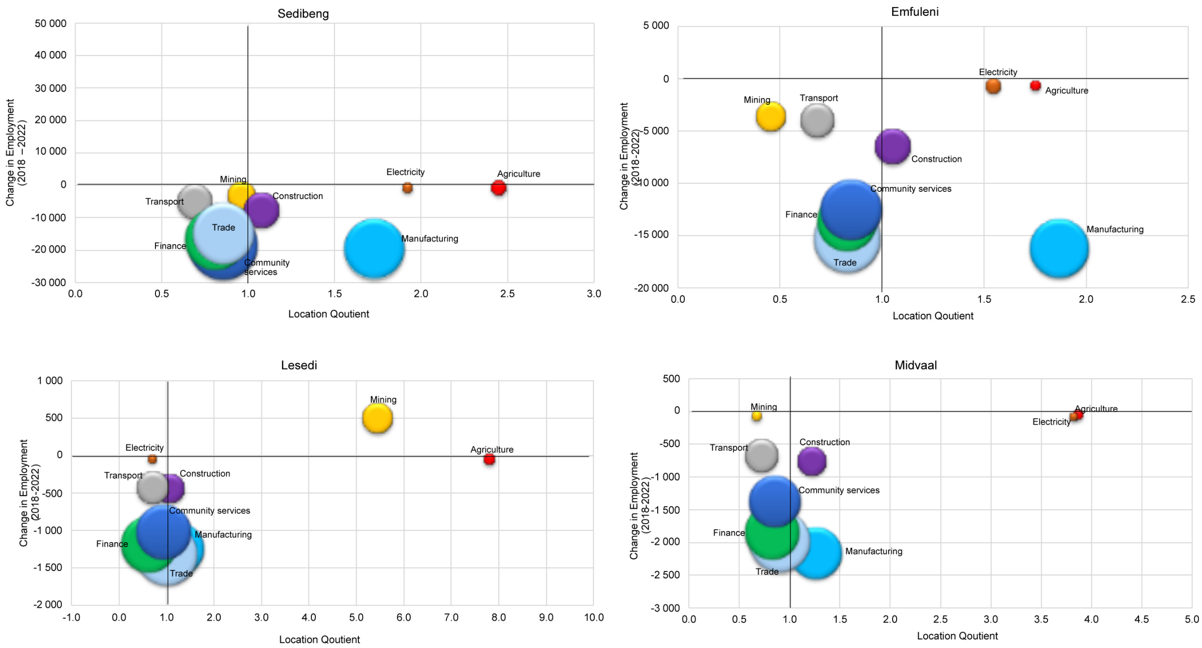
Table 4.2 above displays the labour market situation in Sedibeng and its local municipalities for 2022 and 2023. In Sedibeng, as the labour absorption rate (LAR) and the labour force participation rate (LFPR) increased, the unemployment rate decreased from 62.3 per cent to 60.8 per cent in 2022. The same trend was observed in all the local municipalities. The LFPR and the labour force increased while the not economically active population decreased. The number of employed persons also increased in Sedibeng, from 144 000 in 2021 to 160 000 in 2022.

Midvaal had the lowest unemployment rate among the three municipalities, with a rate of 40.8 per cent for 2022, compared to Emfuleni and Lesedi, which had rates of 64.3 per cent and 56.6 per cent, respectively. These rates reflect the economic outcomes of each municipality, with Midvaal experiencing higher economic growth in 2022 compared to Emfuleni and Lesedi.

Sector Specialisation and Job Performance in Sedibeng

Figure 4.8 below illustrates the relationship between relative sector specialisation and employment performance in Sedibeng and local municipalities. For a detailed explanation of how to interpret the data, please refer to Box 1.

Figure 4 8: A Combination of Sector Specialisation and Job Performance



Source: GPT, 2023. Data used from S&P Global.

Sedibeng's core specialised sectors are manufacturing and agriculture. However, even though agriculture is the least employed sector, it displays a clear specialisation in the district. Manufacturing is one of the largest employing sectors, along with trade, finance, and community services. These are also main specialisation sectors, although not as outright compared with manufacturing and agriculture. Unfortunately, the core specialised sectors, which are also the main employers in Sedibeng, have been in decline. None of these sectors created jobs between 2018 and 2022, with manufacturing having shed 19 630 jobs, trade 18 637, finance 16 700, and community services, including government, 14 934 jobs over the reviewed period.

The Emfuleni and Midvaal local municipalities have a clear specialisation in the manufacturing sector, as well as in agriculture, construction, trade, community services, and electricity (including water-related activities). However, none of these sectors created jobs over the given period, which has had a negative impact on the overall growth of these economies.

On the other hand, Lesedi municipality has a slightly different structure compared to the other two locals. It depends heavily on mining and agricultural activities and is also specialised in manufacturing, trade, finance, and community services (although not to the same extent as the other two locals). In contrast to the prevailing trend, the mining sector in Lesedi created some jobs (about 500) between 2018 and 2022, making it the only sector with positive job gains in the entire district.

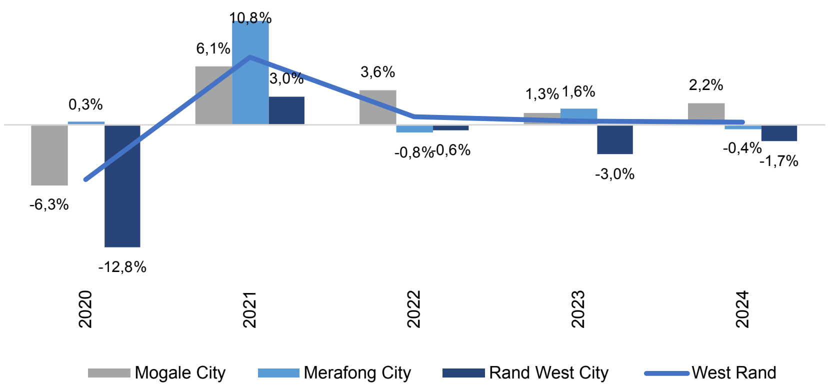
The Sedibeng district's economy is likely to face continued challenges unless efforts are made to diversify its declining manufacturing base. While agriculture is central to the district's economy, its employment capabilities need strengthening to foster overall economic growth. Diversification into other sectors, especially If through agro-processing, holds the potential to maximise the contribution of this sector.

West Rand District

The West Rand district possesses the smallest economy size among all the municipalities in Gauteng. In 2022, the district contributed merely 3.6 per cent of its value added to the overall province. The district's economy is heavily dependent on the mining sector, and it has been notably affected by the sector’s diminishing output.

Economic Performance and Outlook

Figure 4.9: West Rand Annual GDP Growth Rates



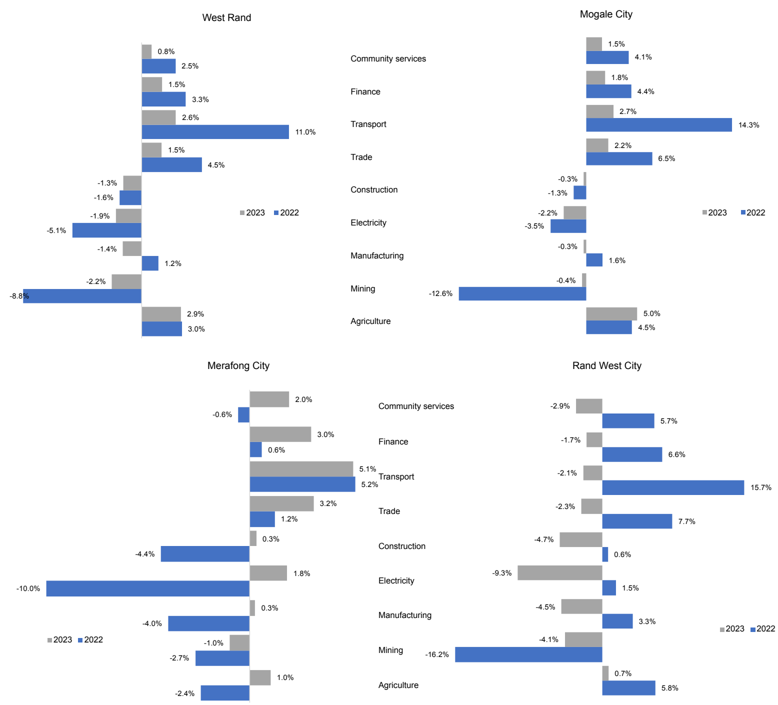
Source: S&P Global, 2023
Note: Estimates and Forecasts from 2023

According to Figure 4.9, the West Rand district experienced a growth of 0.8 per cent in 2022 and is predicted to grow by 0.4 per cent in 2023. This growth is mainly due to the increase in Mogale City, which grew by 3.6 per cent in 2022 and is expected to grow by 1.3 per cent in 2023.

However, Merafong City and Rand West City had a negative impact on the district's economic growth as they contracted by 0.8 per cent and 0.6 per cent, respectively in 2022. In 2023, Merafong City is predicted to recover and grow by 1.3 per cent but is expected to fall back to 0.4 per cent in 2024. On the other hand, Rand West City is likely to experience further contraction and decline by 3.0 per cent and 1.7 per cent in 2023 and 2024, respectively.

As shown in Figure 4.10 below, in 2022, the West Rand region experienced growth in several sectors such as trade, community services, finance, transport, manufacturing, and agriculture, while sectors like mining, electricity, and construction experienced a decline. Among the three municipalities in the region, Mogale City had the highest growth rate in 2022. However, it is expected to slow down a bit in 2023, but it will still be supported by growth in sectors such as trade, community services, finance, transport, manufacturing, and agriculture.

Figure 4.10: West Rand Sector Output Growth

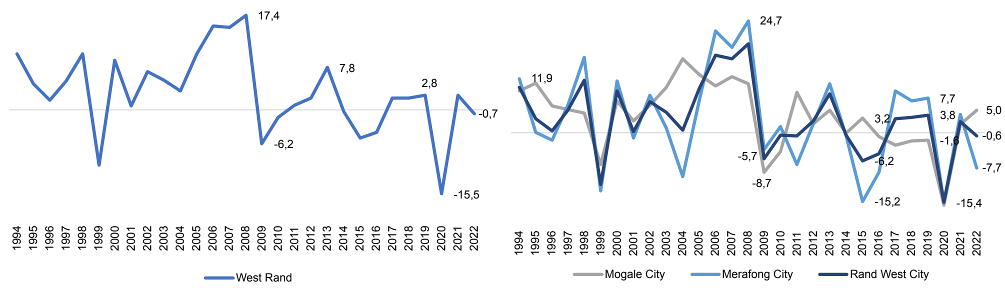


Source: S&P Global, 2023
Note: Estimates and Forecasts from 2023

Conversely, Merafong City witnessed a contraction in 2022 due to a decline in several sectors such as construction, electricity, manufacturing, mining, and agriculture. Nevertheless, a recovery is anticipated in 2023, with growth expected across all sectors except for the mining sector, which is predicted to contract by 1.0 per cent. Meanwhile, Rand West City is still expected to contract in 2023, with all sectors expected to experience negative output growth, except for agriculture, which is anticipated to decrease only slightly by 0.7 per cent.

Investment Trends in West Rand

Figure 4.11 Growth in Real Gross Fixed Capital Formation



Source: Quantec, 2023

Figure 4.11 illustrates the real GFCF growth in West Rand and its locals. In 2014, investment declined due to a drop in real GFCF in Merafong City and Rand West City, which saw a significant contraction in the growth of buildings and construction works, machinery and other equipment, transport equipment, and research, mineral exploration, and biological resources.

It's important to note that in 2022, there was no improvement in the West Rand district. This was due to a contraction of 7.7 per cent in Merafong City and 0.6 per cent in Rand West City, both driven by a fall in the growth of buildings and construction works and machinery and other equipment.

Labour Market Analysis

Table 4.3: West Rand and its Locals Labour Market Analysis

Labour Indicators ('000)	West Rand		Mogale City		Merafong City		Rand West City	
	2021	2022	2021	2022	2021	2022	2021	2022
Labour Force	378	397 ↑	168	179 ↑	90	91 ↑	119	126 ↑
Employment	194	205 ↑	79	86 ↑	76	75 ↓	38	43 ↑
Not Economically Active Population	239	230	122	117	41	41	75	71 ↓
Unemployment - official	184	191 ↑	89	92 ↑	14	15 ↑	80	83 ↑
Unemployment Rate - official definition	48,8%	48,2%	53,2%	51,6% ↓	15,9%	17,0% ↓	67,5%	65,7% ↓
Labour absorption rate	31,4%	32,8% ↑	27,1%	29,3% ↑	57,8%	56,8% ↓	19,9%	21,9% ↑
Labour force participation rate	61,3%	63,3% ↑	57,8%	60,5% ↑	68,7%	68,5%	61,3%	63,8% ↑

Source: S&P Global, 2023

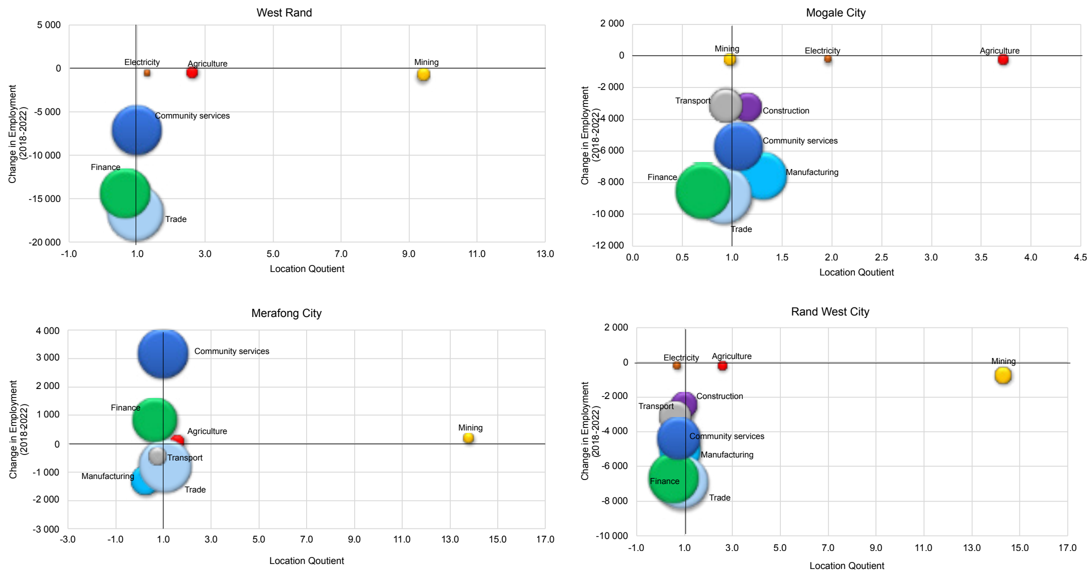
Table 4.3 indicates that Rand West City recorded the highest unemployment rate, which can be attributed to its lower LAR compared to the other local municipalities in the district. This is despite a decrease in the number of individuals not economically active. In the West Rand district, the labour force is expanding, while the number of those not economically active is decreasing. The unemployment rate has remained high in West Rand, Rand West City, and Mogale City, albeit with a marginal decrease in 2022.

On the other hand, Merafong City had the lowest unemployment rate, which was 17.0 per cent in 2022, although it was up from 15.9 per cent in 2021. This relatively low unemployment rate can be explained by the fact that this local municipality has a smaller labour force compared to the other two. Moreover, LFPR which measures the proportion of the working-age population that engages actively in the labour market either by working or looking for work, as well as the LAR in Merafong City, were much better than in the other local municipalities.

Sector Specialisation and Job Performance in West Rand

Figure 4.12 below shows the relationship between relative sector specialisation and employment performance in West Rand and local municipalities. For a detailed explanation of how to interpret the data, please refer to Box 1.

Figure 4.12: A Combination of Sector Specialisation and Job Performance



Source: GPT, 2023. Data used from S&P Global.

In figure 4.12, it is evident that the West Rand's economy relies heavily on the mining sector, primarily concentrated in the Merafong and Rand West cities. However, Mogale City has a more diverse economy, with agriculture, manufacturing, trade, and community services as its main pillars. Despite agriculture being the leading sector in Mogale City, it does not play a pivotal role in job creation. Employment is instead spread across various sectors, including manufacturing, trade, finance, and community services. However, these sectors have seen declines in job creation, ranging from 3 000 to 8 000 jobs between 2018 and 2022.

The economy of Rand West City has been negatively affected by the declining output of the mining sector, its primary specialisation, resulting in job losses during the reviewed period. While mining is also integral to Merafong City, the sector managed to create some jobs between 2018 and 2022, although the impact was not significant. On the other hand, community services and finance, which are also essential to the economy of Merafong City, were able to create 3 152 and 788 jobs, respectively, in 2018 and 2022.

The persistent decline in the mining sector's output poses a considerable threat to the West Rand's economy. To ensure sustained regional growth, there is a need for economic diversification away from mining to mitigate the adverse effects of declining mining output.

4.2.3 The Bottom Line

After facing an economic growth contraction in 2020 due to the COVID-19 pandemic, the global economy demonstrated a recovery in 2021, a trend evident in all the metros, districts and local municipalities in Gauteng. However, the rebound in 2022 was hampered by another shock resulting from Russia's invasion of Ukraine. This event not only delayed economic recovery but also had a detrimental impact on global economy , particularly effecting countries in developing economies. The war negatively influenced trade and the production of various commodities, including energy and food, leading to rapid price increases. The metros and districts also experienced this impact, affecting their ongoing recovery efforts.

Looking ahead to 2024, global economic growth is expected to stagnant. Factors contributing to this is weaker household consumption, declining property prices, concerns related to climate change and geopolitical tensions that could disrupt supply chains, output, and prices. Domestically, energy and logistical constraints persists, hindering economic activity and resulting in escalated costs.[3] Beyond these global and domestic challenges, locally specific socio-economic issues, as elaborated in the following section, are expected to exert a substantial impact on the economies of the metros, districts, and local municipalities.

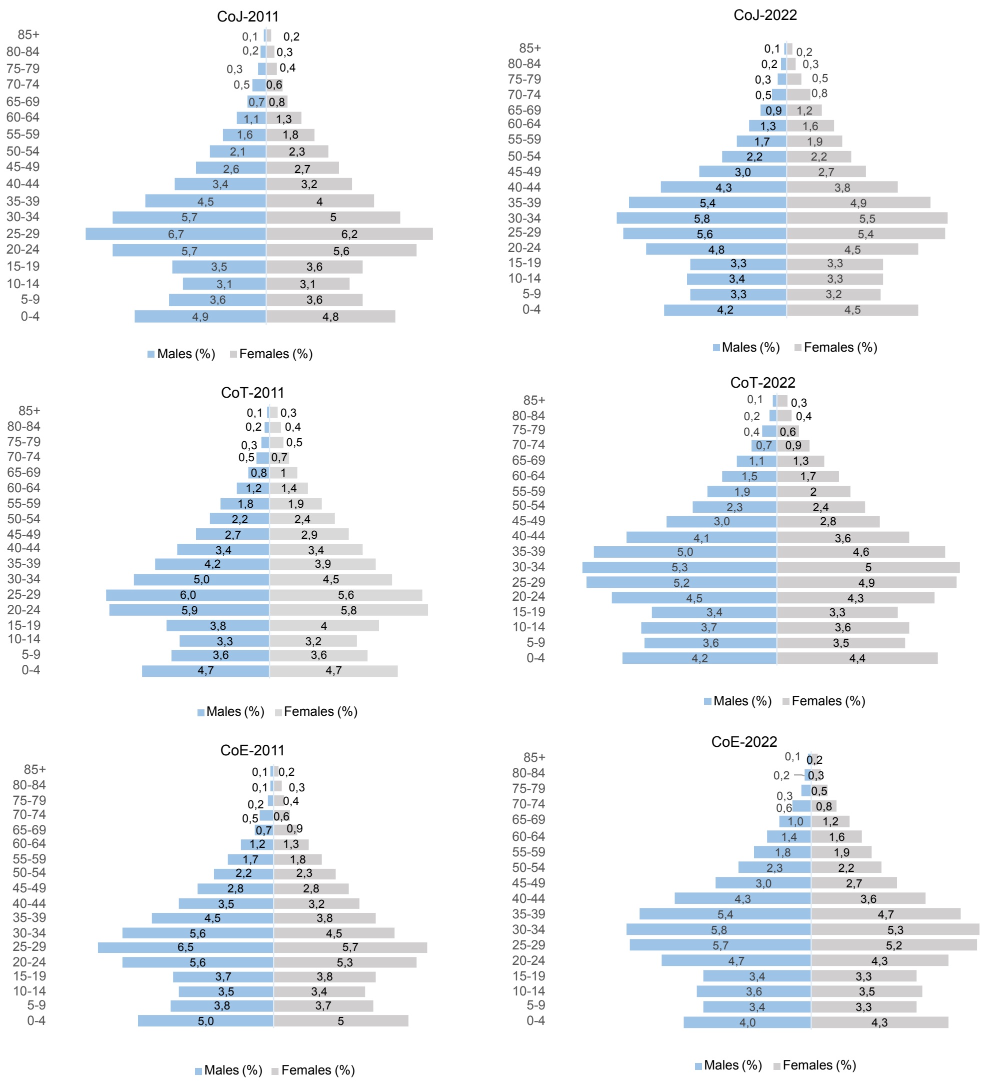
4.3 Socio-Economic Analysis of Municipalities

All municipalities play an indispensable role in fostering economic development and reducing poverty, regardless of their unique circumstances. The services they deliver, such as water, sanitation, waste management, and electricity, are essential elements in promoting social well-being and economic growth. The accessibility, cost, and reliability of these services have a significant impact on local economic performance and can greatly influence the quality of life of low-income households [4].

4.3.1 Metropolitan Municipalities

Population Dynamics

Figure 4.13: Metros Distribution of Population by Age Groups



Source: Stats SA, 2023

[3] South African Reserve Bank. (2023). *Statement of the Monetary Policy Committee 23rd November 2023.* Pretoria, South Africa

[4] National Treasury. (2008). *Local Government Budgets and Expenditure Review: Chapter Two 2008.* Pretoria, South Africa.

Figure 4.13 above showcases the population distribution among Gauteng metros in 2022, providing a comparison for each metro to the year 2011. The CoJ boasted the highest population among the metros, with the majority falling within the age group of 15-34 years, followed by those aged 35-59 years. However, the CoJ exhibited the lowest proportion of the population aged 60 or above. In contrast, the CoJ had the highest number of people aged between 0-14 years, differing from the patterns observed in the City of Ekurhuleni (CoE) and the City of Tshwane (CoT). Overall, the population in all the metros increased between 2011 and 2022.

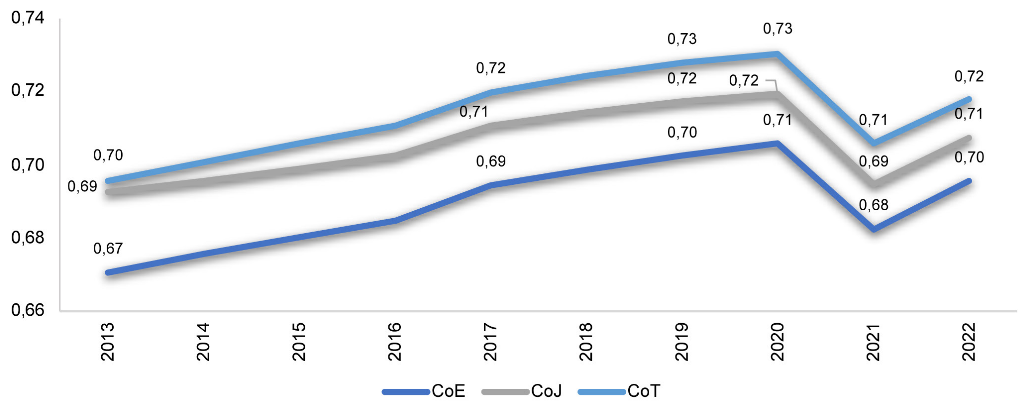
Both CoE and CoT metros featured the highest population within the age group of 15-34 years, while the age group of people aged 60 or above constituted the smallest portion in both metros.

Despite the 15-34 age group being the most populated across the metros, a majority of individuals within this group remained unemployed. The youth unemployment rate hovered hovering around 50 per cent, and young people were susceptible to being both victims and perpetrators of crime. Substance abuse emerged as a major concern among the youth, coupled with low levels of entrepreneurial spirit, poor physical and mental health, and low skill levels, resulting in a skills mismatch.[5]

Given these challenges, there is a pressing need for the metros to focus on youth development by restructuring and empowering the youth to enhance their skills, positioning them as valuable contributors to society.

Human Development

Figure 4.14 Metros Human Development Index



Source: S&P Global, 2023

Figure 4.14 illustrates the Human Development Index [6] (HDI) for the three metros. The HDI is expressed as a value between 0 and 1 and the closer it is to 1, the higher the human development.[7] In the CoJ, the index increased to 0.71 in 2022 after it decline to 0.69 in 2021 from 0.72 in 2020. The CoE and CoT followed the same trend and increased to 0.70 and 0.72 in 2022, respectively after they had both decreased in 2021 to 0.68 and 0.71 in 2021. The HDI for CoJ, CoE and CoT is closer to the value of one, indicating higher human development in these metros.

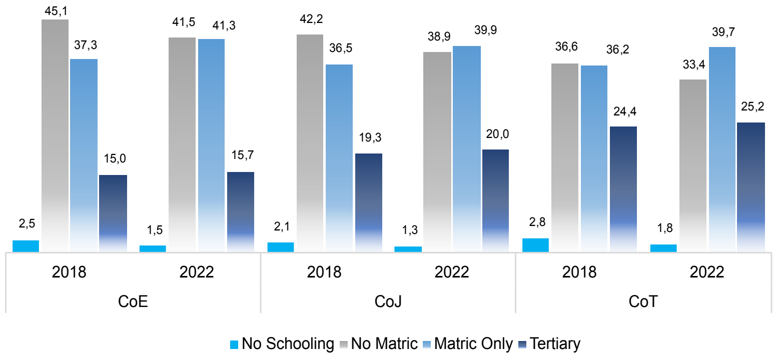
Additionally, to gauge the human development of individuals in the the three metros, an analysis of the education attainment of people aged 20 and older in the three metros is conducted in figure 4.15 belows.

[5] State of the City Address. (2023). *City of Johannesburg SOCA 2023.* Johannesburg, South Africa.

[6] The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and having a decent standard of living.

[7] World Health Organisation. (2023). *Human Development Index*. Geneva, Switzerland.

Figure 4.15: Education Attainment of People Older Than 20 years – Share of Total (as %)



Source: S&P Global, 2023.

The data presented in figure 4.15 shows the percentage of the population in all three metros who have attained various levels of education. The most recent data available is from 2022, compared to the data from 2018. Notably, the percentage of the population with no schooling has significantly decreased in all three metros. Only 1.5 per cent, 1.3 per cent, and 1.8 per cent of the population aged 20 years and above in the CoE, CoJ, and CoT respectively, had no school education. The number of individuals with tertiary education or matriculation has increased in all three metros in 2022 compared to 2018. However, there is a mixed trend when it comes to the number of people with no matriculation. In the CoE and CoT, the number has decreased, while in the CoJ, it has increased.

Overall, there has been an increase in the percentage of the population with education, particularly in tertiary education and matriculation, aligning with the overall improvement in HDI.

Poverty and Inequality

One of the most significant and complicated issues faced by cities is the rising inequality within their boundaries and the resulting increase in poverty. When measured by various metrics, South African cities rank among the most unequal in the world.[8] This sub-section, analyses the extent of poverty in the metros using poverty lines, while inequality is measured using the Gini coefficient.

Tale 4.4: Share of Population Below Poverty Lines

	Share below the upper poverty line (R1558)							
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Trendline**
CoE	46,3%	47,9%	49,0%	50,7%	53,3%	52,5%	51,5%	
CoJ	44,7%	46,3%	47,3%	49,0%	51,7%	50,9%	50,1%	
CoT	40,5%	42,1%	43,1%	44,7%	47,4%	46,8%	46,1%	
	Share below the food poverty line (R760)							
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	
CoE	19,7%	21,3%	21,7%	22,6%	25,1%	24,5%	23,5%	
CoJ	18,9%	20,3%	20,7%	21,6%	24,0%	23,5%	22,6%	
CoT	17,0%	18,5%	18,9%	19,7%	22,0%	21,7%	20,8%	
	Share below the lower poverty line (R1058)							
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	
CoE	31,7%	33,4%	34,3%	35,7%	38,3%	37,4%	36,1%	
CoJ	30,4%	32,1%	32,9%	34,2%	36,9%	36,0%	34,9%	
CoT	27,6%	29,2%	30,0%	31,2%	33,8%	33,1%	32,2%	

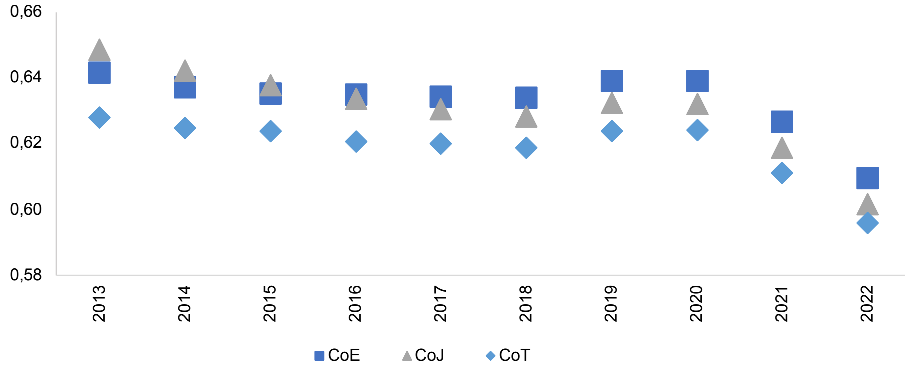
Source: S&P Global, 2023

[8] Smith, W. (2023). *Tackling Inequality In The City—Cape Town.* Social Europe, 7th June 2023.

Table 4.4 shows the share of the population that below the upper-bound poverty line (UBPL), the food poverty line (FPL) and the lower-bound poverty line (LBPL) per person per month. Over the review period, there has been a noticeable share of the population living in poverty according to all poverty measures. In the CoE, the share of population living below the LBPL, the UBPL and the FPL decreased between 2021 and 2022, although it had increased compared to the rates in 2016. The CoJ and CoT also experienced significant reductions in the LBPL and FPL, while there was a slight decrease in the UBPL.

When focusing on the FPL, also known as the "extreme" poverty line, representing the amount of money (R760) needed per month for an individual to afford the minimum required daily energy intake, there has been an increase in all three metros. This suggests that the share of the population living on R760 per month is not declining.

Figure 4.16: Gini-Coefficient as a Measure of Income Inequality

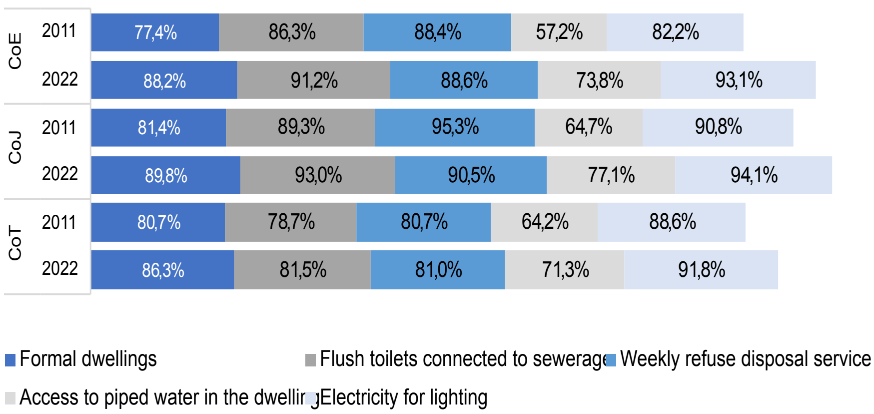


Source: S&P Global, 2023.

Figure 4.16 shows the Gini coefficient [9] of the three metros. The values for the CoJ, CoT, and CoE are above 0.5 and closer to 1, indicating that inequality is very high in these areas. It is noticeable that the Gini coefficient for 2020 was high due to the COVID-19 pandemic. However, the values have decreased in all the metros for the year 2022. Even though this is the case, inequality remains high in Gauteng and its regions, and this is not surprising, as South Africa is known as one of the most unequal countries in the world.

Access to basic services

Figure: 4.17: Access to Basic Services in Metros



Source: Stats SA, 2023.

The figure above shows access to basic services in the three metros. There has been a notable improvement in the provision of services between 2011 and 2022 in all three metros. In particular, the percentage of people who have access to piped water in their homes, which was previously low, has significantly increased in 2022. However, access to weekly refuse removal has declined in the CoJ, dropping from 95.3 per cent in 2011 to 90.5 per cent in 2022, while the other two metros have experienced slight increases. Meanwhile, formal dwellings, flush toilets connected to sewage, and lighting electricity have all seen improvements across all three metros from the 2011 Census to the 2022 one. In general, there has been an overall improvement in access to basic services in the three metros during the reviewed period.

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[9] The co-efficient ranges from 0 (or 0%) to 1 (or 100%), with 0 representing perfect equality and 1 representing perfect inequality.

4.3.2 District and Local Municipalities

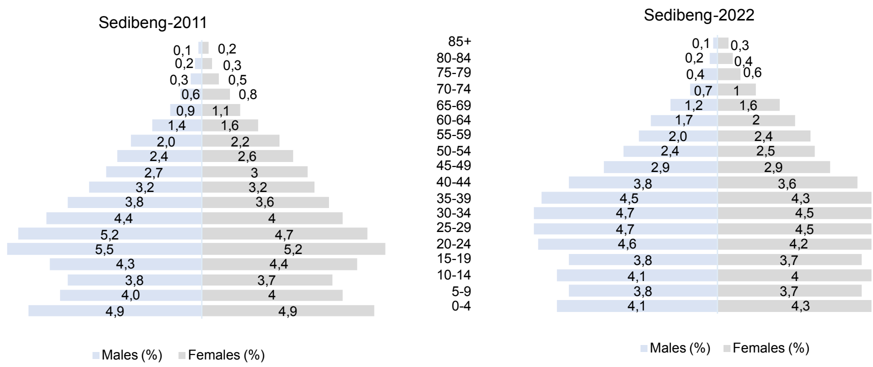
One of the main benefits of having a system of local governance is that it is better equipped to address local trends, needs, and priorities than national or provincial governments.[10] This section discusses the socio-economic variables in the districts and local municipalities in Gauteng.

Sedibeng District

As the population numbers are growing in Gauteng so are the numbers for the Sedibeng and West Rand districts. According to the Census 2022 data, the number of population in this districts grew to over 1 million per cent and 916 483 per cent, respectively.

Population Dynamics

Figure 4.18: Distribution of Population by Age Group in Sedibeng

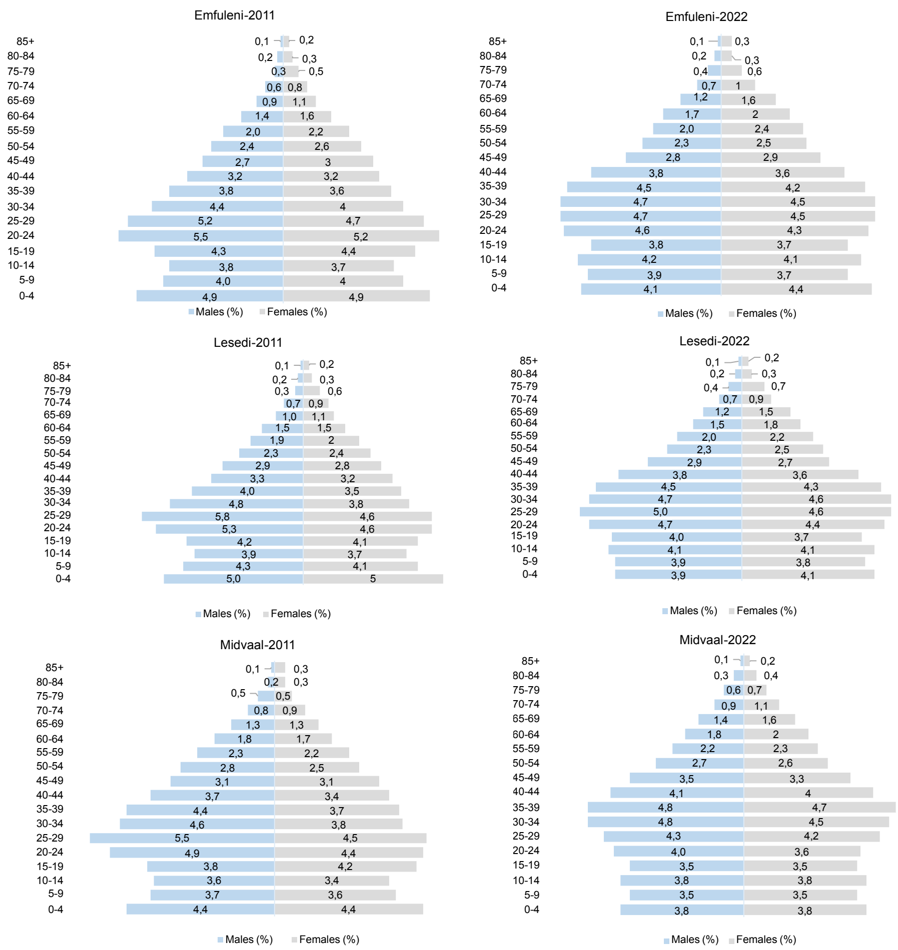


Source: Stats SA, 2023.

The population distribution for the Sedibeng district and its local municipalities is depicted in Figure 4.18. The figure shows that the total population has increased from 2011 to 2022. Emfuleni local municipality is the most populous, followed by Lesedi. As shown in Figure 19 below, the age group between 15-34 years is the most populous in the district and local municipalities, while the 60-plus years is the least populous. The 0-14 age group in Sedibeng did not grow as much as the other age groups, as it only increased by 1.26 per cent between 2011 and 2022.

10 National Treasury. (2008). *Local Government Budgets and Expenditure Review: Chapter Two 2008.* Pretoria, South Africa.

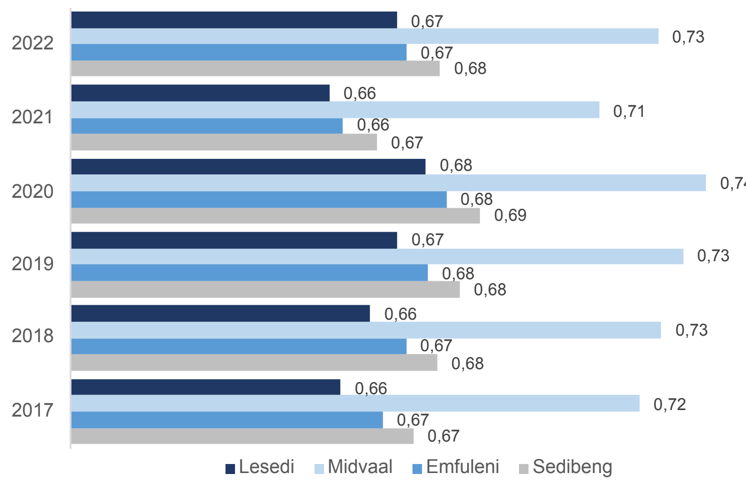
Figure 4.19: Distribution of Population by Age Group in Sedibeng Locals



Source: IHS Markit, 2023

Human Development

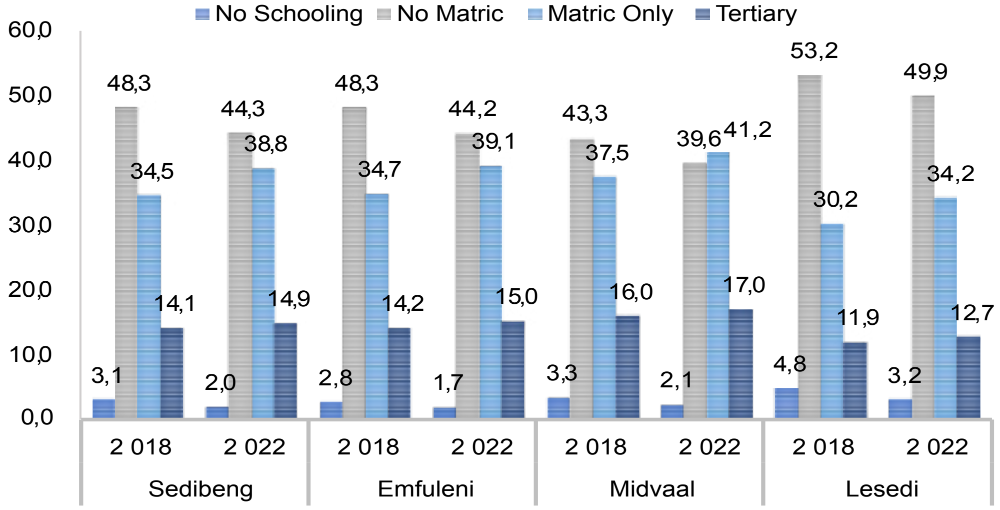
Figure: 4.20: Human Development Index



Source: S&P Global, 2023

Figure 4.20 demonstrates that the HDI has shown some improvement in the Sedibeng district and its local municipalities. It's worth noting that the index is still at pre-COVID levels, indicating that human development was not negatively affected by the pandemic. This was achieved through the implementation of policies by the South African government, districts, and metros to ensure that people were provided with the necessary means to lead a long and healthy life, have access to knowledge, and maintain a decent standard of living.

Figure 4.21: Educational Attainment for People Older Than 20 years



Source: S&P Global, 2023

Figure 4.21 illustrates the education attainment levels of residents in the Sedibeng district and its local municipalities. The data suggests a slight decrease in the number of individuals without matric qualifications in Sedibeng, Emfuleni, and Midvaal, with the exception of Lesedi. On the other hand, the number of people with matriculation certificates and tertiary education has shown a steady increase in Sedibeng and its local municipalities. Furthermore, there is a decline in the number of people with no formal education, indicating an increased pursuit of education among individuals aged 20 and above in 2022 compared to 2018.

Poverty and Inequality

Table 4.5: Sedibeng and Locals Poverty Lines

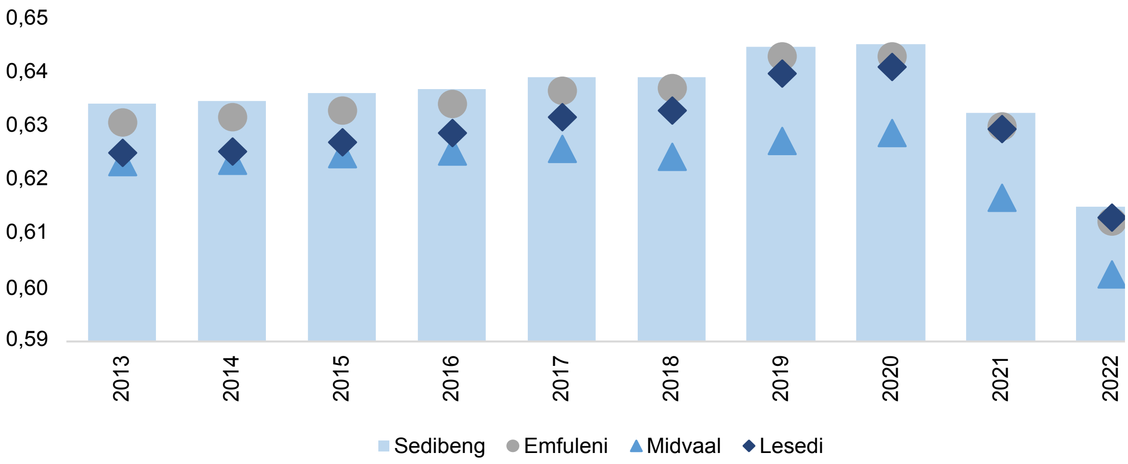
	Share below the upper poverty line (R1558)							
	2016	2017	2018	2019	2020	2021	2022	Trendline
Sedibeng	50.4%	51.8%	52.8%	54.4%	56.9%	56.0%	55.0%	
Emfuleni	52.4%	53.7%	54.7%	56.2%	58.6%	57.7%	56.5%	
Midvaal	37.2%	38.7%	39.9%	41.7%	44.2%	43.8%	43.3%	
Lesedi	50.3%	52.0%	53.3%	55.2%	57.9%	57.4%	56.6%	
	Share below the food poverty line (R760)							
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	
Sedibeng	22.3%	23.9%	24.3%	25.3%	27.8%	27.2%	26.0%	
Emfuleni	23.3%	24.9%	25.3%	26.2%	28.7%	28.1%	26.8%	
Midvaal	15.5%	17.0%	17.7%	18.7%	21.1%	20.8%	20.0%	
Lesedi	21.8%	23.6%	24.4%	25.6%	28.4%	28.0%	26.9%	
	Share below the lower poverty line (R 1058)							
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	
Sedibeng	35.3%	37.0%	37.8%	39.1%	41.8%	40.8%	39.4%	
Emfuleni	36.8%	38.4%	39.2%	40.4%	43.1%	42.0%	40.5%	
Midvaal	25.4%	27.1%	28.2%	29.6%	32.1%	31.5%	30.6%	
Lesedi	35.0%	37.0%	38.1%	39.8%	42.7%	41.9%	40.7%	

Source: S&P Global, 2023

Table 4.5 above presents three poverty lines for Sedibeng and its local municipalities. Approximately 26 per cent of residents in Emfuleni, and Lesedi live on the food poverty line, while this figure is only 20 per cent in Midvaal. However, the situation changes when considering the upper poverty line of R1 558. Here, around 56 per cent of residents in Emfuleni and Lesedi are living in poverty, while Midvaal is the only local municipality with the upper bound poverty rate below 50 per cent (at 43.3 per cent). At a district level, the average upper bound poverty rate was 55 per cent of total Sedibeng population.

It is worth noting that out of the three local municipalities, Emfuleni and Lesedi have the highest number of people living in poverty across all three poverty lines. Although the percentage is lower in all poverty lines for Midvaal, it is important to mention that the percentage of people living in poverty has been gradually increasing.

Figure: 4. 22: Gini Coefficient as a Measure of Income Inequality in Sedibeng

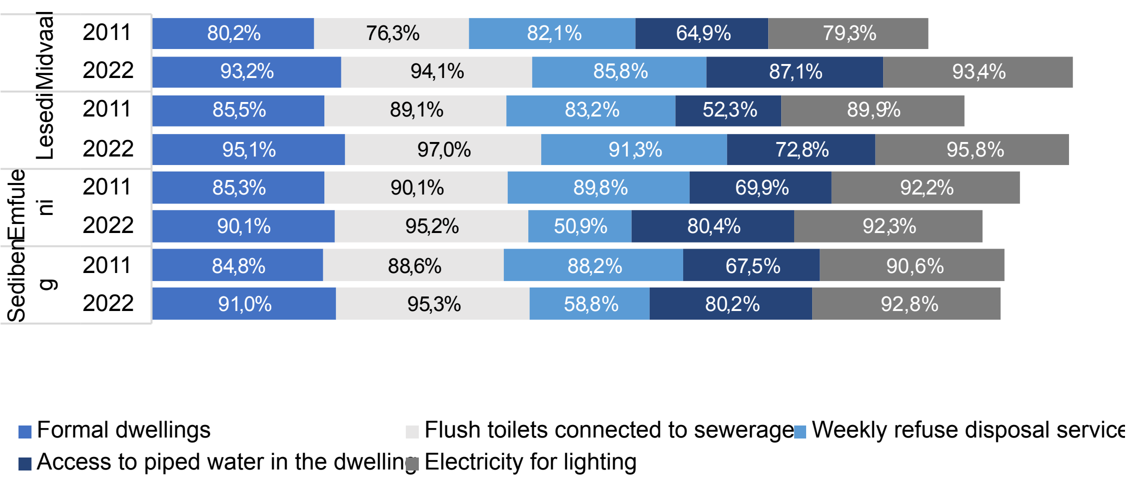


Source: S&P Global, 2023

Figure 4.22 illustrates the Gini coefficient of the Sedibeng district and its local municipalities. The high Gini coefficient numbers indicate that there has been little progress made in reducing income inequality in the district. The figure shows that since 2013, there has been no significant change, as the Gini coefficient has remained around 0.60. Even in 2022, the Gini coefficient is still hovering around 0.60.

Access to Basic Services in Sedibeng

Figure 4.23: Access to Basic Services in Sedibeng and Local Municipalities



Source: Census, 2022

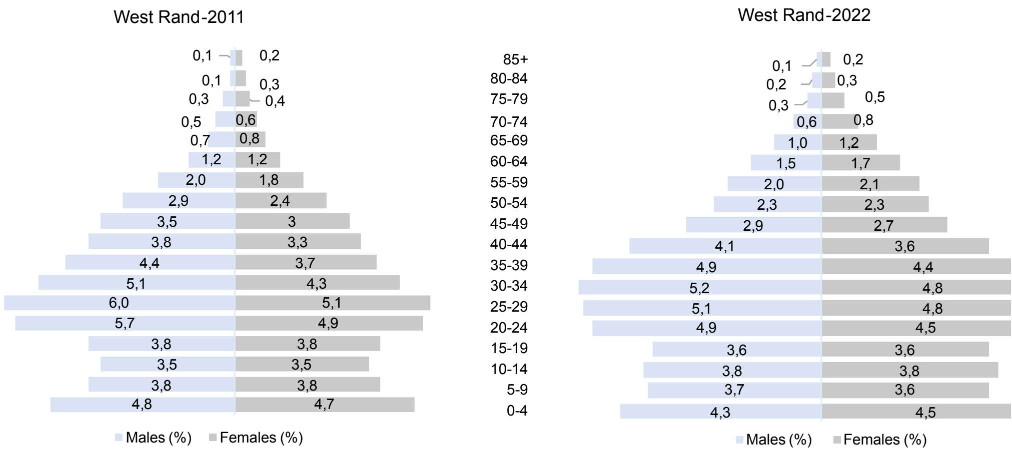
According to the 2022 Census, there has been a significant improvement in access to basic services across the district, as depicted in Figure 4.23. In Sedibeng, the largest improvement was observed in access to piped water, now available to 80.2 per cent of residents, compared to 67.5 per cent in 2011. This was followed by improvements in flush toilets connected to sewage and formal dwellings. However, the weekly refuse disposal service has worsened in 2022 when compared to 2011.

At the local municipality level, Lesedi and Midvaal recorded improvements in all five aspects, while Emfuleni deteriorated only in the weekly refuse disposal service. The other four aspects in Emfuleni showed significant improvement.

West Rand District

In West Rand the population is also increasing following the Gauteng trend, with Mogale City being the most populous local municipality, followed by Rand West City.

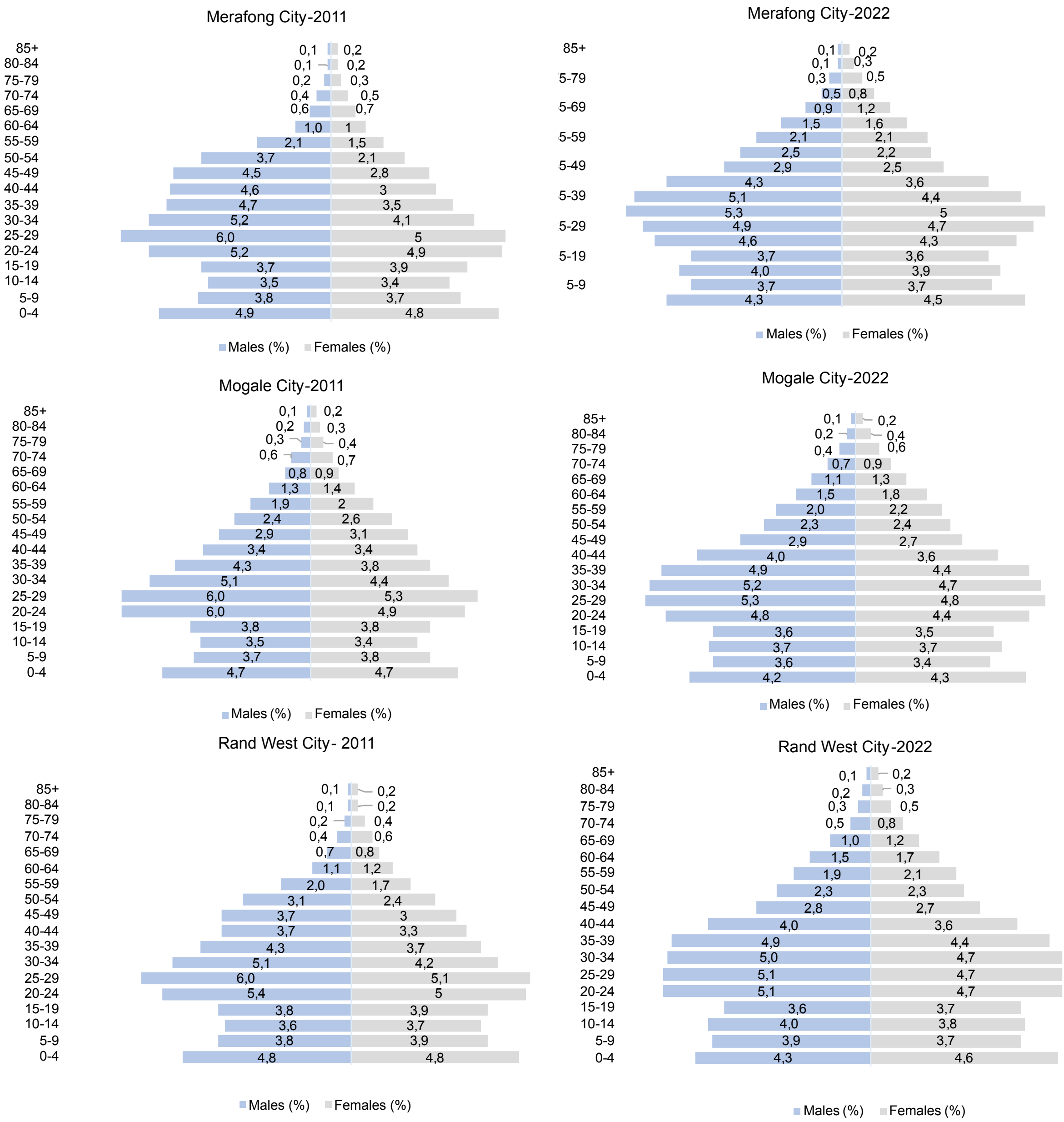
Figure 4.24: Distribution of Population by Age Groups in West Rand



Source: IHS Markit, 2023

The population in West Rand has been steadily increasing, although it has not yet reached the one million mark. In terms of local municipalities, Mogale City has the highest number of residents, followed by Rand West City (see Figure 4.25). The 15-34 age cohort is the largest in all three municipalities and in the district overall. This is followed by the age group between 35-59 years old, which consists of those who are economically active and of working age. The population of those aged 60 and above is the smallest in all three local municipalities and at the district level.

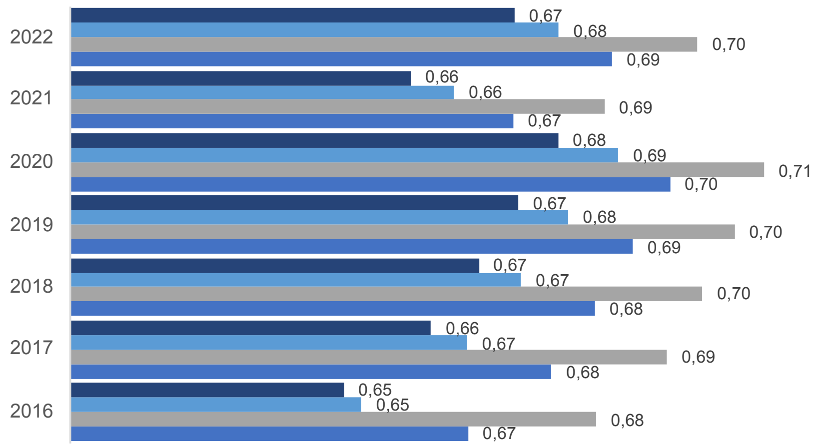
Figure 4.25: Distribution of Population by Age Groups in West Rand Locals



Source: Stats SA, 2023

Human Development

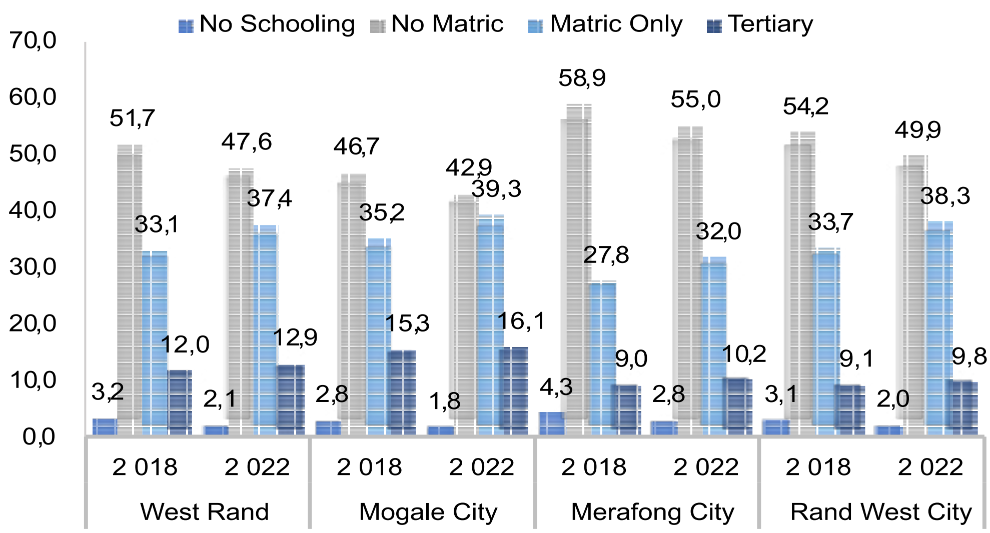
Figure 4.26: Human Development Index in West Rand



Source: S&P Global, 2023

The HDI for West Rand and its local municipalities has demonstrated improvement since 2017, driven primarily by enhanced educational attainment and increased life expectancy due to improved access to healthcare. Despite a decreased in the index in 2021, there was a rapid improvement in 2022. The HDI serves as a crucial indicator of human development for residents in the region. As a second measure of human development, figure 4.27, included below, provides a secondary measure of human development by showcasing the educational attainment of residents aged 20 and above.

Figure: 4.27: Educational Attainment for People Older Than 20 years-Share of Total (as %)



Source: S&P Global, 2023

Figure 4.27 reveals a decline in the number of individuals aged 20 and above in the West Rand and its local municipalities who have not completed matric or have received no schooling. Fortunately, there has been an increase in the number of individuals who have completed matric as well as those with tertiary education.

Poverty and Inequality

Table 4.6: West Rand and Locals Poverty Lines

Share below the upper poverty line (R1558)

	2016	2017	2018	2019	2020	2021	2022	Trendline
West Rand	46.7%	48.1%	49.0%	50.6%	53.2%	52.2%	51.0%	
Mogale City	45.2%	46.6%	47.6%	49.2%	51.8%	51.0%	50.0%	
Merafong City	47.0%	48.5%	49.4%	50.9%	53.4%	52.1%	50.3%	
Rand West City	48.6%	49.9%	50.8%	52.4%	55.0%	54.0%	52.9%	

Share below the food poverty line (R760)

	2016	2017	2018	2019	2020	2021	2022	
West Rand	19.2%	20.6%	21.0%	21.9%	24.3%	23.7%	22.6%	
Mogale City	18.7%	20.2%	20.7%	21.6%	24.1%	23.5%	22.4%	
Merafong City	18.5%	19.9%	20.3%	21.0%	23.2%	22.5%	21.3%	
Rand West City	20.4%	21.8%	22.1%	23.0%	25.5%	24.9%	23.9%	

Share below the lower poverty line (R1058)

	2016	2017	2018	2019	2020	2021	2022	
West Rand	31.5%	33.1%	33.9%	35.2%	37.8%	36.7%	35.3%	
Mogale City	30.7%	32.3%	33.1%	34.5%	37.1%	36.1%	34.9%	
Merafong City	30.9%	32.6%	33.4%	34.6%	37.0%	35.7%	34.0%	
Rand West City	33.1%	34.7%	35.4%	36.8%	39.4%	38.4%	37.0%	

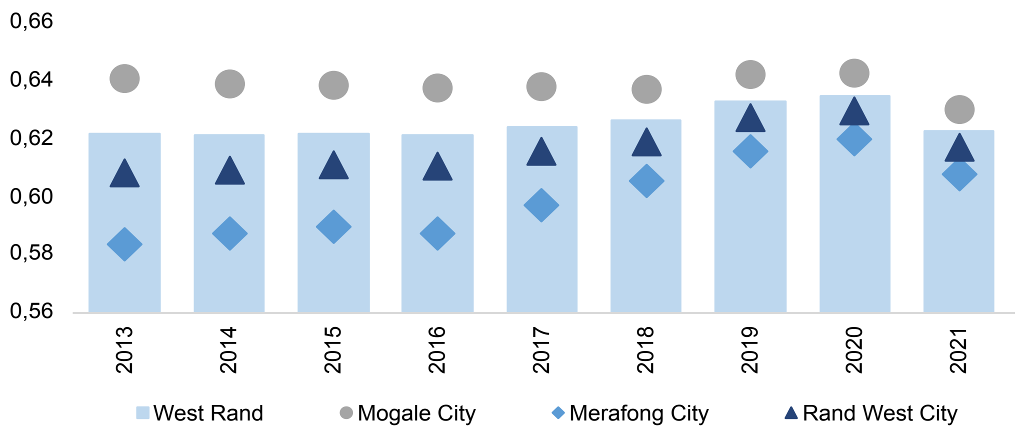
Source: S&P Global, 2023

Table 4.6 displays the three poverty lines for the West Rand district and its local municipalities. Examining the food poverty line of R760 per person per month, a relatively low percentage of residents in the West Rand and its locals experience poverty. Specifically, Mogale City and Rand West City show that only approximately 23 per cent of their residents live on that amount, while Merafong City shows that only 21 per cent of their residents live below the food poverty line.

However, when considering the upper bound poverty line of R1 558, it becomes evident that around 50 per cent of residents in West Rand and its locals fell below that poverty line in 2022.

Rand West City has the highest number of people living in poverty across all three poverty line measures, while Mogale City and Merafong City have almost identical poverty rates across all three measures.

Figure: 4.28: Gini Coefficient as a Measure of Income Inequality in West Rand

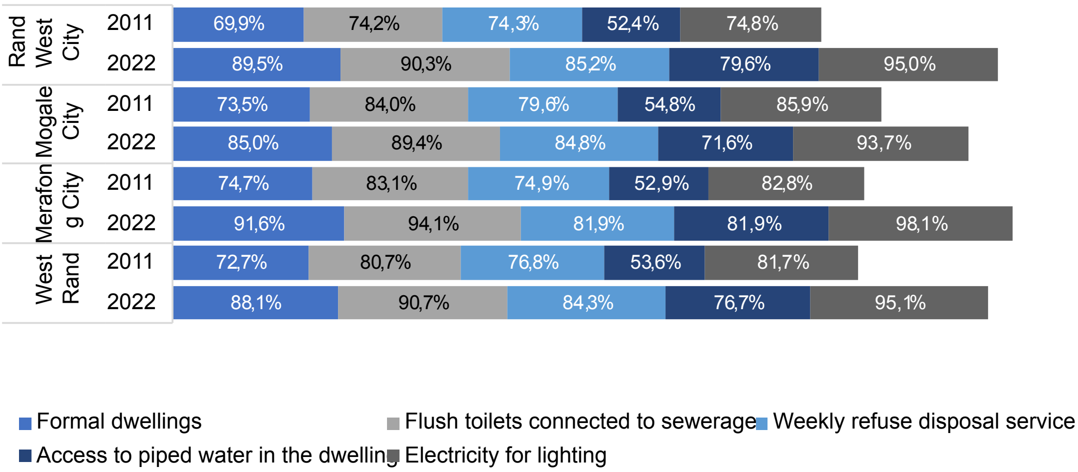


Source: S&P Global, 2023

Looking at the figure above, it can be observed that the Gini coefficient of West Rand has been decreasing since 2013, although at a slower rate. This trend is attributed to Merafong City and Rand West City, which have experienced a more gradual decrease. However, Mogale City has made significant progress in reducing inequality within the municipality, with the coefficient decreasing from 0.64 in 2013 to 0.61 in 2022.

Access to Basic Services in West Rand

Figure 4.29:Access to Basic Services



Source: Stats SA, 2023.

According to the Census 2022 data, the West Rand district and its local municipalities have made significant improvements in household access to basic services. The district recorded the highest improvement in piped water access, with 76.7 per cent of total residents having access, compared to 53.6 per cent in 2011. Access to flush toilets connected to sewerage, formal dwellings, weekly refuse disposal service, and electricity for lighting has also increased. Similarly, the local municipalities of Rand West City, Mogale City, and Merafong City have also experienced increases in access to all services.

4.4 Implications of the Challenging Economic and Fiscal Environment on Municipalities

Local government is an essential part of South Africa's three-sphere governance system and is responsible for providing basic services such as water, sanitation, electricity, and waste management. [11] Municipalities require financial resources, including self-generated revenue, to fulfil their constitutional duties.[12] The national government also provides national allocations to municipalities through equitable share and conditional grants to enable them to perform their mandated functions.[13]

The current economic and socio-economic challenges have significantly impacted municipalities' economies. One of the major challenges facing municipalities is the loss of revenue. Insufficient funds to support municipal budgets have resulted in a decline in service delivery across many municipalities.[14] This challenge is exacerbated by the influx of people into metropolitan areas, placing strain on municipal resources.

In Gauteng, for instance, the surge in population exceeds the financial capacity needed to sustain services and infrastructure. As a result, service delivery backlogs occur, leading to residents becoming frustrated and resorting to service delivery protests. The financial resources are further intensified by revenue losses resulting from residents' underpayment of municipal service accounts, indicating dire socio-economic challenges, such as high unemployment and poverty levels in those areas. Underpayments are usually common in small municipalities, such as districts and local municipalities.

The insufficient resources in municipalities hinder economic development and growth opportunities in impoverished communities, contributing to a lack of job opportunities, job losses, and overall poor living conditions.

[11] South African Local Government Association. 2016. *Debt owed to municipalities, poor billing and critical success factors to billing. Pretoria*, South Africa.

[12] South African Government Printing Works. 1996. *Constitution of the Republic of South Africa. Act No.108.* Pretoria, South Africa.

[13] National Treasury. (2008). *Budget Review: Chapter Three 2008*. Pretoria, South Africa.

[14] Pieters, NN. (2015). *Evaluating revenue collection and allocation challenges faced by Ndlambe local municipality: M (Pub Adm) thesis.* University of Fort Hare, Alice.

4.5 Conclusion

Municipalities in the Gauteng province are grappling with economic and social challenges, resulting in weak GDP growth. CoJ's GDP growth is estimated to have slowed to 0.7 per cent in 2023 from 2.9 per cent in 2022 and is expected to be at 1.5 per cent in 2024. CoE's growth is projected to be at 0.8 per cent in 2023, expected to increase to 1.6 per cent in 2024. Although the economy of the CoT experienced a contraction of 0.1 per cent in growth in 2023, a marginal improvement to 0.7 per cent is anticipated in 2024. Sedibeng's economy is expected to have decelerated by 1.5 per cent in 2023 from growth of 2.7 per cent in 2022. In the West Rand, growth is estimated to slow down to 0.4 per cent in 2023 from 0.8 per cent in 2022.

A major challenge at the local municipality levels is high unemployment rates, particularly among young people. In 2022, CoJ recorded a youth unemployment rate of 59.8 per cent, the CoE recorded 65.1 per cent, and the CoT recorded 63.9 per cent of youth unemployment. Sedibeng and West Rand also recorded high rates of youth unemployment at 57.2 per cent and 63.3 per cent, respectively in 2022. Other challenges faced by municipalities include loss of revenue, increasing poverty and inequality, negatively impacting service delivery.

Despite these challenges, there are some positive developments, including improvements in aggregate employment, the HDI, and an increase in educational attainment among people over 20 years old. Citizens have also experienced a rise in access to some basic services such as electricity and water.

The challenging economic environment directly influences the fiscal outlook of municipalities. Looking ahead to 2024, a stagnant period of global economic growth is projected, primarily due to declining household consumption, decreasing property prices, potential impacts of climate change, and geopolitical tensions that could disrupt supply chains, output, and prices. Domestically, energy and logistical limitations continue to impede economic activity, resulting in increased costs.

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