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South Africa Economic Outlook

Responding to higher inflation and rising interest rates

28 February 2022

pwc

About this document

This document reports on PwC South Africa's core macroeconomic forecasts based on different forward-looking scenarios. The projections are updated on a monthly basis though revisions could occur more frequently due to major economic data releases or key influential events.

This edition of our South Africa Economic Outlook provides a perspective on rising input inflation and interest rates

We look at the following:

- A scenario where higher inflation sticks around for the rest of 2022 (page 3)
- How companies can respond to increased input cost pressures (page 4)
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- Progress in getting economic activity back to pre-pandemic levels (page 6)
- Rising unemployment offers expanding companies a wider pool of available labour (page 7)
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This document is produced by the PwC South Africa Strategy& Economics team. The content reflects publicly on some of our key forecasts while other data is reserved for internal purposes and client services. For more information on the team and its services, see the last page of this document.

Strategy&

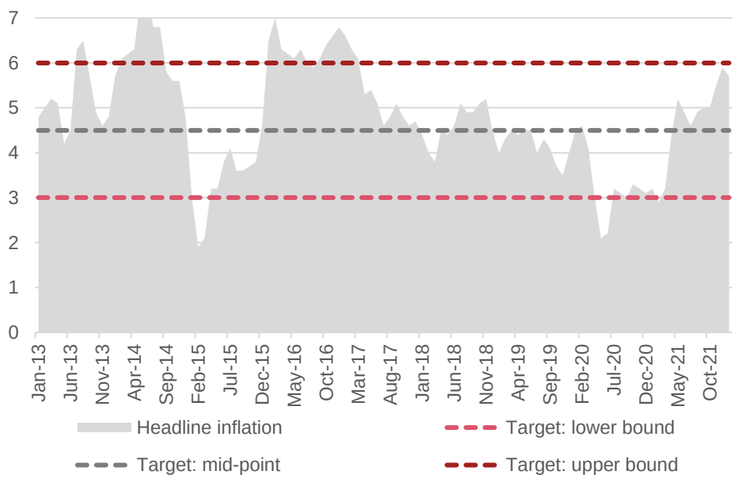
Higher consumer price inflation could stick around for the rest of 2022.

South Africa Economic Outlook February 2022

Our downside scenario sees local inflation averaging 5.3% this year alongside elevated global inflation.

As a small open economy, South Africa is vulnerable to global forces like rising producer and consumer price inflation. The cost of importing food products into South Africa increased by 9.6% y-o-y in December, including a 19.0% y-o-y jump in the cost of edible oils and fats. The price of refined petroleum increased by 14.3% y-o-y. This contributed to headline inflation rising to 5.9% y-o-y in December — the highest level since early 2017. On a positive note, inflation moderated to 5.7% y-o-y in January. However, this was still near the top of the central bank's 3%-6% target range.

Figure 1: Monthly consumer price inflation (% y-o-y)

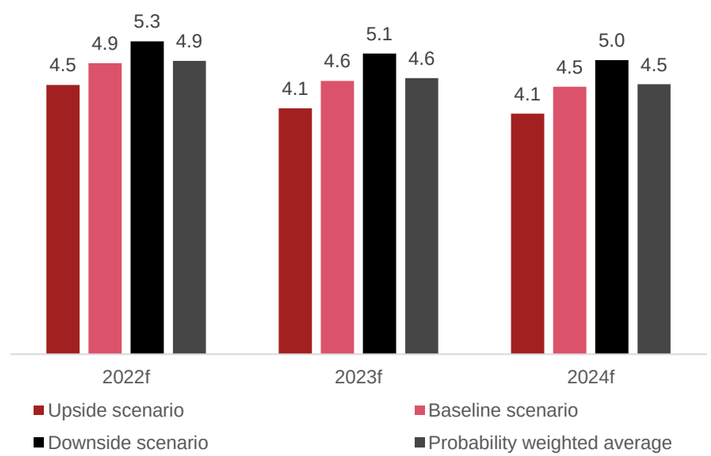


Source: Stats SA

PwC's Global Economy Watch September 2021 questioned whether higher inflation in developed economies was only temporary or more long lasting in nature. Last year's analysis found that, due to the supply and demand factors at play, inflation would be volatile in the near term but fall back to normal levels thereafter. PwC's Global Economy Watch January 2022 revisited the likely scenario for global inflation in the coming year. Under the baseline global scenario, supply and demand mismatches gradually dissipate after 2022Q2, easing pressure on prices of goods. Included in this view is the assumption that oil and other energy commodity prices remain, on average, stable. With oil reaching an eight-year high of $100/barrel in February, this baseline scenario is now unlikely.

Under a global downside scenario, supply and demand mismatches continue after the second quarter. This proves to be more than a counterbalance for downward pressure on energy prices due to reduced demand and more stringent pandemic-related rules. As a result, the downside scenario sees higher global inflation compared to the baseline scenario. We are pencilling in an average inflation rate of at least 5.3% for South Africa under a downside (higher inflation) scenario, including above-5.0% y-o-y readings deep into the year. As explored on the next page, this scenario assumes more pressure on energy (electricity and fuel) and food prices, which collectively account for around a quarter of the consumer basket.

Figure x: Average consumer price inflation (%)



Source: Stats SA

> We are also pencilling in an average inflation rate of at least 5.3% under a downside (higher inflation) scenario, including above-5.0% y-o-y readings deep into the year. This scenario assumes pressure on energy (electricity and fuel) and food prices which collectively account for around a quarter of the consumer basket.

Taking action: How companies can respond to increased input cost pressures.

South Africa Economic Outlook February 2022

Local electricity and fuel prices are increasing while weakness in the rand is always a real risk.

The downside scenario for consumer prices contains a substantial list of cost risk factors that South African companies are facing in the year head. These include:

- Electricity prices: Eskom applied to the National Energy Regulator of South Africa (NERSA) for a 20.5% increase in power tariffs in 2022 but was awarded an increase of only 9.6%. This reduced number is however still double the expected average headline inflation rate for the next 12 months. On top of this, the cost of powering a business is pushed higher by the price of alternatives (e.g. small-scale generators) to keep operations going during load-shedding. For example, diesel (to power a generator) cost 32.8% y-o-y more in February.
- Fuel prices: The crude oil price climbed to $100/barrel (a level last seen in 2014) during the last week of February after Russia sent troops into the Ukraine. The SARB said in January it expects the oil price to average $78/barrel this year compared to $71/barrel in 2021. It is likely that following recent energy market developments, the central bank will lift this 2022 forecast when the MPC meets next in March. On a positive note, Budget 2022 announced no increase in the general fuel levy or Road Accident Fund (RAF) levy.
- Rand depreciation: The volatile exchange rate is at the mercy of international financial market sentiment and could weaken if, for example, the geopolitics around the Ukraine-Russia situation deteriorates further. While the rand performed relatively well in February, given global risk-off sentiment amid the political risk in Eastern Europe, its unpredictability could see the currency suffer from a flight-from-risk at any stage.
- Food prices: Recent rain damage to grain fields in various parts of South Africa could result in maize shortages. Elsewhere, global wheat prices climbed to the highest in more than a decade in the last week of February. An increase in the cost of staple commodities places pressures on a variety of input prices for diverse companies in, for example, agriculture, manufacturing and retail. In the current constrained consumer environment, producers might not be able to pass associated input cost increases to consumers.

Cost cutting is an opportunity to invest in differentiating a company's value proposition.

South Africa's producer price inflation increased from 3.5% y-o-y in January 2021 to 10.8% y-o-y in December. This tells us that output costs increased significantly even before the above factors come into play during 2022. For many companies, this will increase the need for a cost reduction exercise in order to sustain their operations. Generating value from cost reduction and optimisation is an important challenge facing our clients. PwC does not believe in making slash and burn cuts. Instead, we differentiate between 1) good costs that are necessary for the current and future growth of a business and 2) bad costs which are superfluous.

In this regard, we highlight five actions that can help organisations manage costs in the right way.

Connect costs and strategy: Businesses must look at every cost-cutting opportunity as an opportunity to channel investments toward strengthening their value proposition. It is important to connect a company's budget directly to strategic priorities; if the budget does not reflect key priorities, there is little chance of executing the organisation's vision. This entails viewing costs not merely as an in-year expense but also as a multi-year investment in differentiating capabilities designed to help execute the company strategy.

Rethink costs in terms of capabilities: In many companies, the investments made in capabilities are hidden within an array of functional budgets. Business leaders must unravel these budgets and sort out the strategic implications of current spending patterns. This is obviously not easy to do since most conventional expense-tracking systems do not assign costs to capabilities. It will also ruffle some cultural and operational feathers. However, this rethink can lead to great success because it creates a meaningful discussion among executives about what they really need in order to win in their market.

Park-and-ride expenses: Identify all expenses related to the activities of the enterprise, move them into a virtual 'parking lot', and then decide one-by-one whether to let these expenditures back in or not. This way, distinctive capabilities will get the resources they need to realise their full potential. We call this 'zero basing'; it enables companies to break free of the budgetary practices of the past, which at many companies amount to variations on the theme of 'last year plus x%'.

Make the cost-management plan sustainable: It is essential to build financial systems that create more transparency around 'good' costs, those associated with differentiating capabilities, and dispensable 'bad' costs. The budgeting process must be closely linked to the strategic planning process to ensure that differentiating capabilities continue to receive disproportionate investment, while other expenses are tightly managed. Pretty quickly, cost-consciousness becomes an organisational capability and a shared mindset, rather than a bunch of rules that are resented and resisted.

Be proactive and fix the roof while the sun is shining: Once a company is in trouble, executives may not have the luxury of making the right kinds of decisions. Creating a continuous cost-management mindset that connects costs to strategy is the best way to ensure that an organisation does not get out of shape.

The SARB MPC is planning four more interest rate hikes this year.

South Africa Economic Outlook February 2022

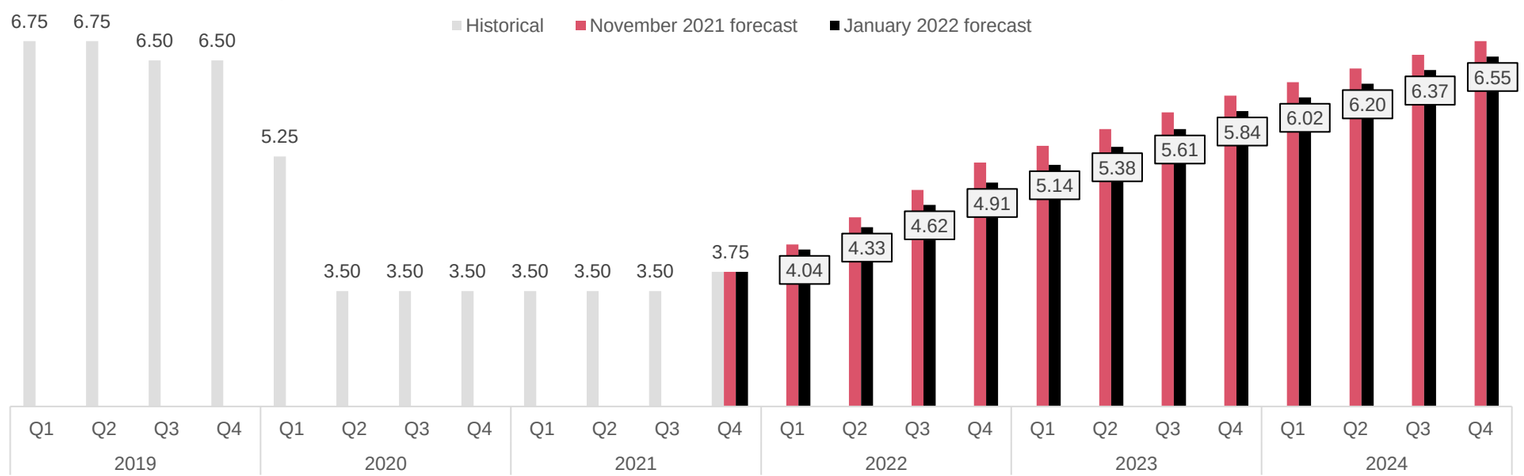
As the repo rate trends higher, some borrowers are considering fixing the interest rates on their debt.

The South African Reserve Bank (SARB) Governor Lesetja Kganyago announced on 27 January that the central bank's Monetary Policy Committee (MPC) decided to lift the repo rate by 25 basis points to 4.00% (prime rate = 7.50%). This was in line with what the majority of economists were expecting given the SARB's clear guidance over the past 12 months that lending rates would trend notably higher in 2022. The SARB believes the upward trend will keep inflation in check over the medium term. Kganyago noted that four of the MPC members were in favour of the upward adjustment while the fifth member favoured no change in lending rates. This MPC vote split suggests the next rate hike could come as soon as March.

Updated guidance from the SARB indicates that policymakers are looking to lift the repo rate further towards year end, possibly to as high as 5.00%. This implies another three or (more likely) four interest rate hikes in 2022. This is one less than suggested after the previous MPC meeting in November last year. The accompanying graph shows our adjusted estimates for end-of-quarter interest rates along this trajectory. As noted previously, the upward trend in interest rates is unlikely to be as linear as our current estimates. Nonetheless, the suggested upward trajectory offers businesses the opportunity to plan for likely interest rate levels in the short-to-medium term.

After a period of low interest rates, South African companies now face an escalation in lending rates over the next two to three years. The repo rate is expected to return to its pre-pandemic (end-2019) level of 6.50% by the close of 2024. The upward trend will be slower (take at least three years) than the large rate cuts seen in the first half of 2020. We have had many questions about whether, in light of the current expected upward trend, the present is a good time to fix interest rates on e.g. property mortgages and vehicle finance. The key consideration here is whether the premium paid on a fixed lending rate — often two percentage points higher than a floating rate — is justified now. Fixing interest rates would essentially bring forward all of the rate hikes currently pencilled in towards the end of 2023. In other words, a new fixed-rate arrangement could immediately lift the effective interest rate by two percentage points instead of this happening gradually over the next two years under a floating arrangement.

Figure 1: Absolute number of jobs in South Africa



Source: PwC

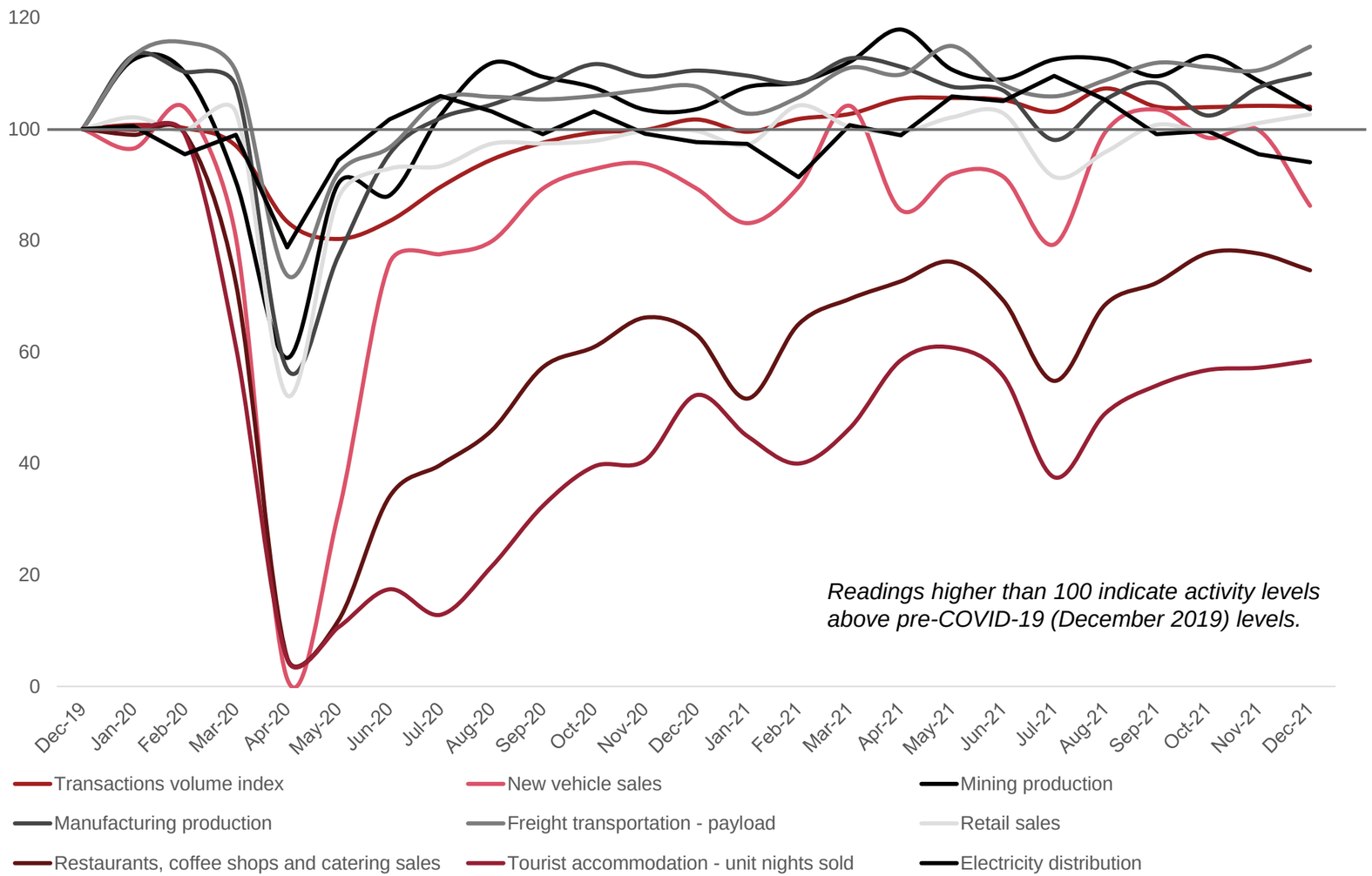
Rising interest rates will have various short-term operational effects, including on interim and annual financial reporting, operational decisions made in response, and longer-term financial reporting. Companies will need to make a number of other decisions that will affect financial reporting, key performance metrics and how they communicate with stakeholders. Possible impacts include:

- Financing arrangements (including covenants) which may become cumbersome: Do financing arrangements need to be renegotiated?
- Increasing costs of capital projects: How will the increased cost to complete key projects be funded?
- Financial risk management (including foreign exchange risk) and hedging strategies set for a low interest rate environment: Are risk management and hedging strategies fit for purpose?

Existing interest rate hedges may not be a concern in the current environment. However, as businesses change their plans, they may also adapt their hedging strategies. For example, a business may plan to close out an existing effective interest rate hedge to realise a significant fair value gain resulting from rising interest rates. The accounting outcome of these changes may not necessarily follow the cash outcome. Before finalising any changes in economic hedging strategies, it is important to also consider the accounting implications to minimise surprises. Companies may now decide to undertake more significant economic hedging activities than when interest rates were falling or flat. This could mean that the associated accounting implications are more material and subject to increased focus from stakeholders — including auditors.

Where we are now: progress in getting economic activity back to pre-pandemic levels.

Figure 10: Industry activity compared to pre-pandemic levels



Source: PwC calculations based on data from Stats SA, Trading Economics, BankservAfrica

Table 3: Sector indices – pre-pandemic versus now

Sector index	Dec-19	Nov-21	Dec-21
Freight transportation – payload	100.0	110.6	114.8
Manufacturing production	100.0	107.5	109.9
Transactions volume index	100.0	104.2	104.0
Mining production	100.0	108.6	103.5
Retail sales	100.0	101.1	102.7
Electricity distribution	100.0	95.5	94.0
New vehicle sales	100.0	99.8	86.2
Restaurants, coffee shops and catering sales	100.0	77.6	74.7
Tourist accommodation - unit nights sold	100.0	57.2	58.4

Source: PwC calculations

A large number of industries are currently seeing activity levels above those seen prior to COVID-19. For example, the index for freight payload transported was 14.8% higher in December 2021 compared to the level recorded for the last month of 2019. This reflects an improvement in demand conditions both locally and abroad. Elsewhere, the value of seasonally adjusted real (i.e. inflation-adjusted) retail sales was slightly (2.7%) higher in the most recent month. In turn, the value of real spending at restaurants and coffee shops during the recent holidays was only three-quarters of the pre-pandemic December 2019 holidays. The number of unit nights sold in tourist accommodation is just more than half that seen prior to the arrival of COVID-19.

Rising unemployment offers expanding companies a wider pool of available labour.

SA has 11.5m unemployed adults and business leaders are extremely concerned about social inequality.

Economic growth will soon revert back to its long-term, low-growth trend if impactful structural changes are not made. As the bounce-back from the 2020-2021 lockdowns come to an end, South Africa's growth rate is again falling. We expect a real GDP growth rate of only 1.5% in 2024: this is now the country's potential growth rate in a normal year based on structural constraints. This will be barely higher than the population growth rate.

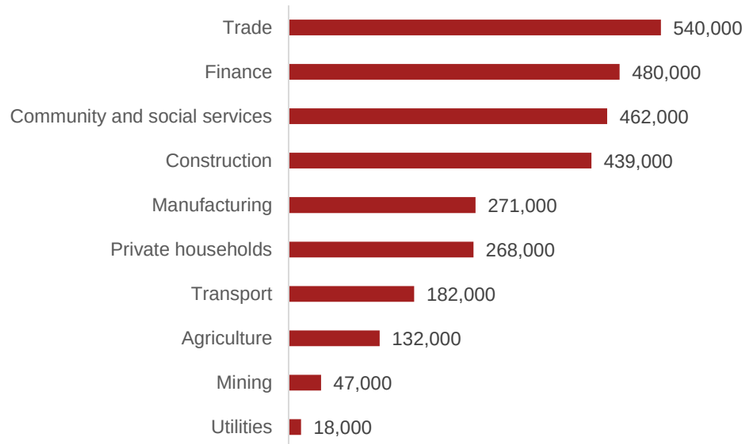
South African respondents to the survey underpinning the World Economic Forum (WEF) Global Risks Report 2022 identified prolonged economic stagnation as one of their top five risks for the country. This reflects the fact that too few of the key structural challenges faced by South Africa before COVID-19 have yet been resolved. Electricity load-shedding, for example, is still the country's number one growth impediment. Power outages increased by an estimated 38% last year, with load-shedding averaging three hours per day.

A combination of factors — including load-shedding, social unrest, business uncertainty due to the rate of recovery of the economy post-COVID-19, and many other issues — contributed to a net 742,000 job losses during the first three quarters of 2021. This reduced employment to almost as low as seen during lockdown levels 5 and 4 in the second quarter of 2020. By September last year, South Africa had 7.6m adults who were classified as unemployed — these are people who are willing to work and are looking for a job. When adding discouraged workers (those who have given up on finding a job), the number increased to 11.5m. This is a big worry: 73% of South African respondents to PwC's 25th Annual Global CEO Survey are very or extremely concerned about social inequality (including those stemming from gender, race, ethnicity, wealth, etc.) negatively impacting their company over the next 12 months.

Expanding retail companies need to transform the workforce that they have by upskilling staff.

On a positive note, the country has a big volume of available labour. For companies looking to hire, this provides opportunities for acquiring new workers. Zooming in on industry-specific data, around 540,000 of the unemployed during 2021Q3 had previously worked in trade sectors. Will retailers be hiring in 2022? Announced plans for store openings suggest that there will definitely be jobs available in the trade sector. The Pick n Pay Group is planning to open 200 new Boxer stores over the next three years. The Shoprite Group (South Africa's largest private sector employer) plans to open more of its recently launched smaller-format Checkers Foods stores , stand-alone Medirite pharmacies, and Little Me baby stores. Around 20 Spar stores that are still closed in the wake of the July 2021 unrest are scheduled to reopen this year.

Figure x: Unemployment by industry



Source: Stats SA

Recent data releases confirm some positive momentum on the retail front. The RMB/BER Business Confidence Index (BCI) 2021Q4 report noted that retailers had net positive sentiment at the end of last year. Retail sales increased by an average of 5.9% y-o-y during October-December 2021 and were 5.8% higher during this period compared to the previous three months. This included a 10% y-o-y increase in point-of-sale purchases during the Black Friday campaign. Data from Google shows that the frequency and lengths of South Africans' visits to retail and recreation spaces was 8% higher in mid-February compared to a pre-pandemic baseline period. Looking ahead, data from the January 2022 South African Chamber of Commerce and Industry (SACCI) Trade Activity Index (TAI) indicates that 63% of its survey respondents anticipate improved trade conditions in the next six months.

Of course, returning to the retail employment market — and most services jobs, for that matter — requires new skills. Retail is no longer what it was before the pandemic. For example, PwC's December 2021 Global Consumer Insights Pulse Survey found that 30% of South Africans surveyed bought products like clothes, books and electronics via a mobile phone or other smart device. This is notably higher than the (pre-pandemic) level of 17% recorded in the 2019 survey and shows how online retail is growing. This, in turn, requires that retail workers have different (tech-savvy) skills.. To future-proof their staff, retail companies need to transform their workforce through upskilling, rethinking the jobs they offer and instilling their organisations with opportunities for self-renewal. We look at the need for upskilling in more detail on page 9.

For many organisations, the COVID-19 pandemic has amplified the need for agile, resilient workforces. The pandemic has also underscored the importance of tools, skills and systems that support workforce productivity and sustained outcomes. Workforce skills and abilities is one of the key components of PwC's New Equation — our landmark global strategy that addresses fundamental changes in the operating environment faced by clients and stakeholders.

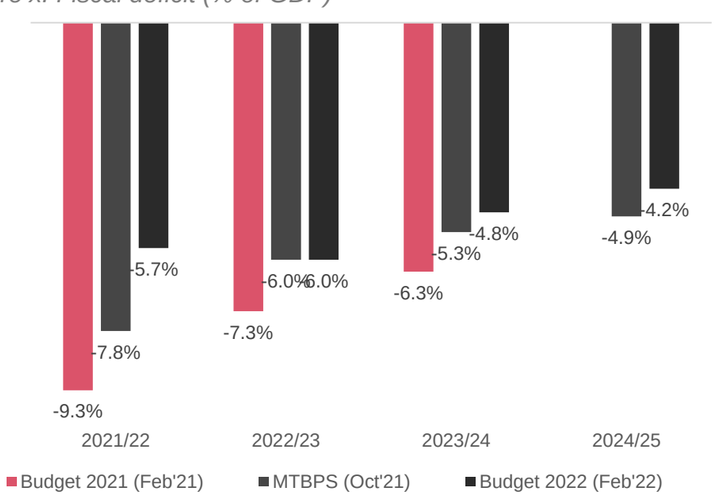
Budget 2022: improved fiscal metrics but with economic stagnation still a very real risk.

South Africa Economic Outlook February 2022

R182bn over-collection in fiscal revenues helps narrow the 2021/22 budget deficit and government borrowing requirement.

The National Treasury's annual Budget Review and associated speech by the finance minister is always a combination of good news and bad news. Many would argue that this time, there was significantly more good news than a year ago. The fiscal deficit is now expected to equal 5.7% of GDP during the 2021/22 fiscal year. This is markedly better than an estimate of 7.8% of GDP reported in October's Medium-Term Budget Policy Statement (MTBPS) and substantially better than the 9.3% of GDP reported in February last year. An expected R182bn over-collection in fiscal revenues (on the back of stellar mining company profits) has enabled the finance minister to substantially reduce current and expected budget deficits as well as planned borrowing. This, in turn, is projected to help the government's gross loan debt stabilise at 75.1% of GDP in 2024/25 — a year earlier than previously planned.

Figure x: Fiscal deficit (% of GDP)



Source: National Treasury

However, the best-laid plans often go awry. Ahead of the budget speech, the International Monetary Fund (IMF) warned that medium-term fiscal consolidation plans face spending pressures from the public sector wage bill, budget support to state-owned enterprises, and the need to continue pandemic-related social transfers. In the hours after the budget speech, Fitch Ratings expressed doubt about the government's ability to maintain spending. For example, the ratings agency warned that it expects a breach of the expenditure ceiling in 2023/24 to accommodate a more permanent and larger (higher value) income grant evolving from the current R350 Social Relief of Distress (SRD) payment.

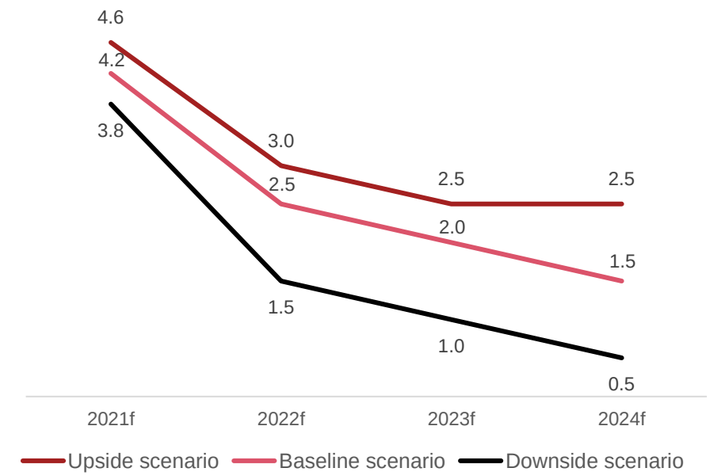
1.5%

After the South African economy expanded by an estimated 4.2% last year, we expected a moderation in the growth rate to 1.5% by 2024. PwC believes there has never been a more important time to change South Africa's economic narrative.

Changing the economic landscape is possible - and the positive impacts could be big - if the right decisions are made.

The minister acknowledged in his maiden budget speech that 'we have had more than a decade of economic stagnation'. South Africa's real GDP per capita declined every year during 2015-2020 as slow economic growth failed to keep pace with an expanding population. Once the bounce-back in economic growth following the 2020 recession tapers out, and economic growth moderates back to a more moderate rate, it is very possible that real GDP per capita could be stagnant for years to come.

Figure x: Real GDP growth (%)



Source: PwC

PwC believes there has never been a more important time to change South Africa's economic narrative. However, the risk of more money being needed for the growing public sector wage bill, struggling parastatals, and growing social grants implies there is not much cash around to throw at the big challenges in the economy. We need to choose the areas that will have the biggest impact on GDP and jobs growth and where big change is possible without necessarily needing big financial commitments. In our view, the big-ticket actionable items are:

- improving the electricity situation
- ensuring that South Africa has the correct skills base to address the needs of the labour market
- increasing private sector investment.

We estimate that under a reform-focussed scenario, these changes could lift South Africa's potential long-term economic growth rate from the current 1.5% p.a. to above 4.0% p.a. over the next decade.

Impactful changes: solving the electricity crisis, upskilling workers, accelerating private investment.

South Africa Economic Outlook February 2022

Solving the electricity crisis.

Load-shedding increased by 38% in 2021. The more than 2,400 gigawatt hours (GWhs) shed resulted in an estimated 1,136 hours of power outages — equal to three hours per calendar day. Based on these figures, PwC estimates the adverse impact of load-shedding in 2021 was a reduction in real GDP growth of up to 3.1 percentage points, costing the economy up to 400,000 potential jobs.

According to the Presidency, South Africa has a shortfall of around 4,000MW of electricity generating power. It is possible that this shortfall is significantly larger given that Eskom's energy availability factor (EAF) was revised downward from 72% to 63% in its latest Medium-Term System Adequacy Outlook (2022-2026). Looking ahead, Eskom CEO Andre de Ruyter said recently the power utility expects 29 days of load-shedding during February and March and a total of 61 days during the April-August period. In both cases, this suggests load-shedding every third day.

A country's power system should supply cost-effective electricity to customers in an efficient, reliable, and sustainable manner. Not only does this underpin economic activity, but it also contributes towards increased economic growth through levers such as lowered costs of production and other services, increased investor confidence, country competitiveness, and improved living standards.

According to research by the University of Cape Town (UCT), a revised regulatory framework could enable at least 450MW of the required 4,000MW shortfall to be available immediately, with a further 4,000MW coming online over the short to medium term. In the short term, the private sector could take advantage of the new 100MW generation exemption threshold. However, a major stumbling block is a lack of clarity on the degree to which private firms are allowed to wheel to multiple customers and trade excess power. This uncertainty is preventing potential investors from spending money as it could put commercial viability at risk. Clarity and guidance on the licensing processes and requirements are also needed for private firms to embark on large scale power projects.

Upskilling workers.

The WEF Global Competitiveness Report 2019 ranks South Africa 101st out of 141 countries for the skills of its current workforce. What this tells us is that while the country's education system produces hundreds of thousands of high school graduates each year, their skillset is not competitive in a global context. However, with concerted effort, this situation can be changed. Post-school upskilling in the private sector workplace will be vital to ensuring that local industries are staffed with people who have the know-how to help drive economic growth.

The government has already taken the first step in the process: identifying skills gaps and mismatches. In February 2022, the Department of Home Affairs published an updated critical skills list for the country. While many businesses welcomed the list of key occupations as a tool to facilitate the hiring of skilled international workers, it also serves as an audit of skills that need to be developed locally - and fast. To catalyse this list, it is necessary to build a future-proof skills strategy.

There is a deep need for South Africa to build and communicate a national skills vision that includes roles, responsibilities and expectations for every stakeholder in society. PwC believes that everyone has a role to play in this new vision, and that businesses of all sizes should see themselves reflected in plans to rebuild the economic engine and help to create inclusive and skilled workforces. This collaborative upskilling will be vital to ensuring that local industries are staffed with people who have the know-how to help drive economic growth.

Government, labour, business, community organisations and other stakeholders all stand to benefit from a common vision to develop comprehensive national upskilling agendas. These stakeholders have an opportunity right now to incorporate a new skills agenda into their planning for the economy. President Ramaphosa said in his State Of the National Address (SONA) 2022 that stakeholders have given themselves 100 days "to finalise a comprehensive social compact" to grow our economy and create jobs. It is critical that this compact encompasses a national skills vision that includes roles, responsibilities and expectations for every stakeholder.

Accelerating private sector investment.

Total investment spending in South Africa fell from an average of 30% of GDP in the early 1980s to about 16% of GDP by the early 2000s. According to the National Development Plan (NDP), gross fixed capital formation needs to reach about 30% of GDP by 2030. Two-thirds of this needs to come from the private sector. However, lifting private investment from the 12.5% of GDP seen in recent years to 20% of GDP requires the right investment climate.

"The key task of the government is to create the conditions that will enable the private sector – both big and small – to emerge, to grow, to access new markets, to create new products, and to hire more employees." With these words, President Ramaphosa also noted in his SONA 2022 that "problems in the South African economy are deep and they are structural".

In the week after the SONA, deputy finance minister David Masondo wrote in Business Day that progress on structural reforms under Operation Vulindlela "are on track and will boost inclusive growth". But are these changes moving the needle on investment sentiment? Have these changes (and others still in the work)s resulted in improved private sector investment or at least intentions to invest? Survey data suggests no. Research by the Bureau for Economic Research (BER) shows that business confidence ended 2021 in net negative territory. This reflects a hesitancy to invest in as the bulk of reform implementation remains outstanding.

Businesses look further ahead than an election cycle when they make investment decisions. For this, they need not only confidence in the progress of structural reforms, but also, crucially, broader policy certainty. In terms of policy uncertainty, we are not just talking about what the policy environment would look like in three or five years. In the South African context, policy uncertainty includes a lack of surety about policy direction, a lack of confidence in high-level decision-making to finalise changes, as well as delays in implementation. Policy uncertainty is the antithesis of business confidence, which, in turn, is the foundation for private sector investment. Without policy surety, return on investment is unpredictable.

Macroeconomic forecasts

Baseline	2020	2021f	2022f	2023f
Consumer price inflation (%)	3.3	4.6	4.9	4.6
Repo rate (end-of-period)	3.50	3.75	4.75	5.50
Real GDP (%)	-6.4	4.2	2.5	2.0
Unemployment rate (%)	32.5	34.0	33.7	33.7
ZAR/USD	16.46	14.78	15.28	15.78

Probability weighted average	2020	2021f	2022f	2023f
Consumer price inflation (%)	3.3	4.6	4.9	4.6
Repo rate (end-of-period)	3.50	3.75	4.78	5.60
Real GDP (%)	-6.4	4.2	2.3	1.8
Unemployment rate (%)	32.5	34.1	33.9	34.0
ZAR/USD	16.46	14.78	15.36	15.90

Source: PwC

Stats SA will release final GDP data for 2021 on 8 March 2022. PwC's current economic scenarios for 2021 are strongly influenced by different perspectives about the severity of a third wave of COVID-19 infections. The severity of the mid-year and year-end waves, and the accompanying strictness of associated lockdowns, played a significant role in shaping the nature of the economic recovery. Additionally, we also considered the adverse effect of ongoing electricity load-shedding and the lingering impacts of localised unrest during July. On a positive note, our scenarios also take into account the impacts of fiscal spending (e.g. TERS payments) and monetary stimulus (i.e. lower interest rates) on the economy. These considerations provide us with a baseline outlook as well as upside and downside scenarios. The weighted average forecasts are based on the probabilities of the alternate scenarios playing out.

To estimate the economic impact of lockdown levels, PwC used its Economic Impact Assessment (EIA) scenario tool. We used a Social Accounting Matrix (SAM) methodology to estimate how lockdown restrictions affect various sectors of the economy. This scenario tool helps us understand the direct, indirect and induced impacts of the specific shock on the local economy. Our economic model has been updated and recalibrated following the comprehensive revision of national accounts data as released by Statistics South Africa (Stats SA) in August 2021.

PwC Economics services and contacts.

South Africa Economic Outlook February 2022

Featured PwC research.

Our recently released Non-Executive Directors (NED) Report 2022 considers the disparity between executive remuneration and wages earned by the working poor. It notes that having a job in South Africa is not a guarantee of decent living conditions: working poverty is a reality as, for many employees, holding a formal full-time job does not enable them to lift themselves and/or their family out of poverty.

The call to remunerate employees at a living wage is often countered by the argument that the country needs to create employment and remain in business to protect existing jobs. Furthermore, there is no official or even widely accepted definition of a 'living wage' in South Africa. (We look at three approaches.)

However, this perspective should not discourage employers from striving to improve the lives of their workers by committing to pay a wage that meets at least employees' minimum needs, lifts them out of poverty and allows them to live a dignified life. Improving wages starts by identifying which levers are within the control of the employer and making initial efforts on these. This process can be integrated into an organisation's fair pay journey. Important action points include:

- making a commitment and ensuring support from the board of directors and senior leadership
- collecting data to determine the gap between current basic pay and the targeted living wage
- developing and implementing a wage adjustment plan
- engaging with and supporting suppliers to follow suit
- measuring and monitoring progress for accountability.

About the Strategy& Economics team.

The PwC South Africa Strategy& Economics team is a specialised unit of economists who serve our clients in a variety of ways. Our services include:

Measure your impact on the economy and society

- Environmental, Social and Governance (ESG) and Just Transition
- Economic Impact Assessment (EIA)
- Socio-Economic Impact Assessment (SEIA)
- Regulatory Impact Analysis (RIA)
- Total tax contribution
- Localisation calculations

Make decisions about risk and investment

- Macroeconomic research
- Market entry analysis
- Country and industry risk assessments
- Commercial due diligence assistance

Plan for future economic scenarios

- Economic and political scenario planning
- ESG scenario planning
- Industry and macroeconomic modelling
- IFRS 9 audit assist

Please visit our website to learn more:
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