Budget 2022

Beyond the deficit: Fundamentally changing the South African economic landscape.

23 February 2022

pwc

Change is needed. Now

There has never been a more important time than today to change South Africa's economic narrative. The country currently has the highest unemployment rate (46.6% of the labour force per the expanded definition) in the world as well as the highest youth unemployment rate (77.4% per the expanded definition) on the planet.[1] South African respondents to the survey underpinning the World Economic Forum (WEF) Global Risks Report 2022 identified prolonged economic stagnation as the number one risk for the country.[2]

South Africa's real GDP per capita declined every year during 2015-2022 as slow economic growth failed to keep pace with an expanding population. Following the 2021 bounce-back in GDP, economic growth will soon revert to its long-term low growth trend if structural changes are not made. We estimate that following the 2020 recession, the South African economy expanded by more than 4.0% last year. Our forecasts suggest a growth rate of 2.5% this year, moderating to 2.0% in 2023 and 1.5% in 2024. This is actually a little bit more optimistic compared to National Treasury forecasts.

Table 1: Budget Review 2022 key macroeconomic forecasts

Economic outlook	2021	2022	2023	2024
GDP growth	4.80%	2.10%	1.60%	1.70%
Consumer price inflation (CPI)	4.50%	4.80%	4.40%	4.50%

Source: National Treasury

This 1.5% growth figure is currently seen as the country's long-term growth potential. This level is barely higher than the expected population growth rate and warrants action to improve. According to PwC, the biggest brake on GDP growth at present is electricity load-shedding. Eskom's planned power outages increased by an estimated 38% in 2021 compared to the previous calendar year - and is likely to increase further in 2022. This is again bad news for socio-economic stability.

In the wake of the July 2021 unrest in KwaZulu-Natal and Gauteng, social risk is also a big standout concern for South Africa's business leaders: some 73% of South African respondents to PwC's 25th Annual Global CEO Survey said they are 'very' or 'extremely' concerned about social inequality (stemming from, for example, gender, race, ethnicity and wealth) negatively impacting their company over the next 12 months. This is nearly four times higher than the global reading of only 18%: most global CEOs are only 'slightly' concerned about social inequality.

What these surveyed risk perceptions tell us is that we as a society and an economy need fundamental change - and we need it now. South Africa's COVID-19 recovery has essentially been a /jobless recovery. Retaining the jobs still left and creating new employment opportunities is imperative for the country's social stability and overall prosperity.

> **Change that creates jobs and accelerates economic growth is possible, but we don't have the luxury to focus on multiple areas as potential solutions: we need to choose the areas that will have the most significant impact on economic growth and jobs. The big-ticket actionable items are: *1) improving the electricity situation, 2) ensuring that South Africa has the correct skills base (knowledge capital[3]) to address the needs that we have now, and 3) increasing private sector investment.***

As reflected in the graph below, we base this top-three on research into outcomes of interventions in other countries, South Africa, and our own research and analysis.[4] Our analysis of Budget 2022

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[1] Statistics South Africa, 2021. Quarterly Labour Force Survey, Quarter 3. http://www.statssa.gov.za/publications/P0211/P02113rdQuarter2021.pdf

[2] World Economic Forum, 2022. Global Risks Report. https://www.weforum.org/reports/global-risks-report-2022

[3] A measure of skills based on internationally comparable tests of mathematics and science between 1965 and 2003, to distinguish it from the, more common, years of schooling measure.

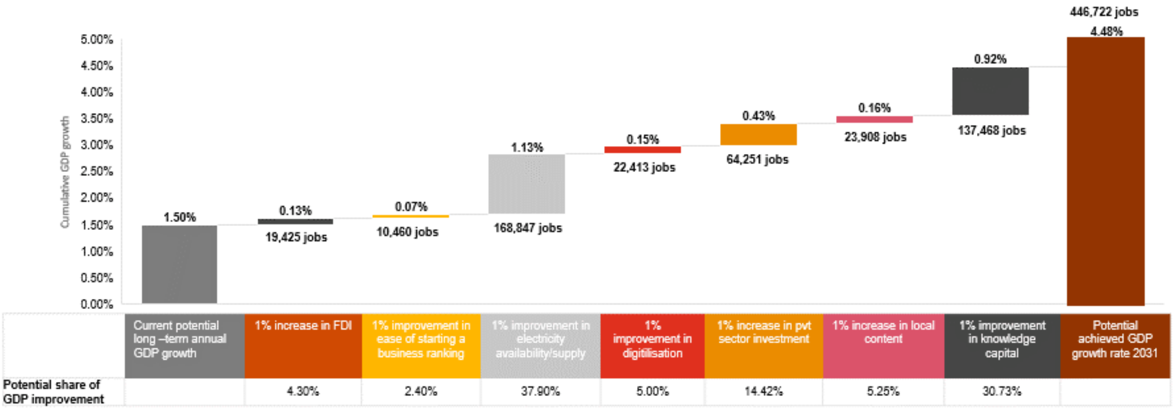
[4] Sources include:
1) B. Botha, F. Ruch, R. Steinbach, 2018. Short-lived supply shocks to potential growth. South African Reserve Bank Working Paper Series WP/18/02.

focuses primarily on what has been said to address and support solutions in these areas over the next three years.

While we are under no illusions about the importance of creating the correct policy framework over the medium to long term to continue changing the fundamental direction of the South African economy, the annual budget speech and associated documentation is focussed on a 0-3 years timeframe which helps us narrow the focus of proposed changes.

Impactful changes can have a substantial positive effect. Our estimations indicate that if South Africa can achieve a 1% improvement in each of the below selected themes over a 10-year period, and keeps up with global growth trends in key industries, the local economy could achieve, over the long run, an annual average real GDP growth of 4.5%, close to the requirement of the National Development Plan. This would be accompanied by nearly 450,000 additional jobs per annum on a sustainable basis.

Figure 2: Potential economic improvement by making the right choices



Source: PwC analysis

Of course, these are not the only areas we can focus on, but what is clearly shown, is that between the three areas highlighted above, could contribute significantly to the structural changes required to get the South African economy on a new potential growth trajectory of 4.5% compared to a current potential of 1.5% Improving electricity (38%), skills (31%) and private investment (14%) could contribute 84% of this potential increase in growth.

However, these changes should start immediately and the average improvement for certain areas like our electricity availability, should and could ramp up earlier at a rate of more than 1% change per annum.

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2) T. Baiashvili, L. Gattini, 2020. Impact of FDI on economic growth: The role of country income levels and institutional strength. European Investment Bank Working Paper 2020/02.
3) D. Jayasuriya, 2011. Improvements in the World Bank's Ease of Doing Business Rankings: Do they Translate into Greater Foreign Direct Investment Inflows? World Bank Policy Research Working Paper 5787..
4) H. Khobai, G. Mugano, P. Le Roux, 2017. Exploring the nexus of electricity supply and economic growth in South Africa. Economic Research Southern Africa working paper 656.
5) PwC, 2012. Maximising the impact of digitization.
6) E. Hanushek, 2017. For long-term economic development, only skills matter. IZA World of Labour 2017: 343.

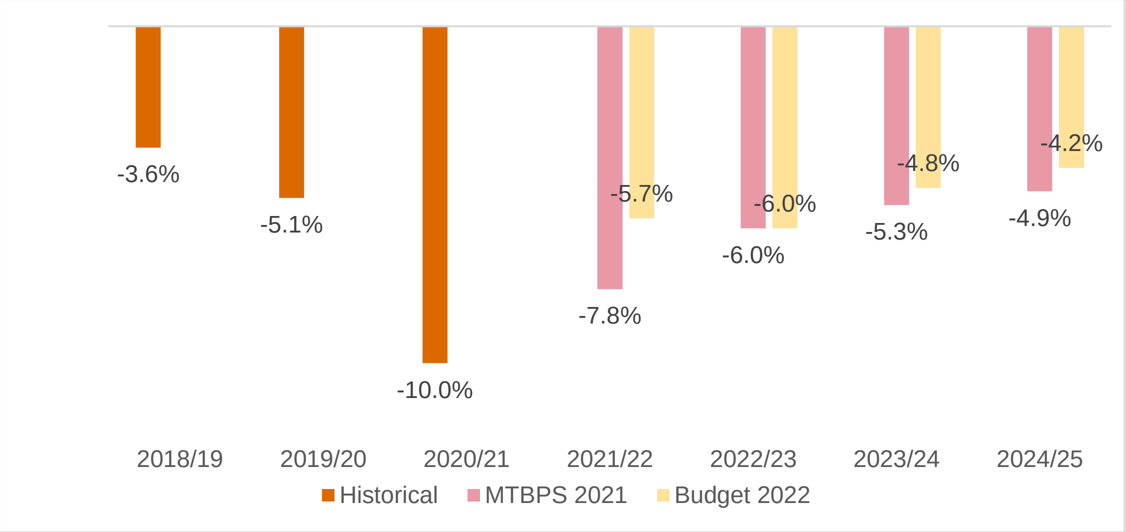
Throwing more government money at the problem is not the solution. It is about creating a climate for the private sector to get involved.

The total growth and employment benefit illustrated above is not cumulative and each factor is not dependent on other factors included in the calculation. This implies that focussing on only a few of these opportunities could have large dividends. At the same time, we are not saying that the solution is necessarily throwing money at these issues. It is also something that the public sector cannot afford: South Africa's fiscal deficit swelled significantly in 2019/20 and 2020/21 as the public sector had to adjust to lower revenues and increased spending requirements around COVID-19. This pushed the fiscal deficit to a behemoth 10.0% of GDP in 2020/21.

Budget Speech 2021 and the Medium-Term Budget Policy Statement (MTBPS) delivered in October 2021 aimed to remedy this by plotting a narrowing of the fiscal deficit. This week's budget speech again affirmed this stance by aiming for a deficit equal to 5.7% of GDP in the current year and 4.2% of GDP by 2024/25. The narrowing of the fiscal deficit over the next few years had gotten a jump-start from higher-than-expected tax collections during the 2021/2022 financial year. Updated budget data shows that the National Treasury expects R182 billion more in revenues this current year (2021/22) compared to what was planned in February 2021.

Still, while this over-collection will form a basis for deficit narrowing over the next few years, the shortfall planned for 204/25 will still be far removed from a level of around 3% of GDP that experts see as a sustainable fiscal shortfall. Ideally, South Africa would be able to reach the 3% of GDP level in the three years covered by Budget 2022. It will most likely take at least five years.

Figure 3: The budget deficit is narrowing - but not quickly enough



Source: National Treasury

Furthermore, in a February 2022 publication, the International Monetary Fund (IMF) warned that South Africa's medium-term fiscal consolidation plans face spending pressures that would push the deficit beyond previous projections. These pressures are linked to the public sector wage bill, budget support to state-owned enterprises, and the need to continue pandemic-related social transfers. Furthermore, the IMF noted that South Africa's debt-to-GDP ratio is "set to continue rising on current policies, creating significant risks and leaving no fiscal space to respond to domestic or external shocks that could force an abrupt fiscal tightening with adverse growth and social consequences".[5]

[5] IMF, 2022. Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for South Africa. https://www.imf.org/en/Publications/CR/Issues/2022/02/10/South-Africa-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-513001 February 2022.

In short, the IMF - and many other analysts - are sceptical that the current fiscal spending plan can play out. With the risk of more money being needed for the public wage bill, parastatals and social grants, there is not much cash around to throw at the big challenges of improving the electricity situation, the skills base, and supporting private sector investment. Instead, we advocate for interventions that are not necessarily financially intensive for the government and that will encourage the private sector to play a part in the solution.

Table 2: Budget Review 2022 key fiscal forecasts

	2021/2022	2022/2023	2023/2024	2024/2025
Total revenue	R1,721bn	R1,770bn	R1,853bn	R1,978bn
Total expenditure	R2,077bn	R2,157bn	R2,176bn	R2,289bn
Budget deficit	-5.70%	-6.00%	-4.80%	-4.20%
Debt as percentage of GDP	70%	73%	74%	73%
Debt service costs	R268bn	R301bn	R335bn	R363bn

Source: National Treasury

The bottom line is that change is possible - and the positive impact could be big - if the right decisions are made. These decisions need to be made in the best interest of South African society as a whole. Improving electricity is not just about industrial production but also the safety and wellness of households. Upskilling workers is not just about increasing business revenues but masking people more employable. Increasing private investment is not just about growing corporate assets but creating lasting infrastructure and sustainable jobs.

Solving the immediate electricity crisis, and with it, the impact on jobs and economic growth.

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 and country competitiveness, and improved living standards.

According to President Cyril Ramaphosa's State of the Nation Address (SONA) 2022, South Africa has a shortfall of around 4,000 MW of electricity generating power.[6] 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).[7].At the same time, tariffs continue to rise, obstructing the economic recovery and stoking inflation. Eskom has applied for a tariff increase of 20.5% to take effect from April this year which the National Energy Regulator of South Africa (NERSA) is to decide on this week.

From a global perspective, the World Bank Doing Business 2019 report ranked South Africa joint 112th out of 190 countries (i.e. in the bottom half) for the reliability of electricity supply.[8] All (100%) of the South African business leaders we spoke to for PwC's 25th Annual Global CEO Survey said that reliable electricity supply is what the South African business community needs most today in order to achieve sustainable growth.

The duration of load-shedding increased by 38% in 2021 compared to the previous year. The more than 2,400 gigawatt hours (GWhs) shed resulted in an estimated 1,136 hours of power outages - equal to three hours per day. Based on these figures, PwC estimated the adverse impact of load-

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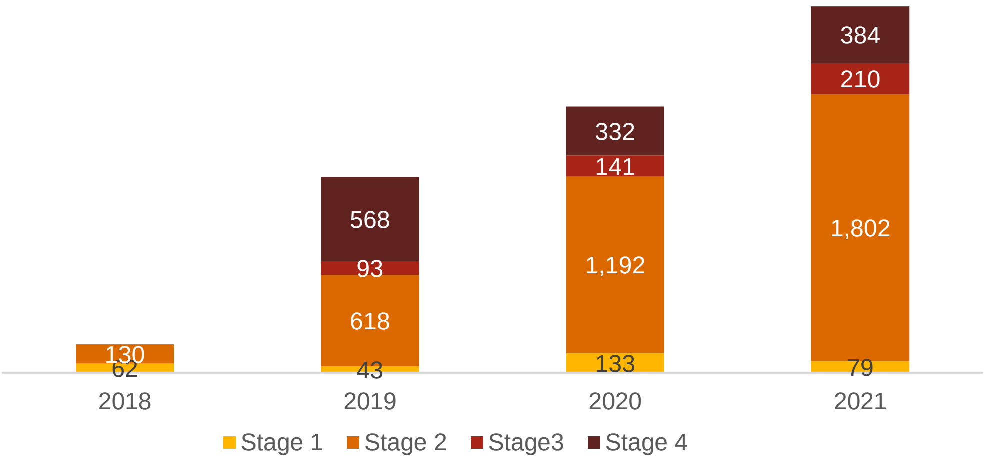
[6] Government of South Africa, 2022. State of the Nation Address. https://www.stateofthenation.gov.za/assets/downloads/SONA-2022-SPEECH.pdf

[7] Eskom, 2021. Medium-Term Systems Availability Outlook 2022-2026, https://www.eskom.co.za/wp-content/uploads/2021/11/MediumTermSystemAdequacyOutlook2022-2026.pdf

[8] World Bank Group, 2019, Doing Business 2019: Training for reform. https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf

shedding in 2021 was a reduction in real GDP growth of between 2.7 and 3.1 percentage points, costing the economy up to 400,000 potential jobs.

Figure 1: Total duration (hours) of load-shedding has increased significantly in recent years.



Source: CSIR[9], PwC

Looking ahead, Eskom CEO Andre de Ruyter said in January 2022 that 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 of the calendar.[10]

Solving the energy crisis is urgent alone for its link to jobs. Resolving the energy crisis and expanding renewable energy is important to prevent further job losses from continued load-shedding. A just transition ensures the livelihoods of communities in the transition to a low-carbon economy.

The private sector has a vital role to play in providing solutions to the energy crisis. With public debt running high, it falls to the private sector to make the critical investments in new energy infrastructure and to fill the gaps to achieve stable electricity. Yet, it needs a supportive environment to do this and this is where the government plays a major role.

According to research conducted by the University of Cape Town (UCT), the correct regulatory framework could enable at least 450MW of the required 4,000MW shortfall to be available immediately, with a further 4 000MW that could be made available over the short to medium term.[11]

In the short term, the private sector could take advantage of the 100MW exemption threshold that has been introduced in terms of Schedule 2 of the Electricity Regulation Act (ERA) that would enable project developers to build cost efficient renewable energy based self generation plants for own use or enter into wheeling agreements with energy off takers without licensing such facilities with NERSA. However, a number of issues with regard to the 100MW threshold remain to be clarified to meaningfully unlock private sector investment.

One major stumbling block is a lack of clarity around the degree to which firms are allowed to wheel to multiple customers and trade excess power from private power projects, which is still preventing them from making investments, 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.

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[9] Council for Scientific and Industrial Research (CSIR), 2021. Load shedding statistics. https://www.csir.co.za/load-shedding-statistics

[10] Business Tech, 2022. Eskom CEO on the load shedding outlook for South Africa. https://businesstech.co.za/news/energy/554906/eskom-ceo-on-the-load-shedding-outlook-for-south-africa

[11] Dingle, Jonathan Paul, 2013, Investigation into the potential of industrial cogeneration in South Africa, MS thesis, University of Cape Town, https://open.uct.ac.za/bitstream/handle/11427/4992/thesis_ebe_2013_dingle_jp.pdf?sequence=1&isAllowed=y

There have, however, been positive signs that government is moving towards liberalising South Africa's electricity sector. The recently published Electricity Regulation Amendment Bill aims to establish a competitive multimarket electricity supply industry, which represents a significant departure from South Africa's long-standing vertically integrated model monopolised by Eskom. However, the structure and operation of the market and the expansion of licensing requirements set out in the Bill would need to be clarified in order to provide private sector with the necessary clarity to stimulate market participation.

The private sector is also seeking clarity in respect of the second phase of the Carbon Tax Act commencing from 2023 onwards. With Eskom's carbon tax liability set to commence with the onset of the second phase, businesses and consumers would have been subject to significant electricity tariff escalations due to the utility passing through their carbon tax liability to consumers. This, coupled with possible escalations in the carbon tax rate and the expansion of the taxable consumer base, will see more companies turning to alternative energy solutions which not only offers energy security but also has additional benefits such as green credentials associated with production processes.

What did we want to hear?

- The budget speech is an opportunity to emphasise the importance of resolving the energy crisis and to elevate this as a priority for the government and for PPPs.
- We wanted to hear specifics on how the government is tackling this, e.g. allowing more space for private sector involvement, allowing flexibility in the electricity generation system, and finding solutions to PPP bottlenecks for investment in energy infrastructure.
- With regard to the Carbon Tax, we wanted to hear that the 2nd phase of the Carbon Tax is still to commence as this will be an important incentive for firms to move to clean energy. However, we wanted to hear that the onset of the 2nd phase be slightly postponed in order to allow more time for economic recovery in the short-term before firms are faced with this.

What did the budget say?

- The National Treasury is working on a sustainable solution to deal with Eskom's debt in a manner that is equitable and fair to all stakeholders and any solution will be contingent on continued progress to reform South Africa's electricity sector and Eskom's own progress on its turnaround plan and its restructuring. The outcome of Eskom's steps towards cost containment, sale of assets and implementing operational improvements will be announced within the next financial year.
- The budget speech reminded us that steps have already been taken to reform the electricity sector. This encompasses the lifting of the registration threshold of embedded generation to 100 megawatts. It also includes amendments to the Electricity Regulation Act (ERA) of 2006, and the new generation projects that are coming online over the next few years.
- In connection with the Economic Reconstruction and Recovery Plan, the budget speech mentioned accelerating infrastructure investment and implementing the results of a recently completed review of the Public-Private Partnerships framework.
- With regard to the Carbon Tax, the budget speech announced that the first phase of the carbon tax, with substantial allowances and electricity price neutrality, will be extended to 31 December 2025.

Is this enough?

- Given the gravity of the looming energy crisis, we would have liked to have heard greater commitment to resolving this. It was a missed opportunity to reaffirm the urgency of this issue and to call on help from private investors to jointly resolve this.
- The budget speech did mention the lifting of the registration threshold of embedded generation to 100 megawatts and investors would also have liked to have heard the signal around the ERA though there was nothing new here.
- We would have liked to have had outcomes of Eskom's reform to be announced sooner than within the next financial year as this has been ongoing for several years.
- We would also have liked to have heard more around creating space for private sector involvement in connection with electricity.
- The budget speech mentioned that recommendations from a recent review of the PPP were going to be implemented, such as creating a centre of excellence for PPPs that would be directly overseen by the Treasury, providing some hope to expedite investment in the energy

sector.

- The Carbon tax: we welcomed the postponement of phase 2 to 2025.

Getting the right skills that we need to respond to our economic challenges and increasing employability.

The World Economic Forum (WEF) Global Competitiveness Report 2019 ranks South Africa 101nd out of 141 countries (i.e., in the bottom 30%) for the skills of its current workforce, while digital skills among the active population ranks 126th.[12] (These rankings are based on a survey of South African business leaders who view local skills within a global context.) According to the World Bank's Human Capital Index (HCI), an average child born in South Africa today will not even reach half their productive potential which they could have if they had full health and education.[13]

What these rankings are telling us is that the country's education system is producing hundreds of thousands of high school graduates each year but that 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. This is the only way that South African workers will reach their productive potential and contribute to growing the economy.

The government has already taken the first step in this process: identify 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.

What would we have liked to hear?

- The budget contains a lot of detail on how the state spends money on primary, secondary and tertiary education. Much of this is relatively boring. We would have liked to see anything related getting better value for money in education spending. South Africa spends an above-average amount of money (as % of GD) on education while outcomes are below the global average.

What did the budget say?

- South Africa's post-COVID-19 recovery strategy includes reforms that ease the country's skills constraints and make it easier to do business. A review of the policy framework and processes for work visas is currently underway.
- The presidential employment initiative has provided support to more than 840 000 people through a combination of job creation, job retention and income and skills support interventions.

Is it enough?

- No. There was no hint of any spending plans that could act as a catalyst to jumpstart South Africa's upskilling process. Despite the finance minister underscoring the importance of easing skills constraints to help the economic recovery, an improvement in access for foreign workers is not enough. Fixing the skills problem is about upskilling South Africans.

There is a deep need for countries like 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

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[12] World Economic Forum, 2019. Global Competitiveness Report. https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

[13] World Bank, 2022. Human Capital Project. https://www.worldbank.org/en/publication/human-capital

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.

Governments, businesses, and education providers should work together to build a strong and interconnected ecosystem committed to a comprehensive upskilling agenda. To be successful, these ecosystems need to be based on the following key features: a common vision for people, clear roles and responsibilities, and the reinvention of industrial relations. Trade unions, employers and other stakeholders all stand to benefit from a common vision across governments, industries and the education sector to develop comprehensive national upskilling agendas.

Government, labour, business and community organisations have an opportunity right now to incorporate a new skills agenda into their planning for the economy. President Ramaphosa said in SONA 2022 that these stakeholders have given themselves 100 days "to finalise a comprehensive social compact to grow our economy, create jobs and combat hunger". It is critical that compact includes a national skills vision that includes roles, responsibilities and expectations for every stakeholder.

Getting the private sector to start investing in the economy again in order to create jobs and growth.

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. To grow faster and in a more inclusive manner, the economy needs a higher level of capital spending. 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 12.5% of GDP 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".[14] The list of structural challenges are long and well known.

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". He listed an increase in the power threshold of new electricity generation projects, plans for private partnerships at the ports of Durban and Ngqura, and progress in unbundling Eskom as some of the big achievements.[15]

What did we want to hear?

- We would ideally like to have seen reporting back on significant progress under Operation Vulindlela - the Presidency's flagship reform program - which has been slow to achieve its targets.
- We hoped for some early reflection on the National Treasury's macroeconomic policy review - including an assessment of fiscal, monetary and macroprudential policy - which is due for release in March.
- We wanted to see real progress on accelerating the launch of the Infrastructure Fund and a kick-off to private participation in the enfavour.

What did the budget say?

- Under the economic outlook section, Budget Review 2022 noted that uprooting poverty and inequality requires a thorough restructuring of the economy, and creating an environment in which the private sector can invest and create jobs.
- The National Treasury warned that structural constraints, weak demand and low confidence are

[14] Government of South Africa, 2022. State of the Nation Address. https://www.gov.za/node/811648

[15] Business Day, 2022. Structural reforms are on track and will boost inclusive growth. https://www.businesslive.co.za/bd/opinion/2022-02-15-david-masondo-structural-reforms-are-on-track-and-will-boost-inclusive-growth/

expected to weigh on private investment prospects in the short to medium term. Government continues to advance a multifaceted strategy to achieve higher and sustained economic growth rates. These reforms are intended to build private-sector confidence and investment.

- Only four projects under the Infrastructure Fund initiative are currently in the feasibility study phase.
- Nothing much said about Operation Vulindlela and no mention of the macroeconomic policy review.

Is it enough?

- Decision-makers in the private sector are unlikely to feel different about the potential return on fixed investment after the budget speech. On infrastructure and other key issues, there were no significant pronouncements that would suggest to investors that the medium to long-term outlook for return on their investment has changed.

But are these changes moving the needle on investment sentiment? Have these changes and others still in the works resulted in improved private sector investment or at least intentions to invest? Survey data suggests no. Publications by the Bureau for Economic Research (BER) showed that business confidence in general, and sentiment amongst builders, ended 2021 in net negative territory.[16]

Both reports reflect a hesitancy to invest in fixed infrastructure and capital goods. With this in mind, we cannot say that the Economic Reconstruction and Recovery Plan launched some 18 months ago has really supported private investment. Sentiment gauges and unemployment data simply do not suggest that this plan and the progress so far under Operation Vulindlela has been a success. The IMF also noted in February that 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 progress of structural reforms but crucially also broader policy certainty. With policy uncertainty, we are not only talking about what the policy environment would look like in e.g. three or five years. In the South African context, policy uncertainty definitely includes this lack of surety about policy direction, but also the lack of high-level decision-making to finalise changes, and delays in implementation. As a country, policy implementation is a key challenge.

In the mining sector, for example, the Fraser Institute Annual Survey of Mining Companies 2020 ranked South Africa 66th out of 77 territories (i.e. in the bottom 15%) on its policy perception index. This indicator measures the opinions of managers and executives on the effects of policies in jurisdictions with which they are familiar. In compiling this index where South Africa performs so disappointingly, the Fraser Institute asks specific questions about the uncertainty concerning the administration, interpretation, and enforcement of regulations and policies.[17]

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. The accompanying graph illustrates the inverse relationship between business confidence (an essential factor in stimulating private sector investment) and policy uncertainty. The trend is very visible over the past decade.

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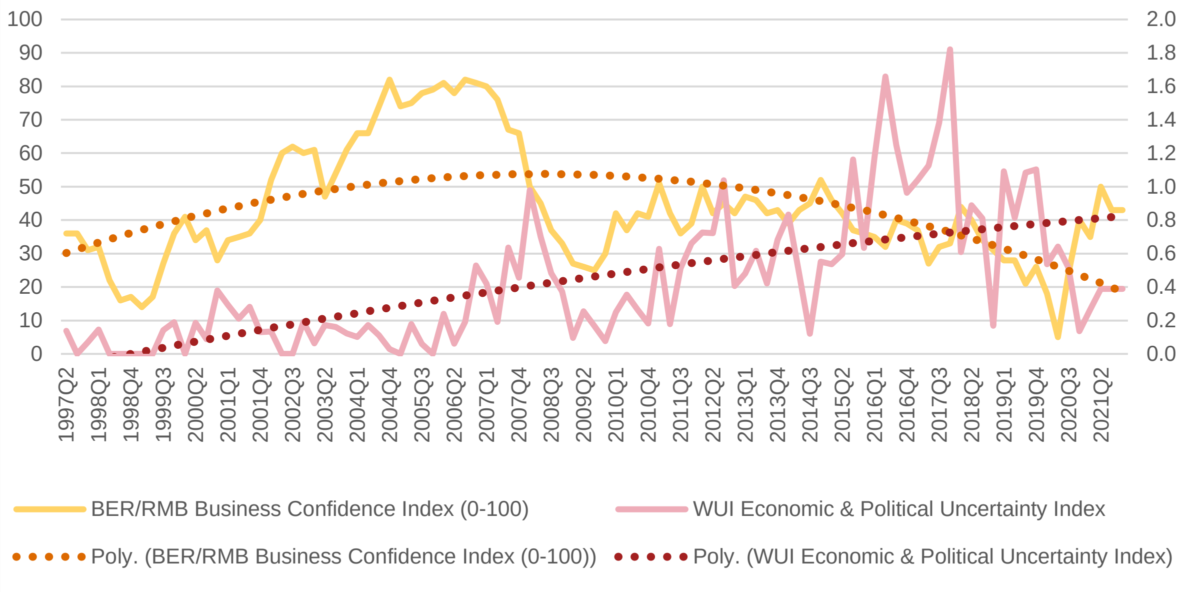
[16] Bureau for Economic Research, 2022. Press releases. https://www.ber.ac.za/BER%20Documents/BER-press-release/?doctypeid=1068

[17] Fraser Institute, 2021. Annual Survey of Mining Companies 2020. https://www.fraserinstitute.org/sites/default/files/annual-survey-of-mining-companies-2020.pdf

Figure 4: Strong link between (weak) business confidence and (high) policy uncertainty



Sources: Bureau for Economic Research (BER), World Uncertainty Index (WUI)

To be fair, the budget speech could again have told us (it did not) a lot about structural changes given that Operation Vulindlela is a joint endeavour between the National Treasury and the Presidency. But the budget speech alone cannot create policy certainty where it is needed most. The rest of the executive needs to resolve some key issues. For example, for private sector investment, the lingering uncertainty over land expropriation without compensation is a red flag in terms of property rights. While Parliament voted in December 2021 to not amend Section 25 of the Constitution to provide for expropriation without compensation, an expropriation bill completely independent of the constitutional amendment will be tabled to Parliament this year. This bill contains specific provisions dealing with expropriation without compensation.

In our opinion, will the interventions in the budget be sufficient to make a difference to jobs and growth?

South Africa needs to change its economic landscape and the time for action is now. We have identified three key action points - energy security, skills, and private investment - that could potentially triple South Africa's economic growth rate from its long-term potential of 1.5%.

The budget cannot provide the answers to all of South Africa's economic challenges. However, as the flagship event for the well-respected National Treasury, it is a key part in the government's arsenal of available resources and influences to shape opinions about the state and the economy. It is a closely watched event where South Africans look for practical policies and plans.

However, in Budget 2022, we were seeing too much 'more-of-the-same' On the issue of addressing the electricity challenge, the can has been kicked down the road yet again. It seemed from a significant part of the solutions being put on the table, the view still exists that the government should be alone in providing solutions for the jobs, skills and investment challenges on its own. It missed a major opportunity to send the signal that the private sector is needed in providing the solutions.

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