THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA THIRD QUARTER 2022

*The Real Economy Bulletin is a TIPS review of quarterly trends, developments and data in the real economy, together with a comprehensive analysis of the main manufacturing industries and key data in Excel format.**

GDP growth

GDP grew by 1.6% in the third quarter of 2022, an unexpectedly strong performance in light of intensified loadshedding and continuing volatility in the global economy. Agriculture grew most rapidly, at an exceptional 19%, while the rest of the economy expanded far more modestly. For the first time, the GDP has now exceeded pre-pandemic levels.

After a setback in the second quarter of 2022 due to a 0.7% decline in GDP, the recovery from the COVID-19 pandemic got a boost in the third quarter. Despite intensified loadshedding and sustained volatility in global markets, the South African economy reportedly grew by 1.6% in the third quarter of 2022 (Graph 1). As a result, GDP reached R6.7 trillion in constant 2022 rand, surpassing its pre-pandemic level for the first time (Graph 2).

*Available at www.tips.org.za/the-real-economy-bulletin

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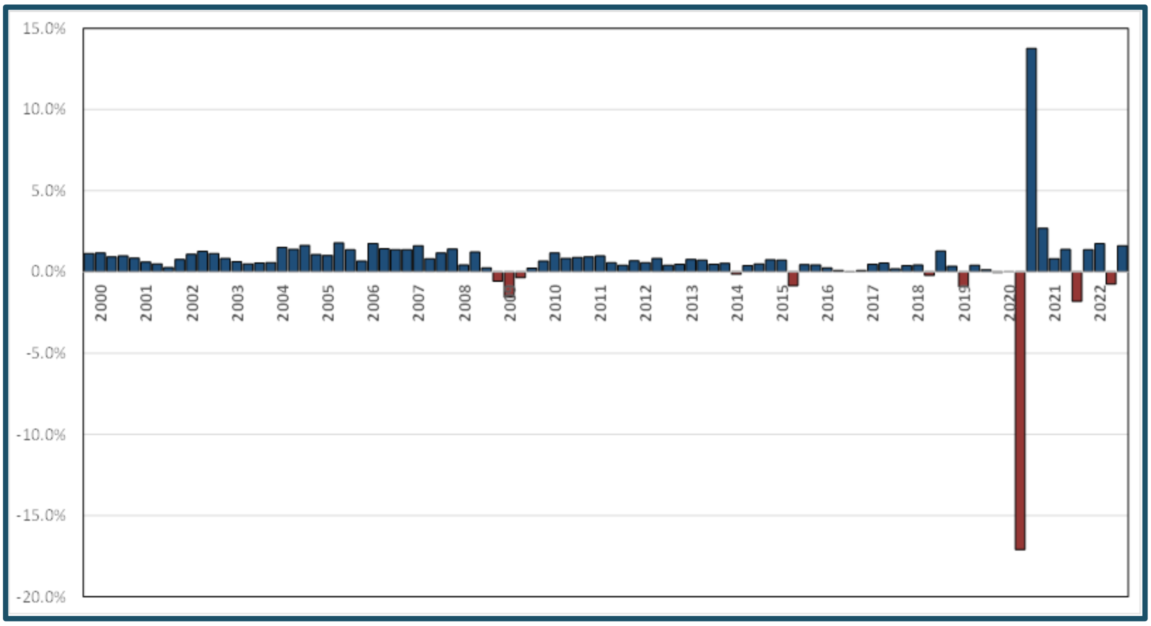
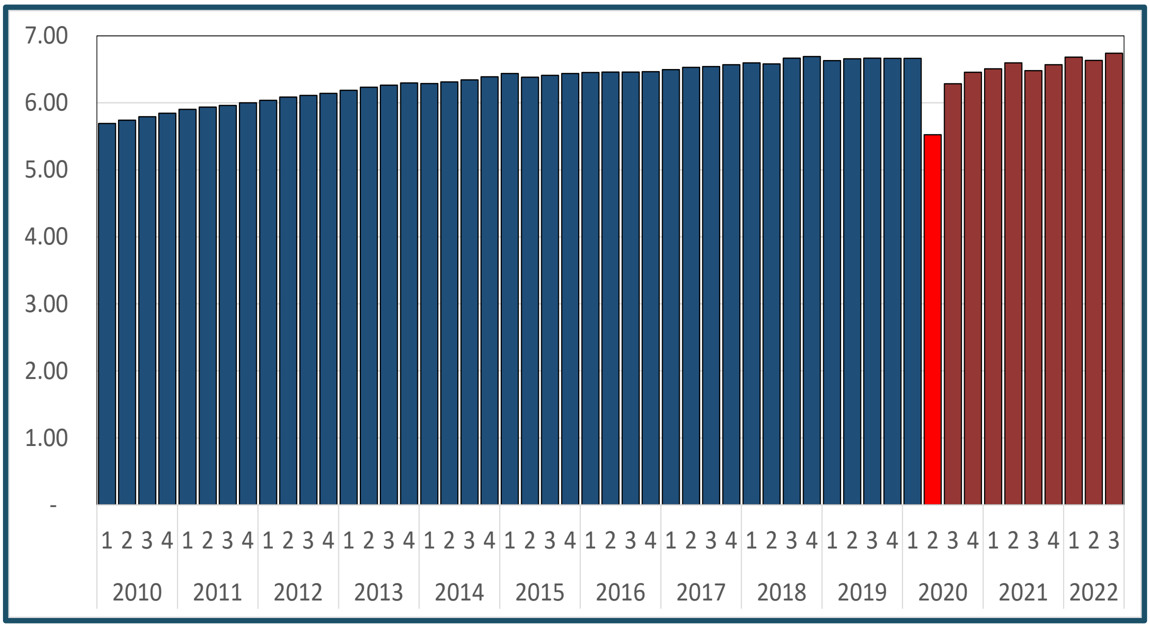
Graph 1. Quarterly change in GDP, seasonally adjusted, 2000 to third quarter 2022



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2022Q3. Excel spreadsheet.

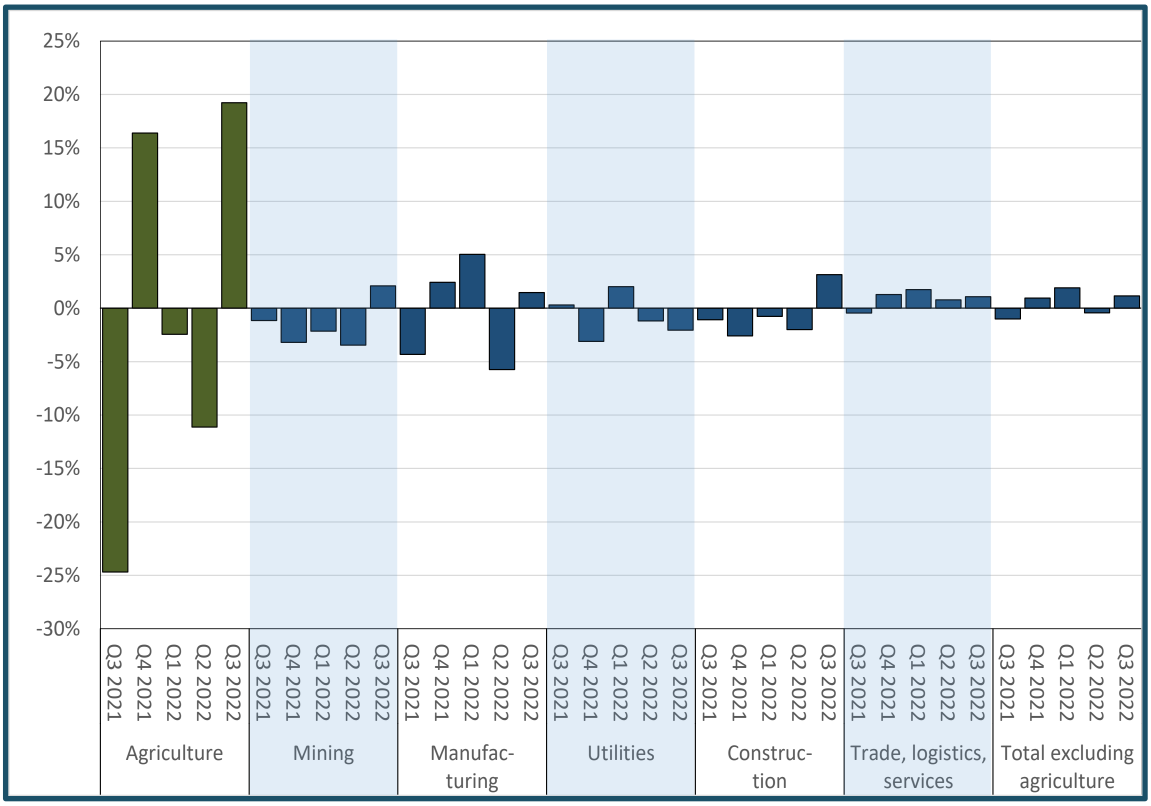
Graph 2. Quarterly GDP in trillions of constant (2022) rand (a) from 2010



Note: Reflated using implicit GDP deflator rebased to 2022. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2022Q3. Excel spreadsheet.

The third quarter saw growth across the real-economy sectors as well as in services (Graph 3). The reported exceptional 19% expansion in the agricultural sector had a disproportionate impact, in line with the volatility in reported growth in the sector over the past five years or so. Growth outside agriculture was still positive but more modest, at 1.2% for the quarter. In annualised terms, that translates to around 5% growth – the fourth highest quarterly growth rate in non-agricultural value added since 2010. The three fastest quarterly growth records for the GDP excluding agriculture all occurred since 2020, during the recovery from the pandemic.

Graph 3. Quarterly growth by sector, third quarter 2021 to third quarter 2022

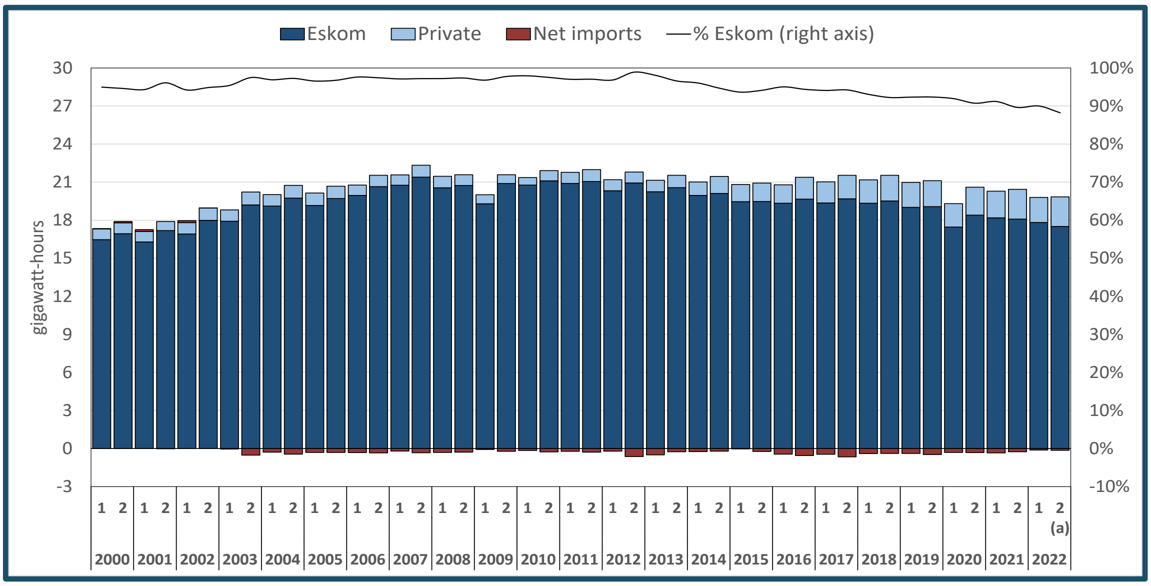


Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q3. Excel spreadsheet.

The strong quarterly growth performance was accompanied by improved job creation, investment and imports, all of which point to a real upswing. The recovery in construction in particularly noteworthy.

The economy showed notable resilience in the face of heavy loadshedding, with 2022 the worst year on record by a substantial margin in terms of both duration of outages and gigawatt hours of energy shed. As Graph 4 shows, in the past quarter electricity on the national grid stabilised, although at a low level. Eskom's electricity production continued its long-run decline, but the fall was offset by an increase in private sales to the national grid. As a result, Eskom's share in on-grid electricity fell to 88%, a record low. In addition, enterprises have now had some time to adapt to loadshedding, including by reorganising working time and finding off-grid solutions, usually either generators or solar. This response will ultimately reduce energy costs, bolstering national competitiveness. Absent government support for lower income households and small business, however it will deepen inequality as the largest firms and wealthiest households replace public electricity in ways that others cannot.

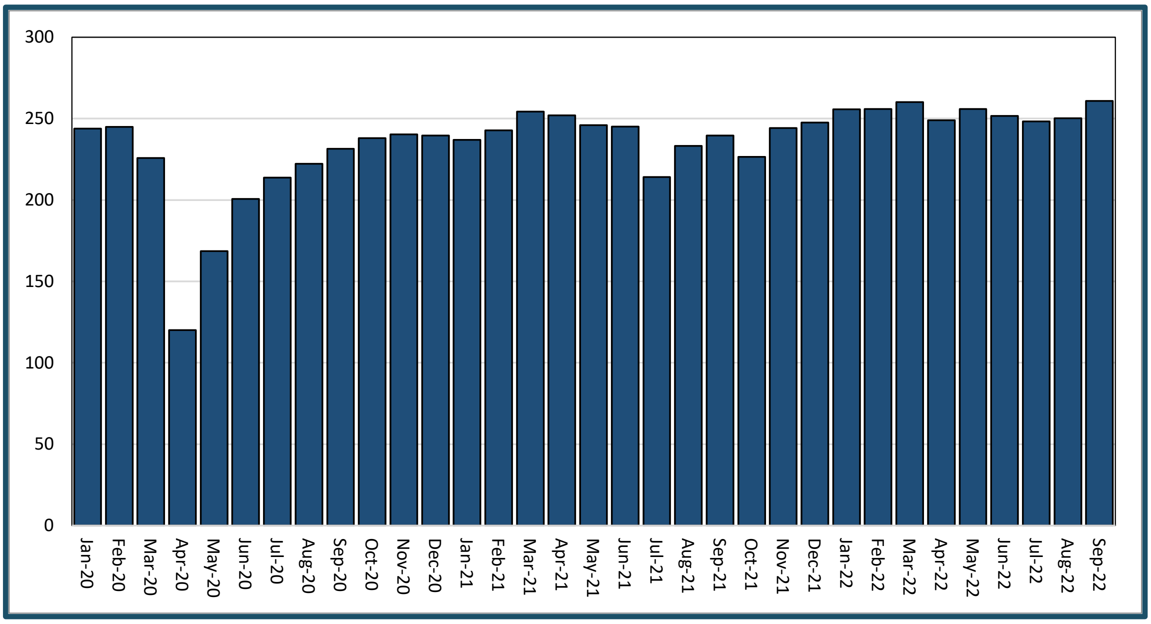
Graph 4. Electricity available for distribution in GWh and share of Eskom in total electricity supply through the national grid, first half 2000 to first half 2022



Note: (a) Figures from July to October. Source: Calculated from Statistics South Africa. P4141. Electricity generated and available for distribution. Excel spreadsheet

Monthly manufacturing sales grew steadily through the third quarter of 2022, following a second quarter when sales fell 3.2% from the first quarter (Graph 5). Overall, manufacturing sales grew 12.7% in real terms between September 2020 and September 2022. In September 2022, they were 7% higher than before the pandemic.

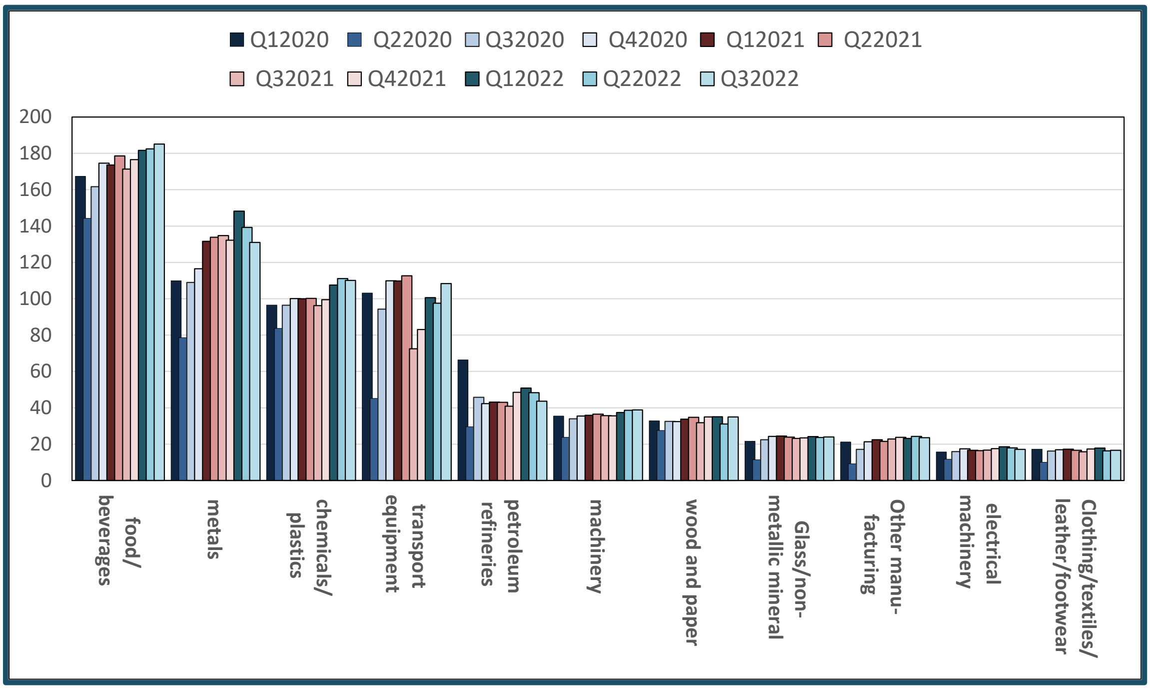
Graph 5. Monthly manufacturing sales in billions of constant (2022) rand (a), seasonally adjusted, January 2020 to September 2022



Note: (a) Reflated with CPI. Source: Calculated from Statistics South Africa. Manufacturing: Production and Sales, September 2022. P3041.2.

Food and beverages, and autos drove manufacturing sales in the third quarter of 2022. Metals sales have now declined significantly two quarters in a row, falling 12% from a strong first quarter to well below the levels posted in the third quarter of 2021.

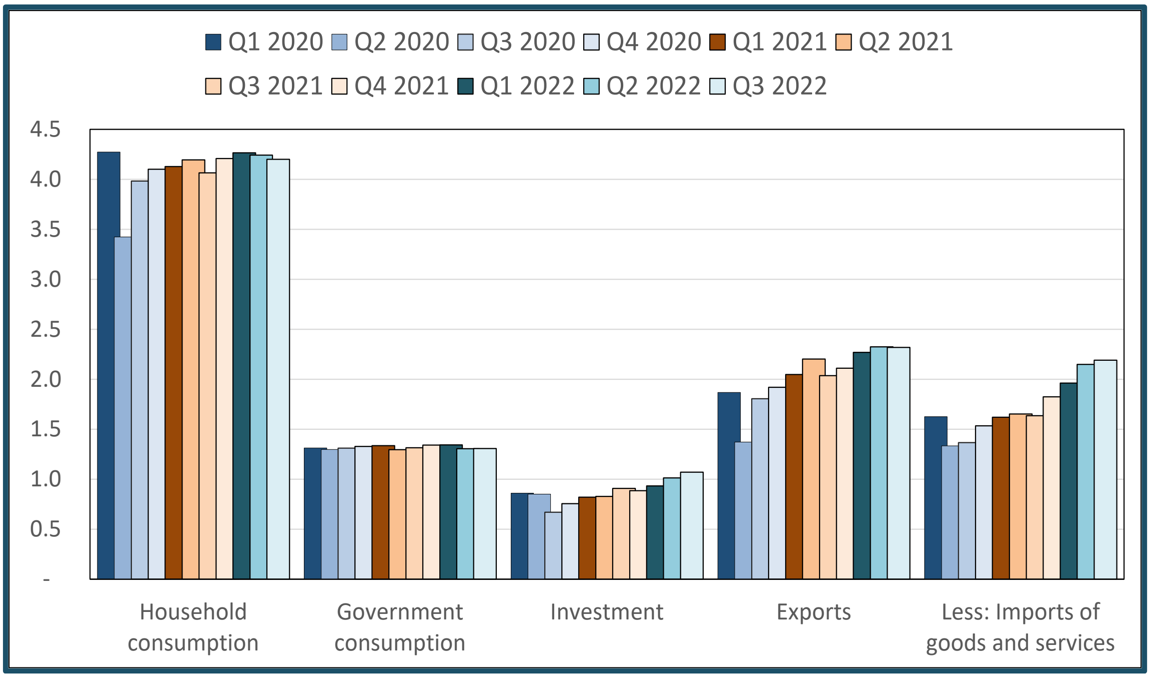
Graph 6. Quarterly sales by manufacturing industry in billions of constant (2022) rand (a), seasonally adjusted



Note: (a) Reflated with CPI. Source: Calculated from Statistics South Africa. Manufacturing: Production and Sales, September 2022. P3041.2

From an expenditure perspective, growth in the third quarter of this year appears to have been driven primarily by investment, while both household and government consumption have declined slightly from the previous quarter (Graph 7). Investment growth was driven by the public sector, as discussed in more detail in the section on investment.

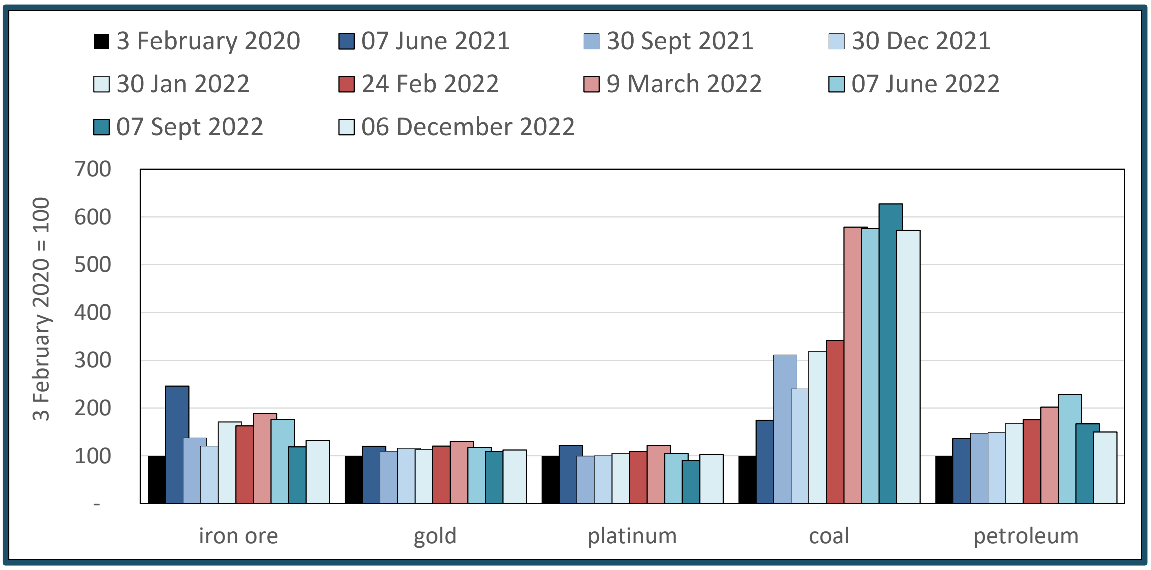
Graph 7. Quarterly expenditure on GDP, first quarter 2020 to third quarter 2022, seasonally adjusted, in trillions of constant (2015) rand



Source: Statistics South Africa. GDP quarterly figures. Excel spreadsheet

Graph 8 illustrates changes in the prices of key mineral-based commodities, which have important implications for South Africa's trade balance. Note that since market data is available in real time, the figures are a quarter ahead of the other of data in this bulletin. For all of South Africa's main exports, prices are well above the levels in early 2020. Coal prices soared when Russia invaded Ukraine and remain at all-time highs. The prices of iron ore, gold and platinum increased slightly in the fourth quarter of 2022 (to 6 December). In contrast, the prices of hydrocarbons like coal (which South Africa exports) and petroleum (which is a major import) have softened somewhat. As for the third quarter, the section on international trade illustrates that the trade balance has continued to narrow as imports outgrow exports. This trend reflects the combination of changing commodity prices and the normal tendency of imports to escalate when growth accelerates.

Graph 8. Indices of global US dollar prices for South Africa's major mining exports from February 2020 to December 2022 (a)



Note: (a) Russia invaded Ukraine on 24 February 2022. Source: Calculated from Trading Economics. Commodity prices. Interactive dataset. Accessed at https://tradingeconomics.com/commodities on 6 December 2022

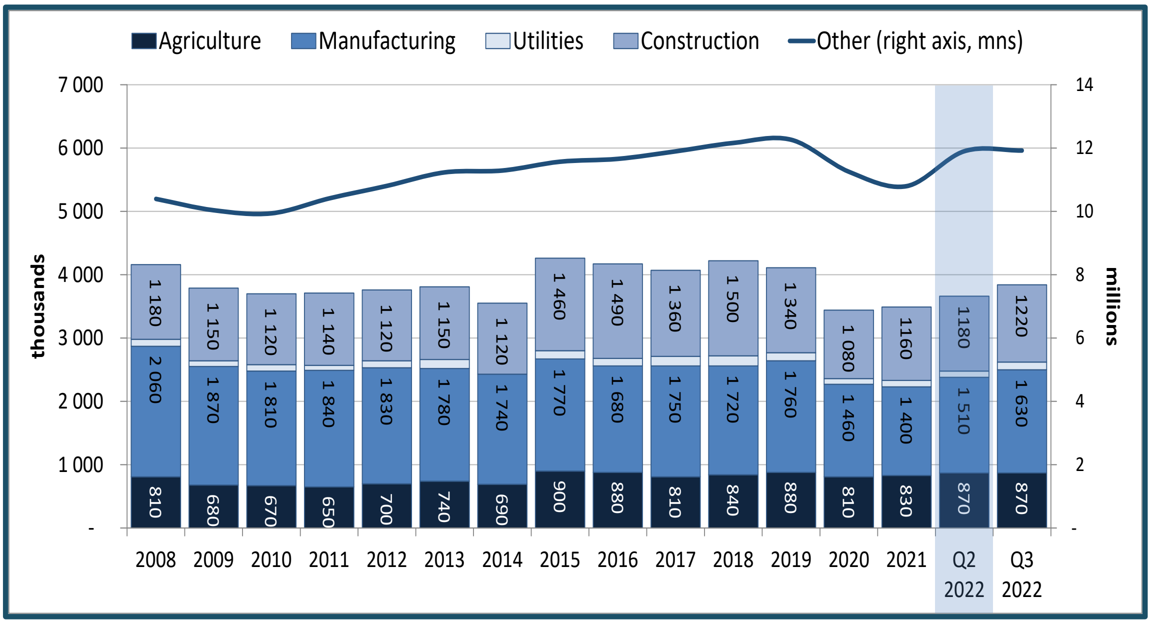
Employment

According to the Quarterly Labour Force Survey (QLFS), in the third quarter of 2022 the formal sector employed around 615 000 fewer people than in the third quarter of 2019. There has, however, been a significant recovery from the third quarter of 2021 with close to 1.5 million jobs gained, led by robust recoveries in white collar jobs and in the informal sector. Domestic workers have continued to experience job losses this quarter, with no sign of recovery to pre-pandemic levels. The response rate for Stats SA's QLFS has continued to improve, rising from 79% in the second quarter of 2022 to 85% in the third quarter of this year, approaching pre-pandemic rates.

By the third quarter of 2022, a total of 15.5 million South Africans were in employment, reflecting a loss of 60 000 jobs from the previous quarter, but the figures are not seasonally adjusted. There were still around 615 000 fewer jobs in South Africa than in the third quarter of 2019, before the pandemic. However, employment made more progress toward recovery from the worst stages of the COVID-19 shock, when employment fell to around 14 million.

From a sectoral perspective, the recovery in real sector jobs has gained momentum as the recovery in services has stalled somewhat (Graph 9). Manufacturing has added 230 000 jobs since the third quarter of 2021, around 120 000 of these in the last quarter. Agriculture and construction have recovered more modestly, both growing employment by 5% and adding 100 000 jobs together over the last year. However, the real economy sectors remain around 270 000 jobs smaller than it was in the third quarter of 2019.

Graph 9. Employment in agriculture, manufacturing, utilities and construction compared to the rest of the economy, third quarter 2008 to 2022, and second quarter 2022

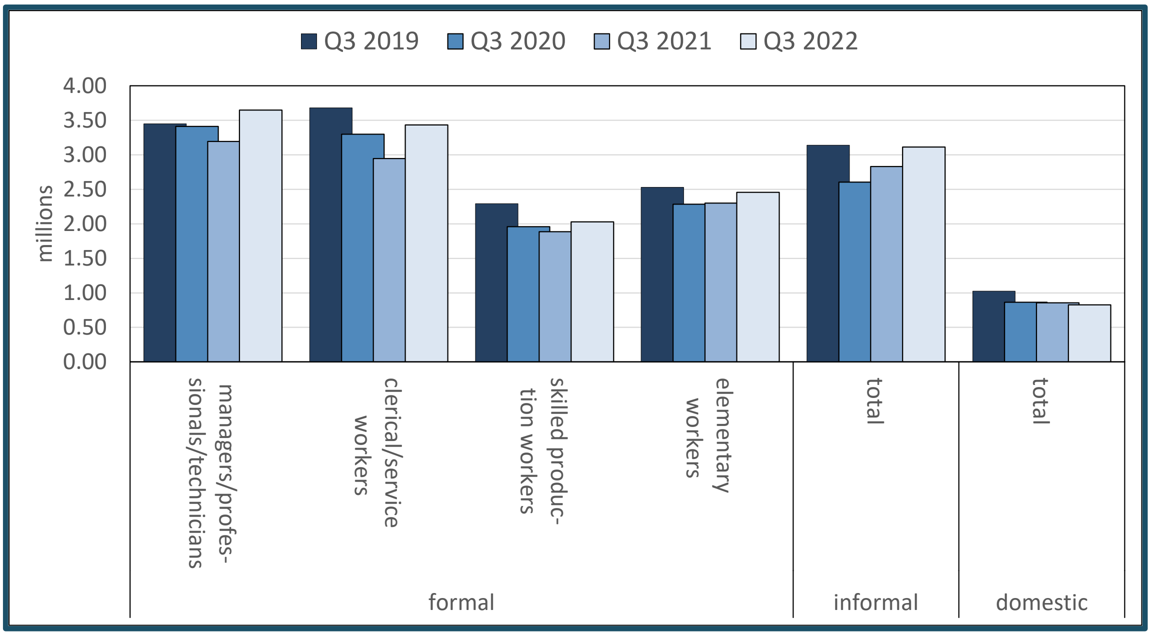


Source: Calculated from Statistics South Africa. QLFS Trends 2008-2022Q2. Excel spreadsheet.

In the formal sector, the more highly qualified occupations – in managerial, professional and technical jobs – lost fewer jobs in the course of the pandemic and have had the most robust recovery. (Graph 10) This is the only category to have surpassed pre-pandemic employment levels. Skilled production jobs remain 12% lower than in 2019, with clerical and service jobs down 7%, and semi-skilled jobs down 3%.

Informal jobs have recovered relatively rapidly, remaining just 1% (or around 30 000 jobs) below 2019 levels. This recovery does not appear to represent new dynamism. Rather, it has likely been driven in part by a migration of workers from formal jobs to worse paid and more insecure informal opportunities. Domestic work has continued its decline from pre-pandemic levels, with 30 000 jobs lost since the previous quarter and 201 000 fewer jobs than the third quarter of 2019.

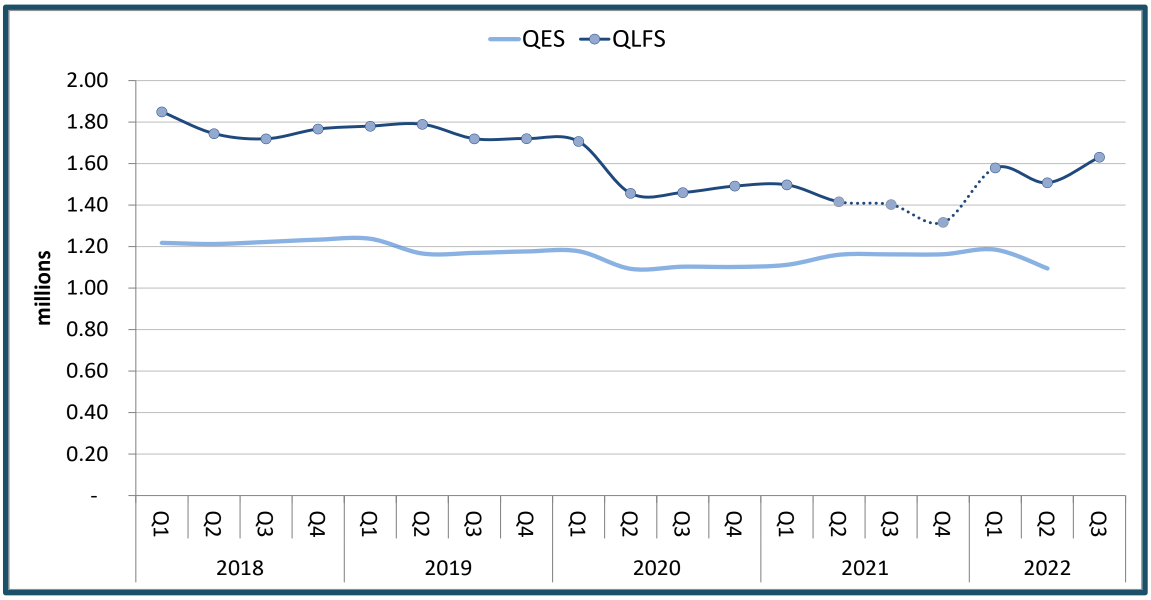
Graph 10. Employment by occupation, third quarter, 2019 to 2022



Source: Calculated from Statistics South Africa. QLFS for relevant quarters. Electronic databases.

The QLFS for the third and fourth quarters of 2021 had very low response rates, mostly due to a temporary shift to telephonic surveys. That makes year-on-year comparisons unreliable. In comparison to the third quarter of 2020, the latest QLFS suggests that recovery in manufacturing jobs is gaining momentum, although this pace will need to be sustained for at least another year for pre-pandemic levels to be regained. In contrast to the QLFS, the Quarterly Employment Survey, which surveys large formal enterprises, saw a gradual improvement from the second half of 2020 to the first quarter of 2022, but a sharp decline in the second quarter, the latest for which data are available. (Graph 11)

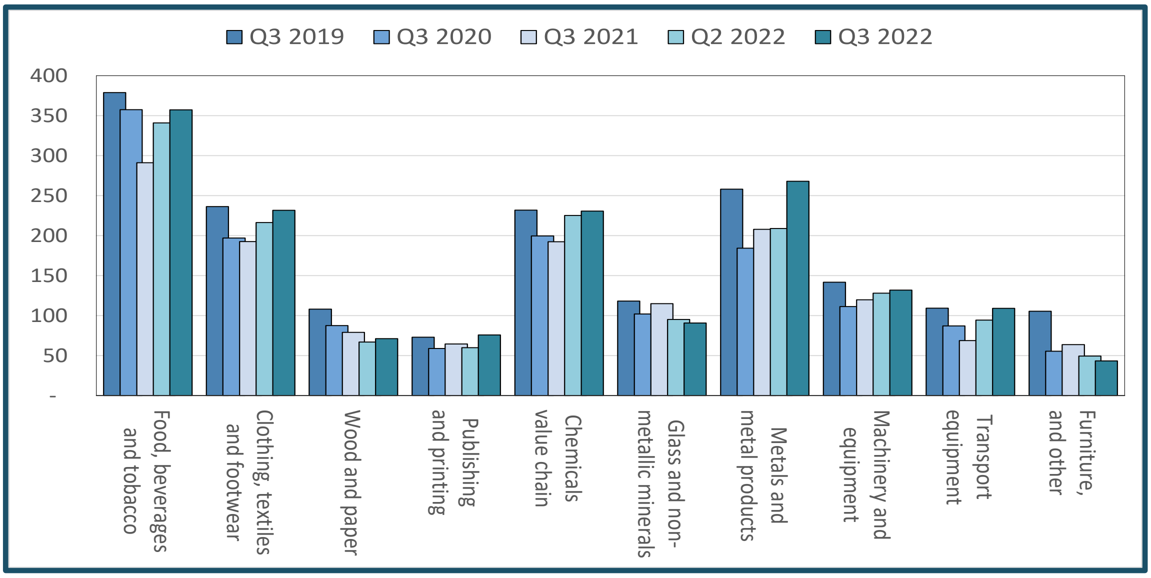
Graph 11. Quarterly Employment Survey and QLFS findings on formal manufacturing employment, first quarter 2018 to third quarter of 2022 (a)



Note: (a) The third and fourth quarter 2021 QLFS reflect very low response rates and are therefore considered unreliable. Source: Calculated from Statistics South Africa. QES details breakdown and QLFS Trends 2008-2022Q2. Excel spreadsheets.

Two manufacturing industries – publishing and printing, and metals and metal products – have now surpassed pre-pandemic levels of employment, both 4% higher in the third quarter of this year than in 2019 (Graph 12). Recoveries also appear to be underway in transport equipment, food, clothing and chemicals industries, with employment in transport equipment the closest to parity with 2019 levels. From an employment perspective, three industries appear to be experiencing ongoing crises – wood and paper, glass and non-ferrous minerals, and furniture. The furniture industry has been the worst hit, reportedly shedding close over 62 000 jobs or 60% of its 2019 level.

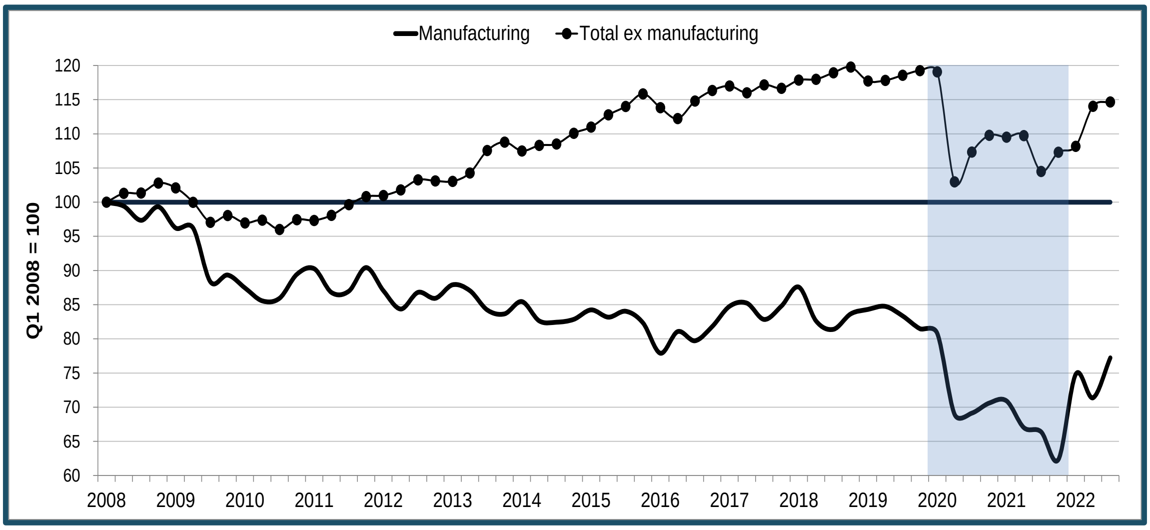
Graph 12. Employment in manufacturing industries, third quarter 2019, 2000, 2021 and 2022



Source: Calculated from Statistics South Africa. QLFS for relevant quarters. Electronic databases.

Graph 13 shows trends in manufacturing and non-manufacturing employment from 2008. It provides a long-term view of the decline of manufacturing relative to other sectors and a sense of the scale of the COVID-19 shock to employment in general. It also illustrates that employment in manufacturing has recovered less robustly than non-manufacturing industries, with the former still 7% lower than in the quarter of 2019 and the latter just 3% lower.

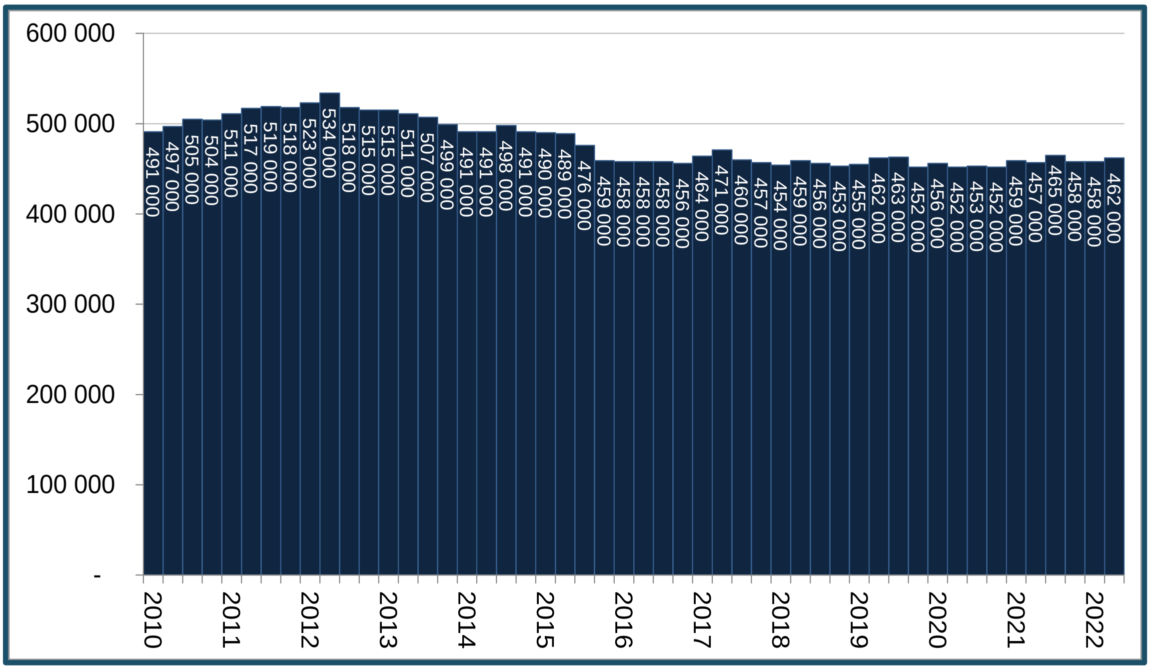
Graph 13. Employment in manufacturing and the rest of the economy, first quarter 2008 to third quarter 2022



Source: Calculated from Statistics South Africa. QLFS for relevant quarters. Electronic databases.

Statistics South Africa recommends the use of the Quarterly Employment Survey for mining. The sector added 4 000 jobs in the second quarter (note that Quarterly Employment Survey data lags the QLFS by one quarter). This modest gain almost restores 2019 levels of mining employment. However, levels remain well below those seen in the last commodity boom, which ended in 2011.

Graph 14. Mining employment, first quarter 2010 to second quarter 2022



Source: Statistics South Africa. Quarterly Employment Statistics. Detailed breakdown. First quarter 2022 Excel spreadsheet.

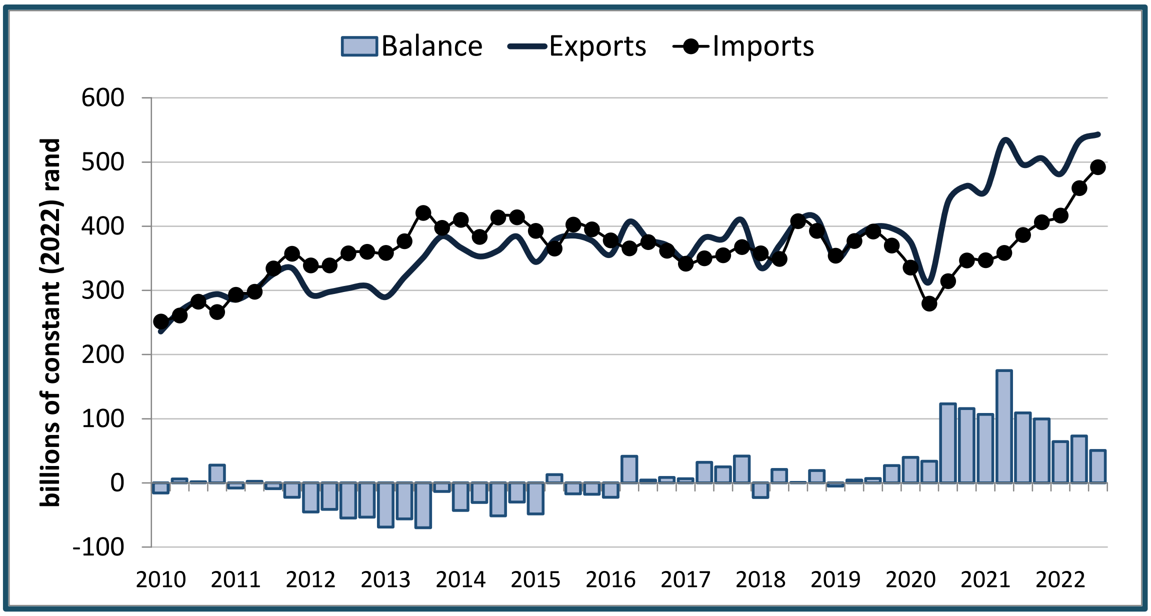
International trade

South Africa's surplus in goods trade continued to narrow in the third quarter as prices for key export commodities declined, with the exception of coal, while imports climbed. Logistics challenges have affected coal and auto, and imports have grown faster than exports across most manufactured goods categories. In these circumstances, soaring coal prices have not been sufficient to maintain the record trade surpluses seen since the pandemic.

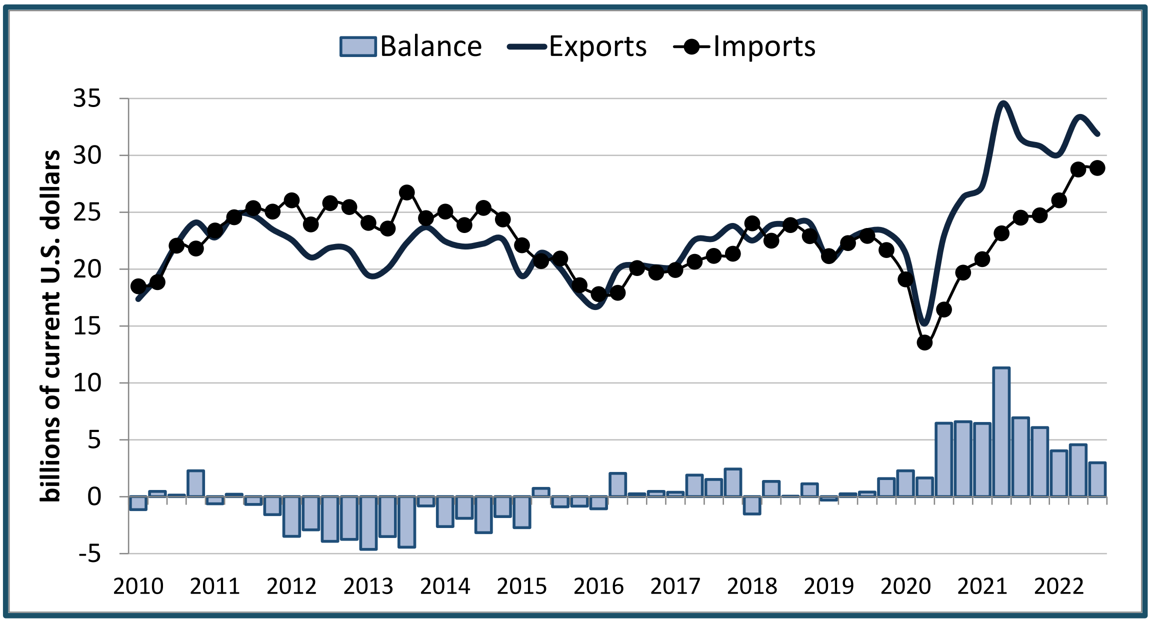
In the third quarter of 2022, South Africa's trade surplus narrowed to R50.7 billion from R73 billion in the previous quarter. In constant rand, imports have continued to grow rapidly while export growth eased over the previous quarter, but remained positive mostly due to the depreciation of the rand. In current US dollars, imports remained steady over the past quarter and export values declined. While the trade balance remains significantly higher than the pre-pandemic norm, it appears to be diminishing steadily. This results in part from global factors, including softer (although still high) prices for South African export commodities. On the domestic side, rail, port and other logistical and infrastructure shortcomings have hit exports, while import demand has risen as growth has recovered.

Graph 15. Exports, imports and balance of trade in billions of constant rand and current US dollars

A. Billions of constant (2022) rand (a)



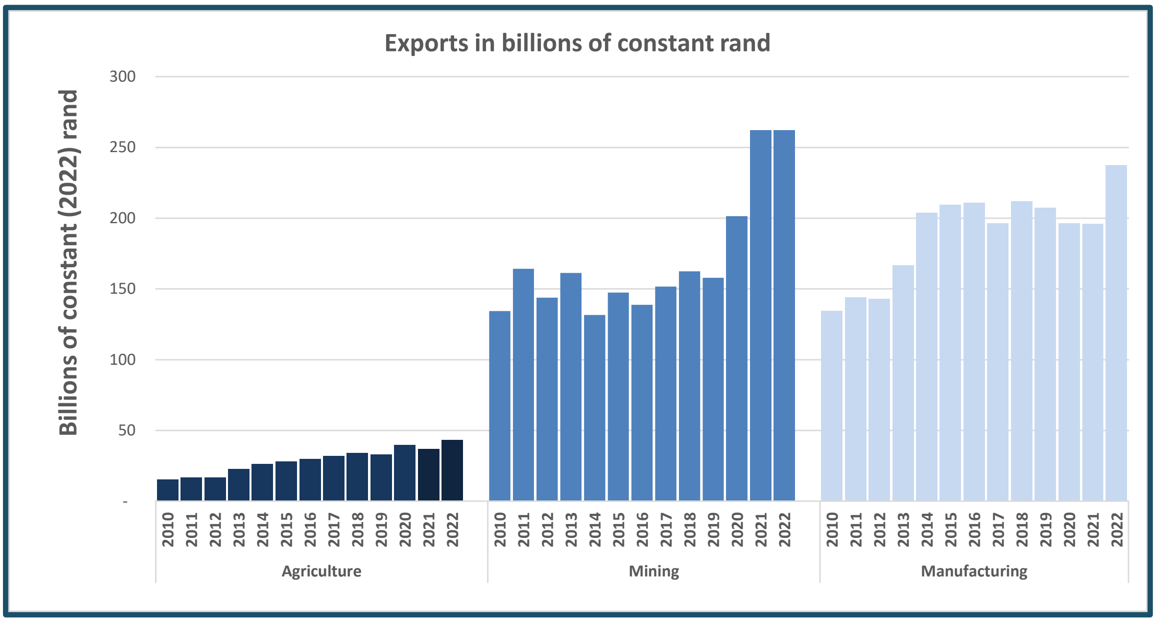
B. Billions of current US dollars



Source: Calculated from South African Revenue Service data.

Mining export values remain at heightened levels due to high commodity prices, especially for coal. Despite a decline over the previous quarter, these prices remain well above 2020 levels and far higher than in the previous decade. In constant rand terms, agricultural and manufactured export values have also grown relatively rapidly since 2020, at 9% and 21% respectively. The extraordinary jump in manufactured exports in the year to the third quarter of 2022 resulted largely from higher auto and steel exports combined with the depreciation of the rand.

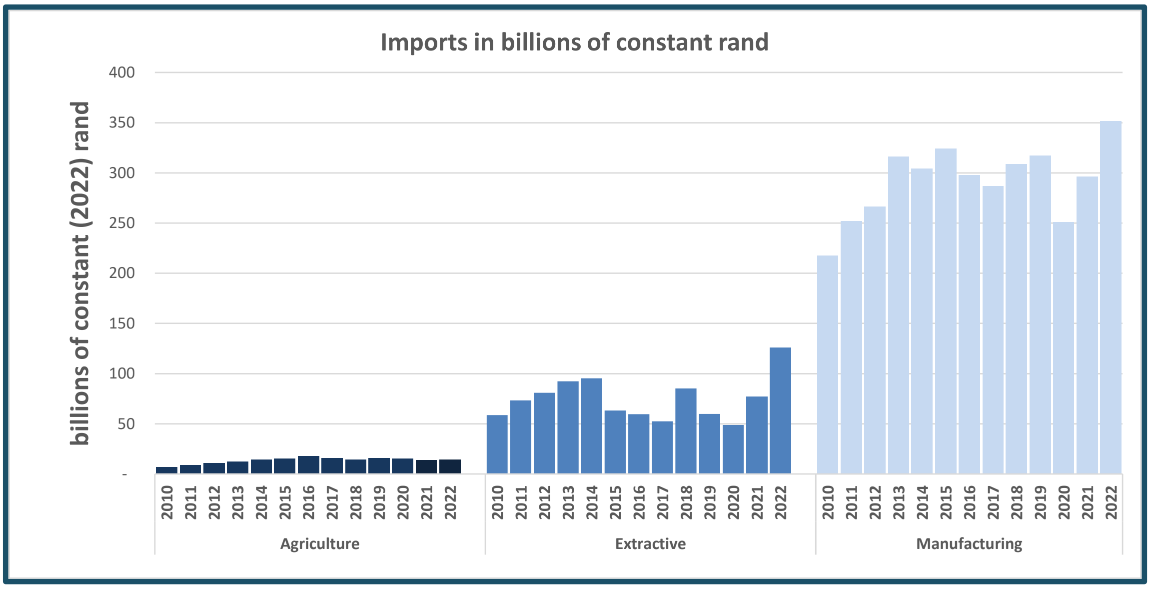
Graph 16. Third-quarter goods exports in billions of constant (2022) rand (a), by sector, 2010 to 2022



Note: (a) Deflated with CPI. Source: Calculated from South African Revenue Service data.

Extractive imports, mostly petroleum, continued to rise rapidly in the third quarter of this year. While petroleum prices fell over the third quarter, they remain high relative to before the pandemic. Manufactured imports also continued to rise from mid-pandemic lows, up 40% from 2020 in constant rand terms. The main drivers were the auto industry, which imported both components and assembled cars on a large scale; machinery and equipment; and chemicals. Again, the depreciation of the rand boosted the cost of imports, notably for oil.

Graph 17. Third-quarter goods imports in billions of constant (2022) rand (a), by sector, 2010 to 2022



Note: (a) Deflated with CPI. Source: Calculated from South African Revenue Service data.

The paper and publishing, metals and metal products, and transport equipment industries are the only three in the manufacturing sector that have seen export growth outstrip import growth; of the three, only metals and metal products maintains a positive trade balance in rand terms. The only other two manufacturing industries with positive trade balances – food and beverages, and wood products – have seen import growth in excess of export growth over the past year.

Table 1. Trade by manufacturing subsector

INDUSTRY	VALUE (BILLIONS)		% CHANGE FROM Q3 2021		CHANGE IN BILLIONS	
	USD	RAND	USD	RAND	USD	RAND
EXPORTS						
Food and beverages	1.25	21.3	13.1%	22.4%	0.15	3.90
Clothing and footwear	0.43	7.4	7.7%	16.6%	0.03	1.05
Wood products	0.18	3.0	6.3%	14.9%	0.01	0.39
Paper and publishing	0.62	10.6	68.1%	83.5%	0.25	4.83
Chemicals, rubber, plastic	2.57	43.9	4.4%	12.8%	0.11	4.99
Glass and non-metallic mineral products	0.12	2.0	-0.1%	8.0%	- 0.00	0.15
Metals and metal products	3.19	54.4	10.0%	18.8%	0.29	8.61
Machinery and appliances	2.35	40.0	0.8%	8.9%	0.02	3.28
Transport equipment	2.95	50.3	24.7%	34.9%	0.58	13.01
IMPORTS						
Food and beverages	1.07	18.2	14.9%	24.0%	0.14	3.53
Clothing and footwear	1.43	24.3	17.2%	26.7%	0.21	5.12
Wood products	0.10	1.8	6.9%	15.4%	0.01	0.24
Paper and publishing	0.83	14.1	20.5%	30.3%	0.14	3.27
Chemicals, rubber, plastic	4.71	80.1	5.7%	14.3%	0.26	10.00
Glass and non-metallic mineral products	0.28	4.8	10.2%	19.0%	0.03	0.76
Metals and metal products	1.49	25.3	7.4%	16.0%	0.10	3.49
Machinery and appliances	6.37	108.4	14.4%	23.6%	0.80	20.68
Transport equipment	3.96	67.6	4.8%	13.5%	0.18	8.02

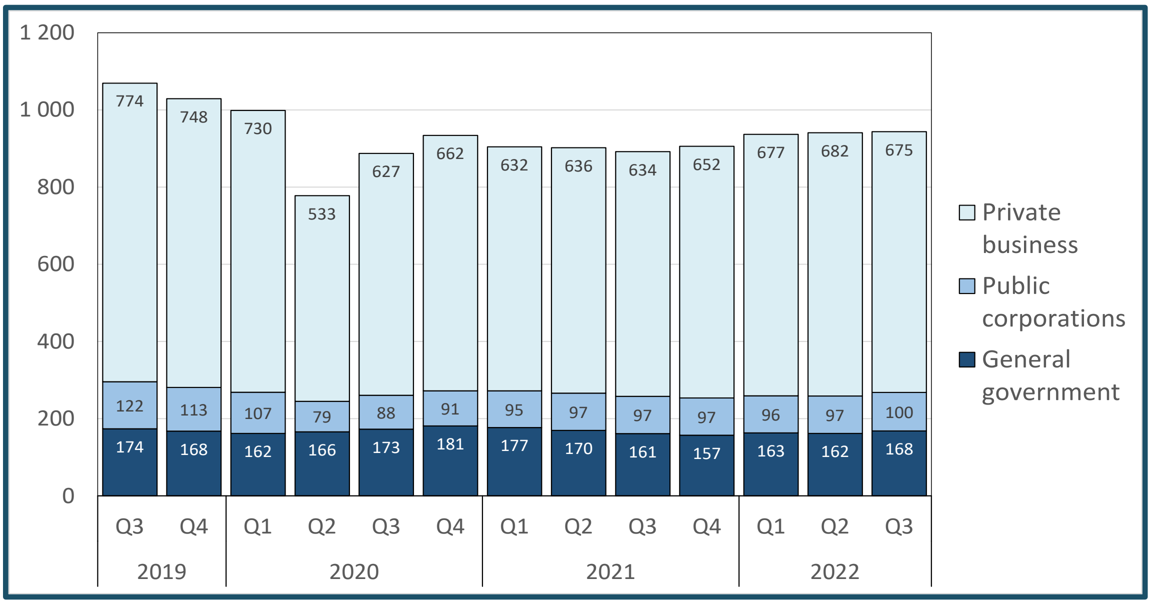
Source: SARS monthly data.

Investment

Investment in the third quarter of 2022 grew 0.3%, with private investment contracting slightly and public investment expanding sharply for the first time in a decade. The investment rate maintained the 14% level from the previous quarter, up from 13% in the third quarter of 2021 – still far below the level of around 20% required for steady growth. Returns on assets climbed sharply in manufacturing and the rest of the economy outside of mining and construction. Despite the decline in mining, profitability remained very high by historic standards.

Public investment expanded in the third quarter of this year, with state-owned corporations and general government investment up by 3% and 2% respectively from last quarter. Private investment, while over 9% higher than in the third quarter of 2021, contracted slightly compared with the previous quarter. (Graph 18)

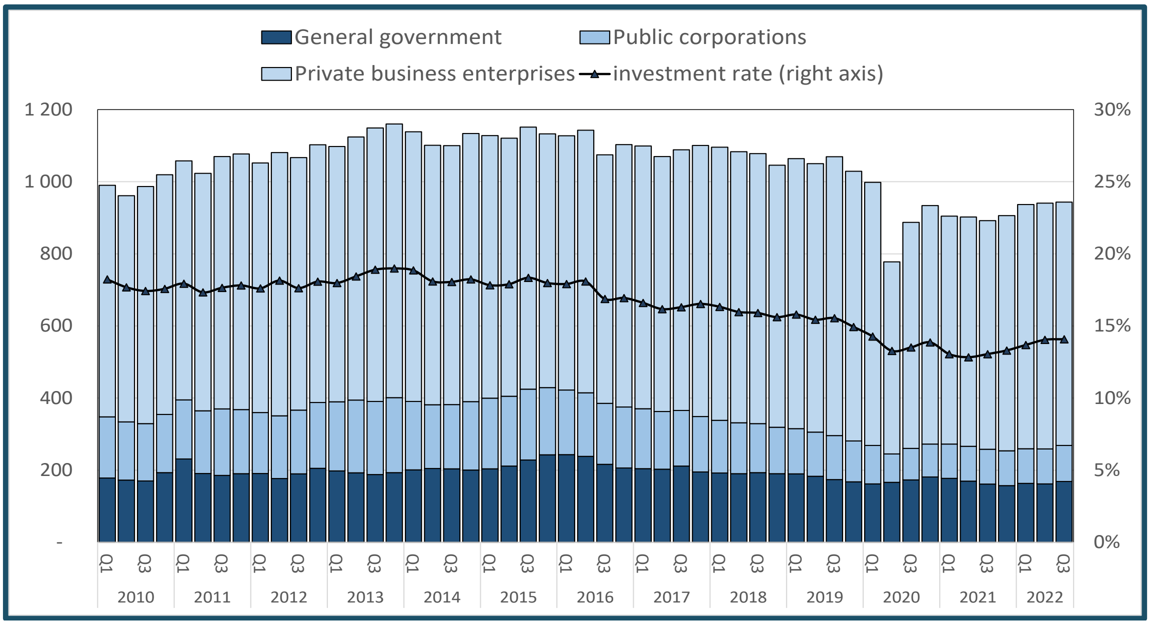
Graph 18. Quarterly seasonally adjusted investment by type of organisation, third quarter 2019 to third quarter 2022, in billions of constant (2022) rand (a)



Note: Reflated with implicit deflator rebased to third quarter 2022. Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet.

Investment in the third quarter of 2022 remains well below pre-pandemic levels, at 8% lower than three years earlier. Overall investment began to decline before the pandemic, however, falling from 2016. The contraction was driven by a sharp fall in investment by state-owned entities and to a lesser extent by general government. As of the third quarter of this year, levels of investment were 24% lower than in 2016 for general government, 43% for state-owned entities and 6% for private businesses. The investment rate fell from 17.5% to 14% over this period. (Graph 19)

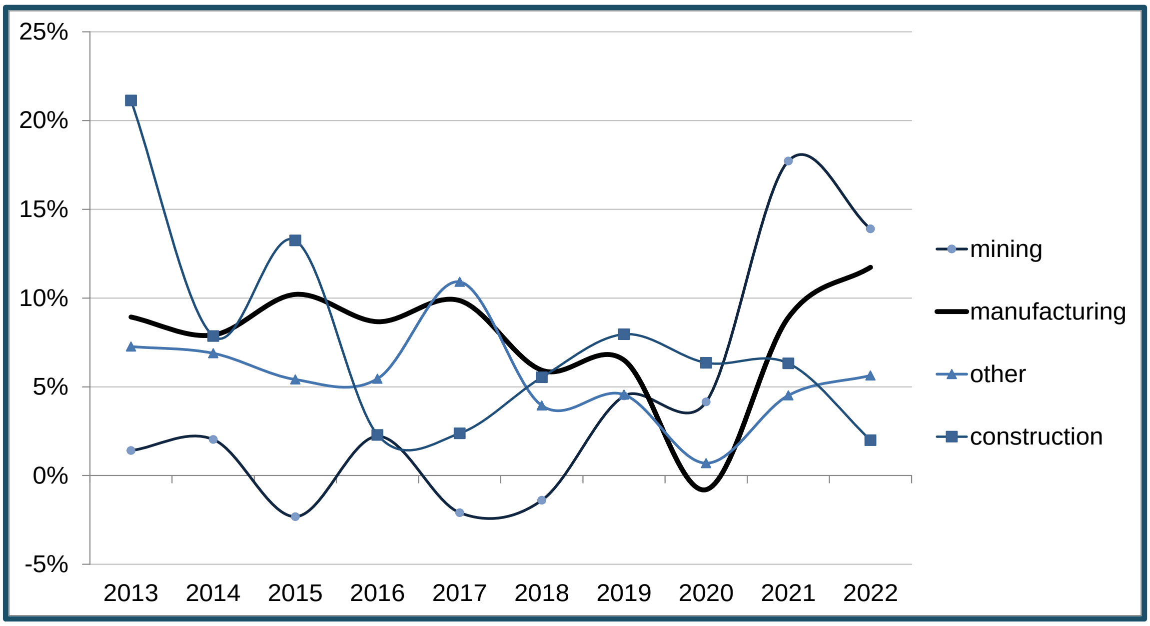
Graph 19. Quarterly investment by type of organisation in billions of constant (2022) rand (a), and total investment as a percentage of GDP, 2010 to second quarter 2022



Note: (a) Reflated with implicit deflator rebased to first quarter of 2022. Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet.

Data on profitability by sector lag a quarter behind the other data presented in this bulletin. As measured by return on assets, these indicate that mining profitability had declined from a high of 17.7% in 2021 to 13.9% by the second quarter of 2022, reflecting generally lower commodity prices but still high by historical standards. Manufacturing profitability maintained a strong recovery from net losses in 2020, climbing to 8.9% in 2021 and 11.7% in the second quarter of this year. Profitability in the construction sector fell from 2021, dropping from 6.3% to 2% as of last quarter. (Graph 20)

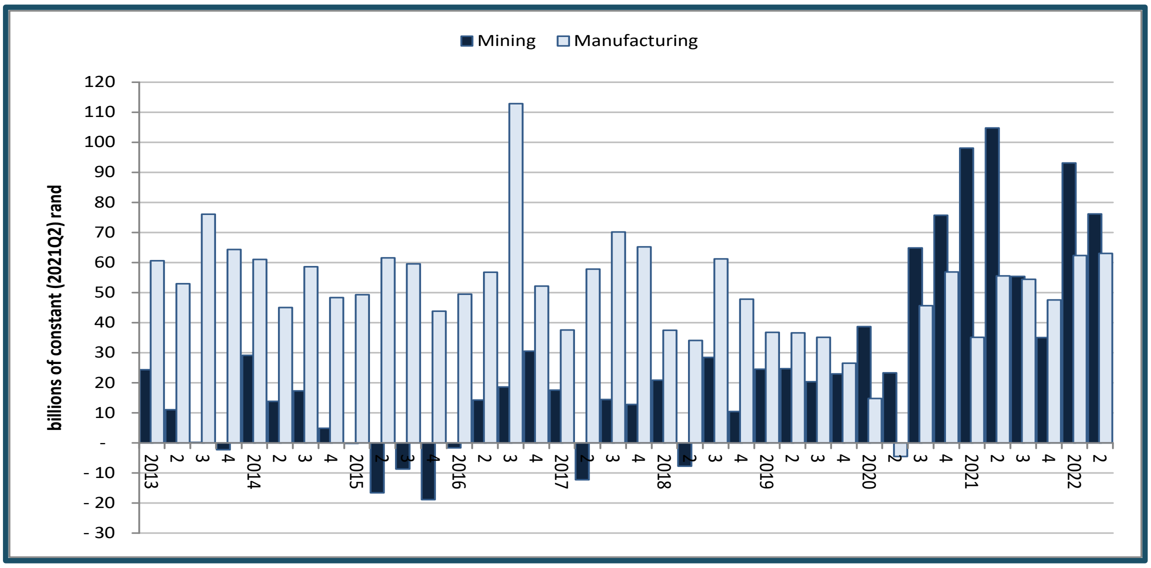
Graph 20. Return on assets by sector, third quarter, 2013 to 2022



Source: Calculated from Stats SA, Quarterly Financial Statistics. Excel spreadsheet.

In constant rand, mining profits fell from R93 to R76 billion from the first to second quarter of 2022. These remain well above pre-pandemic levels, as mining profits averaged R23 billion on a quarterly basis in 2019. Manufacturing profits in the second quarter of 2022 increased 13% from the same quarter last year.

Graph 21. Quarterly profits in manufacturing and mining in billions of constant 2022 rand (a), 2013 to 2022



Note: (a) Deflated with CPI. Source: Source: Calculated from Stats SA, Quarterly Financial Statistics. Excel spreadsheet.

Foreign direct investment projects

The TIPS Foreign Direct Investment Tracker monitors FDI projects, on a quarterly basis, using published information. Twelve projects were added to the Tracker in the third quarter of this year. The pledged investment value recorded for the third quarter of 2022 was just over R22.6 billion, captured from nine projects. Information was updated for nine investments previously captured in the Tracker.

Table 2. FDI projects captured in third quarter of 2022

	ANNOUNCED	FEASIBILITY	PROJECT PREPARATION	CONSTRUCTION/ IMPLEMENTATION	COMPLETE
Number of projects	1	2	1	2	6
Value (R billions)	10	2.3	12	0.64	9.3
Industries	Manufacturing	2 Mining	Manufacturing	1 Manufacturing 1 Mining	3 Utilities 2 Services 1 Manufacturing
Type	Expansion	2 Expansion	1 Greenfield	1 Greenfield 1 Upgrade	5 Greenfield 1 Expansion
Company	Heineken/ Distell	Bushveld Minerals	Sasol/Air Liquide	YFPO (Plastic Omnium and Yanfeng Joint Venture) Ironveld	Enel Green Power Elawan Energy LG Electronics Kimberly-Clarke CostCertified

Source: TIPS FDI Tracker database

New and existing projects

Utilities

Enel Green Power RSA's two wind farms Karusa and Soetwater are commercially operational. Each 147 megawatts (MW) facility has an expected generation capacity of over 500 gigawatt hours (GWh) per year. They were individually developed for €200 million (R3.5 billion). The wind farms are part of Bid Window 4 of government's Renewable Energy Independent Power Producer Procurement Programme (REIPPPP). They will be supported by a 20-year power supply agreement (PPA) with Eskom. Karusa was completed in the Western Cape while Soetwater wind farm is located in Northern Cape.

The Copperton wind farm in Northern Cape was completed by Spanish firm Elawan Energy for about €145 million (R2.3 billion). The project was also a participant in the REIPPPP Bid Window 4, supplying energy to Eskom through a 20-year PPA. The wind farm has a capacity of 102 GWh, and an estimated annual production of 360 GWh. Construction started in 2018, and the facility has been fully operational since the end of 2021.

Sasol and Air Liquide announced plans in April 2021 to jointly procure 900 MW of renewable-energy from independent power producers by 2030. During the initial procurement phase, Air Liquide will procure 400 MW and Sasol 200 MW. The electricity generated will supply Sasol's operations in Secunda, in Mpumalanga. It is estimated the project will require an investment between R12 billion and R13 billion, excluding costs during construction. The request for proposal process has been completed, and five projects await regulatory approval.

Manufacturing

The Competition Commission approved Heineken's acquisition of the Distell Group with conditions, including a requirement that Heineken invest R10 billion in Distell's local operations over a period of five years. Distell owns cider brands such as Hunters Dry and Savannah while Heineken operates the Sedibeng Brewery locally.

YFPO is a joint venture between Yanfeng, a Chinese automotive firm and Plastic Omnium, a French automotive company. They manufacture automotive components and trims. In South Africa, YFPO supplies BMW in Rosslyn. The company is investing in a 25 000 square metre facility to be developed for R600 million in Gauteng. This will be YFPO's first facility in Africa.

Kimberly-Clark Professional is expanding its manufacturing capacity in South Africa through an investment in a new production line at the company's Enstra Mill in Gauteng, for an undisclosed sum. A new converting line was installed in April and the firm has since been ramping up production. The expansion has facilitated local production of previously imported products, such as the firms' Scott Control centrefeed toilet paper.

Mining

Bushveld Minerals has conducted feasibility and pre-feasibility studies to determine the ideal development path to expand production – to 8 000 tonnes per annum – at the mineral company's Vametco (North West) and Vanchem (Mpumalanga) operations. The expansion will require a total capital expenditure of about US$151 million (R2.3 billion) and includes refurbishing the facilities' infrastructure. Bushveld Minerals is a vertically integrated primary vanadium producer headquartered in Guernsey.

UK-based Ironveld is overhauling the Ferrochrome Furnaces smelting complex in the North West for approximately £2 million (R40 million). The plant comprises four 2.5 MW tilting electric arc furnaces, four convertors with ladles, cranes and associated buildings and equipment. The upgrades will bring three of the four furnaces into production with operations starting with the first furnace while the others are being brought back into production. Ironveld is an iron, vanadium and titanium miner and developer.

Services

LG Electronics has launched a new Premium Service Centre in Gauteng to expand the company's service network in South Africa, which provides after-sales services and repairs. The service centre was completed for an undisclosed amount.

CostCertified, a Canadian tech start-up, opened its global headquarters in the Western Cape. The company provides cost-estimating software for the residential construction industry. The project aims to create at minimum 300 jobs over the next two years. The value of the investment was not disclosed.

Updates

After announcing a US$1 billion (R15 billion) investment in South Africa, Vantage Data Centers has opened its first data centre in Gauteng offering 16 MW of information technology capacity. Construction on Phase 1 started in October 2021 and was completed in July 2022. Vantage Data Centers has further entered into a 20-year PPA with SolarAfrica, which will enable Vantage to supplement the local grid that sustainably powers the data centre campus.

Scatec announced that it reached financial close on the Kenhardt projects under the Risk Mitigation Independent Power Producer Procurement Programme. The three facilities will be developed for about R16 billion in the Northern Cape. The proposed development will deliver a combined 150 MW of photovoltaic solar energy, overall production capacity of 540 MW and 1.1 GW of battery storage.

Helium producer Renergen has completed Phase 1 of the Virginia Gas project in the Free State. The project entails development of a gas pipeline and cryogenic liquefaction processing facilities. Phase 1 of the project aims to produce about 50 tons of liquefied natural gas (LNG) and 350 kilograms of helium per day. Phase 2 targets 5 000 kg of helium and 700 t/d of LNG. Completion of the first stage of Phase 2 is planned for 2025. Investment in the project at this stage amounts to R1 billion.

Ford Motor Company has completed upgrades to the Struandale Engine Plant. Following a R600 million investment Ford has started production of the new 3.0L V6 and updated 2.0L diesel engines. The project was announced in December 2021 and production started in August 2022. The project includes the introduction of a third engine programme which supports the production of the next-generation Ranger. The plant has an initial installed capacity of 21 000 units of the 3.0L V6 diesel engine a year.

Vedanta Zinc International subsidiary Black Mountain Mining broke ground on the R7 billion Gamsberg Phase 2 expansion. The project aims to double the mine and plant capacity from four-million tons to eight-million tons a year, increasing output from 300 000 t/y to 500 000 t/y of metal.

The Ardagh Group has commissioned the R1.5 billion extension of its Nigel production facility in Gauteng. The investment more than doubles the facility’s capacity to produce sustainable glass packaging. The plant incorporates a new furnace and production lines. The Ardagh group recently acquired Consol.

Google’s Equiano undersea fibre optics cable has reached South Africa. The project aims to provide high-speed internet to South Africa and the region. It connects from Europe to South Africa, landing at Melkbosstrand. The cable will run along the West Coast of Africa with branching units along the route, that can potentially extend connectivity to additional African countries. The overall investment value is R2.3 billion.

Africa Data Centres announced the expansion of its capacity in Gauteng to 100 MW of IT load. The company has started expanding its Samrand facility from 10MW to 40MW of IT load. First phase construction will deliver 20MW by 2023, and the next phase of 10MW of IT load by the end of 2025. The development follows the launch of the 10MW Midrand facility in 2021.

Audi partnered with South Africa’a GridCars to install electric vehicle charging station infrastructure across the country. The roll-out is complete with 33 stations installed across 33 sites, representing 70 new electric vehicle charge connectors that expand the existing public charging network in South Africa. The charge points are expected to provide up to 150 kilowatts charge to electric vehicles.

Briefing Note 1: JETPs – just transition finance blueprints or business as usual?

Gaylor Montmasson-Clair and Muhammed Patel

Another year, another Conference of the Parties (COP), and another mixed bag with some small progress and a series of setbacks. Among all the issues negotiated at the event, finance certainly was in the spotlight.

The most emblematic decision of COP27 was the creation of a loss and damage fund, a long-term demand of climate-vulnerable countries. Given the current trajectory of greenhouse gas emissions, which set the world on an average temperature rise of 2.4-2.6°C by the end of the century (based on current pledges), the urgency of such a fund could not be overstated. Many unknowns remain though, particularly in terms of its financing. And the fact that high-income countries have consistently failed to meet their commitment to leverage US$100 billion annually of climate finance for low- and middle-income countries (initially, by 2020), does not bode well. But time will tell.

A salient dynamic has been the emergence of Just Energy Transition Partnerships (JETPs) as a mechanism to foster the transition in the Global South. Following on the announcement at COP26 of the US$8.5 billion JETP for South Africa (with the UK, Germany, France and the US along with the EU), Indonesia struck a US$20 billion deal at COP27. Many others could follow, from India, to Vietnam, to Senegal.

With such arrangements becoming more prevalent, it is worth taking a closer look at South Africa's JETP, the most advanced of the partnerships to date. After intense round-the-clock work and deliberations (but no public participation process, which will occur in early 2023), South Africa released the implementation plan for its JETP moments before COP27.

The US$8.5 billion deal is an important milestone. Yet, the scale of the deal is patently out of kilter with what is required for South Africa to affect a just transition to a green economy. The implementation plan itself estimates that South Africa requires a total of R1.5 trillion over five years to implement a just transition in the electricity, automotive and green hydrogen sectors. The JETP (as it stands now) will cover about R128 billion or 8.5% of that, leaving a significant finance gap. How this gap will be filled remains unclear. The plan assumes that the private sector would contribute R500 billion in the electricity value chain while Development Finance Institutions/Multilateral Development Banks would make R150 billion available. That still leaves a hole of R700 billion over the next five years, based on the investment plan's own modelling estimates.

Evidently, the JETP implementation plan is not a comprehensive plan for South Africa's just transition, but only a contribution towards it covering three energy sectors (electricity, new energy vehicles and green hydrogen). And, of course, one should not expect four countries to exclusively foot the bill, but it does give an idea of the scale of the challenge and how much reliance can be placed on international partnerships.

While US$8.5 billion is a large number in absolute terms, it is worth putting this sum into perspective. Direct investment into South Africa by the UK, US, Germany and France (i.e. the key JET partners) in 2020 alone reached R609 billion, R130 billion, R105 billion and R24 billion respectively, coming to R868 billion or about US$52.7 billion. South Africa's insured export credit exposure in 2021 totalled US$63.8 billion, including US$44.6 billion of short-term trade finance. This gives an idea of availability of insurance and guarantees.

Looking at the details, to what extent is the JETP a "decarbonisation" versus a "just transition" plan? Not surprisingly, the vast majority of the funding is required for the electricity value chain (R1 030 billion), ahead of green hydrogen (R319 billion) and new energy vehicles (R128 billion). The bulk of the funding is for infrastructure (R1 374 billion or 93% of the total envelope), which is destined significantly towards solar and wind generation investments (R474 billion). Economic diversification and innovation are allocated a mere R83.4 billion in comparison. Social investment and inclusion as well as skills development receive R9.6 billion and R2.7 billion, respectively. Overall, R60 billion is considered to be necessary for a just transition in Mpumalanga's coalfields.

The composition of the offer looks more like business-as-usual than a rebalancing of financing terms in line with a global just transition: 63% in concessional loans, 18% commercial loans, 15% guarantees, and a mere 4% grants. Countries also differ in their commitment to grant funding in support of South Africa's just transition, ranging from Germany's US$198 million to France's US$2.5 million. By comparison, over the 2016-2020 period, South Africa received US$3.7 billion of grants from the same partners (UK, US, France, Germany, EU). While these grants cover a wide array of issues (such as health and education), the amount vastly outweighs the grant component of the JETP (US$330 million). This raises questions around the developmental nature of the just transition partnership, especially given South Africa's existing debt constraints.

The terms of loans and guarantees remain, for most, to be determined. But what is known raises further questions. National Treasury released the terms of €600 million concessional loans from France and Germany (€300 million each) forming part of the JETP. At an average rate of 3.3% over 20 years, these loans provide the South African government with relatively cheap finance. But they are denominated in Euros, adding to South Africa's foreign-exchange exposure. More problematically, the loans are for general budget support, and therefore not earmarked for the country's just transition. They may be beneficial to South Africa on their own account, but labelling them as "just transition finance" is problematic.

Separate from the JETP, the European Investment Bank (EIB) has extended a €200-million line of credit to the Development Bank of Southern Africa (DBSA). That has leveraged a further €200 million (half from the Green Climate Fund and half from the DBSA) to support the delivery of 1 200 MW of distributed renewable energy generation by private investors. This facility is set to complement the EIB's contribution to the JETP (US$1 billion of loans and US$35 million of grants). While exact terms are not public, the EIB is known for offering targeted, earmarked finance in local currency.

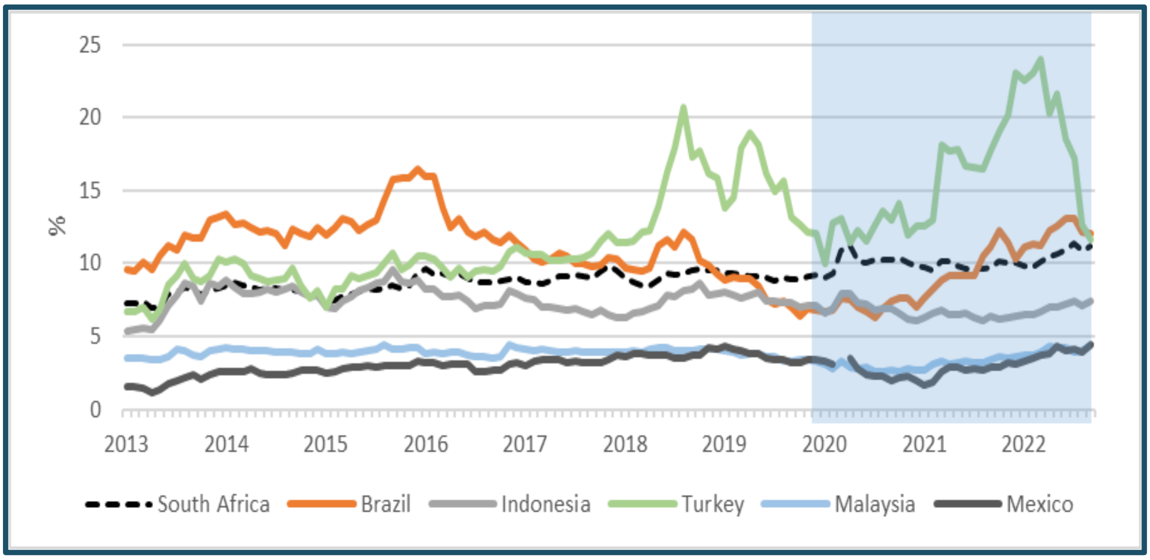
The JETP is certainly a worthwhile effort to attend to key just transition issues in some of the key sectors of the economy by mobilising and channelling foreign resources. There is a notion, however, that the investment plan is *the* solution for financing South Africa's just transition, and will be provided on inclusive terms beneficial for the country's development. Assessing the plan with a critical eye reveals a mixed bag, made of opportunities, as well as a number of risks and concerns to be borne in mind going forward.

Briefing Note 2: Economic implications of the 2022 MTBPS

Nishal Robb

The economic shock caused by COVID-19 and policies designed to contain the pandemic induced significant fiscal responses across emerging markets, generally aimed at relief for the most vulnerable and support for affected industries. However, these were much more modest in scale than in advanced economies, and have been rolled back sooner and more aggressively due to a range of constraints. These include increasing yields on government bonds which, after a decade or so of growth in foreign debt amid historically low interest rates following the Global Financial Crisis of 2007/8, put pressure on government budgets in low- and middle-income countries and constrain policy space (Graph 22). The 2022 Medium Term Budget Policy Statement (MTBPS) indicates that government aims to follow this trend. It reaffirms National Treasury's commitment to pursuing steep budget cuts over the next few years despite the negative social and economic outcomes that the cuts are likely to produce.

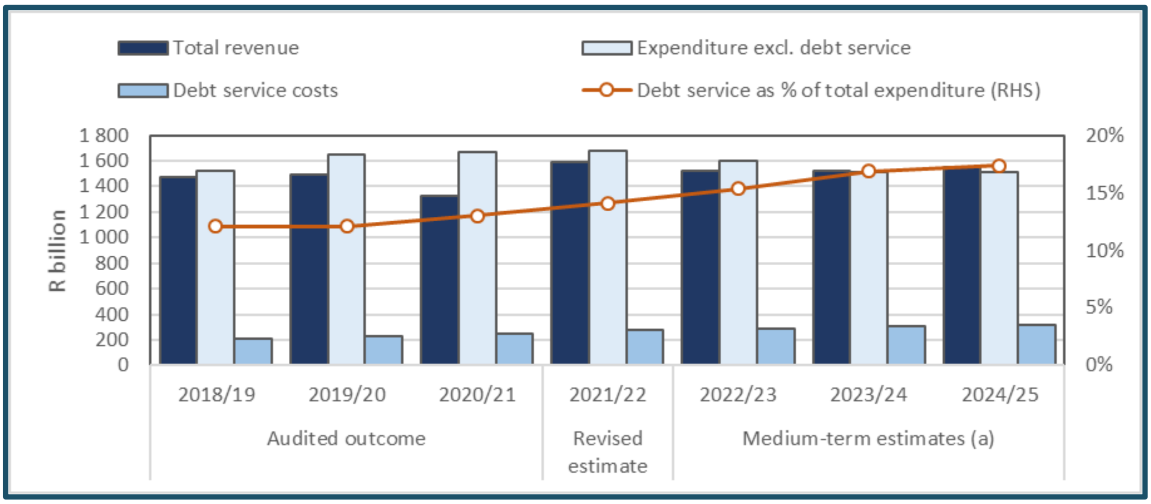
Graph 22. Yields on 10-year government bonds, South Africa vs. selected peers, 2013-2022



Source: Reuters. Time series on emerging market government bonds. Accessed via Datastream in December 2022.

Non-interest expenditure is projected to contract by 4.5% in real terms in 2022/23, and a further 5.5% in the following fiscal year before stabilising (Graph 23). Debt service costs will rise substantially over this period, up from around 12% as a share of total expenditure before the pandemic to well over 17% in the medium term; as a share of GDP, these payments to creditors will rise from 3.4% in 2018/19 to over 5% by 2024/25. The benefits from the recent commodity price spike, reflected in extraordinary profitability in the mining sector and a boost to government revenues in 2021/22, will therefore accrue largely to shareholders and creditors through dividends and interest payments rather than ordinary South Africans through government support for livelihoods and job creation.

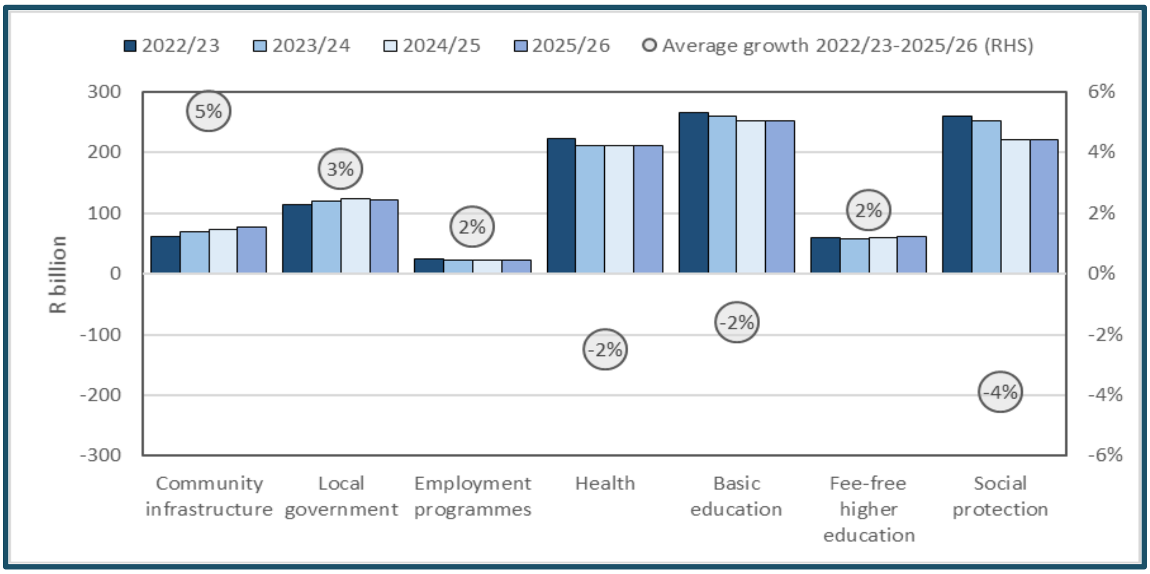
Graph 23. Planned main budget revenue, expenditure and debt service in constant rand, and debt service as a percentage of total expenditure, 2018/19 to 2024/25



Note: Deflated with CPI as estimated in budget documentation. Source: Calculated from Treasury. Budget Review 2022 and Medium Term Budget Statement 2022. Data in excel spreadsheets. Accessed at www.treasury.gov.za in November 2022.

As discussed in the third quarter 2021 edition of the REB, projected cuts are to be funded by reducing spending on some of the governing party's most important constituencies and as such are likely to face resistance. The biggest cuts are to social grants and public servants' pay. Some constituencies are more organised than others, however, so some cuts are more likely to be fully implemented than others. Graph 24 illustrates Treasury's medium-term plans for spending on key elements of the social wage, which the MTBPS describes as support for poor households. In real terms, the total social wage will contract by 2% per year on average until 2025/26. While a notable expansion in support for housing, transport and water infrastructure is provided for, this is more than offset by substantial cuts to the largest and most important programmes – health, basic education and social protection (made up mostly of social grants). Because of population growth (around 1.5% a year), the cuts will be larger in per-person terms.

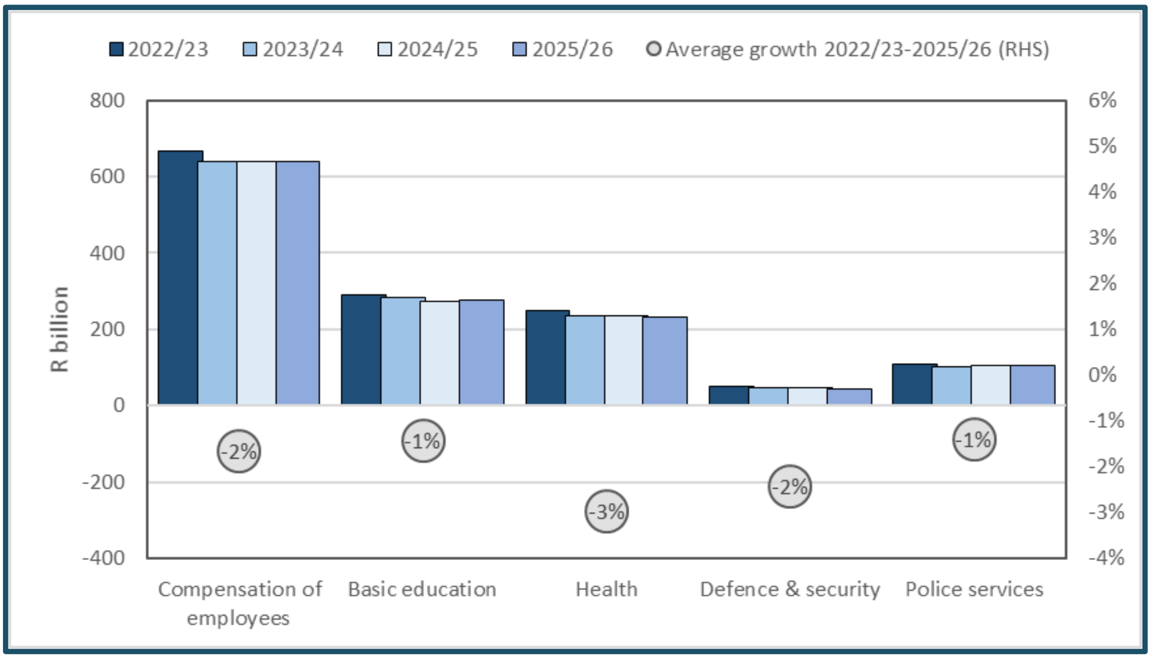
Graph 24. Spending on the social wage in the 2022 MTBPS in constant rand



Note: 2022/23 figures are revised estimates; 2023/24-2025/6 figures are medium-term estimates. Deflated with CPI as estimated in budget documentation. Source: Calculated from Treasury. Medium Term Budget Statement 2022. Data in excel spreadsheets. Accessed at www.treasury.gov.za in November 2022.

The MTBPS also plans cuts that will directly impact the black middle class. Already down significantly from 2019 levels,[1] public employees' compensation is projected to be cut 2% per year in real terms between 2022/23 and 2025/26 (Graph 25). Cuts to public sector workers' compensation are spread across key areas of service provision such as basic education, policing and health. Around two thirds of the 1.2 million state employees work in these functions. Since these departments' budgets are to be cut in general, not just in terms of compensation, it can be expected that the quality of public service provision will decline alongside salaries, thus affecting provision for the poor while reducing opportunities for stable middle class jobs in the state.

Graph 25. Spending by function in the 2022 MTBPS in constant rand



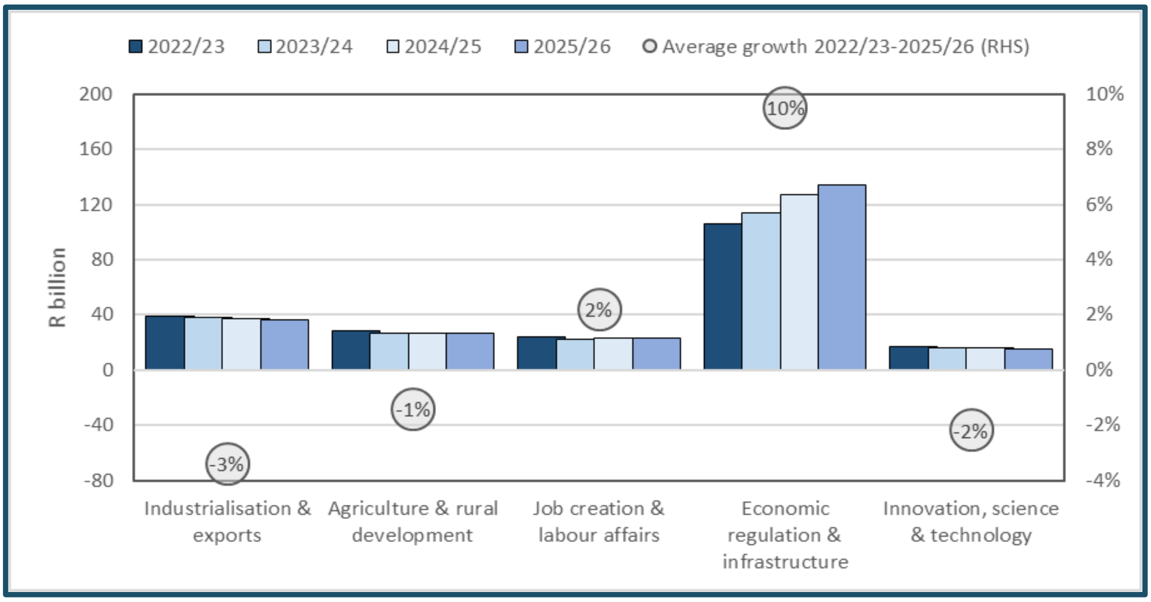
Note: 2022/23 figures are revised estimates; 2023/24-2025/6 figures are medium-term estimates. Deflated with CPI as estimated in budget documentation. Source: Calculated from Treasury. Medium Term Budget Statement 2022. Data in excel spreadsheets. Accessed at www.treasury.gov.za in November 2022.

Expenditure on economic development programmes is one of the few areas in which government spending in projected to increase in the medium term (Graph 26). This is driven by an average increase of 10% expenditure per annum on economic regulation and infrastructure from 2022/23-2025/26, but is partially funded by reduced spending on other key economic development programmes including industrialisation and exports (-3%), innovation, science and technology (-2%), and agriculture and rural development (-1%).

The impact of these cuts on the effectiveness of industrial policy are unclear, but appear unlikely to be positive due to the critical importance of export promotion and innovation policies for sustained and beneficial participation in global value chains. In addition, since the proposed cuts are likely to exacerbate inequality and make it harder to justify supporting private enterprises with public funds, conflict over industrial policy can be expected to increase.

[1] Makgetla, N. 2022. Budget priorities in times of stress. Business Day. Available at: https://www.business live.co.za/bd/opinion/columnists/2022-11-21-neva-makgetla-budget-priorities-in-times-of-stress/.

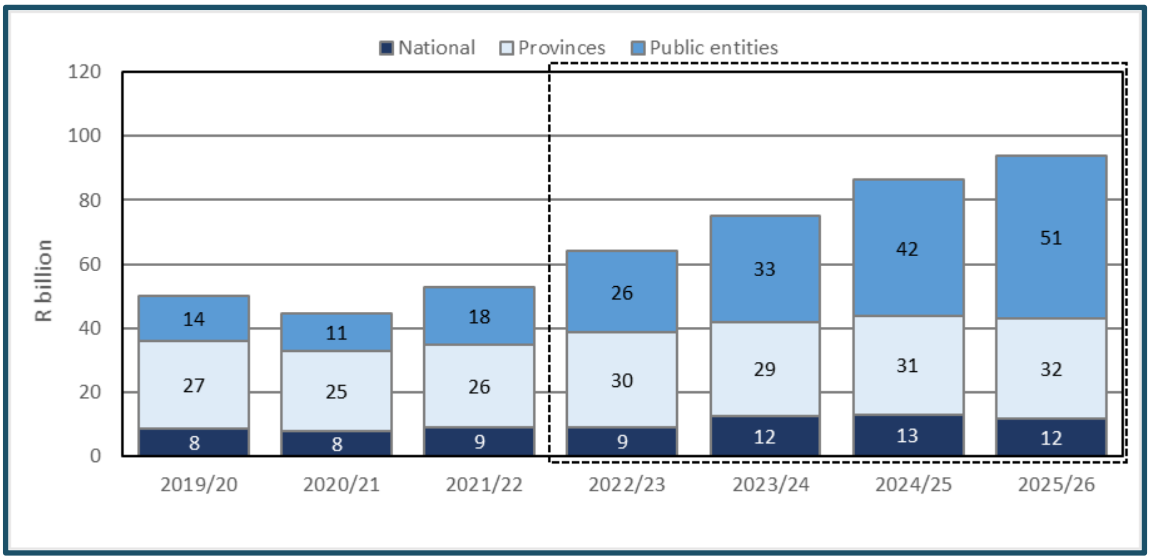
Graph 26. Spending on economic development in the 2022 MTBPS in constant rand



Note: 2022/23 figures are revised estimates; 2023/24-2025/6 figures are medium-term estimates. Deflated with CPI as estimated in budget documentation. Source: Calculated from Treasury. Medium Term Budget Statement 2022. Data in excel spreadsheets. Accessed at www.treasury.gov.za in November 2022.

For infrastructure spending, the MTBPS envisions a major role for state-owned companies (SOCs) (Graph 27). While infrastructure spending by national and provincial departments is set to increase, spending by SOCs is the overwhelming driver of growth in this area. Improved infrastructure may improve SOC performance, service delivery and enable economic growth and job creation in some areas if executed well, and incomes associated with this expenditure may offset political conflict to the extent that they benefit some important constituencies. However, as discussed, a large number of South Africans are set to see their life chances deteriorate further if the cuts envisioned in the 2022 MTBPS are implemented as planned, and so escalated levels of social conflict should be anticipated in the near future.

Graph 27. Spending on buildings and fixed structures in the 2022 MTBPS in constant rand



Note: 2019/20-2021/22 outcomes are audited outcomes; 2022/23 figures are revised estimates; 2023/24-2025/6 figures are medium-term estimates. Deflated with CPI as estimated in budget documentation. Source: Calculated from Treasury. Medium Term Budget Statement 2022. Data in excel spreadsheets. Accessed at www.treasury.gov.za in November 2022.