

# South Africa Economic Outlook

## The next inflation challenge: salary and wage increases.

28 April 2022

# About this document

This document reports on PwC South Africa's core macroeconomic forecasts for the country 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 three key local issues:

## **Floods in KwaZulu-Natal**

- Rand weakens 8% as load-shedding, COVID-19, flooding weigh on economic outlook ([page 3](#)).
- Manufacturing and transport hardest hit as costs are still being counted ([page 4](#)).

## **Rising labour costs**

- Private sector hit by escalating supply-side inflation pressure ([page 5](#)).
- Trade unions expect >6% increase in salaries and wages this year ([page 6](#)).
- Understanding exposure by industry to increasing staff costs ([page 7](#)).

## **Employment data trends**

- 262,000 more jobs in 2021Q4 as economy recovers from July 2021 unrest ([page 8](#)).
- Updates to our long-term jobs and unemployment rate forecasts ([page 9](#)).

We also look at some featured PwC research focussed on Central Bank Digital Currency (CBDC) developments and global energy scenarios ([page 10](#)).

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 [page 11](#) of this document.



# Floods in KwaZulu-Natal: Rand weakens 8% as load-shedding, COVID-19, flooding weigh on economic outlook.

South Africa Economic Outlook April 2022

## President Ramaphosa declares national state of disaster following deluge across KwaZulu-Natal.

The rand was recently the worst performing major currency in the world. The volatile South African currency lost 8.5% of its value against the US dollar in the two weeks ending April 26 due largely to a combination of local factors, including 1) the return of Stage 4 load-shedding due to record unplanned breakdowns, 2) the COVID-19 test positivity rate hitting a three-month high, as well as 3) the disruptive effects of flooding in KwaZulu-Natal on economic activity. While the occurrence of load-shedding cannot be forecast with certainty due to the impact of unplanned power station outages on rolling blackouts, it was not surprising that load-shedding had returned in April. Also, while the uptick in the COVID-19 positivity rate and new daily infections could not be pinpointed in advance, we have known for some time that the start to the fifth wave of infections was likely during autumn.

The severity of precipitation in KwaZulu-Natal was certainly not expected. In many parts of the province, between 200 and 400 mm of rain fell in a 24 hour period during April 11-12. The subsequent flooding resulted in the death of more than 400 people, destruction of 4,000 homes, and the displacement of 40,000. On April 18, President Cyril Ramaphosa declared a national state of disaster, saying that the designation of a provincial state of disaster would be “inadequate to deal with the scale of the emergency and the required reconstruction and rehabilitation measures and responses”.

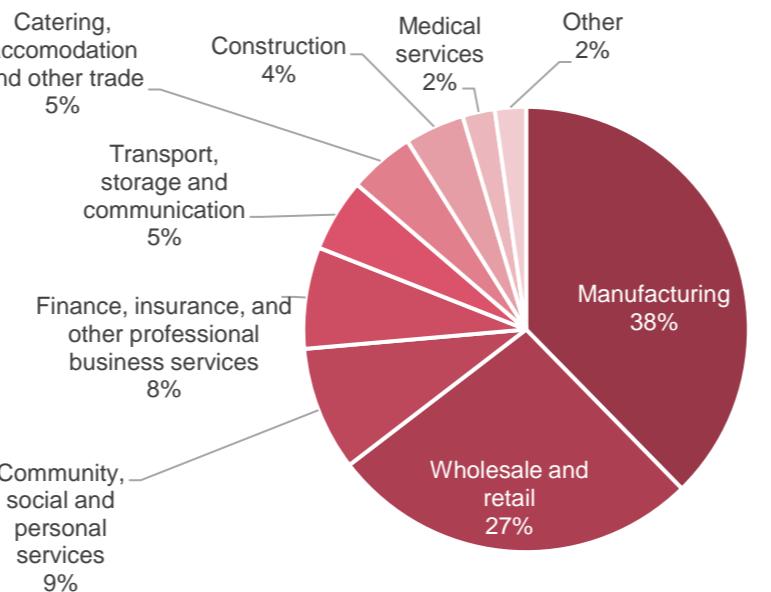
KwaZulu-Natal has a subtropical climate and experiences high weather variability. However, three out of the last four major floods have occurred in the month of April. The eThekini Metropolitan Municipality is already feeling the effects of climate change: the area is expected to see rainfall increase up to 100% by the end of the century. Higher water runoff and river flow will lead to an increased risk of flooding in flood-prone areas.

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## eThekini reports most of its 1,152 formal businesses were impacted by the flooding.

Data from the Google Community Mobility initiative indicates that on April 13, workplace activity in KwaZulu-Natal was 6% below the pre-pandemic level. In turn, workplace activity across the rest of the country was on average 8% higher — reflecting the negative impact that the flooding had on the province’s business activity relative to the rest of South Africa. According to eThekini mayor Mxolisi Kaunda, the metro has 1,152 businesses located within the region’s flood plains (Durban South, Umgeni, Glen Anil and Sea Cow Lake) and “the majority of them were impacted by the flooding”.

Figure 1: eThekini businesses at risk per industry



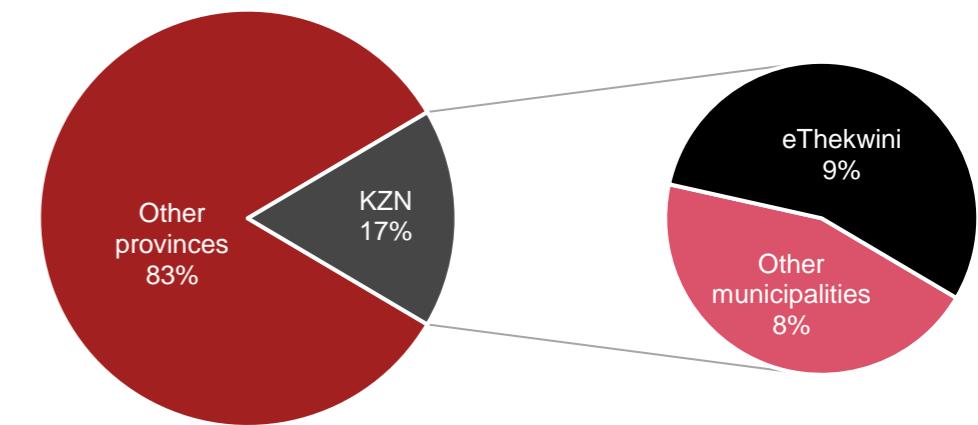
Source: eThekini Metropolitan Municipality



3

The disruption to business and consumer activity in the province has a notable impact on the overall South African economy. KwaZulu-Natal is the second largest provincial contributor to the national economy after Gauteng and had 2.4 million employed workers at the end of last year. (See Table 4 on [page 8](#) for a breakdown of employment by province.) eThekini is a large contributor to the KwaZulu-Natal economy, accounting for more than half of the provincial GDP and providing jobs to 1.5 million people. Within this metro lies the Port of Durban: the largest harbour and busiest port in the country, handling 60% of total container traffic to and from South Africa.

Figure 2: Contribution of the eThekini economy to national GDP



Source: PwC calculations

-6%

Data from the Google Community Mobility initiative indicates that on April 13, workplace activity in KwaZulu-Natal was 6% below the pre-pandemic level. In turn, workplace activity across the rest of the country was on average 8% higher.

# Floods in KwaZulu-Natal: Manufacturing and transport hardest hit as costs are still being counted.

South Africa Economic Outlook April 2022



## N3 road transport at half the normal volumes as Port of Durban works to clear container backlog.

After the unrest seen in the province during July 2021, analysts were quick to estimate the size of the impact. Within a week of the unrest ending, the South African Property Owners Association (SAPOA) was able to collect data from its members showing damage to 300 bank and post office sites as well as 1,400 ATMs. There were also 160 shopping malls with severe damage and 100 malls with significant fire damage. (Many retail operations are back to normal: — see [page 8](#) for a perspective on labour market developments in 2021Q4 and the jobs recovery in KwaZulu-Natal.) At the time, we estimated that the unrest would reduce national real GDP growth by 0.4% in 2021.

Now the damage is much larger and more widespread, with destruction to both public and private infrastructure. The provincial government currently estimates an infrastructure repair bill of R17bn. Assessing (quantifying) the total damage and cost to repair — and impact on economic activity — will take some more time. What we do know at present about the impact on the economy can be found in local media reporting, including:

- Transport: Transnet estimated that it would take seven weeks to resume operations on its damaged main railway line between Durban and Cato Ridge. Rail operations between Cato Ridge and the north and south coast lines have been halted. The rail, port and pipeline company has amongst the largest areas of property in the region's flood plain. The Road Freight Association reported that, in the immediate aftermath of the flooding, road traffic between Durban and Gauteng was at half the normal rate. The N3 between Durban and Johannesburg is the busiest road in the country for ferrying exports and imports. Public enterprises minister

Pravin Gordhan commented last week that the Port of Durban had a backlog of up to 9,000 containers that would take more than a week to clear.

- Manufacturing: Toyota (vehicles), Mondi and Sappi (paper), and Pioneer Foods (food products) are amongst the major manufacturers that had to temporarily close operations in mid-April. Manufacturing is the largest economic sector in eThekini and an important job creator.
- Agriculture: The South African Canegrowers Association reported damage to crops on 2,500 hectares. The association estimates a loss of nearly R200 million in lost produce and towards R30 million in destroyed farming infrastructure at the epicentre of the country's sugar industry.

Table 1: Time needed for most activity to return to normal

	0-2 months	3-6 months	>6 months
Agriculture	Lost crops will take another season to be reproduced.		
Communication			
Financial services			
Government services	Many services continue but education in particular will take a long time to recover.		
Infrastructure	Extensive damage to large public and private infrastructure could take years to fix.		
Manufacturing	Many factories are operational again; full capacity will take time.		
Retail			
Tourism	Many cancellations are expected for near-term bookings.		
Transport	Road and port activity to recover first, rail will take longer.		

Source: PwC

## Business disruptions will add additional pressure to elevated consumer and producer price inflation.

Manufacturing and transport combined account for 45% of eThekini's economy and 30% of the provincial economy. These are the two sectors that will feel the biggest negative impact on activity in the short to medium term. A survey amongst local businesses by the eThekini Metropolitan Municipality found that the majority of respondents expect to reopen within three months. However, a majority of those surveyed also indicated that they did not have any insurance. According to eThekini Metropolitan Municipality deputy head for economic development Ajiv Maharaj, some insurers are hesitant to provide cover to businesses in the floodplain areas due to the repeated flooding seen here in recent years. As a result, while all of the respondents to the metro's business survey indicated that they intend to reopen, not all will have the financial means to do so.

Supply disruptions caused by a slowdown in port and road traffic, and the permanent closure of factories and other places of business due to a lack of insurance or other financial support, will disrupt the flow of food and consumer goods within the economy. While there is certainly no concern about national food security at this stage, there will likely be some short-term negative impacts on the supply of food products — and hence higher prices. KwaZulu-Natal is an important producer of agricultural products: data from the Bureau for Food and Agricultural Policy (BFAP) shows that up to a third of the national dairy herd is in the province and that more than 10% of the country's chicken eggs are produced there. The cost of poultry and eggs is already on the rise due to higher international commodity prices (stemming from the Russian invasion of Ukraine) impacting the cost of chicken feed. The Port of Durban is also a major conduit for the import of foodstuffs.

# Rising labour costs: Private sector hit by escalating supply-side inflation pressure.

South Africa Economic Outlook April 2022

5

## Shortages of input materials and 'soaring input costs' disrupted local business activity during March.

The latest edition of the S&P Global South Africa PMI reported that local private sector production levels declined in March already — even before the flooding in KwaZulu-Natal. The PMI, a survey of purchasing managers at around 400 local private sector companies, showed that shortages of input materials and 'soaring input costs' disrupted business activity. Survey respondents noted a decline in availability of Chinese inputs due to new lockdowns in the country's key industrial areas. Shanghai — a global financial hub and China's largest city with 25 million residents - was placed under lockdown during the last week of March as Beijing continued to implement its zero-COVID-19 policy. The disruption in supply of commodities and goods from Ukraine and Russia since February, and now also from China, resulted in a lengthening of local input lead times during March. This, in turn, translated into weaker private sector output levels and an increase in order backlogs.

Unsurprisingly, given the ongoing disruptions to global supply chains, the PMI indicator measuring the local outlook for activity over the coming 12 months worsened significantly during March versus February. This deteriorated year-ahead perspective, combined with recent load-shedding trends and the adverse impact of flooding in KwaZulu-Natal, has weakened our overall economic outlook for the country. We now expect local economic growth to slow from 4.9% last year to 1.8% in 2022 under our baseline scenario. Slower growth will be accompanied by higher inflation and a new record-high unemployment rate of 35.6%. (See [page 9](#) for our long-term employment forecasts.) Despite this deteriorated growth and employment situation, the South African Reserve Bank (SARB) is unlikely to slow its planned upward trajectory in interest rates: we expect the repo rate to increase by another 0.75 percentage points this year.

Table 2: Macroeconomic forecasts

Baseline	2020	2021	2022f	2023f
Consumer price inflation (%)	3.3	4.6	5.4	4.7
Repo rate (end-of-period)	3.50	3.75	5.00	5.75
Real GDP growth (%)	-6.4	4.9	1.8	1.6
Unemployment rate (%)	32.5	35.3	35.6	36.0
ZAR/USD	16.46	14.78	15.30	15.80
Probability weighted average	2020	2021	2022f	2023f
Consumer price inflation (%)	3.3	4.6	5.4	4.8
Repo rate (end-of-period)	3.50	3.75	5.03	5.78
Real GDP growth (%)	-6.4	4.9	2.0	1.6
Unemployment rate (%)	32.5	35.3	35.6	36.0
ZAR/USD	16.46	14.78	15.38	15.92

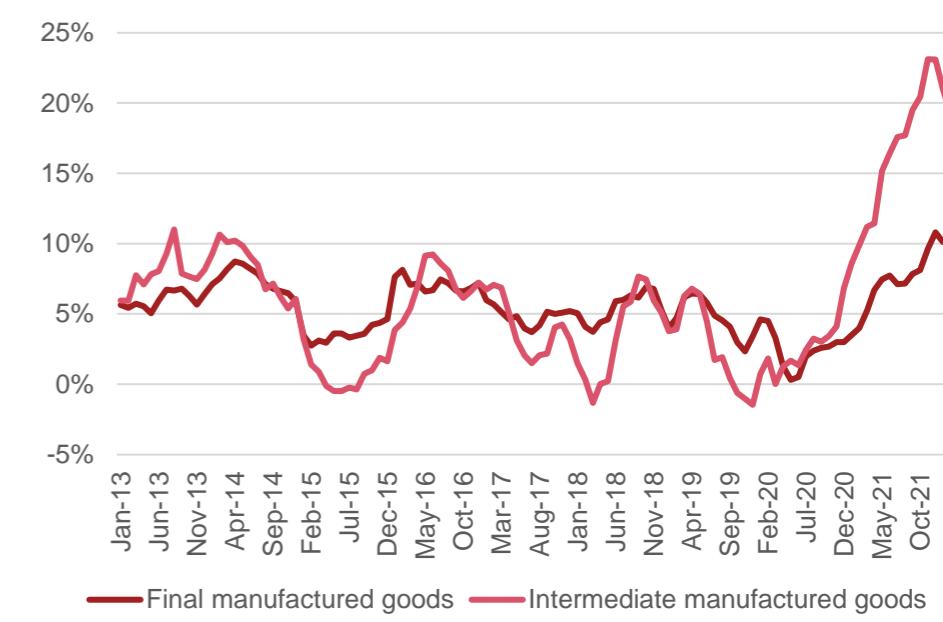
Source: PwC

## Producer price inflation continues higher as commodity prices increase pressures input costs.

"Inflationary pressures were at the forefront of the South Africa PMI survey data in March," noted the latest S&P Global report. The PMI's index for business costs increased at the quickest rate in nearly six years due to a spike in some international commodity prices linked to the Russian invasion of Ukraine. Higher fuel prices (see [page 6](#)) were a key driver of higher input costs. Regarding the manufacturing sector, the purchasing price indicator of the Absa PMI March 2022 surged last month — like many of its international counterparts — to the highest level since the local survey started in 1999. This was due to a combination of significantly higher fuel, food and other raw material prices impacting production input costs.

Even before the disruptions caused by the Russian invasion and local flooding, local production costs were already rising quickly. The producer price index (PPI) for final manufactured goods increased by 10.5% y-o-y in February 2022 (double the rate measured a year earlier) and averaged 10.3% y-o-y over the past four months. This was amongst the highest readings since the introduction of the current PPI a decade ago and also nearly double the ten-year average of 5.5% per annum. This underscores the significant supply-side pressure on the inflation environment even before the Russian invasion of Ukraine. The PPI for intermediate manufactured goods — measuring the cost of factory goods like textiles, chemicals and fabricated metals used as production inputs elsewhere — increased by 19.3% y-o-y in February. The S&P Global report noted that private sector companies largely passed on March's increased production costs to their consumers. Unsurprisingly, local firms also observed that clients were reducing their demand due to concerns over rising living costs.

Figure 3: Producer price inflation (%)



Source: Stats SA



# Rising labour costs: Trade unions expect >6% increase in salaries and wages this year.

South Africa Economic Outlook April 2022



## Fuel price relief measures will put R10bn back into motorists' pockets – but this is only temporary.

Consumer price inflation has been elevated since late last year. A combination of base effects and higher commodity prices pushed headline inflation towards the top end of the central bank's 3%-6% target range from December 2021 to the present. Headline inflation was most recently measured at 5.9% in March from a reading of 5.7% y-o-y in the preceding two months. This included a 7.2% m-o-m and 33.2% y-o-y increase in fuel prices during March. The main driver of this was an increase in international fuel prices, with Brent crude oil prices reaching near \$100/barrel at the end of February as the Russian invasion of Ukraine ruffled commodity markets. It is important to note that March's inflation data was surveyed early in the month. As such, this data does not yet reflect a significant impact on consumer prices from the global supply disruptions caused by the Russian invasion of Ukraine.



On April 6, the petrol price increased by R0.36/litre. This was a much smaller adjustment than was feared for much of the preceding month; after all, Brent climbed to \$130/barrel in the second week of March. However, finance minister Enoch Godongwana announced in

March a temporary reduction of R1.50/litre in the fuel levy included in the basic fuel price. This reduction will be implemented for the period of April 6 to May 31. This temporary relief comes after an announcement in February that there would be no annual adjustments to the general fuel levy or the Road Accident Fund (RAF) levy from April. [Our tax experts](#) have estimated that these relief measures would reduce fuel costs by at least R10bn over the coming year — and put this money back in drivers' pockets.

## Higher overall inflation is increasing trade unions' salary and wage expectations.

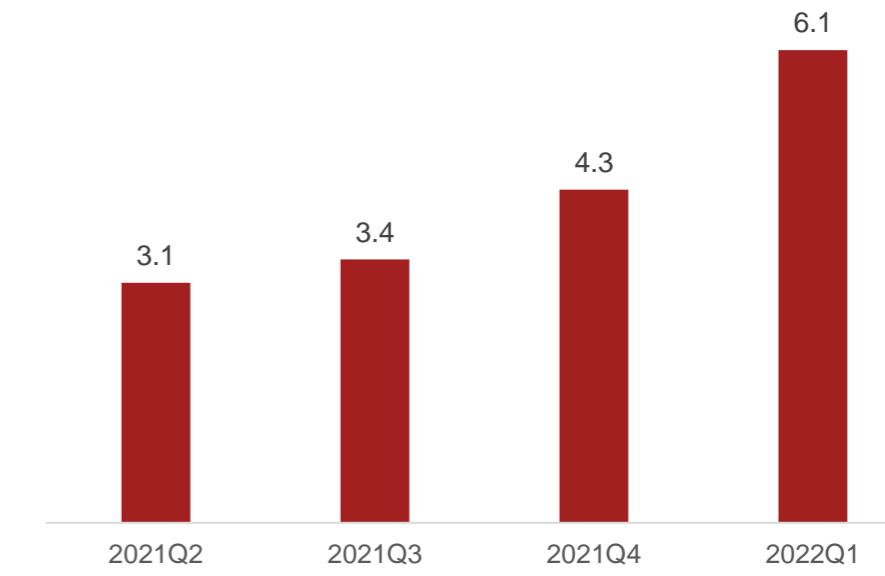
[The March 2022 edition of this report](#) looked at the potential impact of higher commodity prices (specifically food and energy) on local producer and consumer price inflation. Trade unions' elevated wage and salary expectations add an additional element of cost pressure for South African companies. The local labour movement is powerful in its ability to shape remuneration trends due to the country's high rate of unionisation. According to the International Labour Organisation (ILO), South Africa ranks 26 out of 104 countries for union membership with a trade union density rate of 28% in 2016 (latest available comparative data). This is notably higher than an average of 22% amongst the 104 economies recorded by the ILO. Due to this high density rate in South Africa, the flexibility of wage determination is constrained. The World Economic Forum (WEF) Global Competitiveness Report 2019 ranked South Africa a lowly 134<sup>th</sup> out of 141 countries for wage determination flexibility while cooperation in labour-employer relations is ranked an even-worse 139<sup>th</sup>.

As a result, trade unions' expectations of salary and wage increases are highly influential in remuneration agreements. Amidst a low-inflation environment and moderate inflation expectations amongst unions during the first half of last year, the average wage settlement rate in collective bargaining agreements decreased from 6.3% in 2020 to 4.4% in 2021. This decline also impacted on expectations for 2022. The Bureau for Economic Research (BER) Survey of Inflation Expectations shows that in 2021H1, trade unions were expecting salary and wage inflation of less than 4.0% during 2022. Understandably, with the inflation environment deteriorating as 2021 progressed, labour representatives increased their expectations. Data from the SARB shows that

nominal remuneration per worker in the formal non-agricultural sector increased by 3.6% y-o-y in the first quarter of last year but swelled by 10.1% y-o-y in 2021Q2 and 9.1% y-o-y in 2021Q3. In the private sector, nominal remuneration increased by an average of 12.3% y-o-y during the second and third quarters.

Admittedly, there were some strong base effects due to the labour market developments associated with the 2020 recession and COVID-19 lockdowns. Nonetheless, this catapulted recent remuneration growth into double-digit territory, and concomitantly lifted expectations as well. Following this acceleration in wage and salary growth during the second and third quarters of 2021, the latest BER research shows that unions now expect salary and wage inflation of 6.1% this year and 6.3% in 2023. These numbers could increase further with the next quarterly inflation expectations survey: the latest (2022Q1) poll was conducted during February 12-24, which would exclude the impact of commodity market developments following the Russian invasion of Ukraine that commenced on February 24.

Figure 4: Trade union expectations of salary and wage increases (%) during 2022



Source: BER surveys

# Rising labour costs: Understanding exposure by industry to increasing staff costs.

South Africa Economic Outlook April 2022

7



The March 2022 edition of this report looked at upward pressure on commodity prices and the adverse impact that this will have on industries during 2022. Due to varying production cost breakdowns, individual industries will be impacted differently. Nonetheless, these varying impacts will contribute to a general increase in consumer price inflation this year compared to 2021.

As such, South African companies will need to make upward adjustments to salaries and wages. Again, due to varying production cost breakdowns, individual industries will be impacted differently by higher remuneration requirements. For example, cereal production and the processing of these crops into food products has a low labour cost component due to high

levels of mechanisation. In turn, the labour-intensive nature of poultry and fish production has a high and very high exposure, respectively, to an escalation in salaries and wages.

Table 3: Estimated impact of increased labour costs

Sector	Impact	Sector	Impact
Citrus Fruit	Moderate	Publishing and Printing	Very high
Deciduous Fruit	High	Chemicals & Chemical Products (incl Plastic Products)	Moderate
Subtropical Fruit	Very high	Rubber Products	High
Vegetable	High	Non-Metallic Mineral Products	High
Livestock	Moderate	Basic Metal Products	Moderate
Game	Moderate	Structural Metal Products	Moderate
Dairy	Moderate	Other Fabricated Metal Products	Very high
Forestry	Moderate	Machinery & Equipment	Very high
Fishing	Very high	Electrical Machinery & Apparatus	Very high
Cereal and Crop	Low	Communication, Medical and other Electronic Equipment	High
Poultry	High	Manufacturing of Transport Equipment	Moderate
Other Agriculture	High	Other Manufacturing & Recycling	Moderate
Gold	Very high	Electricity	High
Coal and lignite	High	Water	Very high
Other Mining	Very high	Building & Construction	Very high
Meat, Fish, Fruit, Vegetables, Oils and Fat Products	Low	Trade	Very high
Dairy products	Moderate	Accommodation	Very high
Grain Mill, Bakery and Animal Feed Products	Moderate	Transport	Very high
Other food products	High	Communication	Moderate
Beverages and tobacco products	High	Finance & Insurance	Very high
Textiles, Clothing, Leather Products and Footwear	High	Real Estate	High
Wood and Wood Products	High	Business Services	Very high
Furniture	High	Community, Social and Personal Services	Very high
Paper and Paper Products	High		

Source: PwC

# Employment data trends: 262,000 more jobs in 2021Q4 as economy recovers from July 2021 unrest.

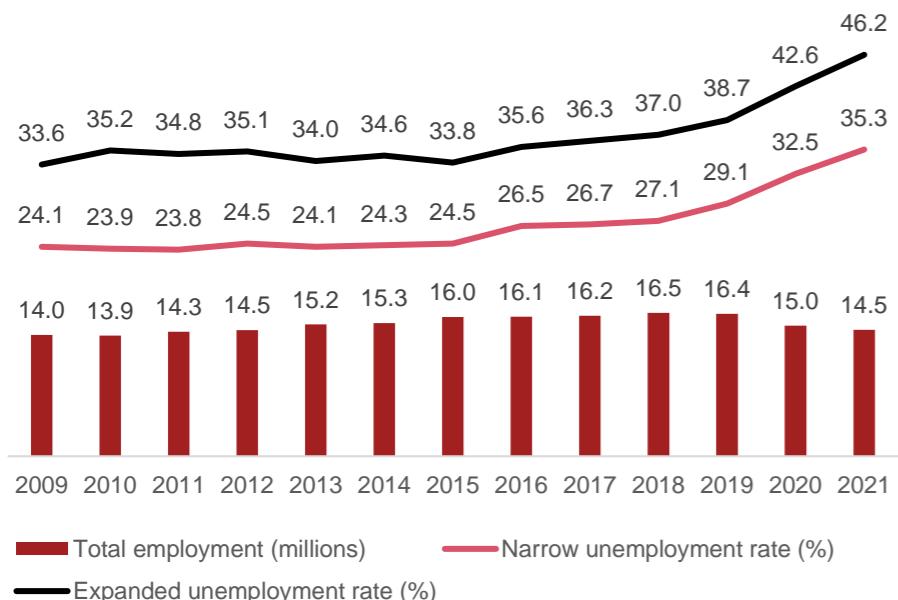
South Africa Economic Outlook April 2022

8

## South Africa has retained its position as having the highest unemployment rate in the world – 35.3% in 2021Q4.

South Africa has retained its position as having the highest unemployment rate in the world. The narrowly defined unemployment rate increased from 34.9% of the labour force in 2021Q3 to 35.3% in the final quarter of last year. This put the country ahead of Angola (32.9%), Bosnia and Herzegovina (31.0%) and Kosovo (25.8%). When including discouraged workers, South Africa's expanded unemployment rate reached 46.2% at the end of 2021. Local employment peaked at 16.5 million in 2018Q4 after 358,000 jobs were created during the year. In the following three years, the South African economy lost a net two million jobs. The 14.5 million jobs recorded at the end of 2021 were at the same level as seen a decade earlier.

Figure 5: Year-end employment trends



Source: Stats SA

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## Sales and services jobs in the trade sector recover as unrest-damaged enterprises reopen.

On a positive note, after employment declined by 742,000 during the first three quarters of 2021, South Africa created a net 262,000 jobs in 2021Q4. Almost all of these were in the formal non-agricultural sector and within private households. Private households (+129,000 jobs from the previous quarter) and trade (+118,000) sectors made the biggest contribution to this net increase, while manufacturing, utilities, transport and construction lost jobs.

From an occupation perspective, domestic (+93,000 jobs), elementary (+96,000), and sales and services (+167,000) jobs increased the most in 2021Q4 compared to the preceding quarter. The increase in sales and services jobs was the key driver behind the increase in trade jobs - this industry encompasses wholesale and retail trade, hospitality, and other customer-facing services sectors. The country lost 173,000 sales and services jobs during the third quarter of last year as the unrest seen in KwaZulu Natal during July 2021 resulted in the closure (either temporarily or permanently) of thousands of retail operations in the province.

It appears that a substantial number of sales and services jobs in the trade sector were recouped by 2021Q4 as many of these enterprises reopened. Admittedly, some of the fourth quarter gains would also have been the usual seasonal increase in trade jobs over the holiday period. Unsurprisingly, with the reopening of stores following the July 2021 unrest, KwaZulu-Natal (+126,000) registered the biggest increase in provincial employment during the fourth quarter. However, the province's employment outlook for 2022 is overshadowed by the negative impact of flooding in April in business activity and infrastructure. Admittedly, it is still too early to estimate the temporary and permanent impact of the flooding on the jobs market.

Table 4: Change in employment 2021Q4

	Total jobs 2021Q4	Change q-o-q	Change y-o-y
<b>Industry</b>			
Private households	1,258	129	62
<b>Trade</b>	<b>2,896</b>	<b>118</b>	<b>-168</b>
Community and social services	3,264	73	-286
Agriculture	868	38	57
Mining	370	25	-14
Finance	2,404	18	93
Transport	951	-13	8
Utilities	82	-14	-18
Construction	1,133	-25	-33
Manufacturing	1,316	-85	-174
<b>Occupation</b>			
<b>Sales and services</b>	<b>2,316</b>	<b>167</b>	<b>-160</b>
Elementary	3,630	96	237
Domestic worker	949	93	52
Technician	1,265	30	-87
Plant and machine operator	1,236	16	-22
Skilled agriculture	68	4	-18
Craft and related trade	1,519	-6	-141
Professional	933	-13	-19
Clerk	1,371	-40	-208
<b>Province</b>			
<b>KwaZulu-Natal</b>	<b>2,424</b>	<b>126</b>	<b>-31</b>
Gauteng	4,524	76	-46
Limpopo	1,184	39	-96
Western Cape	2,263	37	-75
Eastern Cape	1,247	31	12
Free State	727	8	-18
North West	858	7	-86
Northern Cape	264	-11	-43
Mpumalanga	1,052	-51	-96

Source: Stats SA



# Employment data trends: Updates to our long-term jobs and unemployment rate forecasts.

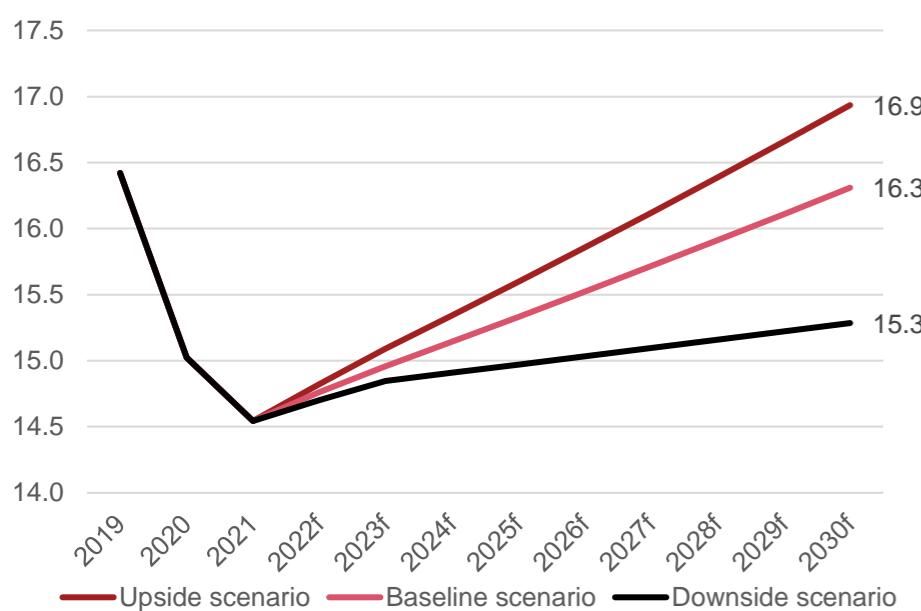
South Africa Economic Outlook April 2022



## Our upside scenario falls short of the 4.0% real GDP growth needed to bring the unemployment rate back to 30%.

Our current macroeconomic outlook sees real GDP growth moderating to a new long-term average of around 1.5% from 2024 onwards. Based on our statistical analysis of the relationship between economic and employment growth, this growth pace could create nearly two million jobs by 2030. However, at the same time, the country's labour force will continue growing as more people enter the labour market after finishing secondary and tertiary education. Under our baseline scenario, the new jobs created towards the end of the decade will not be enough to absorb all of these new (unemployed) workers. As a result, with current trends in mind, we expect the narrowly defined unemployment rate to increase to 39.3% by

Figure 6: Employment (million workers) scenarios



Source: PwC

2030 from 35.3% at the end of last year. It is likely that, under this baseline scenario, South Africa will remain in the top (worst) spot globally on both the total as well as youth unemployment rate tables for the foreseeable future.

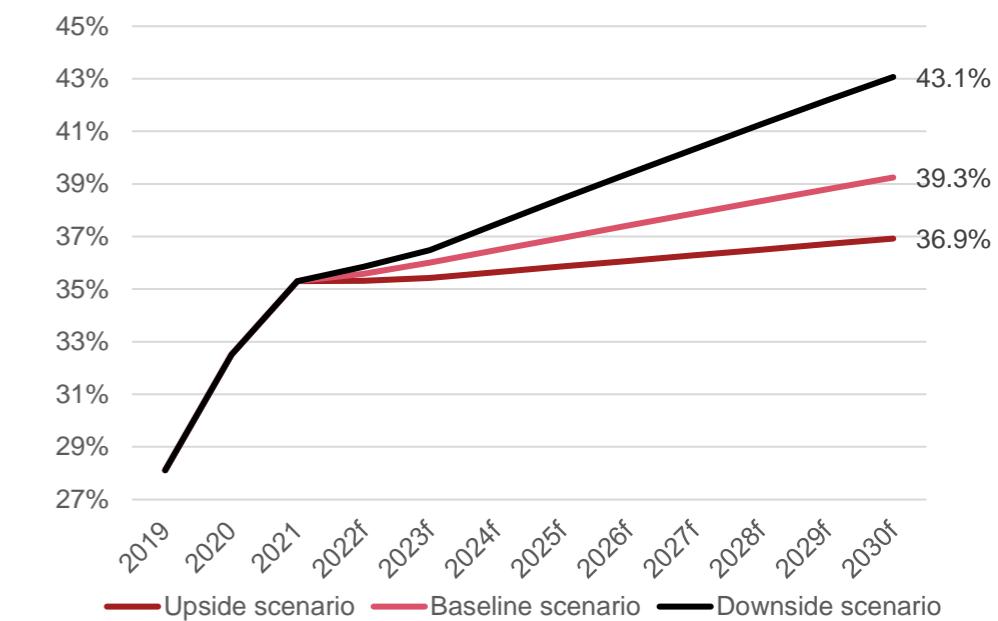
The solutions to South Africa's unemployment conundrum are not easy - but the time is now to act. We need to choose the areas that will have the biggest impact on GDP and jobs growth and where big change is possible without necessarily needing big financial commitments. As analysed in the February 2022 edition of this report, 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. At a growth rate of 4.0% p.a. during 2025-2030, the country's unemployment rate could again fall below the 30% level before the end of the current decade. Now is the time for such a reform-focussed agenda to take shape: President Ramaphosa is currently working on a social compact with business, labour, government and social partners to kickstart the economy. However, we are not very optimistic that the full suite of necessary reforms will materialise — even if the compact includes the necessary changes, implementation is always an Achilles heel. As such, our upside scenario (accounting for at least some reforms) expects real GDP growth of 2.0% p.a. over the medium to long term. This will see the unemployment rate close the decade at 36.9%; even under our upside scenario, joblessness will continue rising.

At present, escalating joblessness is combining with elevated consumer price inflation to heighten social stability risks. Both unemployment and inflation are higher at present compared to the levels seen during the July 2021 unrest. Furthermore, research by the BER shows that consumer expectations in 2022Q1 for their household finances were more positive compared to their outlook for the economy. This mismatch between expected financial conditions and the ability of the economy to deliver on these expectations contributed to last year's unrest. When considering all of these factors, as well as the upwards momentum in trade unions' salary and wage expectations for 2022, there is enough reason to be concerned about social stability in South Africa. The eventual introduction of a basic income grant (or similar cash transfer tool) could come too late to quell these social pressures.

Figure 7: Unemployment rate (% of labour force) scenarios

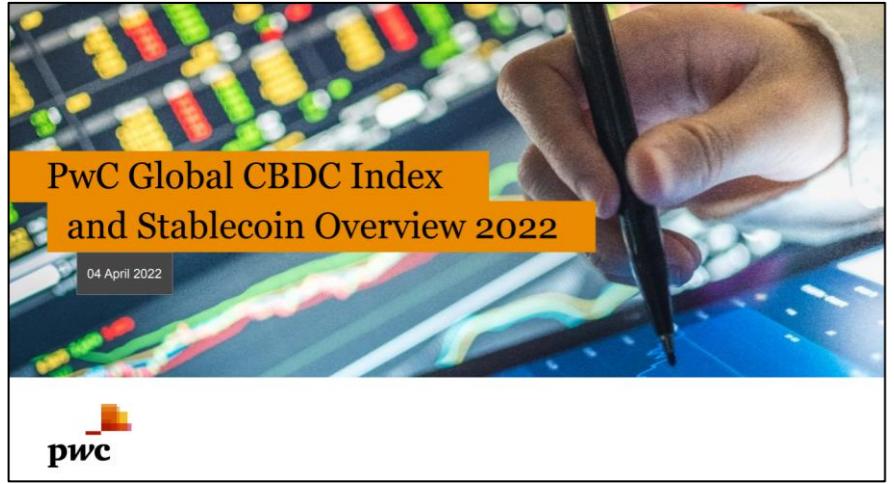


Source: PwC

# Featured PwC research: Central Bank Digital Currency (CBDC) index and global energy scenarios.

South Africa Economic Outlook April 2022

10



PwC research has found that more than 80% of central banks are considering launching a Central Bank Digital Currency (CBDC) or have already done so. CBDCs are a form of digital money, denominated in the national currency of account, and are a direct liability of the central bank. Legal digital-tender is currently in use in The Bahamas and Nigeria with Jamaica and the Eastern Caribbean expected to follow soon.

Elsewhere, the People's Bank of China is conducting large-scale public trials in selected cities and the e-CNY was one of only three payment methods accepted at the venue during the 2022 Winter Olympics. In February 2022, India's finance minister pledged to have a virtual version of the rupee later this year and, the following month, the Philippines announced its own pilot implementation. The US has placed 'the highest urgency' on research and development efforts into the potential design and deployment of a US CBDC. In turn, the European Commission plans to propose a bill for a digital euro in early 2023.

[PwC's Global CBDC Index and Stablecoin Overview 2022](#) evaluated South Africa's progress with its CBDC launch, ranking the country 6th out of 25 countries on its wholesale index. Wholesale CBDCs are for use by regulated financial institutions for the settlement of interbank transfers and related wholesale

transactions. Saudi Arabia (ranked 11th in 2021) and Switzerland (12th in 2021) entered the wholesale top 10 in our 2022 publication. In turn, the UK exited the top 10 after the Bank of England said in November last year there is no need for a wholesale CBDC in the UK given the presence of the territory's Real-Time Gross Settlement (RTGS) system.

Over the years, South Africa has undertaken domestic research and exploration projects on CBDCs. Project Khokha Phase 1 commenced in 2017 with a team consisting of seven banking industry participants with the support of ConsenSys (a technical service provider) and PwC. The project delivered a realistic test of a Distributed Ledger Technology (DLT)-based wholesale payments system. The results showed that the typical daily volume of the South African payments system could be processed in less than two hours with full confidentiality of transactions and settlement finality. In 2021, the Intergovernmental Fintech Working Group launched Project Khokha Phase 2 to explore the impact of DLT on trading, clearing and settlement in a limited proof-of-concept (PoC) environment. The SARB released a report on the results during early-April.

Also in 2021, the South African Reserve Bank (SARB) announced its participation in Project Dunbar, developing prototypes for shared platforms enabling international settlements with digital currencies issued by multiple central banks. During the project, the SARB collaborated with the Reserve Bank of Australia, Central Bank of Malaysia, and the Bank of International Settlements (BIS) Innovation Hub to design and develop a platform facilitating settlements of multiple CBDCs. The project developed prototypes demonstrating how commercial banks can transact directly with each other, using wholesale CBDCs of their respective countries and eliminating the need for intermediaries and reducing the time and cost of cross-border transactions.



The Russian invasion of Ukraine has led to uncertainty around the global economic outlook. At times like these, we recommend our clients use scenario analysis to better understand the economic outlook and to carry out contingency planning based on these outcomes. [PwC UK's Economic Outlook April 2022](#) considered two economic scenarios based on political and military possibilities and how this impacts on oil and gas prices. The 'contained conflict scenario' sees the European Union and North Atlantic Treaty Organisation (NATO) continue to provide indirect military assistance to Ukraine, and where there is no, or limited, further escalation of the current sanctions imposed on Russia. The less likely 'economic escalation scenario' includes continued indirect military assistance to Ukraine as well as 1) intensified economic sanctions on Russia and 2) the US and European Union substantially reducing (or even stopping) imports of Russian oil and natural gas.



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(NATO) continue to provide indirect military assistance to Ukraine, and where there is no, or limited, further escalation of the current sanctions imposed on Russia. The less likely 'economic escalation scenario' includes continued indirect military assistance to Ukraine as well as 1) intensified economic sanctions on Russia and 2) the US and European Union substantially reducing (or even stopping) imports of Russian oil and natural gas. Under the 'contained conflict scenario', current sanctions on Russia remain in place and no further sanctions are imposed. As such, there are no substantial restrictions to the export of Russian oil and natural gas to the rest of the world. In turn, the EU designs and implements a set of economic incentives — such as price controls, subsidies and tax cuts — to reduce dependence on Russian energy imports. Under the 'economic escalation scenario', countries like India, the UAE and Turkey also impose economic sanctions on Russia and its financial system, all Russian banks are cut off from SWIFT, and the country is revoked from the World Trade Organisation (WTO). The US and EU also stop importing Russian oil and the majority of natural gas — with some of this demand satisfied by Saudi Arabia, the US, Qatar, and Azerbaijan.

# PwC Economics services and contacts.

## South Africa Economic Outlook April 2022

### How can we help you manage the impact of rising input inflation on your business?



#### Economic scenario planning

Upward pressure on producer and consumer price inflation has intensified over the past two months. We have been speaking to clients to help them understand and address their input cost challenges, specifically looking at inflation scenarios from both the producer and consumer sides.

As discussed in the [March 2022 edition of this report](#), the cost breakdown and exposure to varying inflation pressures vary from one industry to the next. We are helping clients understand their cost structures, how this compares with industry benchmarks, what these costs could look like under different macroeconomic scenarios, and how suppliers and consumers could be impacted.

Not too long ago, salaries and wages were expected to increase only moderately during 2022. However, survey data shows that, alongside a recent deterioration in South Africa's overall inflation environment, expectations have grown for more substantial increases in remuneration. This will have a varying impact on different industries and sectors depending on their overall exposure to labour as an input cost.

Table 3 on [page 7](#) reflects the estimated impact of increased labour costs on overall operational costs. These estimates represent an aggregate for all workers, including categories for unskilled, semi-skilled and skilled employees. Workers with different skills and income levels are seeing different changes in cost of living due to the composition of their spending basket. This is another important consideration when it comes to changes in remuneration.

### Our services

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:

<https://www.pwc.co.za/en/issues/economy.html>



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