
South Africa Economic Outlook

Building businesses
resilience against
long-term socio-economic
headwinds

24 April 2023



About this document

In this edition of the South Africa Economic Outlook, we focus on the need for transforming local businesses to build resilience against the country's long-term socio-economic headwinds. With two out of five South African respondents to PwC's 26th Annual Global CEO Survey believing their company will no longer be economically viable a decade from now, building business resilience is a critical undertaking at this juncture.

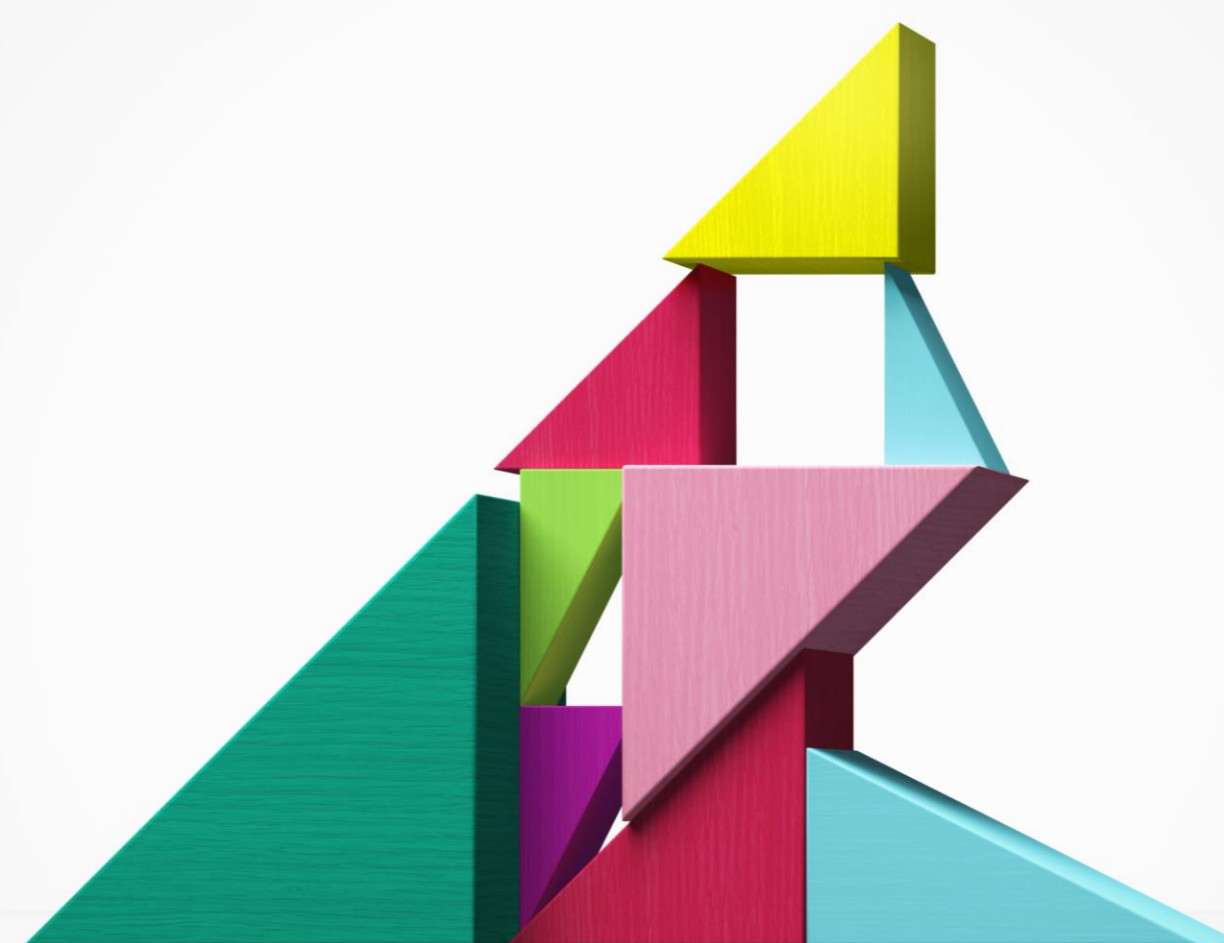
Local businesses are dealing with global Megatrends (climate change, technological disruption, demographic shifts, a fracturing world, and social instability) and the local manifestations thereof. Combined with other challenges — including electricity load-shedding and deteriorating transport infrastructure — these trends are reducing South Africa's long-term economic growth potential and could result in the unemployment rate rising above 37% by 2030.

In today's polycrisis world, the immediate concern for South African business leaders should be whether or not they are prepared. In this report, we consider several elements around building business resilience against long-term socio-economic headwinds.

Key content in this edition includes:

- Socio-economic headwinds: Megatrends add pressure to South Africa's societal challenges ([page 3](#)).
- Focussing on today: Building business resilience and staying operational in a polycrisis world ([page 4](#)).
- Human resource planning: Developing a resilient workforce by using people analytics ([page 5](#)).
- FATF greylisting: South African companies need to take action with context-specific solutions ([page 6](#)).
- Environmental, Social and Governance (ESG) focus: Tax transparency as a tool for rebuilding trust and social cohesion in South Africa ([page 7](#)).

Lastly, we highlight how PwC's Enterprise Resilience services provide a strategic approach to companies to build a flexible operating model that can adapt through disruption ([page 8](#)). The tried-and-trusted approach allows organisations to develop the processes and adaptability needed to respond to a crisis effectively and emerge stronger thereafter.

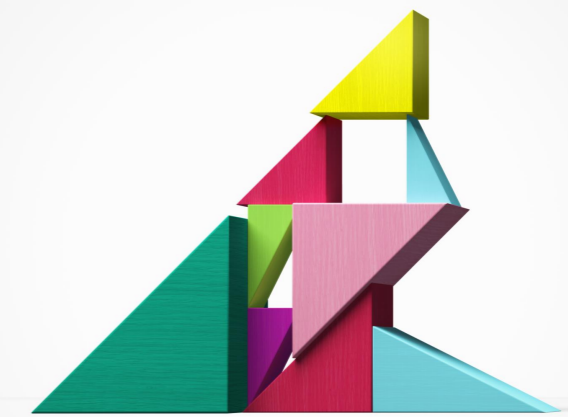


Macroeconomic forecasts (April 2023)				
Baseline scenario	2021	2022	2023f	2024f
ZAR/USD	14.78	16.37	17.81	18.31
Consumer price inflation (%)	4.6	6.9	6.0	5.5
Repo rate (end-of-period)	3.75	7.00	8.00	7.75
Real GDP growth (%)	4.9	2.0	0.7	1.2
Unemployment rate (%)	35.3	33.0	33.4	33.7
Probability weighted average	2021	2022	2023f	2024f
ZAR/USD	14.78	16.37	17.99	18.49
Consumer price inflation (%)	4.6	6.9	6.1	5.6
Repo rate (end-of-period)	3.75	7.00	8.01	7.81
Real GDP growth (%)	4.9	2.0	0.6	1.1
Unemployment rate (%)	35.3	33.0	33.4	33.8

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Socio-economic headwinds: Megatrends are adding pressure to South Africa's societal challenges.

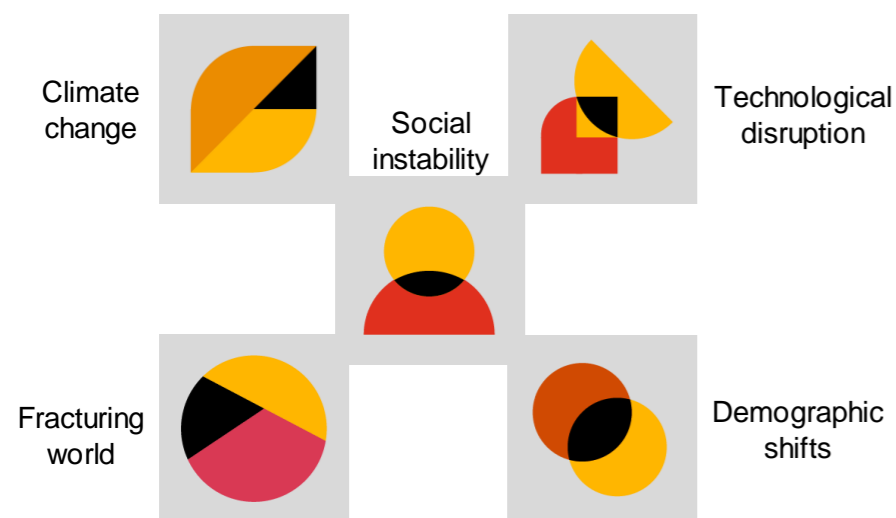
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We are living through extraordinary times: The five Megatrends that are reshaping the local business environment.

According to [PwC's 26th Annual Global CEO Survey](#), two out of five South African respondents believe their company will no longer be economically viable a decade from now, therefore, building business resilience is a critical undertaking at this juncture. While this number is startling, it should probably not be a surprise. Local business leaders are dealing with a confluence of global trends and their domestic manifestations, resulting in an increasingly challenging business environment and impacting profits. **There is a consciousness among South Africa's business leaders that we are living through extraordinary times, with five broad trends — climate change, technological disruption, demographic shifts, a fracturing world, and social instability — reshaping the local business environment.** Our report '[Megatrends: Five global shifts reshaping the world we live in](#)' notes that, although none of these five forces are new, their scope, impact and interdependence are growing, with varied magnitude across industries and geographies.

Figure 1: Five Megatrends reshaping the business environment

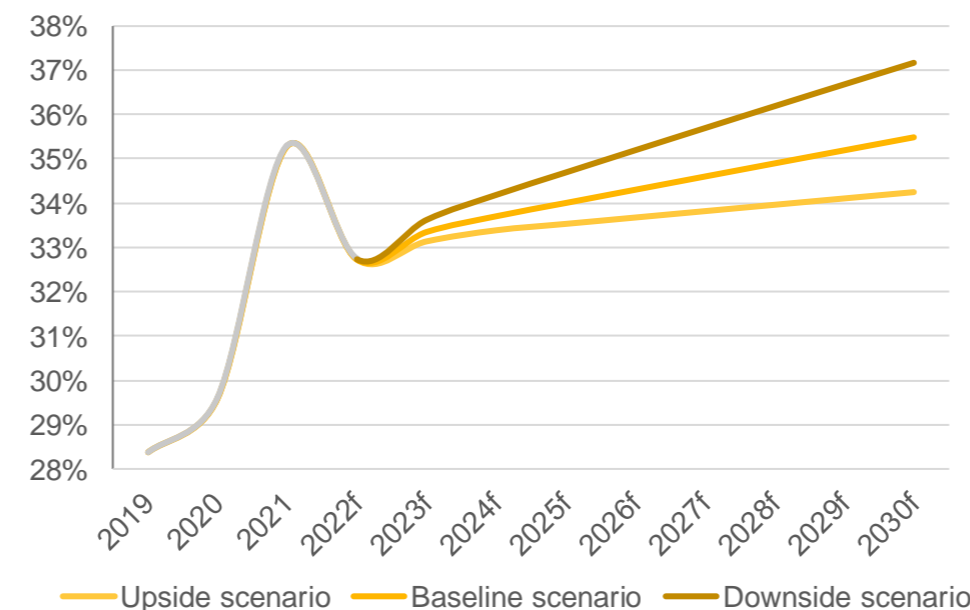


Source: PwC

The unemployment rate is on an upward trajectory as structural constraints limit economic growth.

All five Megatrends are structural: they are deep and profound trends, long-term in effect, and touch everyone on the planet by shaping our world for many years to come. South Africa is facing the negative impacts of climate change on food production, technological disruption pressuring job creation, a growing youth population as part of its demographic shifts, disruptions to supply chains in a fracturing world, and social instability. All of these factors, combined with other major challenges like load-shedding and transport infrastructure deterioration, weigh on the country's economic potential. We currently see baseline potential real GDP growth of 1.3% p.a. over the long term. Based on the historical relationship between economic and employment growth, **we anticipate South Africa's unemployment rate to increase from 32.7% by end-2022 to 35.5% by 2030 under our baseline scenario. This figure could be higher at 37.2% under a downside scenario** where real GDP growth slows to just 0.9% p.a.

Figure 2: Unemployment rate (% of labour force) scenarios



Source: PwC

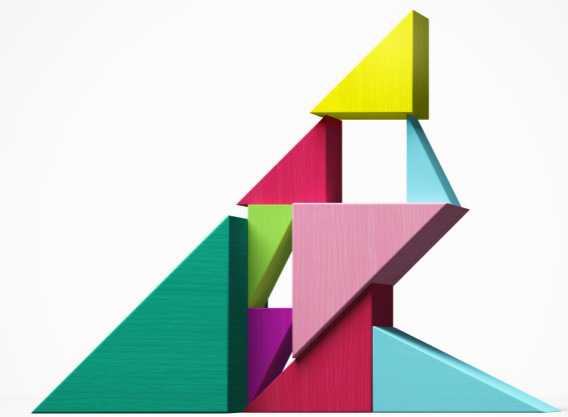
Each Megatrend is exacerbating the social challenges that South Africa and other countries face.

The five Megatrends have already and will continue to change the world (and South Africa) for many years to come. However, it is the interaction between these Megatrends that makes them particularly hard to deal with. Specifically, each Megatrend is exacerbating the social challenges that South Africa faces. **Countries like ours will be increasingly struggling with chronically high youth unemployment and under-employment, no matter what level of education these individuals have achieved. Furthermore, if economies are unsuccessful in addressing these issues, they will face increasing social unrest.** Since countries like South Africa, with a low median age, will be struggling to address the youth unemployment crisis, the top talent and most entrepreneurial people will increasingly want to emigrate. This will further weaken the economies of their home countries.

According to data and intelligence service, Municipal IQ, the volume of protests in the country surged at the start of 2023, with increased load-shedding as the main trigger. Within this context, Megatrend-induced protests are not isolated to South Africa, and are rising across the globe. In France, for example, hundreds of thousands of people have taken part in street protests and strikes across the country since January 2023 to voice their opposition to pension reforms. President Emmanuel Macron is increasing the retirement age in the country from 62 years to 64 years in order to keep the country's pension budget from ballooning. This, in turn, is due to demographic shifts in France: 21.7% of the population is currently aged 65 years and above compared to 13.3% in the 1970s. The legislative change being forced by an ageing population (Megatrend: demographic change) has resulted in a dramatic increase in social instability in the country.

Focussing on today: Building business resilience and staying operational in a polycrisis world.

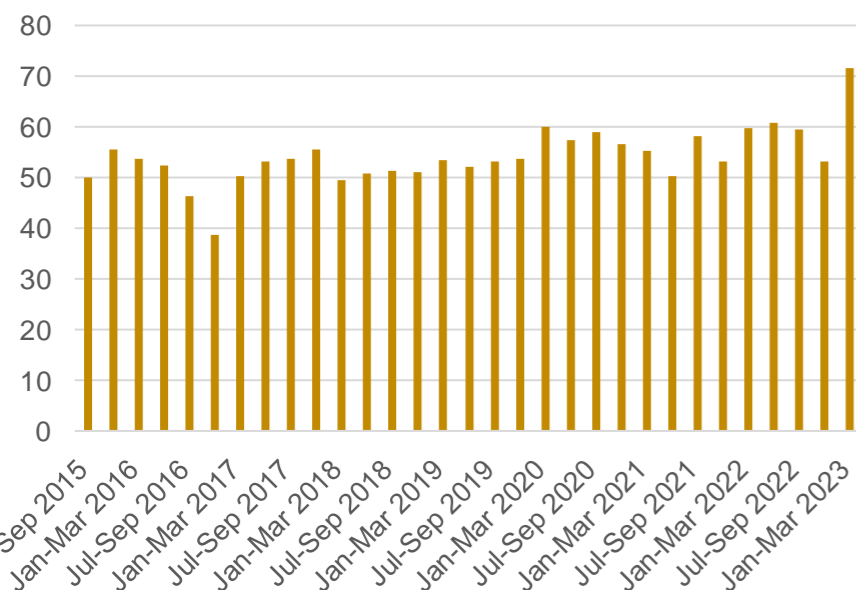
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The confluence of crises facing South African business leaders right now is nothing short of remarkable.

Globally, record-high levels of uncertainty this year have been associated with the term ‘polycrisis’. The concept reflects a situation where disparate crises interact in such a way that the overall impact significantly exceeds the sum of all its parts. Locally, **the NWU Business School Policy Uncertainty Index (PUI) increased to a record level of 71.7 in 2023Q1 from 53.2 in 2022Q4. This indicates that economic and political uncertainty in South Africa is more elevated now than at any time since the index was first published in 2015.** The confluence of crises facing local business leaders is nothing short of remarkable. Some of the emergencies are manifestations of once-in-a-generation risks: the Russian invasion of Ukraine, double-digit inflation in developed economies, and the ripple effects of both the pandemic and the ‘great resignation’. Other factors, like significant cyberattacks and extreme weather events, once seemed rare but are now worryingly familiar.

Figure 3: Policy Uncertainty Index (PUI)



Source: NWU Business School

Many executives are unprepared and inadvertently behave as if nothing has changed.

In today’s polycrisis world where this mixture of interrelated geopolitical, economic, and climate threats heats up, the immediate concern for local CEOs and other business leaders should be whether or not they are prepared. Most executives are not: our ‘[Global Crisis and Resilience Survey 2023](#)’ found that, **while 70% of business leaders are confident in their organisations’ ability to respond to various disruptions, too many organisations are lacking the foundational elements of resilience they need to be successful.** The heart of the unpreparedness problem is the fact that many executives are inadvertently behaving as if nothing has changed. They have scraped by with an outdated risk-management mindset that seeks to master risks by rigidly allocating resources and management attention, according to a mix of probability and impact.

However, this approach falls short as low-likelihood/high-impact events become more unpredictable, more complicated, and, via their widespread knock-on effects, more costly. Think of the far-flung business disruptions that ensued when the Ever Given (one of the largest container ships in the world) ran aground in March 2021: global trade was held up for a week while it was stuck in the Suez Canal. Closer to home, disruptions in rail and port services after flooding in KwaZulu-Natal during April 2022 had a similar impact on local trade logistics. Traditional business continuity planning would focus on recovering business as usual for the whole system after such events, whereas creating resilience flips that assumption to instead ask: how do we recover some degree of operational capacity immediately — and survive a potential catastrophe?

Practical tips for taking action by revamping how to think about and approach risk.

The good news is that taking on these ingrained challenges — and the weak risk cultures that often prop them up — is possible provided that leadership teams are committed to revamping their approach to risk. The key is to put aside the notion that it is possible to understand or address every threat. Leaders need to focus on the risks that might possibly disrupt the most important aspects of operations; the ones that are most crucial to customers and the company. Today, these operational risks are many, and load-shedding is but one of them.

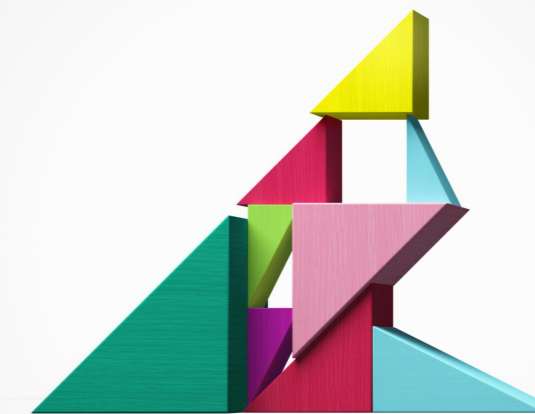
Here are a few practical tips for business leaders to make sure their companies do not inadvertently improve financial performance at the expense of operational resilience:

- Boards need to understand why the C-suite has changed the way it views existential risk and buy into a new approach.
- Empowering employees, as workers who have power and choice are happier, better at their jobs, more innovative, and more likely to go the extra mile.
- Embracing transparency and staying blame-free will help identify weaknesses before it is too late.
- Bring the right people together. To view risk through a cross-functional lens, key people across different disciplines need to be part of the conversation.
- Work out what is necessary to deliver key services and how long it will take to get them up and running. Understanding the interconnected components of operations ensures that rapid responses are accurate.
- Develop the relevant skills, mindsets, and behaviours to respond in times of crisis or disruption.

Please see our recent report ‘[Building resilience in a polycrisis world](#)’ for more detail on these and other practical steps to building business resilience.

Human resource planning: Developing a resilient workforce by using people analytics.

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Six ‘no-regrets’ moves that businesses and human resources leaders need to make now.

At a time when organisations face an eruption of disruption — stretching from the just energy transition, digital transformation, and massive shifts in customer expectations and behaviour — it is important to understand what businesses need from a workforce perspective. As noted in the September 2022 edition of this report ([‘Building skills to increase employability and staff retention’](#)), the world of work has changed drastically over the last few years, and employees’ expectations have permanently shifted. While the pressure to optimise costs and maximise productivity is always there, it is currently made more complicated by disruptive technology, the increasing complexity of geopolitics and global trade, evolving risk and regulation, and the ongoing race to find and keep the right talent with the right skills.

Our practical tips to ensure operational resilience, mentioned earlier, include several points related to human resource management: bring the right people together for the risk conversation, invest in developing their crisis-management skills, and focus on empowering them to make key choices. **For a South African organisation to build resilience and thrive, it needs to access its people’s full potential, develop, and execute new dynamic strategies.** We have identified [‘Six plays for building a more resilient workforce’](#), a set of ‘no-regrets’ moves that local businesses and human resources leaders need to make to create a resilient workforce, Table x lists these six actions.

Regarding risks in replacing human work with technology, while there are valid concerns about the impact of artificial intelligence (AI) on the job market, our new report [‘AI catalysing a workforce revolution, now!’](#) shows that there are exponential benefits that could positively impact the workforce and the economy.

Table 1: Six plays for building a more resilient workforce

Action	Methods
1. Anticipate and plan	<ul style="list-style-type: none"> Scenario-based planning (developing multiple hypothetical scenarios or futures) and dynamic planning (adapting to changes as they occur).
2. Build trust in the organisation	<ul style="list-style-type: none"> Building a solid relationship between workers and their direct supervisors. Leaders need to be consistently making sure their actions match their words.
3. Optimise the workforce productivity and performance	<ul style="list-style-type: none"> It is important to have workloads that are manageable for individuals. Optimising productivity is about focusing on what you can control.
4. Enable skills of the future	<ul style="list-style-type: none"> Identifying the skills needed for the future. Employees seeing their organisation invest in their development are more likely to trust their leaders.
5. Prepare for and deploy technology with humans in mind	<ul style="list-style-type: none"> Being able to identify risks in replacing human work with technology. The best way to continue rolling out new technology solutions is with transparency and collaboration.
5. Build ability to rapidly access and deploy talent	<ul style="list-style-type: none"> Build trust by sharing stories of the market and demonstrating how resources can help drive success. Businesses need to develop, deploy and track the common workforce-strategy framework.

Source: PwC

People Analytics can enhance the strategic value, impact and status of human resource management.

We have found that, by resolving business-critical workforce challenges, effective People Analytics can enhance the strategic value, impact and status of human resource management within an organisation to improve overall business resilience. When asked what People Analytics is, many human resources leaders and practitioners alike would answer that it is about translating people’s data into actionable insights that inform workforce decisions and improve business performance. Indeed, the core of all People Analytics efforts is to collect and connect the dots, creating a strong data layer and deriving insights via analytics.

As noted in our recently published document [‘Creating more value with your People Analytics efforts’](#), a successful People Analytics function is characterised by five main driving forces:

- Business alignment: a strong link to the business and ownership by the stakeholders; the way of reporting is geared towards enabling the use of the information in decision making.
- Team: the People Analytics team has the capabilities required to derive actionable insights from data and communicate them. Accordingly, the roles and responsibilities between enterprise data analytics, HR and business teams are clearly defined.
- Culture: a data-driven culture and growth mindset is embedded in the wider organisation to embrace the actionable insights provided by People Analytics.
- Technology: adequate tooling (built or bought) and processes that are fit for purpose and efficient in use.
- Data: a scalable human resources information technology (HRIT) data landscape to feed relevant data into the tooling, combined with stringent data security and ethics policies; data is of high quality and based on uniform definitions.

FATF greylisting: South African companies need to take action with context-specific solutions.

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Greylisting could increase the cost of finance and trading with global counterparties.

In October 2021, the Financial Action Task Force (FATF) published its Mutual Evaluation report of South Africa. The report showed that South Africa was only compliant with three, and partially compliant with 17, of the FATF's technical compliance recommendations. The peer review further rated South Africa as only low or moderate in its compliance with all 11 immediate outcomes which test the effectiveness of the country's frameworks. This placed doubts on the country's ability to ensure that safeguards are relevant in accordance with international legal standards. The government was given 12 months to implement the necessary remedial action.

During its plenary session in February 2023, the FATF announced that it had greylisted South Africa. The global money laundering and terrorist financing watchdog placed the country on its 'Increased Monitoring' list — often referred to as the greylist — due to shortcomings in South Africa's response. Being placed on the greylist means that the country is still actively working with the FATF to address deficiencies in its legal systems. South Africa is also subject to increased monitoring as it works to resolve identified issues within the agreed timeframes.

Our analysis '[South African companies need to take action after FATF greylisting](#)' warned that for **South African companies, greylisting could increase the cost of raising finance and trading with global counterparties. Businesses and NGOs will face additional requirements around sources of funding which are likely to increase costs and result in delayed transaction execution.** Local banks are likely to experience increased customer screening requirements during onboarding as well as heightened levels of scrutiny and transactional costs in dealing with global financial counterparties, assuming such counterparties do not elect to 'de-risk' and exit the relationships they have in South Africa.

Strategy&

Many would argue that the penalties imposed by the greylist status is the last thing that South Africa needs right now in terms of a long list of obstacles within the local business environment. The impact would also be extremely unfortunate for South Africa, which has long been respected as having a sophisticated and globally integrated financial system, a more open economy and larger foreign investor participation than many of the other previously greylisted countries.

Historical impact of greylisting: a drop in total capital flows equal to 7.6% of GDP over a period of nine months.

Compared to previously greylisted countries, South Africa has a more globally integrated financial system, with a more open economy, and greater foreign investor participation. This makes it hard to estimate the potential impact on the overall economy. Research by the International Monetary Fund (IMF) shows that in the 89 emerging and developing countries greylisted during 2000-2017, this action resulted in a drop in capital flows equal to 7.6% of GDP over a period of nine months. For example, foreign direct investment (FDI) inflows declined by an average of 3.0% of GDP while portfolio inflows declined by 2.9% of GDP. In the case of South Africa, the economic impact of greylisting depends substantially on the seriousness with which authorities are perceived to be acting to address the FATF's concerns.

We have seen diverse impacts on businesses, including, among others:

- **Planned foreign investments suspended or deferred.**
- **Foreign financial institutions imposing tougher checks on transactions to/from the country.**
- **Increased transactional, administration, compliance, and auditing costs associated with enhanced levels of monitoring.**
- **Negative impact on the stock market and non-listed company valuations.**

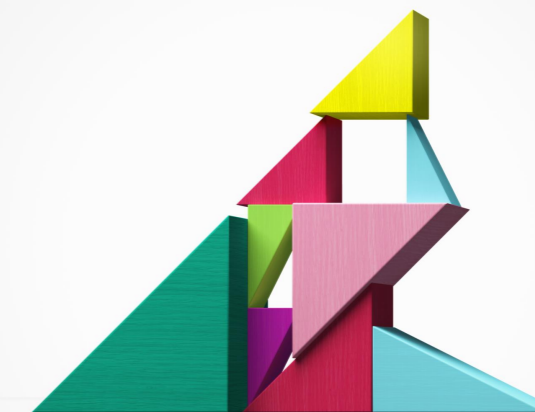
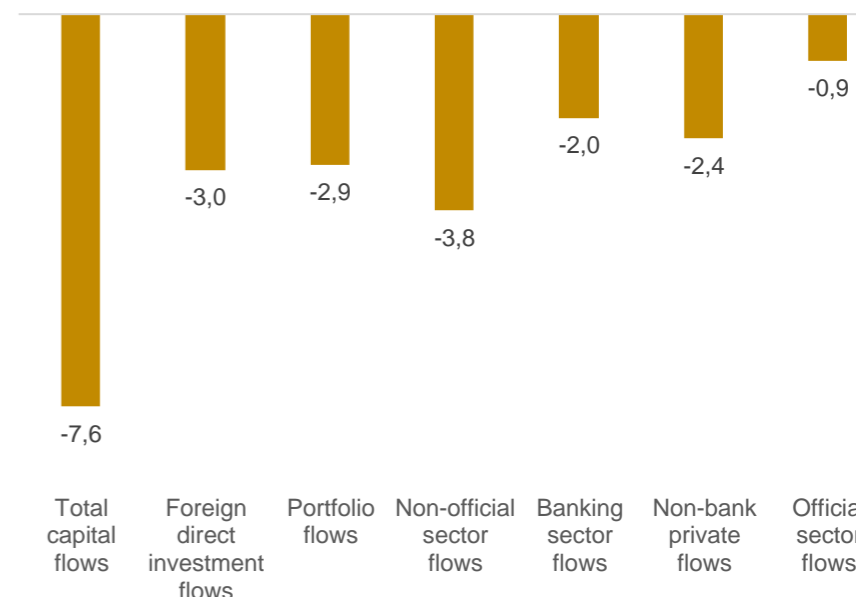


Figure 4: Change in flows after greylisting (as % of GDP)



Source: IMF

South African companies need context-specific solutions to mitigate this negative impact.

For private companies in South Africa, responding to the greylisting will require context-specific solutions depending on the broader impact of the greylisting on their plans around aspects such as strategic expansions, capital raising, and any general increased cost of doing business. Companies operating as financial intermediaries across jurisdictions may be asked to understand independent risk assessments to enable their counterparties to gain assurance that their controls/frameworks are aligned with global standards and to prevent such counterparties from exiting these relationships. Where companies have been pulled into the scope of regulatory requirements, these entities will have to assess the specific impacts and ensure that they take steps to enhance their current control environments and frameworks to address their new regulatory expectations.

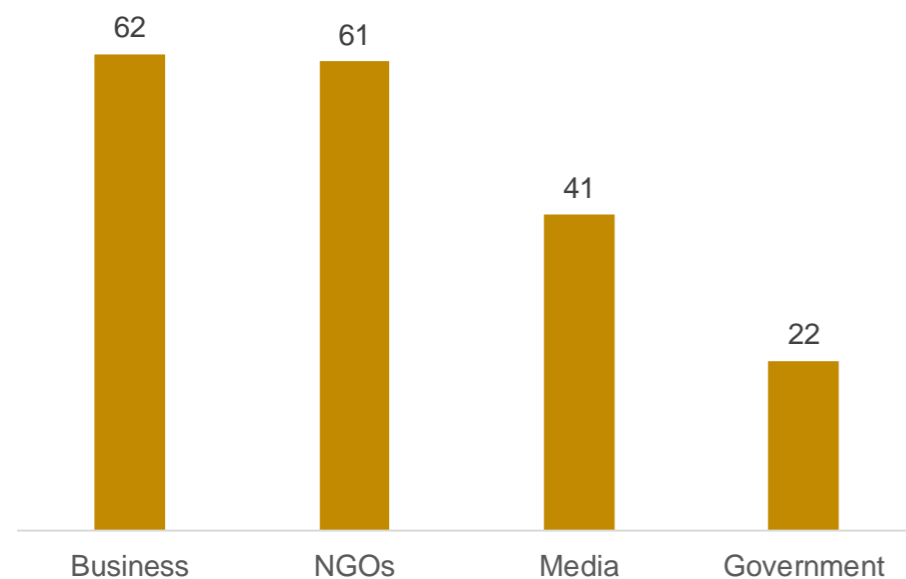
ESG focus: Tax transparency as a tool for rebuilding trust and social cohesion in South Africa.

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Private sector will play an important role in helping address socio-economic challenges.

The private sector in South Africa will need to play an increasingly important role in assisting the state to address socio-economic challenges — specifically at the community level — to ensure a stable operating environment. The Edelman Trust Barometer 2023 found that **a majority of South Africans believe businesses should act as agents of accountability and cooperation in mending the country's social fabric.** However, this goes beyond just spending on corporate social investment (CSI), which is too transactional in nature. Organisations can only have a meaningful impact on social cohesion and societal trust by deliberately taking a purpose-driven approach to their general business operations and resilience strategy.

Figure 5: Trust in institution to do what is right (% of survey respondents)



Source: Edelman Africa

Strategy&

Our recent report '[Building public trust through tax reporting](#)' noted that South African businesses that are raising the bar and leading the way on tax transparency want to show that their approach to tax is sustainable and builds trust with their stakeholders. Just as importantly, many are using the voluntary disclosures as a testbed for the step-up in mandatory reporting ahead. With financial and non-financial reporting coming together, tax reporting will need to be governed by a financial reporting mindset and an investor-grade set of controls. The more information stakeholders demand and the more competitors disclose, the more companies will be expected to report. Getting on the front foot is a chance to set the narrative on tax, while developing the robust processes and credible disclosures needed to build stakeholder confidence and trust.

Total Tax Contribution (TTC) quantifies a company's societal impact and the value it creates.

In our report '[Rebuilding social cohesion is an essential contributor to economic development in South Africa](#)', we listed several practical steps for companies to make an impact on social cohesion and trust. One of these is to assess the organisation's societal impact. With quantitative tools, we have conducted many Socio-Economic Impact Assessments (SEIAs) for local companies to better understand the impact that they have on South African society in general, and more specifically at a community level. A SEIA goes beyond merely determining the impact of an organisation on the economy. It delves into linkages that the business has at a local, regional and national level, and how this influences economic activity, job creation, household income, and the generation of taxes.

Within this analysis, **quantifying a company's Total Tax Contribution (TTC) provides robust data on the contribution made by the enterprise to public finances. This, in turn, empowers the company to transparently show its socio-economic impact** and the value it creates in its communities.

PwC South Africa conducted a TTC quantification for our own activities to better understand our societal impact. The results (reflected in the '[Living our societal purpose](#)' section of our 2019 Integrated Report) show that the firm made a total tax contribution of R3.9bn to the South African economy, up from R3.2bn in the previous year. The R3.9bn contribution (both borne and collected taxes) to the fiscus provided funding for diverse government expenditure. Based on The National Treasury's fiscal budget allocations for the year, PwC's total tax contribution was equivalent to supporting the following expenditure in 2019:

- Fed 12,259 children through government feeding schemes.
- Financed the building of 837 low-cost homes.
- Provided 299 beds in public hospitals.
- Paid salaries for 90 doctors, 1,078 police officers and 1,093 educators.

Taxes are fundamental to meeting the Sustainable Development Goals (SDGs) and are a key mechanism to effectively raise and allocate domestic resources for governments to deliver essential public services, and achieve broader socio-economic development goals. This social-economic spending is allowing PwC to contribute to specific SDGs, namely:



South African companies are using this type of information to engage with their communities and rebuild trust between stakeholders. A TTC analysis provides a deep level of transparency into tax contributions and what the state is doing with this money - be it funding feeding schemes, the building of houses, or paying salaries for educators and doctors. This builds social cohesion among stakeholders in diverse communities.

PwC Economics services and contacts.

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How we can help.

Enterprise Resilience: PwC's strategic approach for companies to build a flexible operating model that can adapt through disruption

The more prepared a business is to manage disruption, the less destructive and long-lived the crisis will be for the enterprise. Incorporating lessons learned and leading global practices and standards, proper resilience planning can help a business withstand disruption and reduce the overall impacts of a crisis. In the long term, organisational resilience will strengthen an organisation's ability to respond and adapt across key organisational pillars like operations, technology, workforce, data and finance.

Enterprise Resilience is PwC's strategic approach for companies to build a flexible operating model that can adapt through disruption. The tried-and-trusted approach allows organisations to develop the processes and adaptability needed to respond to a crisis effectively and emerge stronger thereafter. Key components include:

- Anticipate and prepare: Maintain a state of informed preparedness in order to forestall compromises of mission critical functions.
- Respond and recover: Execute response procedures and restore mission critical functions after a major disruption.
- Withstand: Continue mission critical functions despite a disruption or critical outage, limiting significant impact and curtailing downtime.
- Sustain: Tap into knowledge from prior disruptive events to enhance your resilience processes and reduce adverse impacts in the future.

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

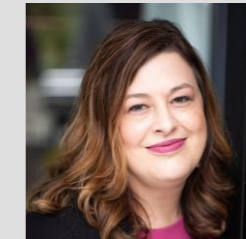
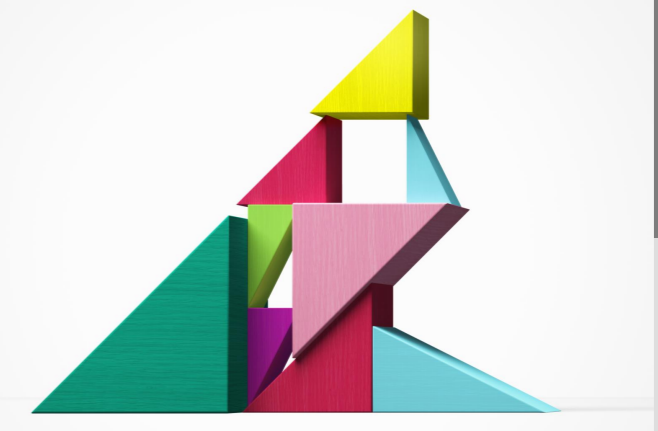
- Macroeconomic research
- Market entry analysis
- Country and industry risk assessments
- Commercial due diligence assistance

Plan for future economic scenarios

- ESG scenario planning
- Economic and political 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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