SOUTH AFRICAN CHAMBER OF COMMERCE AND INDUSTRY

Business Confidence Index

March 2023

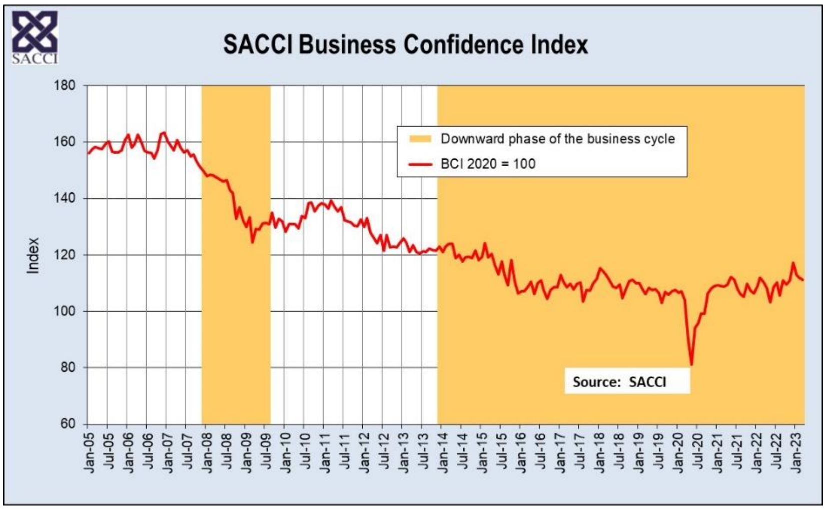
SACCI

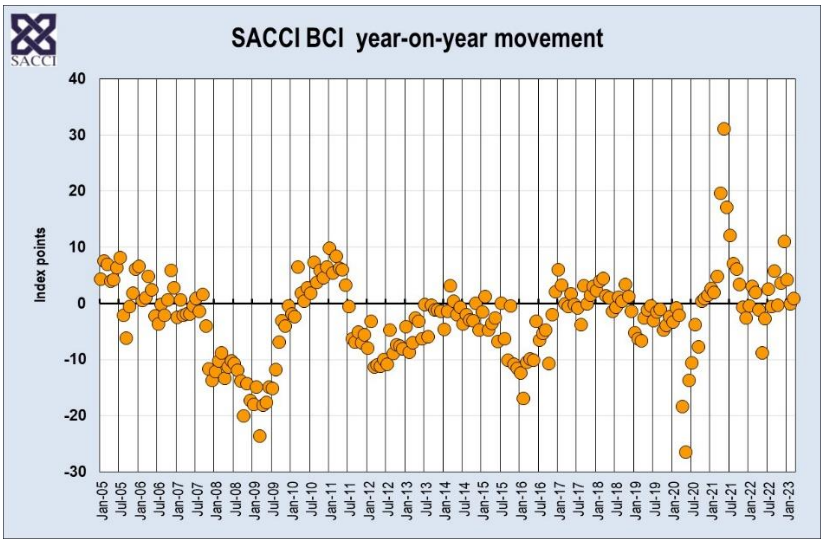
Content:

Because of information lags and changes in expectations, the dynamics of the business mood, may, at times, be at variance with the economic environment. As a result, always read the BCI with other economic data and the accompanying economic commentary. For notes on the BCI, see the SACCI website at www.sacci.org.za.

The SACCI Business Confidence Index (BCI)
2020=100

Month	2016	2017	2018	2019	2020	2021	2022	2023
January	107.0	112.9	115.3	109.9	106.6	109.2	108.8	112.9
February	107.1	110.4	114.3	108.0	107.2	109.0	112.0	111.9
March	108.6	108.4	112.8	106.1	103.9	108.7	110.5	**111.3**
April	110.4	109.7	111.0	108.3	89.9	109.5	108.3	
May	106.1	107.7	108.7	107.5	81.0	112.1	103.2	
June	109.9	109.7	108.3	107.9	94.1	111.2	108.5	
July	111.0	110.2	109.5	106.4	95.7	107.7	110.3	
August	107.4	103.6	104.6	103.0	99.2	106.2	105.6	
September	104.4	107.5	107.9	106.8	99.1	105.2	110.9	
October	107.5	107.4	110.8	106.0	106.4	109.7	109.4	
November	108.6	109.9	111.1	107.2	108.0	107.3	110.9	
December	108.4	111.4	110.1	107.6	109.0	106.4	117.3	
Average	**108.0**	**109.1**	**110.4**	**107.1**	**100.0**	**108.5**	**109.6**	





This month's BCI results

The **SACCI** Business Confidence Index (BCI) measured 111.3 in March 2023 after declining by 0.6 index point from 111.9 in February 2023. The BCI shed 4.4 index points in January 2023, surrendered only 1.0 index point in February, and 0.6 index point in March 2013 – in total a decline of 6 index points since December 2022. On a quarterly basis the BCI declined by 0.5 index point from the 4th quarter of 2022 to 112.0 in the 1st quarter of 2023. Year-on-year the BCI increased by 1.6 index point from 110.4 in the 1st quarter of 2022 to 112.0 in the 1st quarter of 2023.

On a **month-to month** basis (from February to March 2023) the business environment experienced a rather mixed state of circumstances with four of the fourteen sub-indices of the BCI turning negative, five being neutral, and five sub-indices making a positive impact on the **SACCI** BCI. Amongst these positive sub-indices were increased merchandise export volumes, more overseas tourists and higher new vehicle sales. These sub-indices made noteworthy positive impacts on the BCI while real retail sales and higher US dollar prices for precious metals were also encouraging.

The five sub-indices that had a neutral effect on the BCI included energy supply. Energy supply had a dual effect on the BCI was impacted at various levels by electricity supply issues with electricity blackouts continuing to strain business while the rand price of fuel was relatively stable. However, the lagged and knock-on effect of electricity supply shortages on the economy and business confidence are of major cost concern. The negative **month-to month** impacts of the declining real value of building plans passed, lower JSE share prices, and rising real interest rates are of concern to business prospects going forward.

The **medium-term (year-on-year)** business climate changed only slightly with the BCI increasing by 0.8 index point on March 2022 and suggests the degree to which businesses are factoring forward in a tighter business environment. Inward tourism and higher new vehicle sales had a notable positive y/y effect on the BCI. The more negative effects came from higher real cost of borrowing, the declining real value of building plans passed, the weaker rand exchange rate, higher inflation, and decreased merchandise export volumes – in that order.

Sub-indices from both real economic activity and the financial environment reflected a vulnerable business climate in South Africa compared to a year ago.

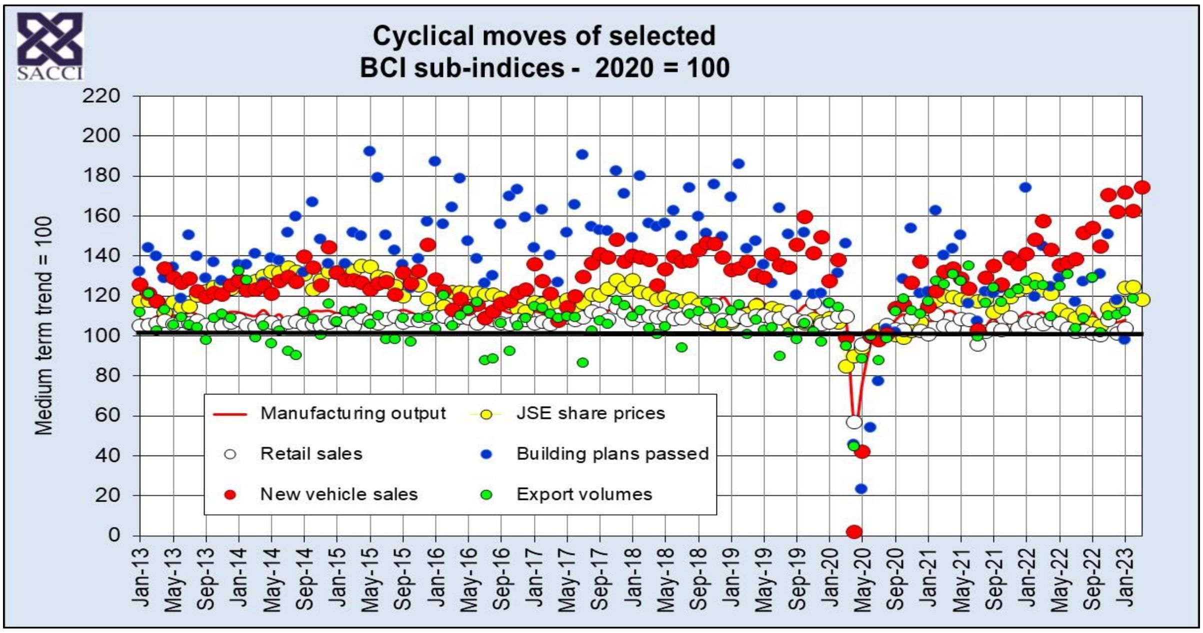
See the **economic commentary** for the latest economic developments and background to the business climate.

Business Climate Indicators

Business climate indicators *	m/m changes		y/y changes	
	This month	Previous month	This month	Previous month
Energy supply	o	o	o	+
Manufacturing	o	o	-	-
Exports	+	+	-	-
Tourism inward	+	o	+	+
Imports	o	-	o	+
Vehicle sales	+	-	+	+
Retail sales	+	-	-	-
Construction - buildings	-	-	-	-
Inflation[1]	-	o	-	-
Share prices	-	o	-	-
Real private sector borrowing	o	o	+	+
Real financing cost	-	o	-	-
Precious metal prices	+	-	-	-
Rand exchange rate	o	-	-	-

** See notes on BCI on www.sacci.org.za*

1. Excludes petrol, food and non-alcoholic beverages.



This month's economic review

Tight Global Economic Climate

The latest WEO (World Economic Outlook) update of the IMF predicts global economic growth to decline to 2.9% in 2023 but rise slightly to 3.1 in 2024. Although the latest forecast envisages world economic growth to be marginally better than expected in late 2022, serious challenges remain. Rising real interest rates and the war in Ukraine lingers on and affect global economic activity due to international interdependence and linkages. China's reopening may cause a faster recovery while global inflation is expected to decrease by 2.2 percentage points in 2023 and 2.3 percentage points in 2024 but remain 0.8 percentage point higher than pre-Covid levels.

IMF consultation

In its March 2023 Article IV annual consultation with South Africa, the IMF held meetings with economic authorities and other role players in the public and private sectors. Deliberations concentrated on policies to ensure macro-financial stability and the necessary reforms needed to obtain sustainable economic growth, reduce unemployment, poverty and inequality and thereby promote/create greater inclusivity.

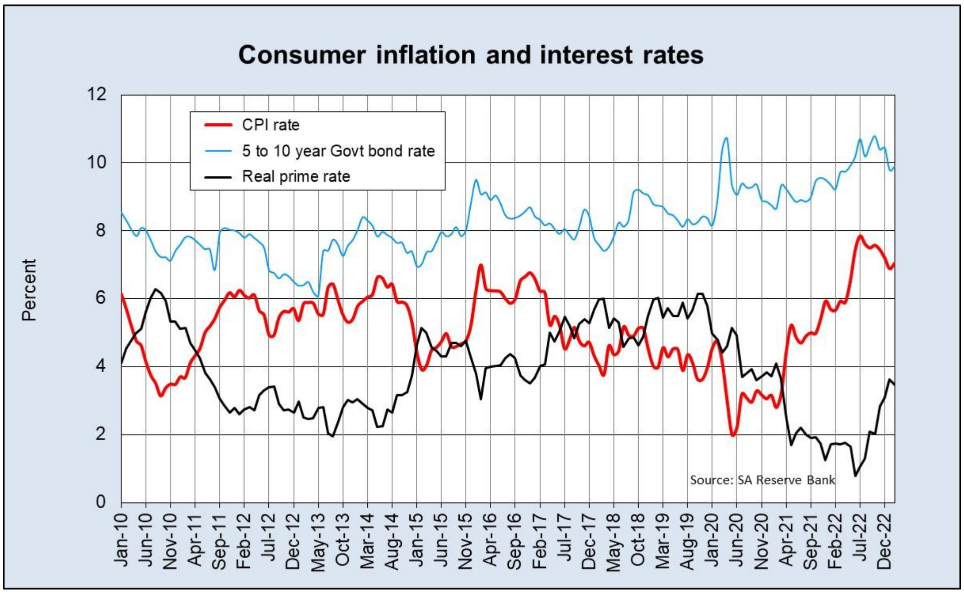
A number of critical matters were cited:

- Mounting economic and social challenges,
- Stagnation amid an unprecedented energy crisis,
- Infrastructure and logistic bottlenecks,
- A less favourable external environment, and
- Unfavourable and unpredictable weather conditions.

Accordingly the IMF team noted employment that is still below pre-Covid levels and unemployment that remains at unacceptable high levels. Due to its openness the economy is exposed to external shocks and capital flow volatility given tighter global financial conditions, and volatile commodity prices related to Russia's war in Ukraine. High public debt levels limit the fiscal room to address social and developmental needs. Inflexibilities in product and labour markets remain a concern. Governance issues and corruption detrimentally affect growth and employment prospects and threaten social interrelations.

Constructive features, for South Africa. A large external asset position, low levels of foreign currency debt, a diversified economy, a sophisticated financial system, and a supple exchange rate regime were noted as strengths. The SARB's "pro-active monetary policy that has kept inflation expectations anchored" was also viewed as a positive trend – see Figure 1. Fiscal and structural challenges however also need to be addressed urgently in support of monetary policy.

Figure 1



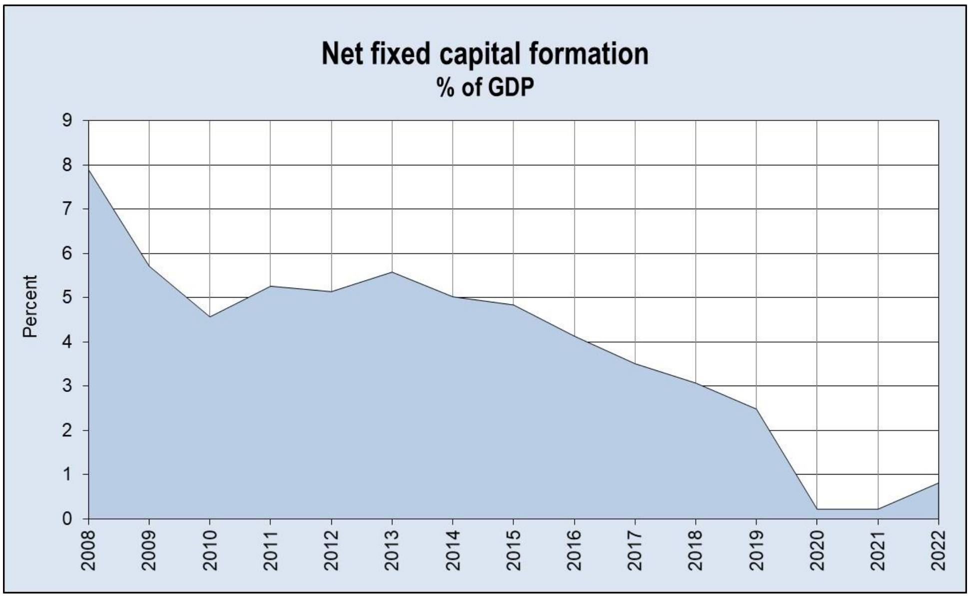
Source: SARB Quarterly Bulletin. March 2023.

Progress was noted on SARS's revenue collection, easing requirements for alternative power generation modules, an instrument for private sector participation in power transmission infrastructure, opening the internet spectrum auction, and steps to improve third-party access to the country's ports and freight facilities were also cited as positives. The progress on anti-corruption measures is noted and must be unrelenting.

Additional challenges

Standard & Poor's has downgraded South Africa's ratings outlook from positive to stable - in essence following on the extent of the power crisis and that it reduces economic growth prospects. Yet another obstacle has therefore been added to South Africa's challenges to get its credit rating out of 'junk' status and to promote net fixed investment – see Figure 2.

Figure 2



Source: SARB Quarterly Bulletin. March 2023.

South Africa's greylisting by the Financial Action Task Force (FATF) has important implications for the country's economic growth and global competitiveness. The main implication of greylisting is that members of the international community are 'warned' that conducting business with a cited country could facilitate terrorism financing and money laundering.

South Africa has taken various steps to address FATF concerns:

- An Investigating Directorate was established
- The Anti-Money Laundering and Combating Terrorism Financing Amendment Act draft in progress.
- The Protection of Constitutional Democracy Against Terrorist and Related Activities Amendment Act instituted, and
- South Africa made a high-level political commitment to work with the FATF.

Apart from reputational damage, the **possible economic implications** of greylisting should be noted:

1. Less capital inflows
2. Economic penalties might be imposed
3. Less foreign direct investment (FDI)
4. Decrease in external reserves
5. Difficulty to obtain financing on the international market
6. Decreased competitiveness in the world economy
7. More due diligence required for global trading
8. Climate adaptation will be impacted

Nevertheless, a country's standing can be restored if the government and the private sector co-operate to take decisive actions and address FATF's concerns. Government is clearly aware of these actions with the Finance Minister indicated that outstanding deficiencies would be addressed through regulations and various other action steps as mentioned above.

Socio-political concerns

SACCI reiterated the need to address the challenges of economic growth, unemployment, poverty, and inequality. The economy is facing substantial headwinds and a national disruption will not achieve any positive objective as was evident by the lockdowns during the Covid pandemic.

Given the service delivery problems by the public sector, a transparent and credible performance management evaluation system should be the main consideration in articulating and embedding/retaining of key personnel and succession as a principle.

Conclusion

At this critical juncture of a deepening crises facing South Africa from logistics infrastructure, energy supply, safety and security, immigration, greylisting, health care, education and skills, unemployment, lack of economic growth, to trade and investment, the cabinet reshuffle does not appear to be aligned to the complex challenges facing South Africa and the long-term objective of eliminating joblessness, poverty, and inequality.

Annexure 1

General Economic Indicators

Indicator	Latest Period	Latest Direction	Latest	Previous	2022	2017
Consumer inflation headline urban (%)	Feb-23	▲	7.0	6.9	6.9	5.3
Consumer inflation urban - excl. food, bev. & fuel (%)	Feb-23	▲	5.4	5.1	4.7	4.8
Money supply M3 eop (% Δ Y-o-Y)	Feb-23	▲	10.8	9.6	8.7	6.4
Private sector credit eop (% Δ Y-o-Y)	Feb-23	▼	8.3	8.6	7.6	6.8
Real prime overdraft rate eop (%)*	Feb-23	▲	5.4	5.1	5.1	4.4
Prime overdraft rate eop (%)	Mar-23	▲	11.25	10.75	10.75	10.25
Liquidations number sa	Feb-23	▲	161	92	1907	1868
Bond yield 5-10y govt eop (%)	Mar-23	▼	9.83	10.07	10.21	8.43
R / US$ average	Mar-23	▲	18.24	17.92	16.36	13.31
R / Euro average	Mar-23	▲	19.54	19.17	17.20	15.04

Indicator	Latest Period	Latest Direction	Latest	Previous	2022	2017
Income & wealth tax / GDP sa (%)	4q-22	▲	14.7	14.4	14.5	13.9
Total tax / GDP sa (%)	4q-22	▲	27.4	27.2	27.2	25.7
Public sector borrowing requirement / GDP (%)	4q-22	▼	1.5	5.1	2.4	4.6
Public sector expenditure / GDP (%)	4q-22	▲	23.9	23.0	23.5	24.7
Budget balance / GDP (%)	4q-22	▼	-1.1	-10.3	-4.4	-4.0
Imports / GDE (%)	4q-22	▼	32.6	33.7	32.1	26.5
Exports / GDP (%)	4q-22	▼	32.4	35.7	34.1	27.6
Net foreign financial flows excl. loans / GDP (%)	4q-22	▼	0.1	-2.4	0.2	3.1
Current account balance / GDP (%)	4q-22	▲	-1.0	-1.3	-0.5	-2.4
Gross domestic saving / GDP sa (%)	4q-22	▼	13.0	15.9	14.6	14.3
Gross capital formation / GDP sa (%)	4q-22	▼	15.5	15.9	15.1	16.6
Net fixed capital formation / GDP (%)	2022	▼	-	-	0.8	3.5
GDP growth (% Δ Y-o-Y)	4q-22	▼	0.9	4.2	2.0	1.2

Δ=change; eop=end of period; Y-o-Y=year-on-year; q=quarter; sa = seasonally adjusted;
GDP=Gross Domestic Product; GDE=Gross Domestic Expenditure. *Deflated by inflation excl.food, bev. & fuel.