VINDILAC ANALYTICS

QUARTERLY ECONOMIC CHRONICLES

2022/Q3

Financial markets remain painted in a sea of red amid surprisingly aggressive interest rate hikes. **01**

It is proving to be a tug of war between economic growth and persistent loadshedding in South Africa. **02**

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ABOUT THIS PUBLICATION

The Quarterly Economic Chronicles is Vindilac Analytics' economic flagship, highlighting a series of economic events taking place at the national, regional and global levels. It is highly driven by the need for economic literacy and financial journalism on the African continent. By providing an economic report that is clear to a non-economist, we unintentionally create an enabling environment for citizens to make informed economic decisions. Our report is unique for it is now compiled and published in several official languages spoken in South Africa. This enables readers to understand economic chronicles in their mother tongues. It is worth noting that this report aims to complement existing economic reports in South Africa.

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1. EXECUTIVE SUMMARY

It is proving to be a tug of war between economic growth and persistent load-shedding, and higher than expected consumer prices in South Africa. As the war between Russia and Ukraine still lingers, with several sanctions against Russia, it is almost like a domino effect of all the possible things that could go wrong going wrong. This has brought about uncertainty regarding South Africa's economic recovery post pandemic. As a result, social unrests are also beginning to be a part of the conversation.

The rising cost of living and global supply chain constraints continue to weigh heavily on the economy. The pressure to avoid a recession and protect livelihoods mounts amid the prolonged covid19 pandemic, climate change, and the cross-border effects of geopolitical tensions. This pressure to restore the economy comes right after countries have exhausted their financial resources in response to the economic and social costs of covid19. The year 2022 was meant to be a year of easing economic recovery for the global economy, but Russia's invasion in Ukraine has set back the global economic recovery. This has seen oil prices hit over $120/barrel in 2022, shy of the $147/barrel post the '08/'09 crisis. Businesses in South Africa have been faced with numerous setbacks including the reality of living with load shedding indefinitely, high producer prices, and staggering economic growth. Liquidations have likewise risen to record highs as businesses face cash-flow problems.

Global output is expected to be lower due to inflation which will erode household purchasing power, and monetary policy tightening. South Africa will be no different with a projected growth rate of 2.3 per cent, which is below peer growth rates in emerging markets at 3.6 per cent. Meanwhile, global financial markets remain painted in a sea of red, falling more sharply in September as any remaining optimism over economic growth was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands. South African markets were not spared, with growth prospects deteriorating amid rising prices, higher borrowing costs and the high frequency of electricity outages.

Reinstating the well-being of public finances is what is on the agenda, as stipulated in the 2022 MTBPS. Stabilising the country's debt is of priority and significant to achieving fiscal consolidation. These will allow the government to set about reconstructing and renewing real spending activity in crucial areas that aid the economy. Medium term fiscal spending will be channelled towards decreasing the gross borrowing requirement as well as strengthening the capacity of state-owned enterprises such AS Transnet, Denel and SANRAL. Rooting out corruption also remains key to addressing the country's sluggish economic growth, and to do so, the government implemented prosecutorial agencies. Implementing these strategies will in the long run address South Africa's poor economic performance. By improving the country's economic growth rate, it will be feasible to tackle the high poverty and unemployment levels.

2. MONETARY POLICY

- **Thabang Kumalo**

2.1. Introduction

Real economic activity in South Africa declined by 0.7% in the second quarter of 2022 after two successive quarters of expansion. The decline in real gross domestic product (GDP) was broad-based, with activity declining in both the primary and secondary sectors, followed by a slight increase in the tertiary sector. Despite the contraction, the level of real GDP was still 1.4% higher in the first half of 2022 than in the corresponding period a year earlier. However, it is 0.3% lower than the average level in 2019 before the onset of the COVID-19 pandemic. Notably, Gross Domestic Expenditure slowed to 0.8% in the second quarter, compared to the first quarter's 2.1%. Real net exports and final consumption expenditure by general government subtracted 1.5% and 0.1% respectively from growth in real GDP in the second quarter of 2022. Households' net wealth also contracted in the second quarter of 2022 as total assets decreased while total liabilities increased. The lower market value of assets reflected a decrease in equity holdings along with a substantial decrease in share prices, while the value of housing stock increased. Consequently, the ratio of net wealth to nominal disposable income decreased to 359% in the second quarter of 2022 from 379% in the first quarter.

2.2. Current Account

South Africa's trade surplus decreased noticeably from R372 billion in the first quarter of 2022 to R272 billion in the second quarter of 2022. The narrowing in the trade surplus, together with a substantially larger shortfall on the services, income and current transfer account, caused the balance of the current account to switch from a surplus of R157 billion to a deficit of R87 billion. This translates into -1.3% of GDP in the second quarter.

Even worse, the shortfall on the services, income and current transfer account widened substantially to R358 billion in the second quarter of 2022, from a deficit of R216 billion in the first quarter. The larger deficit resulted from a significantly larger shortfall on the income account, while the deficit on the services account also increased but to a smaller proportion. However, a smaller deficit was recorded on the current transfer account in the second quarter of 2022. Consequently, the deficit as a ratio of GDP increased from 3.4% in the first quarter of 2022 to 5.5% in the second quarter, by far the largest ratio since the first quarter of 1986.

According to SARB's report, the net flow of capital on South Africa's financial account of the balance of payments (excluding unrecorded transactions) reverted to an outflow of R1.4 billion in the second quarter of 2022 following a revised inflow of R31.3 billion in the first quarter. On a net basis, direct and other investment recorded inflows, while portfolio investment, financial derivatives and reserve assets registered outflows. Net financial account flows as a ratio of GDP switched to an outflow of 0.1% in the second quarter of 2022 from an inflow of 2.0% in the first quarter.

2.3. Interest rates

The South Africa Reserve Bank continued to tighten monetary policy by increasing the repurchase (repo) rate by 75 basis points in both July and September 2022. Money market rates were affected by the acceleration in consumer price inflation and changes in global risk sentiment, meanwhile the exchange value of the rand has been appreciating since July 2022 to mid-August. The appreciation somewhat, moderated the upward trend of these rates. The risks to the domestic inflation outlook were assessed to be on the upside, primarily impacted by higher food and fuel prices as well as the emergence of second-round effects following the sharp increases in these prices.

The average monthly flexible deposit and lending rates offered by private sector banks reflected the increase in the repo and prime lending rates. The rate charged by banks on mortgage advances increased from 7.56% in May 2022 to 8.08% in July 2022. Over the same period, the rate on instalment sale credit increased from 10.01% to 10.42%, while the rate on overdrafts increased from 8.96% to 9.05%. The rate on credit card advances rose by 37 basis points from 13.88% in May 2022 to 14.25% in July. The weighted average interest rate on deposits offered by banks also increased in recent months, with the rate on call deposits increasing from 4.38% in May 2022 to 4.94% in July. The rate offered by banks on 12-month fixed deposits increased from 5.42% to 5.95% over the same period, while the rate on current accounts increased marginally from 1.75% to 1.86%.

2.4. Bond and Share Market

Lower borrowing requirements led to less funding in the domestic primary bond market, which decreased to R230 billion in the first eight months of 2022 compared to R282 billion in the same period of 2021. National government continued to account for most of the public sector’s cumulative net issuance of listed bonds at R226 billion in the first eight months of 2022, which was 14.5% less than in the corresponding period of 2021, despite substantial net issues in July 2022. Local governments recorded cumulative net issues of only R0.5 billion in the first eight months of 2022, while public corporations recorded cumulative net issues of R1.6 billion. Together with the cumulative net issues of R3.5 billion by the private sector over the same period, the total amount of outstanding listed debt securities in issue on the Johannesburg Stock Exchange Limited increased to R4.6 trillion at the end of August 2022.

Notably, the value of equity capital raised in the domestic and international primary share markets by JSE-listed companies declined by 40% to R6.6 billion in the first eight months of 2022 compared with the corresponding period of 2021. Companies in the financial and industrial sectors contributed the most to the total value of equity capital raised during the period, at 50.4% and 20.6% respectively. Primary listed companies on the JSE accounted for 88.3% of equity capital raised thus far in 2022, with 63.0% raised through shares issued for cash and 34.7% through share incentive schemes.

Despite lower volumes traded, the combined value of turnover in the secondary share market of the five South African stock exchanges amounted to a similar R4.0 trillion in the first eight months of 2022 compared with the same period of 2021, along with heightened volatility in share prices. The combined market capitalisation of all shares listed on these exchanges declined from an all-time high of R23.2 trillion in January 2022 to R19.4 trillion in August as both the number of shares in issue and share prices decreased.

3. FISCAL POLICY

- **Katlego Mphahlele**

3.1. Introduction

It is proving to be a tug of war between economic growth and persistent load-shedding, and higher than expected consumer prices in South Africa. As the war between Russia and Ukraine still lingers, with several sanctions against Russia, it is almost like a domino effect of all the possible things that could go wrong going wrong. This has brought about uncertainty regarding South Africa's economic recovery post pandemic. As a result, social unrests are also beginning to be a part of the conversation.

3.2. Government revenue

Higher than expected revenue was collected, with moderate government expenditure, thereby improving the budget balance. Income tax payable by companies increased at a much faster pace than tax payable individuals. Company Income Tax (CIT) reflected a year-on-year increase of 13.8% in fiscal 2022/23. The increase was mainly driven by higher tax collections in the transportation, manufacturing, and finance sectors. These collections were able to offset the decrease in tax collections from the mining sector. Production in the mining sector plunged by a larger than expected 8% year on year in June 2022, a fifth consecutive plunge amid more acute loadshedding schedules as well as the prolonged strike in the gold mining sector. Revenue from Personal Income Tax (PIT) increased by 11.0% year on year, largely as a result of higher Pay As You Earn (PAYE) receipts. Taxes on goods and services amounting to 30.3% of total revenue collected, increased by 3.9% year on year, reflecting an increase in Net Value Added Tax (VAT) of 12.1%. Fuel levy saw a decline of 24.6% year-on-year due to the various temporary relief measures put in place to lessen the higher prices of fuel impact on consumers.

3.3. Government expenditure

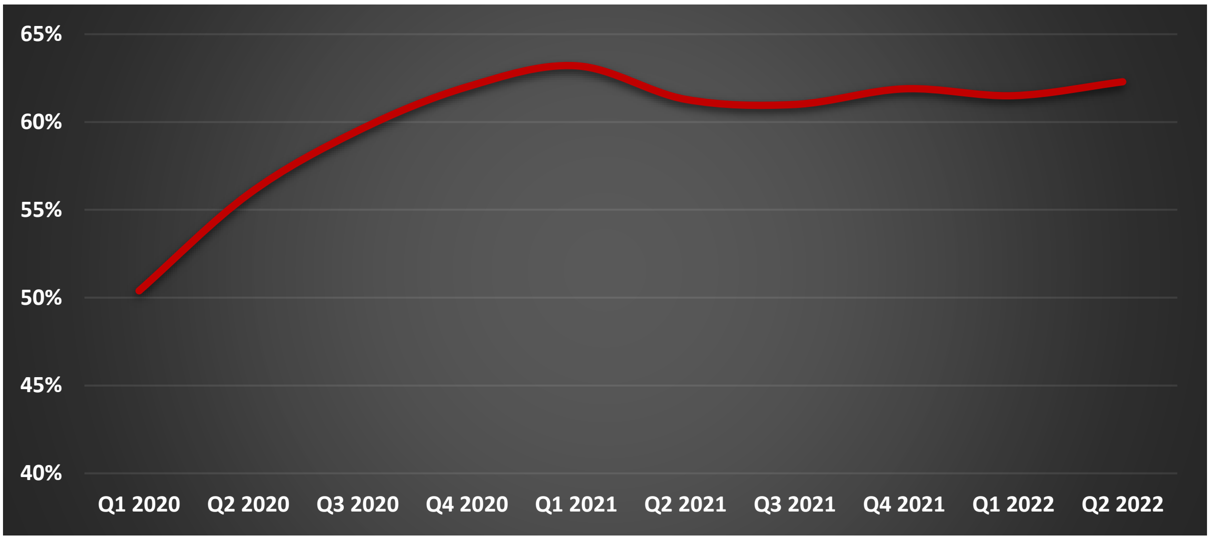
Expenditure pressures continue to use up the extra revenue made by the national government. It is forecasted that the National Treasury will allocate more funds towards the public sector wage bill, following negotiations with trade unions regarding salary increases. The consolidated wage bill could go as high as R20 billion for the 2022/23 fiscal year. Higher interest payments on national government debt continue to make the bulk of government spending.

3.4. National debt

The cost of damage to State Owned Enterprises (SOEs) such as Eskom, Transnet, Denel, and SAA have wasted the country's billions of rands. Eskom continues to burden the government with debt amid the government's plan to transfer R200 billion of Eskom debt to the sovereign balance sheet. It is argued that the transfer could help Eskom to return to private capital markets to keep up with operational expenditures. The mismanagement of state funds continues to weigh heavily on debt levels in the country.

The figure below illustrates the performance of the total domestic debt as a percentage of GDP.

Figure 1: total domestic debt as a share of GDP



Source: SARB (2022)

It is projected that the National debt will continue to rise much higher than predicted, as the rate of interest for the debt repayment is increasing, currently at 4% more than the average rate paid by other developing countries. This is due to the country's declining confidence in government policy as well as the economic trajectory as echoed by different rating agencies. This could easily accelerate to a debt crisis, leaving South Africa in a debt trap.

3.5. Views on the Medium-Term Budget Policy Statement (MTBPS)

Reinstating the well-being of public finances is what is on the agenda, as stipulated in the 2022 MTBPS. Stabilising the country's debt is of priority and significant to achieving fiscal consolidation. These will allow the government to set about reconstructing and renewing real spending activity in crucial areas that aid the economy. The medium-term fiscal spending has been channelled towards decreasing the gross borrowing requirement as well as strengthening the capacity of state-owned enterprises such as Transnet, Denel and SANRAL by reducing the fiscal and economic risk they impose. Rooting out corruption also remains key to addressing the country's sluggish economic growth, and to do so, the government implemented prosecutorial agencies. Implementing these strategies will in the long run address South Africa's poor economic performance. By improving the country's economic growth rate, it will be feasible to tackle the high poverty and unemployment levels.

3.6. Fiscal Outlook

Positive scenario

The National treasury projects 2022 to be the year which the economy is expected to return to pre pandemic productivity levels. GDP is expected to grow at an average of 1.8% over the next three years. Tax collections significantly increased, and the government will utilise a portion of the revenue in efforts to stabilise debt.

Negative scenario

Government spending is expected to be on the rise over the next three years as the government plans to increase non-interest spending on social wage and job creation.

Worst case scenario

In the case that the level of debt spirals out of control, weak economic growth could continue, furthermore deteriorating the country's risk ratings, and running the risk of disinvestment as well as the emigration of skilled people.

3.7. Conclusion

The 2022 budget has highlighted the support of the poor and vulnerable South Africans, while also restoring the state of public finance and attaining a sustainable position. This will require thorough and well-planned reforms and reconstruction to the economy. Despite the country's longstanding high levels of unemployment and poverty, the government continues to push forward a miscellaneous strategy to obtain a stable fiscal position with the intend to build on investor and private sector confidence.

4. BUSINESS & FINANCE

- Zaziwe Maluleke

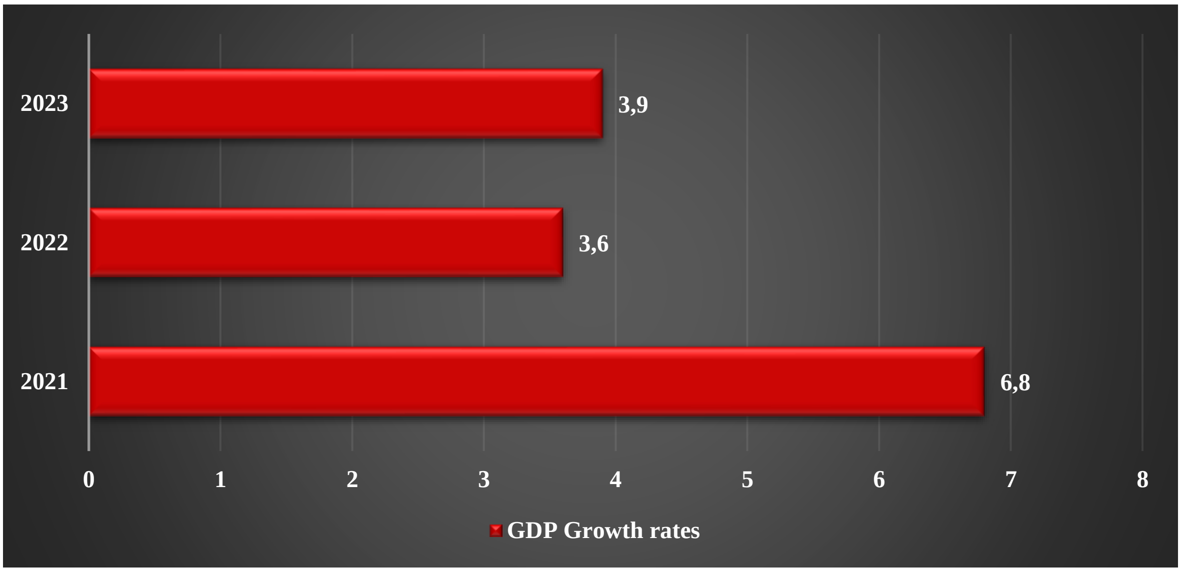
4.1. Introduction

The year 2022 was meant to be a year of easing economic recovery for the global economy, but Russia's invasion in Ukraine has set back the global economic recovery. This has seen oil prices hit over $120/barrel in 2022, shy of the $147/barrel post the '08/'09 crisis. Businesses in South Africa have been faced with numerous setbacks including the reality of living with load shedding indefinitely, high unemployment, high producer prices, and staggering economic growth. Liquidations have likewise risen to record highs as businesses face cash-flow problems.

4.2. An economic conundrum

According to the World Economic Outlook (2022), global output is expected to be lower due to inflation which will erode household purchasing power, and monetary policy tightening (IMF, 2022). South Africa will be no different with a projected growth rate of 2.3 per cent, which is below peer growth rates in emerging markets at 3.6 per cent (IMF, 2022). Low economic growth will affect how businesses perform. Businesses likely to be affected are small businesses in the primary and secondary sectors which employ most of the low to semi-skilled individuals. The tertiary sector is not exempt as businesses are led by innovation, technology, and high competition. This makes it difficult for new entrants and small businesses to keep up with the current trends.

Figure 2: Economic growth forecast in emerging markets

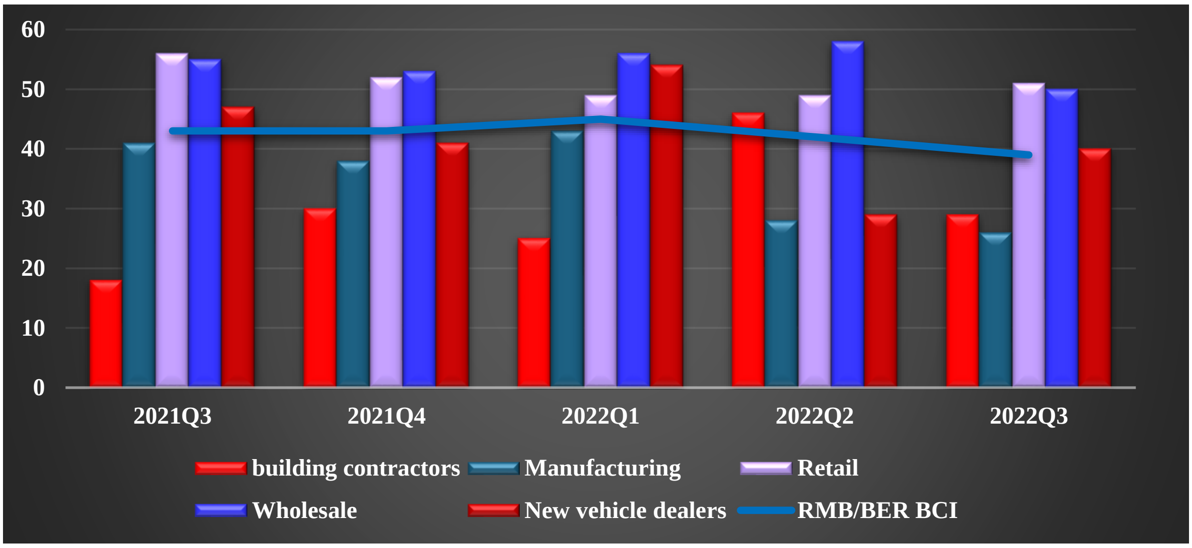


Source: International Monetary Fund (2022)

4.3. Weakening business sentiments

The business sentiment in 2022 has shown a downward trend since load-shedding worsened in the second quarter. Wholesale and retailers have been finding it difficult to keep the business confidence contained. The continuous monetary policy tightening has seen new vehicle dealers lose confidence due to the high cost of borrowing. Four out of five indicators have seen a decrease leading to a BCI of 39 for the third quarter of 2022 from 42 (see figure 3 below). New vehicle dealers recovered to 40, despite the high interest rate environment. Building contractors and manufacturing remain below 30 index points at 29 and 26 respectively. On the other hand, retail and wholesale are at 51 and 50 index points respectively. The demand is always higher on the wholesalers and retailers front due to the nature of the goods they provide.

Figure 3: RMB/BER BCI[1]



Source: BER, 2021

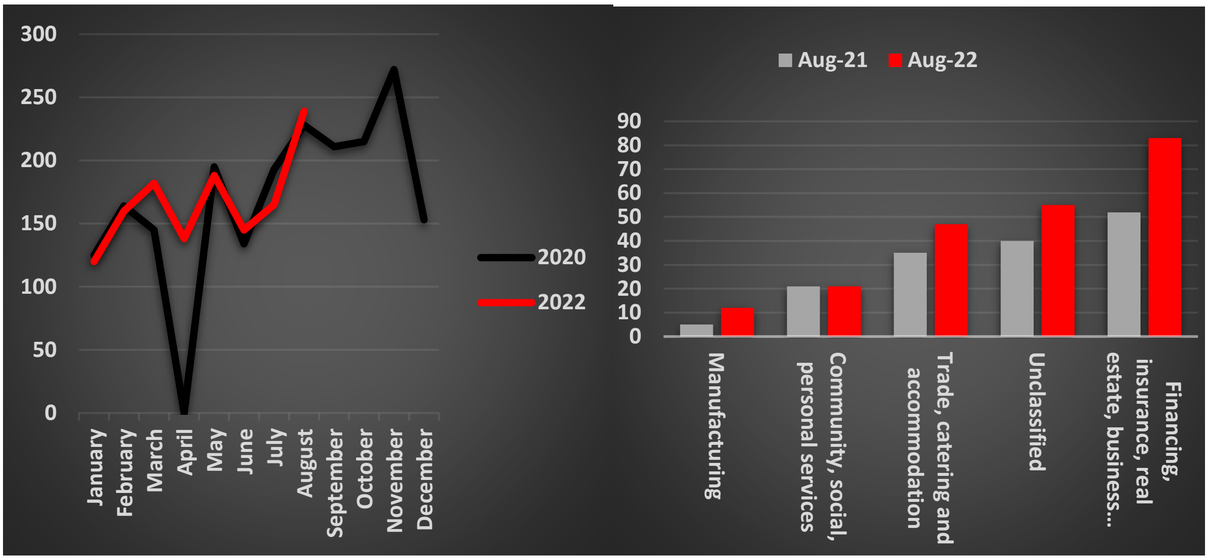
4.4. An exodus in the airline industry and liquidations by sector

The airline industry in South Africa has been struggling since the pandemic. This year saw SA Express, Comair and Kulula, cease operations indefinitely in South Africa following failed business rescue efforts. Mango has delayed its initial return to the skies in search for investors to assist the airline. This comes after South African Airways returned to the skies after undergoing the business rescue process. Fly Safair remains one of the strongest airlines dominating the South African airline market.

Liquidations have not only been seen in the airline industry, the two largest sectors in the economy namely financial services and trade, catering and accommodation have experienced the most liquidations. The sector employs most of the population and is highly competitive. In August, liquidations accelerated to 239 from 165 in July 2022 (see figure 4 below). These are levels last seen in the second half of 2020. The worsening load shedding, higher costs of operating, lower demand for goods, and the weakening rand continues to affect businesses. The manufacturing sector relies on the exchange rate as South Africa imports most raw materials. This has seen most manufacturing companies close down from 5 in 2021 to 12 in August 2022.

[1] An index less than 50 is said to indicate a loss of confidence, while an index more than 50 shows increased confidence

Figure 4: Total Liquidations by sector



Source: StatsSA (2022)

4.5. Forward-Looking Statements

Positive scenario – in the event that load-shedding comes to an end, businesses will operate without disruptions. This may lead to better-than-expected economic growth, a recovery in demand, and a decrease in unemployment.

Negative scenario –Continuous load-shedding will continue to affect businesses without back up power/ increase the cost of operating. There will be loss in revenue and lower than expected economic output.

Worst-case scenario – A total blackout, or higher stages (> stage 6) of power cuts. Businesses already affected by the effects of Covid-19 may close down, leading to further job losses and negative economic growth.

4.6. Conclusion

The economic climate is not favourable for most businesses to operate in, as reflected by the low business confidence. The economic outlook is bleak globally and domestically due to numerous setbacks. New entrants and existing businesses need to continue to be innovative to build resilient businesses that can still operate in the future. Fragile industries need to be avoided to prevent potential losses or be diversified with stable industries.

5. FINANCIAL MARKETS

- **Bekithemba Qeqe**

5.1. Introduction

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth was largely crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates much steeper on several occasions during the period. While acknowledging the “painful” consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands. South African markets were not spared, with growth prospects deteriorating amid rising prices, higher borrowing costs and the high frequency of electricity outages, all of which weighed on economic activity.

5.2. Bond Markets

South African bonds put in a marginally positive performance in the third quarter of 2022. The FTSE/JSE All Bond Index (ALBI) delivered 0.6% for the quarter, cushioned largely by its high yields on both an absolute and relative level. For the 12 months to 30 September, local bonds (ALBI) outperformed global bonds with a return of 1.5% versus -5.0%, in rand terms. Inflation-linked bonds (ILBs) produced -1.0% and cash returned 1.4% for the third quarter of the year [M&G, 2022]. The proportion of South African bonds owned by has fallen by non-residents stood at to 27.3%.3 on the last day of the third quarter of 2022, down by only 1.1% year on year.

5.3. Equity markets

Concerns regarding growth prospects in the third quarter were further exacerbated by the ongoing Russia-Ukraine war, the energy crisis in Europe, and China’s continuing economic slowdown resulting from tight Covid-related restrictions and a weak property market. The MSCI All Country World Index which shows equity performance across 23 developed countries fell by -6.8% during the third quarter of 2022, while the MSCI Emerging Markets Index was down by -11.6%. In South Africa, data from JSE shows that there has been net selling of local assets by non-resident investors this year, with equities experiencing more sustained outflows than bonds (SARB, 2022). All sectors of the equity market delivered negative returns for the third quarter. The FTSE/JSE All Share Index (ALSI) returned -1.9% . As shown in the table below, locally oriented sectors were weakest, with -4.2% from Financials and -4.1% from Listed Property (All Property Index), while globally oriented sectors delivered marginally better returns with -1.3% from Industrials and -2.1% from Resources (M&G, 2022).

TABLE 1: STOCK MARKET PERFORMANCE DURING THE THIRD QUARTER OF 2022

Asset class	Total return Q3 2022 (Rand and US$)
SA equity – FTSE/JSE All Share Index (Rand)	-1.9%
SA equity – FTSE/JSE Capped SWIX All Share (Rand)	-2.4%
SA listed property – FTSE/JSE All Property Index (Rand)	-4.1%
SA bonds – FTSE/JSE All Bond Index (Rand)	0.6%
SA inflation-linked bonds – FTSE/JSE Inflation-Linked Index (Rand)	-1.0%
SA cash - STeFI Composite Index (Rand)	1.3%
Global equity – MSCI All Country World (Total, US$ net)	-6.8%
Global equity – MSCI World (Developed) (US$ net)	-6.2%
Global equity – MSCI Emerging Markets (US$ net)	-11.6%
Global bonds – Bloomberg Global Agg Bond Index (US$ net)	-6.9%
Global property – FTSE EPRA/NAREIT Global REIT Index (US$ net)	-11.1%

Source: M&G Investments, Bloomberg, 30 September 2022

5.4. Currency movements

Amid higher global financial volatility and uncertainty regarding domestic growth prospects, the rand depreciated significantly against the US dollar, which reached multi-decade highs versus other global currencies like sterling and the euro. The rand lost 9.7% versus the greenback, 2.8% against the euro and 0.9% against the pound sterling over the quarter [M&G, 2022]. The rand closed around R17,89 against the US dollar on 30 September 2022 while closing at R20.07 and R17.60 against the British pound and the Euro respectively.

5.5. Commodities

Commodity prices fell sharply in the third quarter amid growing fears of a global recession, surging US dollar and rising interest rates weighed heavily on energy commodities and traditional safe havens like precious metals. The price of brent crude oil went down by more than 20% in the third quarter with the price of the global oil benchmark closing around $87 per barrel on 30 September 2022, from over $110 per barrel in the second quarter. The fall in oil prices during the quarter fell as concerns about future oil demand began to offset geopolitically based concerns about supply. The prices of Gold on the other hand were negatively affected by a surging dollar, rapidly rising real yields and fading market-based inflation expectations amongst other things. The gold price index was down by around 8.6% in the third quarter with the price of gold averaging $1726 per troy ounce in the third quarter as opposed to the $1 874 observed during the second quarter. The prices of platinum averaged $886 per troy ounce in the third quarter, down from $960 in the second quarter while the prices of silver averaged $19.2 per troy ounce in the third quarter, down from $22.7 in the second quarter.

6. WORLD ECONOMY

- **Chwayita Mkrola**

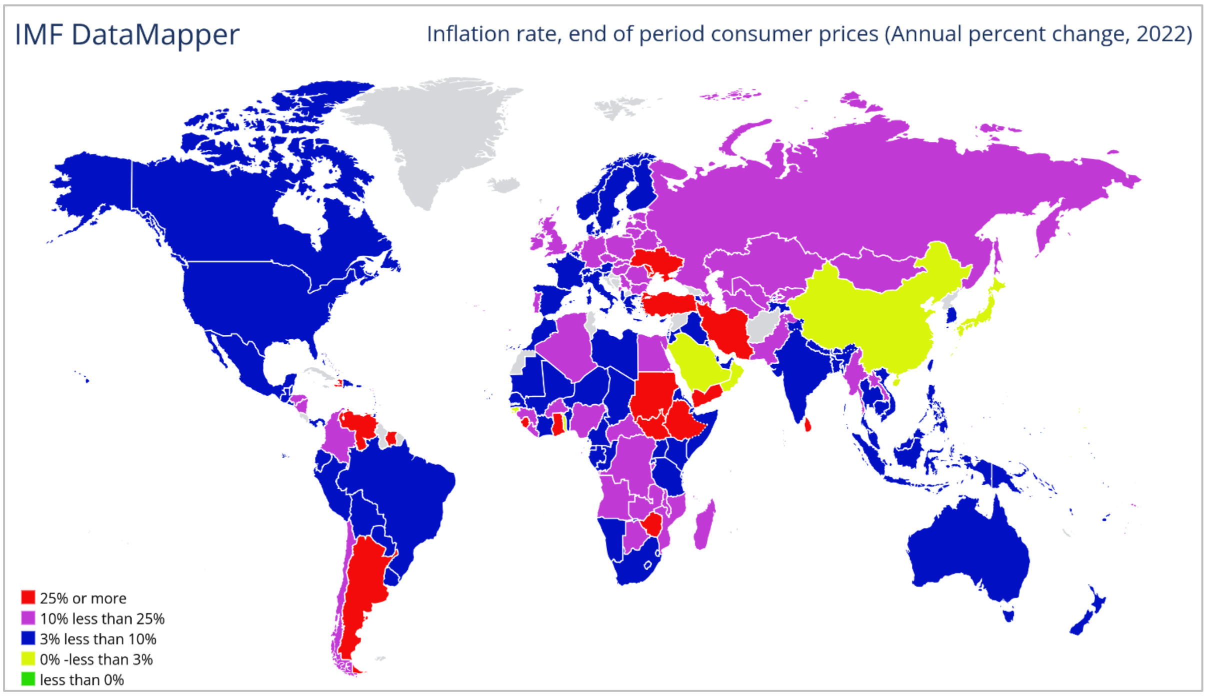
6.1. Introduction

The rising cost of living and global supply chain constraints continue to weigh heavily on the economy. The pressure to avoid a recession and protect livelihoods mounts amid the prolonged covid19 pandemic, climate change, and the cross-border effects of geopolitical tensions. This pressure to restore the economy comes right after countries have exhausted their financial resources in response to the economic and social costs of covid19. Green economy, global trade and cooperation, and local capacity may pilot the economy to soft landing.

6.2. Rising cost of living

The IMF projects world inflation to rise from 4.7 percent in 2021 to 8.8 percent in 2022, from 3.1 to 7.2 percent in advanced economies, and from 5.9 percent to 9.9 percent in emerging markets (1). A combination of factors contributing to inflation include disrupted supply chains amid China's Zero covid19 policy and the Ukraine-Russia war, surging energy prices directly and indirectly effecting cost of final goods, surge in household demand amid 2021 economic recovery, and ecological risk factors reducing availability of food through reduced productivity of agrarian sector- for example, heatwaves and water stresses in parts of Europe significantly reduced European Union's agricultural output for summer 2022 (3). The following figure maps inflation rate across countries for the year 2022.

Figure 5: Inflation 2022, across countries



Source: World Economic Outlook (October 2022)

As seen on the map most countries are above 10 percent while, other countries have inflation below and above world average. Economies with double digit inflation increased from 23 in June 2021, representing 0.9 billion people, to 69 in June 2022, representing 2.1 billion people

(3). Countries with highest inflation include Venezuela, Argentina, Turkey, and Zimbabwe. On the other hand, China, Japan, Oman, Togo, Guinea-Bissau have inflation around 4 percent below world average. Figure 6. below zooms in on inflation trends from 2018 to 2022 and shows that cost of living in some economies were high even before the current shocks.

Figure 6: Inflation rate (%) in selected countries

Year	2018	2019	2020	2021	2022
World	3,6	3,5	3,2	4,7	8,8
Russian Federation	2,9	4,5	3,4	6,7	13,8
Ukraine	10,9	7,9	2,7	9,4	20,6
Selected high inflation countries:					
Venezuela	65374,1	19906	2355,1	1588,5	210
Zimbabwe	10,6	255,3	557,2	98,5	284,9
Argentina	34,3	53,5	42	48,4	72,4
Turkey	20,3	11,.8	14.6	36,1	73.5
Selected low inflation countries:					
China, People's Republic of	2,1	2,9	2,4	0,9	2,2
Japan	1	0,5	0	-0,2	2
Oman	0,9	0,1	-0,9	1,5	3,1
Togo	2	-0,3	3,5	6,2	1.3
Guinea-Bissau	2,4	-0,1	1,5	5,8	1

Source: International Monetary Fund (2022)

As shown, countries currently at war, Ukraine, and Russia, have above world average inflation of 20.6 and 13.8 respectively. All selected high inflation countries show double digit inflation throughout the period under review. Signalling domestic inflationary pressures predating Covid19 and Ukraine-Russia war. For the low inflation countries, China, Japan, and Oman showed below world average inflation through the period under review although a surge is seen in year 2022. Deflationary pressures include reduced demand as lockdowns continue in for China (4); slow economic reopening following pandemic, state price controls, and negative interest rates for Japan (5), and government caped food and energy prices in Oman, and as higher increasing government revenue from oil (6).

For Guinea-Bissau inflation peaked to 1.5 and 5.8 percent in 2020 and 2021 following Covid19 impact on food and fuel prices (7), inflation rose in 2020 and 2021 during the covid19 pandemic but dropped significantly in 2022. Similarly, Togo saw inflation drop in 2022 following a covid19 related rise in 2020 and 202.

Contrary to global economy, Venezuela creeped out of hyperinflation as prices dropped throughout the period under review. Venezuela saw inflation plummet in the wake of softening domestic inflationary. For example, dominance of US dollar (4), move to jettison of price and currency controls and slowing pace of printing money may have contributed to hyperinflation control (5).

6.3. World growth

While inflation is on the rise, global growth is expected to moderate following a surge in energy prices, slowing global demand, and rising interest rates among other factors (3). The following figure shows the IMF and UNCTAD growth projections for the year 2022 and 2023.

Figure 7: global growth projections

Economy:	2019	2020	2021	2022	2023
Output					
World *	2,6	-3,4	5,8	2,5	2,2
World**			6	3,2	2,7
Africa*	2,8	-2,6	5,1	2,7	2,4
America*	1,8	-4,3	5,8	2,1	1
Asia (excl. Cyprus)*	3,7	-1,1	6,2	3,5	4,1
Europe (incl. Cyprus)*	1,8	-5,9	5,5	1,2	0,5
Oceania**	2,1	-2,2	4,8	3,6	2,1
Advanced economies**			5,2	2,4	1,1
Emerging Market & Developing Economies**			6,6	3,7	3,7

Sources: UNCTAD; IMF***

As shown in the figure, IMF and UNCTAD expect slow down as per projected growth of below 3 percent for the year 2022 and 2023. The 2021 economic recovery is dampened by downturn in China amid zero covid policy and in Russia following sanctions over war in Ukraine (1).

6.4. Conclusion

High inflation driven by food and energy prices takes a toll on household's disposable income and threatens global food security. Oil prices may continue pushing inflation for prolonged period as Organisation of Petroleum Exporting Countries (OPEC) plan to cut all supply and reduce oil production by two million barrels per day (10). On the upside, Europe turns to Africa as an alternative for Russia's gas (11) and United States easing sanctions on Venezuela to export Venezuela oil (12) may reduce of energy fuelled inflation and redeem energy hit manufacturing. World economic outlook proves vulnerability of domestic economy to global shocks, highlights weakened global relations, and prompts the need for economies to promote green and domestic economy. Failure of which remains a threat to livelihoods and the environment.

7. FEATURED ARTICLE

Do Energy Prices drive Inflation in South Africa? An unrestricted VAR Approach

By: *Marius Masoga, Thabang Kumalo, Bekithemba Qeqe, & Baneng Naape (2022)*

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7.1. Background

Energy prices are a vital instrument in determining inflation and are one of the most salient costs for households and businesses. A question remains as to whether the recent energy price movements are permanent or transitory. The price movements can be expected to have bigger implications for growth and inflation given that higher energy prices might have an effect on supply chains, profit margins and the likelihood for pass through to consumer prices and the wage bargaining process. Given the current situation, there is a strong need for the transition from fossil fuels to renewable energy sources such as solar, hydro and wind energy. Nuclear energy has likewise yielded positive returns in countries that have invested in it, although it requires huge capital injections and technical know-how.

This featured study was aimed at investigating the effects of energy prices on inflation in South Africa. The significance of the study lies in its relevance to the current economic status quo in South Africa. The cost of living in South Africa is undoubtedly skyrocketing. For example, in recent months, energy prices have accelerated markedly and placed upward pressure on inflation. According to StatsSA (2021), petrol prices were increased by 40.5% in December 2021 as compared to 2020. The price of petrol for the first time in history has hit the R20 bar, as the price of inland 95-octane petrol raised to R20.29 per litre in December 2021. Oil prices have also been on the rise, while the South African rand against the US dollar has been relatively stable. Electricity tariffs are no exception. In the past 13 years, electricity prices increased by 307%, surpassing inflation. A major concern for policy makers worldwide is the rising energy prices and subsequent high inflation rates which erode economic growth and domestic investment.

7.2. Empirical strategy and findings

The study followed a quantitative research approach by making use of modern econometric techniques. Secondary time-series data was collected from reliable databases including the Department of Energy and Mineral Resources, St Louis Federal Reserve and World Development Indicators.

The findings revealed that petrol prices, electricity prices and money supply have a positive effect on the inflation rate. The rationale is that an increase in the basic petrol price raises the fuel pump price and ultimately, transport costs. Transports costs are factored into the cost of production and thus, increases in the price of fuel will presumably result in an increase in the total cost of production. The same rationale applies to increases in electricity tariffs. Electricity forms a significant operational cost in most, if not all, industries. Thus, increases in electricity tariffs place upward pressure on production costs. This translates into increases in food prices. The combination of food and transport inflation leads to the rise in prices in general and consequently, headline inflation. In contrast, the exchange rate and interest rates were found to have a negative effect on inflation. This is because, central banks make use of interest rates to curb inflation in the economy. When interest rates rise, the cost of borrowing increases, thus inducing debtors to make less use of credit facilities in fear of incurring higher interest charges. This results in less money circulation and credit purchases.

The appreciation of the exchange rate likewise negatively influences the domestic inflation rate. The reasoning is that, when the exchange rate increases, the exporting country becomes less competitive in the global market, holding other factors constant. As such, the quantity of goods and services demanded by foreign consumers decreases due to relatively higher prices as a result of the appreciation of the exchange rate. Given that energy prices place upward pressure on inflation, the study recommends a review of the current fuel and electricity tariff structure to provide the much-needed relief to households and businesses.

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