South Africa Economic Outlook

Updated macro scenarios for 2022-2023

30 June 2022

About this document

This document reports on PwC South Africa's core macroeconomic forecasts for the country. 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 the South Africa Economic Outlook focusses on a review of our core macroeconomic scenarios. It is halfway through 2022 and an opportune time to relook forecasts for this year and 2023. The key focus areas are:

- Exchange rate: Geopolitics in Europe will continue to play a key role in the rand's valuation (page 3).
- Consumer price inflation: Two-month extension of fuel tax relief increases total benefit to R14bn (page 4).
- Interest rates: SARB MPC to revert to 25bps rate hikes after July (page 5).
- Economic growth: Level of output in the economy is back to pre-COVID-19 levels (page 6).
- Economic growth: Progress on structural reforms impact GDP scenarios (page 7).
- Employment: Positive jobs outlook this year following many resignations in 2021 (page 8).

We also look at some featured PwC research about South African organisations' need to respond to Environmental, Social and Governance (ESG) challenges (page 9).

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, including economic scenario planning and ESG strategy, see the last page of this document.

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Exchange rate: Geopolitics in Europe will continue to play a key role in the rand's valuation.

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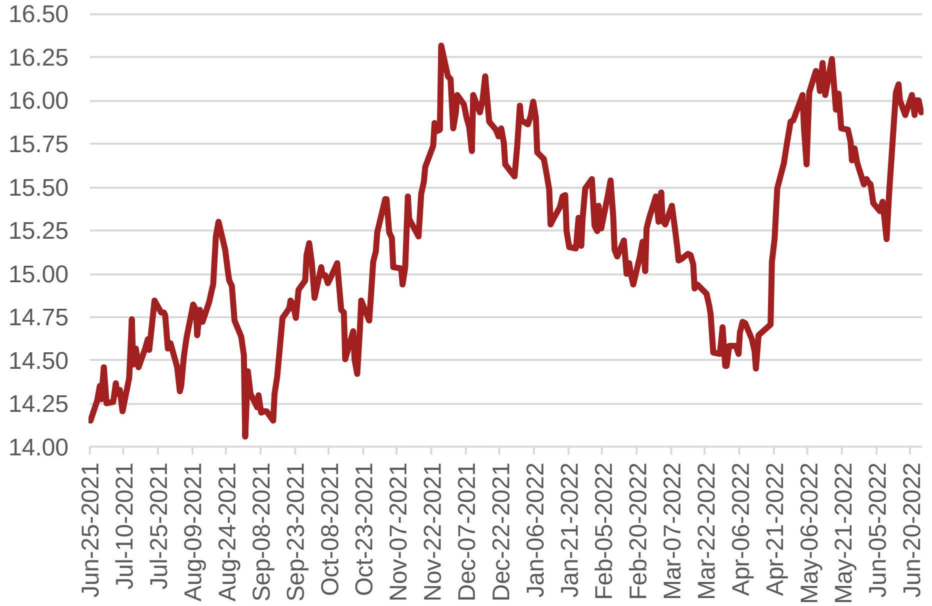
Military advances and economic sanctions will impact global financial markets and currencies.

The rand traded broadly stronger during the first quarter of the year, appreciating from R16.00/$ at the start of the year to R14.40/$ at the end of March. The rand was supported by several factors, including 1) reduced travel bans and easing lockdown restrictions, 2) a strong global growth outlook before the Russian invasion of Ukraine, and 3) higher commodity prices following the supply chain disruptions caused by the invasion.

Figure 1: Rand-dollar exchange rate (R/$)



Source: SARB

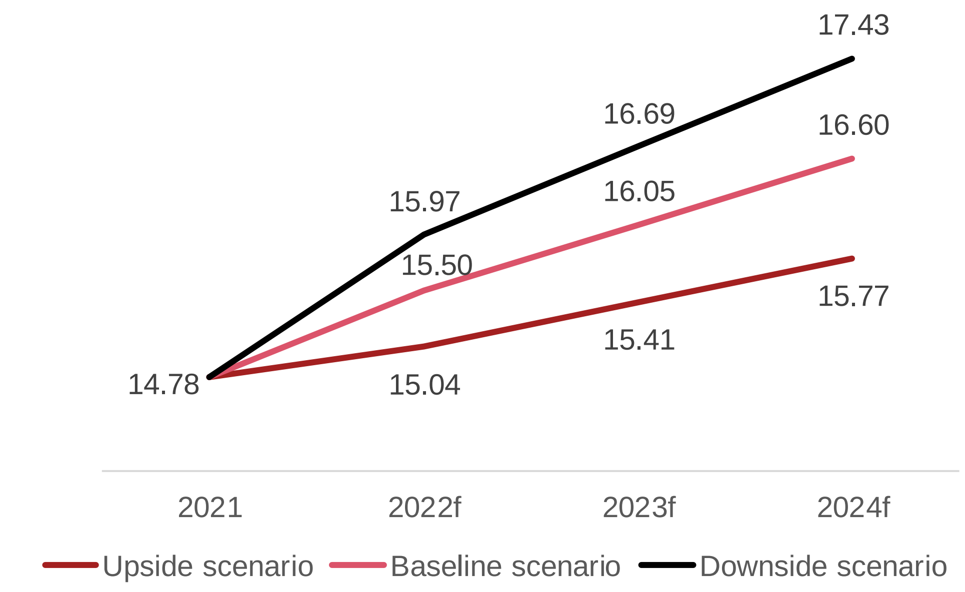
The rand traded weaker during the second quarter, depreciating at times to above R16.00/$ in May and June. The rand was pressured by several factors, including 1) risk-off sentiment due to the fallout from the Ukraine situation, 2) a sharp rise in US interest rates supporting the dollar, and 3) domestic economic challenges like load-shedding and flooding in KwaZulu-Natal.

The key international factor currently driving global financial markets is the fallout from the Russian invasion of Ukraine. The two countries are significant players in the world food and energy markets, accounting for 70% of global sunflower exports, a third of potassic fertiliser exports, a quarter of wheat exports, and 12% of crude oil shipments. Ukraine — home to a quarter of the world's super-fertile chernozem (black) soil — exports enough food annually to feed 400 million people. Unsurprisingly, commodity prices have spiked in recent months. The S&P GSCI Commodity Index (consisting of 24 commodities across energy products, industrial metals, agricultural products, livestock and precious metals) is currently 65% higher in rand terms compared to a year ago.

As such, the outlook on the disruption in Central and Eastern Europe is key to the outlook on financial markets and the rand. Under our baseline scenario (50% probability), European Union (EU) and North Atlantic Treaty Organisation (NATO) countries are not directly drawn into the conflict. However, they continue to provide indirect military assistance to Ukraine, i.e. defensive weapons and ammunition, intelligence and other forms of military aid. Current sanctions imposed on Russia remain in place and no further significant sanctions are imposed. From a military perspective, the Russian military advance largely stalls, and a possible stalemate sees the conflict continuing for some time. Under this scenario, as the associated impacts on global markets, we expect the rand to average R15.50/$ this year and R16.05/$ in 2023.

Our downside scenario (the second most likely scenario with a 30% probability) contains the same outlook for EU and NATO involvement: member countries are not directly drawn into the conflict but continue to provide indirect military assistance to Ukraine. However, from a military perspective, the Russian military. advance continues from the current situation in the east of Ukraine. In response, Russia is ejected from the World Trade Organisation (WTO) and all the country's banks are cut off from the SWIFT global payments messaging network. The US and EU stop importing the vast majority of Russian natural gas and some of this demand is replenished by supplies from Saudi Arabia, the US, Qatar, and Azerbaijan. Overall, this is a deteriorated situation from the present and promises to disrupt global commodity markets with greater intensity over a longer period. It is possible that the oil price — which in early-June touched $130/barrel — increases to $150/barrel. Under this scenario, and the associated impacts on global financial markets, we expect the rand to average R15.97/$ this year and R16.69/$ in 2023.

Figure 2: Rand-dollar exchange rate (R/$) scenarios



Source: PwC

Our upside scenario (least likely, with a 20% probability) assumes a diplomatic resolution that significantly reduces military conflict in Ukraine and allows resumption of a meaningful volume of the country's soft commodity exports. Under this scenario, as the associated positive impacts on global markets, we expect the rand to average R15.04/$ this year and R15.41/$ in 2023.

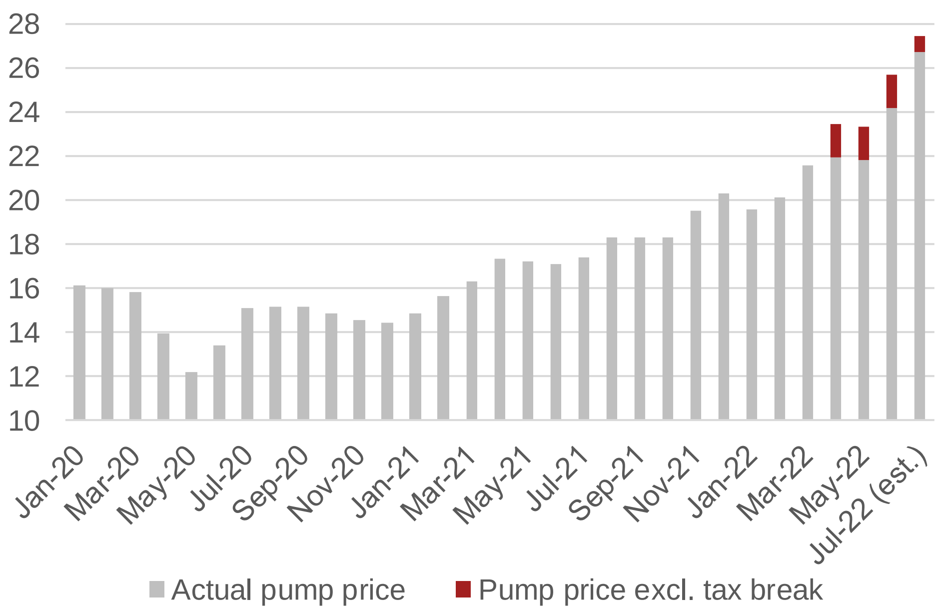
Consumer price inflation: Two-month extension of fuel tax relief increases total benefit to R14bn.

Fuel prices were 32.8% y-o-y higher in the past six months due to higher international product prices and a weaker rand.

Headline inflation was most recently measured at a five-and-a-half-year high of 6.5% y-o-y in May. In 2022 so far, inflation averaged 5.9%, which was at the top end of the central bank's 3%-6% target range. The key drivers of this elevated inflation has been a substantial increase in the cost of food (+7.8% y-o-y in May) and fuel (+32.5% y-o-y) due to a myriad of domestic and international factors. (We have covered these issues at some length in the March, April and May 2022 editions of this report.) Food inflation averaged 6.6% y-o-y over the past six months due to significant pressure on the cost of staples like oils and fats (including sunflower products) and meat products. Fuel prices were on average 32.8% y-o-y higher in the past six months due to higher international product prices as well as a weaker and — and despite tax relief provided by the National Treasury.

The National Treasury and the Department of Mineral Resources and Energy (DMRE) were able to extend April and May's R1.50/litre tax break on fuel prices into June. A third month of reprieve avoided a near R4/litre increase in the petrol price on June 1. The price increased by 'only' R2.43/litre: around 60% of this was due to higher international prices with the remainder attributed to a weaker exchange rate (on average) during May. The tax relief will be phased out from next month, declining to R0.75/litre in July before expiring in August. We expect the petrol price to increase by around R2.50/litre on July 6 — comprising a R1.75/litre under-recovery in June and the R0.75/litre tax break rollback — to nearly R27/litre in Gauteng. On a positive note, the April-July fuel price reprieve, combined with no annual change to the general fuel levy and Road Accident Fund (RAF) levy for the current fiscal year, will provide up to R14bn in tax relief to South Africans in the 2022/23 fiscal year. That is nearly 1% of planned total tax revenue.

Figure 3: Gauteng 95 octane petrol price (R/litre)

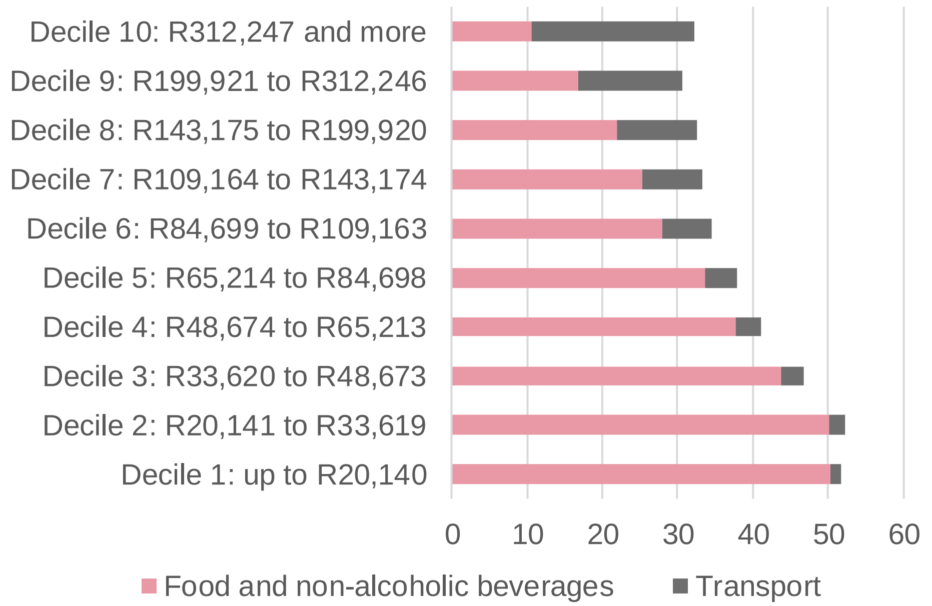


Sources: Central Energy Fund (CEF), PwC

At the upper end of the income spectrum, households spend around 30% of their budget on food and transport, rising to more than 50% in low-income families. During times of elevated food and energy inflation (as seen at present), spending substitution needs to take place in order to allocate a larger proportion of the budget to food, transport and electricity. In other words, low-income households will need to sacrifice spending on, for example, healthcare or clothing, to afford more expensive food and energy products.

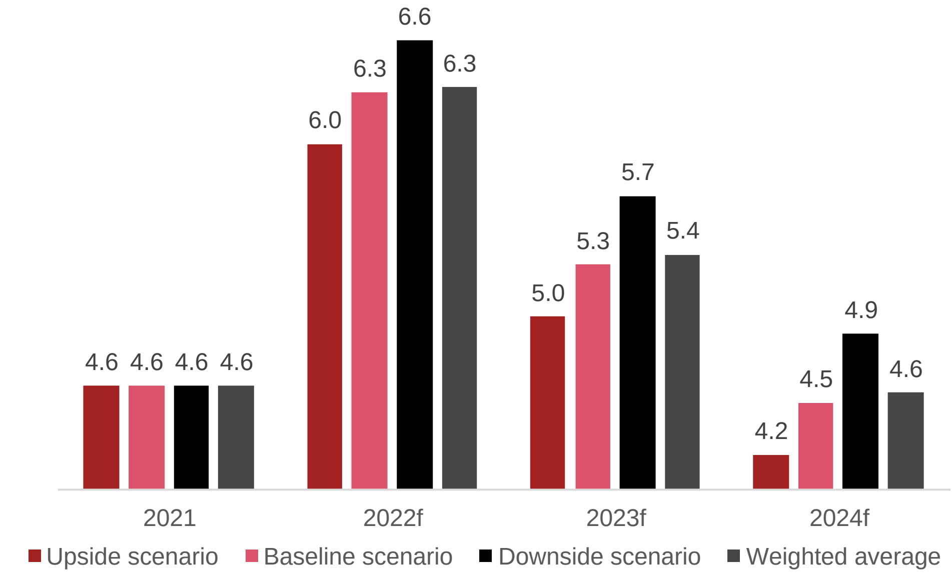
Our baseline scenario assumes that inflation peaks in the second quarter and moderates to 5.7% y-o-y by the end of this year and 5.0% y-o-y by the close of 2023, With this trajectory in mind, we expect inflation to average 6.3% this year and 5.3% in 2023. If the narrative in our exchange rate downside scenario materialises, this would keep inflation somewhat more elevated, averaging 6.6% this year and 5.7% in 2023. The downside scenario would see pressure on food and energy prices continue for longer, though with some mitigating impact from an acceleration in monetary policy normalisation.

Figure 4: Food and transport spending as percentage of household budget by annual expenditure group



Source: Stats SA

Figure 5: Average consumer price inflation (%) scenarios



Source: PwC

Interest rates: SARB Monetary Policy Committee (MPC) to revert to 25bps rate hikes after July.

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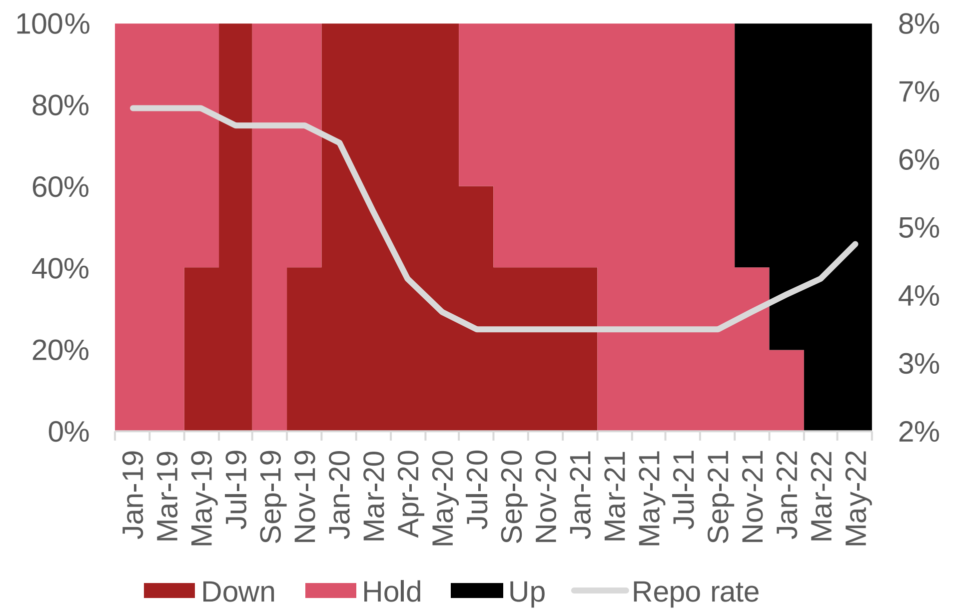
Another 50bps rate hike is anticipated in July following higher-than-expected inflation data released in June.

At their latest meeting in May, members of the SARB Monetary Policy Committee (MPC) were unanimous in their decision to continue raising interest rates. With four out of the five committee members in favour of a 50 basis points (bps) increase in the repo rate, the SARB made its largest upward adjustment in lending rates in six years. Since 2016, rate hikes have never been larger than 25bps.

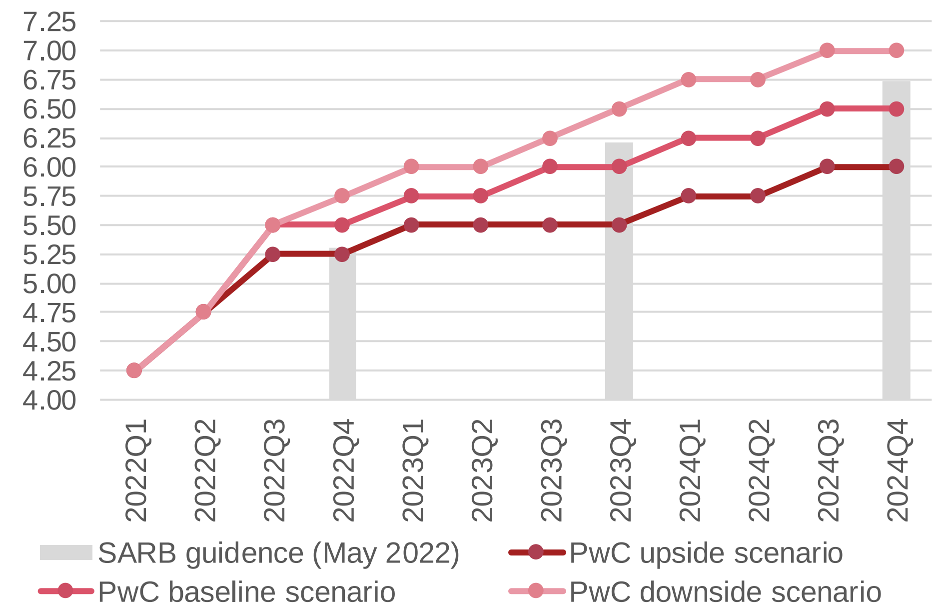
Figure 6: SARB MPC vote split and interest rate changes



Sources: SARB

SARB Governor Lesetja Kganyago noted in May that the central bank expected inflation to breach the upper limit of the 3%-6% target range during 2022Q2. This happened with the May inflation reading (published in June) jumping to 6.5% y-o-y compared to expectations of 6.1% y-o-y. Furthermore, risks to the inflation outlook were assessed to the upside, with the SARB suggesting that recent higher-than-expected global inflation numbers could continue to surprise above projections in the months ahead. With this in mind, the SARB expects inflation to return to the favoured middle of the target range (4.50%) by late-2024 only. As such, policymakers are not diverting from their previously stated goal of returning the repo rate to its pre-pandemic level of 6.50%. SARB guidance still suggests that this would happen by the end of 2024 though we estimate it would happen in the first half of the year.

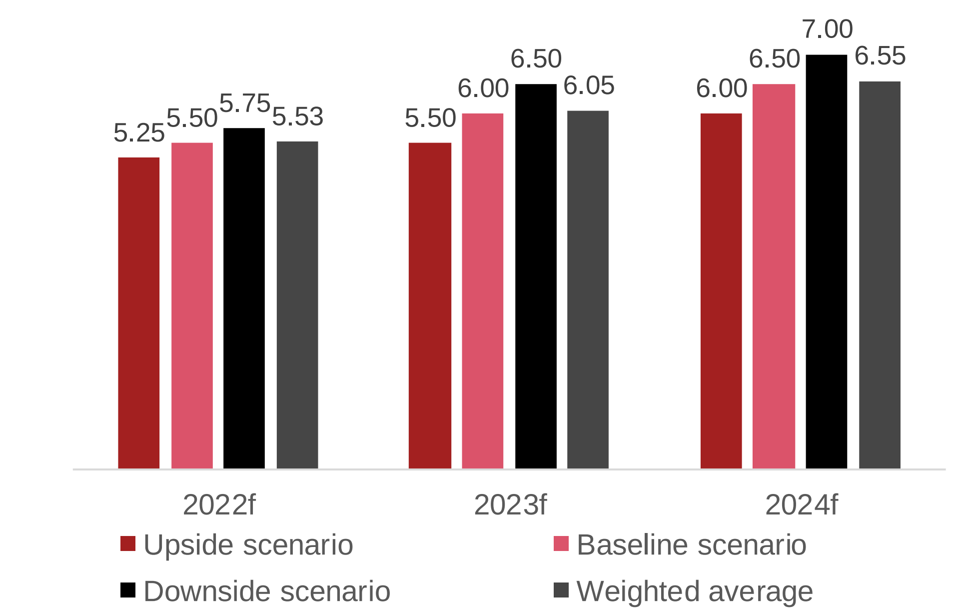
Figure 7: End-of-quarter repo rate (%) scenarios



Sources: PwC, SARB

We previously expected the SARB to lift interest rates by another 25bps when policymakers meet next during July. However, following the high inflation reading in May and expectations of a further rise in this reading during June, we now expect the MPC to again lift the repo rate by 50bps at its meeting next month. This baseline view includes a further 25bps increase in September and that the central bank will stick to this margin going forward. This would take the repo rate to 5.50% by year-end. If, as the governor fears, inflation readings continue to surprise on the upside over the coming months, the MPC could increase the repo rate by another 100bps during the remainder of 2022 under our downside scenario. Here, we make room for a 50bps increase in July and a 25bps adjustment in September and November. This will be followed by between one and three increases of 25bps each during 2023, depending on the scenario.

Figure 8: Year-end repo rate (%) scenarios



Source: PwC

Economic growth: Level of output in the economy is back to pre-COVID-19 levels.

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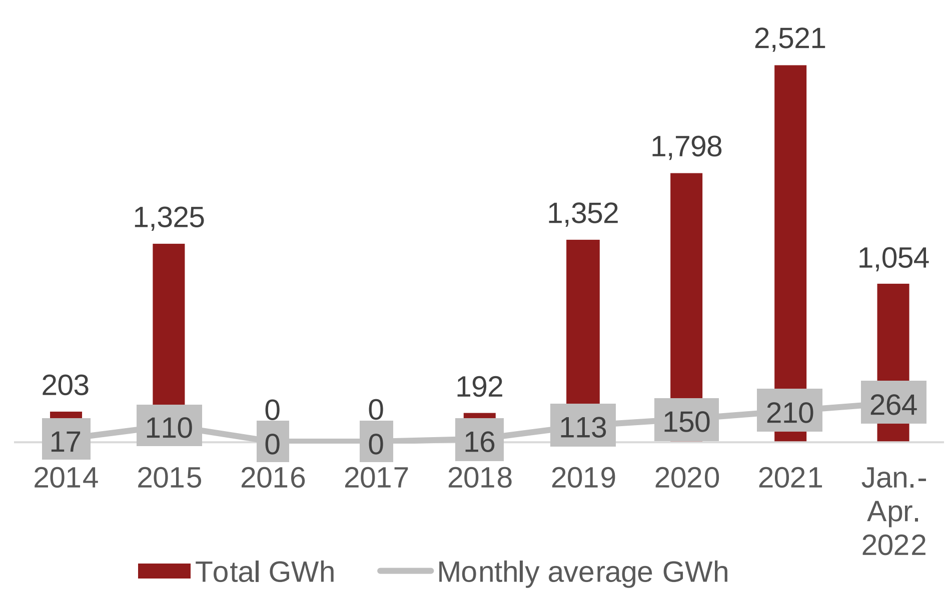
Public and private services sectors were the first industries to return to pre-pandemic levels.

South Africa's GDP contracted by 6.4% in the pandemic-hit 2020 and recorded a bounce-back growth rate of 4.9% in 2021 as the world emerged from lockdowns. The size of the 2020 recession could have been smaller if it was not also for the adverse impact of electricity load-shedding; we estimate that the decline in GDP could have been closer to 3.5% in the absence of power blackouts. A smaller recession would have moderated the size of the 2021 bounce-back in GDP due to smaller base effects, though we are of the view that the economy could have grown by another three percentage points in 2021 in the absence of load-shedding. Eskom shed 1,054 gigawatt hours (GWh) during January-April 2022. This started the year off with a 25% increase in average load-shedding intensity per month.

Figure 9: Electricity load-shedding (GWh)



Sources: CSIR, PwC

Strategy&

On a positive note, despite the continued rise in load-shedding, economic activity increased at a healthy pace during the first quarter. Stats SA reported in early June that real GDP increased by 1.9% q-o-q (on a seasonally adjusted and annualised basis) compared to expectations of about 1.2% q-o-q. All of the ten major industries except for mining recorded q-o-q growth, with manufacturing contributing 0.6 percentage points to the overall growth number. The volume of goods produced in South African factories increased by 4.7% q-o-q during 2022Q1 with the Absa Purchasing Managers' Index (PMI) March 2022 report reflecting improvements in new sales orders (and, in turn, business activity) as export orders remained positive and local demand benefitted from the recovery in the tourism and hospitality sector. The better-than-expected q-o-q growth during 2022Q1 resulted in the economy increasing by 3.0% y-o-y, which was also notably higher than a reading of around 1.8% y-o-y expected by economists.

The good news is that the GDP growth seen in 2022Q1 returned the economy to its pre-pandemic size. The accompanying table reflects industry-level indices tracking the size of the ten main sectors across quarters compared to a pre-COVID-19 benchmark in 2019Q4. To be sure, there are still many industries lagging behind the overall recovery. Due to the combined size of the finance, real estate and business services sectors, as well as the robustness of general government services against business cycle volatility, these services sectors have driven the recovery in total GDP. Meanwhile, construction is lagging far behind due to weak levels of investment spending. Real gross fixed capital formation fell by 14.6% in 2020 and only increased by a marginal 0.2% last year. As such, the 3.9% y-o-y increase in 2022Q1 was not enough to bring a real recovery to the building sector.

Table 1: GDP indices (base = 2019Q4)

	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1
Agriculture, forestry and fishing	100.0	110.4	106.3	106.8	114.4	121.3	135.0	101.7	118.4	119.3
Mining and quarrying	100.0	95.5	65.9	95.7	94.4	98.3	100.3	99.1	95.9	94.9
Manufacturing	100.0	98.7	67.6	92.0	97.1	97.5	95.8	91.6	93.8	98.4
Electricity, gas and water	100.0	99.4	87.2	98.3	98.8	98.2	98.8	99.1	96.0	97.9
Construction	100.0	97.4	70.7	81.1	83.0	83.2	81.8	81.0	78.9	78.3
Trade, catering and accommodation	100.0	98.6	71.9	90.8	92.1	93.0	96.0	91.7	95.3	98.2
Transport, storage and communication	100.0	97.4	75.2	85.2	89.1	86.5	92.3	90.8	93.4	95.1
Finance, real estate and business services	100.0	102.6	91.7	97.7	100.4	101.4	100.8	102.0	101.3	103.0
General government services	100.0	100.3	100.0	100.3	100.6	100.8	100.3	100.6	100.2	101.6
Personal services	100.0	100.3	93.5	97.8	99.3	100.3	103.0	103.4	105.9	107.1
Total economy	100.0	100.0	82.9	94.3	96.9	97.7	99.0	97.2	98.6	100.5

Sources: PwC calculations based on Stats SA data

Economic growth: Progress on structural reforms impact our GDP scenarios.

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Despite progress on some structural reforms, the electricity supply situation has shown no improvement.

We have often emphasised that the South African economy needs structural reforms to place it on a higher GDP growth trajectory. There has never been a more important time to change South Africa's economic narrative through the necessary reforms. The top priority for the country is solving the electricity supply crisis. However, there are many other issues to address in support of different industries and sectors of society. In this regard, it is encouraging to note progress in the goals set out by Operation Vulindlela — the joint initiative of the presidency and National Treasury established in October 2020 to accelerate the implementation of structural reforms. The initiative's 2022Q1 status report indicates that eight goals have been completed, 11 are on track or underway, five are experiencing some challenges or delays to implementation, while a further two are facing critical challenges to implementation.

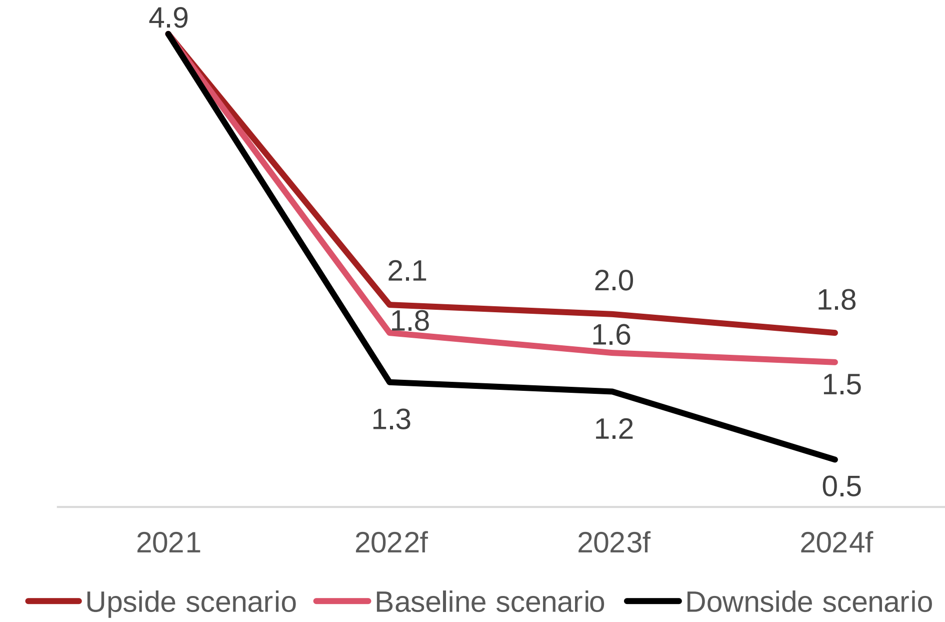
Five key successes under the programme during 2022Q1:

- Electricity Regulation Amendment Bill published — opens the door for a more liberalised and competitive electricity supply market.
- White Paper on National Rail Policy finalised to guide reforms in the rail sector — this makes room for greater private sector involvement in rail services.
- Revised Critical Skills List published for the first time since 2014 — skilled foreign nationals are eligible to apply for critical skills work visas under this new regime.
- e-Visa system launched and fully operational — this makes it easier for visitors to enter from 14 countries, including China (South Africa's primary trading partner), India, Kenya and Nigeria (the continent's largest economy):
- Spectrum auction completed — this could reduce data costs, increase broadband speed and quality and expand network reach across the country.

Nevertheless, there is still a lot of work to do to finalise key reforms. The two goals facing critical challenges to implementation are linked to improving the electricity situation: 1) improving the Energy Availability Factor (EAF) to over 70%, and 2) implementing the emergency procurement of 2,000MW of generating capacity. Addressing institutional inefficiencies in municipal electricity distribution is also experiencing some challenges/delays in implementation. Our baseline scenario assumes that little progress will be made on these three factors. While power purchase agreements for three projects with a capacity of 150MW were signed in early-June, this power will only start to materialise in 2024. At the same time, Eskom's EAF dropped to 61.2% in the third week of June, with three-quarters of outages due to unplanned breakdowns. The low EAF and unreliable supply of power is the primary constraint on faster economic growth and will limit medium- to long-term potential growth to around 1.5% p.a.

Our upside scenario for 2022 assumes a 10% reduction in load-shedding compared to the baseline. This would mean a markedly improved power situation in 2022H1. In 2023, the upside scenario assumes a 20% decline in load-shedding compared to the baseline. Other positive factors supporting our upside scenario into next year would be a slower increase in interest rates, a smaller depreciation in the rand slowing the pace of imported inflation, and an improvement in business confidence in 2023 following the finalisation of the African National Congress (ANC) leadership elections at the end of this year. Other external factors are also assumed to be more favourable, including improved soft commodity export volumes from Ukraine. In turn, our downside scenario sees GDP growth fall to just 1.2% next year. That will be below the population growth rate, resulting in a decline in real GDP per capita. South Africa recorded seven straight years of declining real GDP per capita during 2014-2020.

Figure 10: Real GDP growth %) scenarios



Source: PwC

Table 2: Macroeconomic forecasts

Baseline	2020	2021	2022f	2023f
ZAR/USD	14.78	15.50	16.05	16.60
Consumer price inflation (%)	4.6	6.3	5.3	4.5
Repo rate (end-of-period)	3.75	5.50	6.00	6.50
Real GDP growth (%)	4.9	1.8	1.6	1.5
Unemployment rate (%)	35.3	35.6	36.0	36.5
Probability weighted average	**2020**	**2021**	**2022f**	**2023f**
ZAR/USD	14.78	15.55	16.11	16.68
Consumer price inflation (%)	4.6	6.3	5.4	4.6
Repo rate (end-of-period)	3.75	5.53	6.05	6.55
Real GDP growth (%)	4.9	1.7	1.6	1.3
Unemployment rate (%)	35.3	35.6	36.1	36.7

Source: PwC

Employment: Positive jobs outlook this year following many resignations in 2021.

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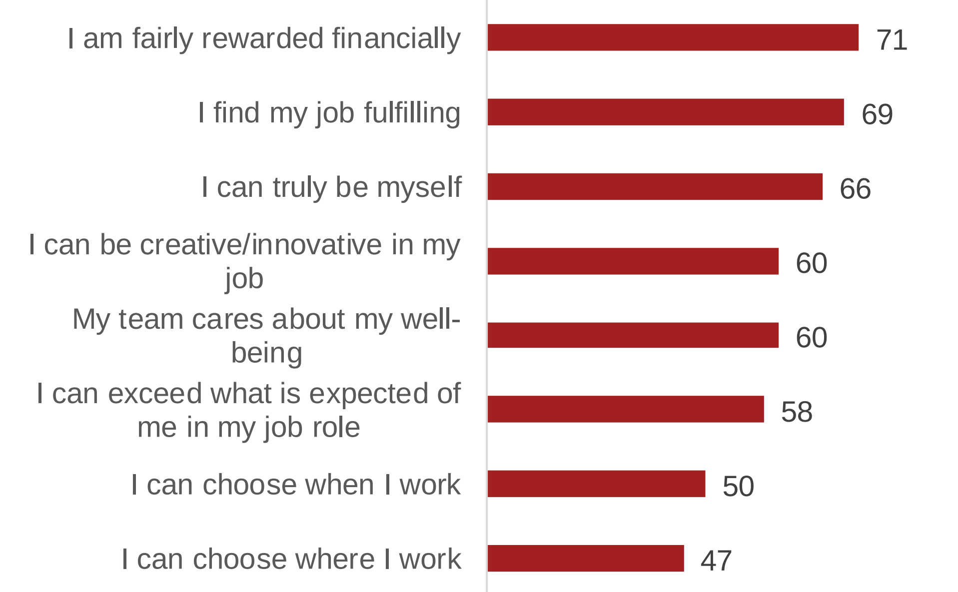
Employee Value Proposition (EVP) is important as the number of vacancies in the local job market reach a record high.

South Africa lost two million jobs in 2019-2021 due to the adverse impact of COVID-19 lockdowns, load-shedding, and a myriad of other factors. The country lost a net 479,000 jobs last year as these elements forced companies to cut employment. There was also a notable increase in resignations: according to a survey by Old Mutual Remchannel, 36.4% of employment terminations in 2021 were due to resignations. This was higher than a range of 28%-32% seen before COVID-19. The majority of resignations were due to workers seeking an improved Employee Value Proposition (EVP).

Figure 11: Most important factors when considering a change in work environment (% of respondents)



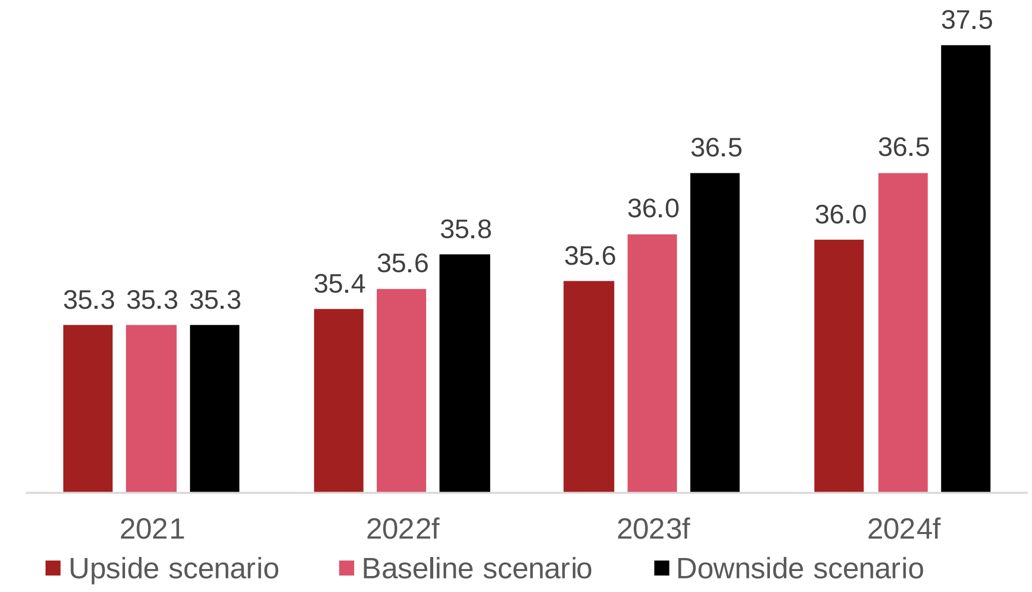
Source: PwC's Global Workforce Hopes and Fears Survey 2022

PwC's Global Workforce Hopes and Fears Survey 2022 found that money - a primary driver in employment decisions - is not enough by itself to retain global workers. EVP factors like job fulfilment and the ability to be one's true self at work were ranked second and third among employees considering a job change. The timing for organisations to place EVP at the top of their agendas as a priority, simply cannot be overemphasised.

Following last year's further decline in jobs, the outlook for employment growth in 2022 is more positive. Pnet's Job Market Trends Report 2022Q1 shows that the number of vacancies in the local job market are at a record high. The sectors showing increased demand for workers in 2022Q1 compared to a year ago include medical and health services, security and emergency services, manufacturing and legal services. According to Pnet, jobseekers in these occupations "are facing dramatically improved employment prospects compared to two years ago". The online e-recruitment company says the record high vacancy numbers reflect increased demand for workers which, in turn, signals an improvement in business confidence. The RMB/BER Business Confidence Index (BCI) increased from 43 points in 2021Q4 to 46 in 2022Q1, returning to its long-term average reading. While it was still below the breakeven level of 50 points, the first quarter reading is substantially better than the low of 5 points seen at the height of the COVID-19 pandemic.

Our economic modelling, based on the historic relationship between economic and employment growth, forecasts that a net 220,000 formal and informal jobs could be created this year under the baseline scenario. Admittedly, last year's expected increase in jobs (alongside a rebound in GDP growth) did not materialise, so these projections are made with caution. At the same time, the forecast job growth is insufficient to bring down the unemployment rate given that an estimated 450,000 adults will enter the labour force in 2022. As such, under our baseline scenario, the unemployment rate is expected to increase from 35.3% at the end of last year to 35.6% by the close of 2022 and 36.0% by the end of 2023.

Figure 12: Unemployment rate (% of labour force) scenarios



Source: PwC

Note: Economists have raised concerns about the quality of recent Stats SA labour data publications. These concerns stem from the low response rate to the agency's surveys. Over the period 2020Q2-2021Q4, Stats SA employed Computer Assisted Telephone Interviewing (CATI) methods. In the final quarter of 2021, the response rate was just 45%. This is significantly below the face-to-face survey response rate of 88% seen in 2020Q1 before the transition to CATI. Stats SA reverted to face-to-face interviews in 2022Q1 and was able to lift the response rate to 65%. However, this is still not satisfactory and could have an adverse impact on the quality of the final data. Research by UCT's Development Policy Research Unit (DPRU) found that last year's quarterly unemployment rate readings, which officially ranged from 32.6% and 35.3%, could have been as low as 31.4% or as high as 36.7%. When response rates are low, a larger part of the final data is based on imputed estimates and assumptions — i.e. filling the gaps. This, in turn, leads to a risk of biased outcomes by using an under-representative sample of people to infer information on the entire population. Due to these issues, our analysis here does not delve into the details of the latest labour data.

Featured PwC research: SA business cannot succeed if our society fails — taking action on ESG strategy.

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Our baseline macroeconomic forecast does not paint a pretty picture heading towards 2023: a weaker rand, elevated inflation, rising interest rates, slowing economic growth, and an escalating unemployment rate. Our new report 'South African business cannot succeed if our society fails: Taking action on your ESG strategy' states that, when asked how favourable macro forces are for their company's ability to create financial value, only 23% of South African respondents to PwC's 25th Annual Global CEO Survey noted a moderate or very favourable situation. Furthermore, business leaders strongly acknowledged that the local economic environment increases the risk of socio-economic instability and social unrest. PwC's survey found that 73% of South African CEOs are very or extremely concerned about social inequality — stemming from, for example, gender, race, ethnicity and wealth — negatively impacting their company over the next 12 months.

It is clear, now more than ever, that South African organisations simply cannot afford to downplay the importance of ESG factors to their financial outlook. Stakeholders increasingly expect organisations to communicate and deliver convincing, measurable and sustainable ESG strategies. Furthermore, research by the University of Oxford Sustainable Finance Programme shows that an increase in company-level ESG performance can result in a positive effect on a country's living standards/ — both in developed and emerging markets. We are of the view that South African organisations can help to build trust in our society and deliver sustained business outcomes by implementing effective ESG strategies.

South African businesses have certainly made some progress in this regard and, according to our CEO survey, local companies are more likely to have non-financial ESG-related outcomes included in their long-term corporate strategy than their global counterparts. However, this is not yet as prominent in CEOs' annual bonuses or long-term incentive plans. For example, only 20% of local CEOs have greenhouse gas (GHG) emission targets linked to their remuneration versus 37% globally. Including ESG metrics in executive pay packages is a tangible way to close the say-do gap.

Alongside awareness of ESG-related risks, there is also an increased recognition among business leaders of the value creation opportunities that come with sustainability transitions. With these risks and opportunities in mind, why are South African companies lagging behind their global counterparts in adapting strategies that embed ESG factors? Some of the challenges include:

- Responding to ESG issues is seen as a cost, not an investment: In the short run the implementation, compliance, and reporting of ESG issues might still be treated as a cost line by some businesses instead of being treated as an investment.
- A challenge of human resource capacity: Firms need to recruit the right talent to deliver on sustainable value creation goals. This involves hiring individuals with sustainable business expertise and, in general, hiring more diverse teams.
- You need a sustainability champion at the top of the corporate ladder: In the absence of an empowered Chief Sustainability Officer (CSO) that can lead from the top, an organisation's ESG risks and opportunities are less clear.

Actions speak louder than words. The global PwC network has committed to achieving net-zero GHG emissions globally by 2030, decarbonising our supply chain, embedding ESG factors into our client engagements, and supporting efforts to develop ESG reporting frameworks and standards.

Taking action requires the necessary knowledge. As a start, we recommend the following readings:

1. Our aforementioned ESG strategy report highlights three interdependent dimensions to incorporate ESG issues into a company's strategy, namely:
   - The strategy-led, top-down approach is where companies translate ESG ambitions into a blueprint for change.
   - Transformative, middle-out approach examines how ESG aspects are incorporated into day-to-day operations.
   - The reporting-led, bottom-up approach considers what ESG information is required to address stakeholder interests.
2. PwC Strategy&'s new report 'Empowered CSOs: The key to remaining credible and competitive' considered the role of the CSO at 1,640 listed companies across 62 countries. We found that a significant number of companies have CSOs whose sustainability mandate is limited, based on their role or overall standing in the corporate hierarchy. PwC determined that too few CSOs have sufficient access to the board as half of all CSOs are two or more hierarchy levels below the C-suite — and therefore lack the influence to shape the sustainability transformation. If a CSO is to be truly effective, they need direct board access. That can be achieved by appointing the CSO to the board or arranging for them to report directly to a board member who champions and influences the ESG strategy.

PwC Economics services and contacts.

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How can we help?

Economic scenario planning: At the start of 2022, our downside economic scenario suggested real GDP growth of 1.6% this year and an average inflation rate of 5.6%. Our current baseline outlook (1.8% growth and 6.3% inflation) is not far removed from this downside view from January. Companies that worked with different forecast scenarios before the onset of the disruption caused by the Russian invasion of Ukraine, and who planned for this kind of downside situation, would have strategies in place halfway through 2022 to manage the deteriorated macroeconomic outlook. We are working with clients to understand the various potential scenarios for the rest of this year and 2023. Based on the information contained in this report, as well as other research and data, these discussions are helping our clients formulate business strategies for the next 12 months — a period where domestic and international disruption is guaranteed to remain a major factor.

Environmental, Social and Governance (ESG) strategy: It is clear that South African organisations simply cannot afford to downplay the importance of addressing ESG challenges. Alongside awareness of ESG-related risks, there is also an increased recognition among business leaders of the value creation opportunities that come with sustainability transitions. The first step is a strategy-led, top-down approach where companies translate ESG ambitions into a blueprint for change to position themselves in a sustainable tomorrow. ESG risks and opportunities, such as those in the supply chain and those that impact on the business, should be considered here. As part of this process, we help clients integrate sustainability into their core business strategy, risk management, and day-to-day activities.

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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