

# SOUTH AFRICA: GDP GROWTH EXPECTATIONS REVISED DOWN ON THE BACK OF SWEEPING ELECTRICITY CRISIS



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## Event

On 9 February, the government declared a 'national state of disaster' over the ongoing electricity supply crisis and wave of blackouts. The state of disaster gives the government exceptional powers to deal with the crisis more swiftly by dodging normal procedures and bureaucracy. A new minister will be appointed to oversee the crisis, while the minister of Public Enterprises will continue to oversee the restructuring of the dysfunctional public power utility company Eskom and coordinate the transition of the economy towards renewable energy sources.

## Impact

After a post Covid-19 growth recovery of 4.9% in 2021, GDP growth is reported to have come down to 2.1% in 2022, resulting from adverse global conditions such as the fallout of the war in Ukraine and important domestic setbacks (energy crisis and floods). In January 2023, the IMF projected GDP growth to reach 1.2% in 2023, yet the South African Reserve Bank (SARB) recently revised it down to only 0.3%. Indeed, South Africa's central bank is confronted with the difficult trade-off between restraining inflation and compromising the economic recovery. Since November 2021, the South African Reserve Bank has started to introduce policy rate hikes, leading to a year-on-year increase of 3.25 percentage point to 7.25% in February 2023 and putting downward pressure on economic growth. Inflation peaked at 8% in July 2022 and came down to 7.5% in December 2022.

That being said, the downward growth revision mainly results from the harmful power disruptions and the electricity supply reduction recently implemented by the state electricity utility company Eskom. Electricity disruptions will continue to weigh on growth prospects as long as the African National Congress (ANC) or Eskom do not present a structural solution and remove obstacles to investments in energy supply. The government declared a 'national state of disaster' over the rolling blackouts earlier this month. This bureaucratic solution poses risks as it opens the door to abuses of power and graft, while no clear technical solutions have been presented so far. In the run-up to next year's presidential elections, President Ramaphosa will need to present real and rapid solutions to the devastating energy crisis.

Analyst: Louise Van Cauwenbergh – [l.vancauwenbergh@credendo.com](mailto:l.vancauwenbergh@credendo.com)

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