strategy&

Economic and Risk Outlook 2023-2023

Presented to Kruger Lowveld Chamber of Business and Tourism (KLCBT)

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Today's agenda

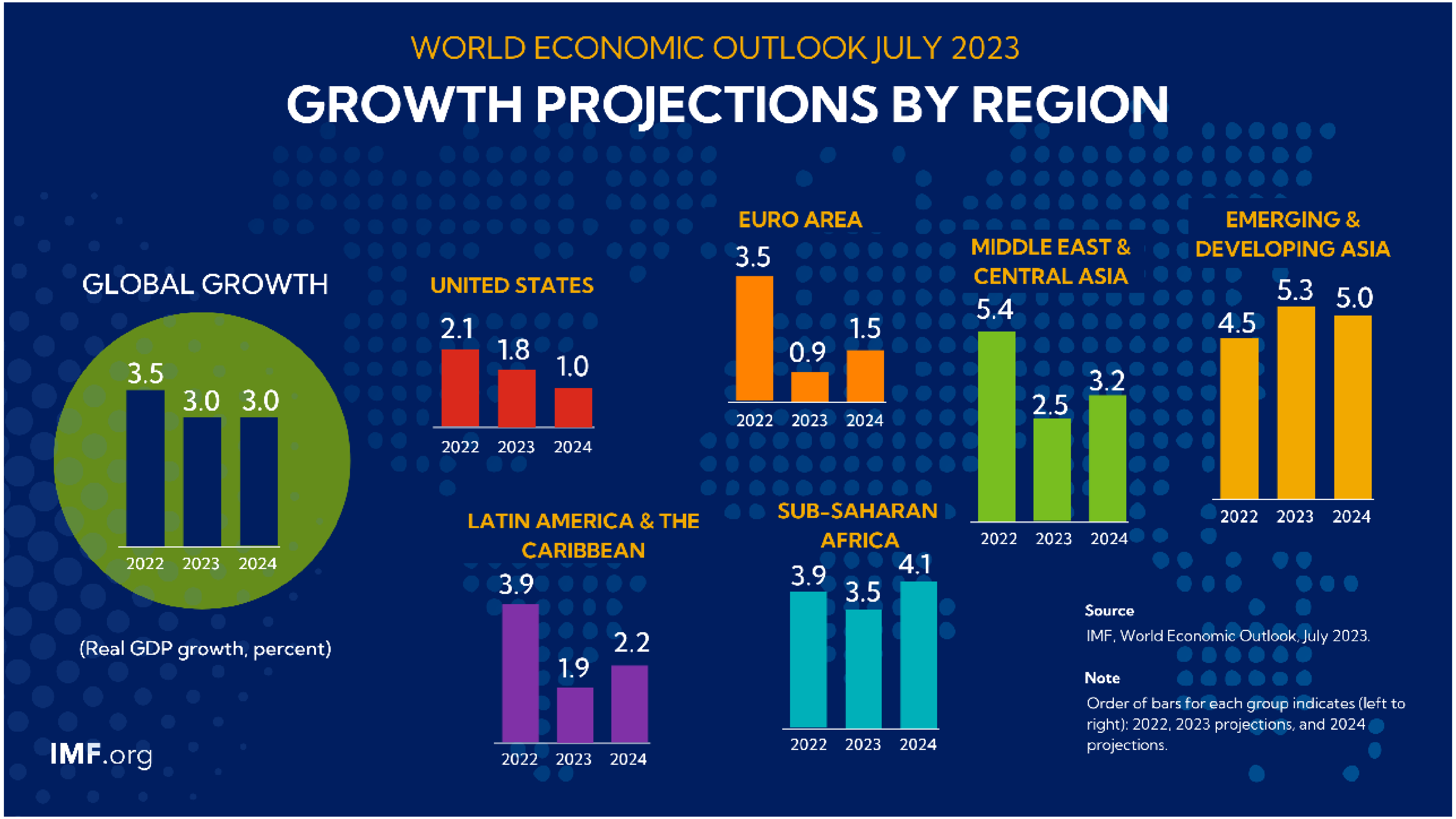
1. **Global context:** Economic and risk outlook over the short to long term
2. **Local socio-economic situation:** Societal risk is growing as the economy struggles to recover from COVID-19
3. **Kruger Lowveld perspective:** Industry challenges reflect national obstacles
4. **South Africa economic outlook:** Scenarios for key macro variables
5. **What now?** Building business resilience against long-term socio-economic headwinds

1

Global context

Economic and risk outlook over the shortto long term

The rise in central bank policy rates to fight inflation continues to weigh on global economic activity



Source: IMF

The global Megatrends have already changed and will continue to change societies for many years to come.

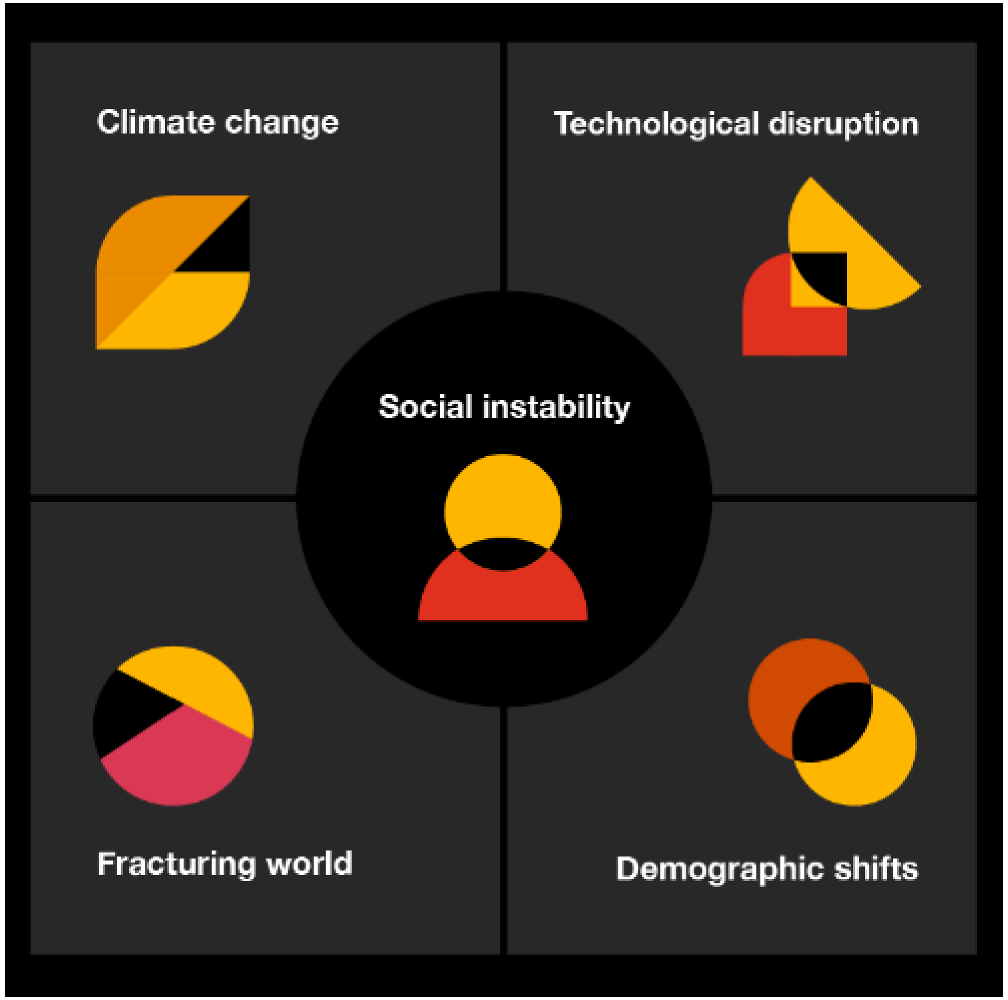
All megatrends have significant social consequences

Climate change triggers investment in new technology and the creation of new jobs, which will benefit some countries and some demographic groups more than others.

Technological disruption opens up avenues for disinformation campaigns, which might interfere with countries' political and social systems.

Demographic shifts demand job creation in "younger" countries and technology for supporting aging populations in other countries.

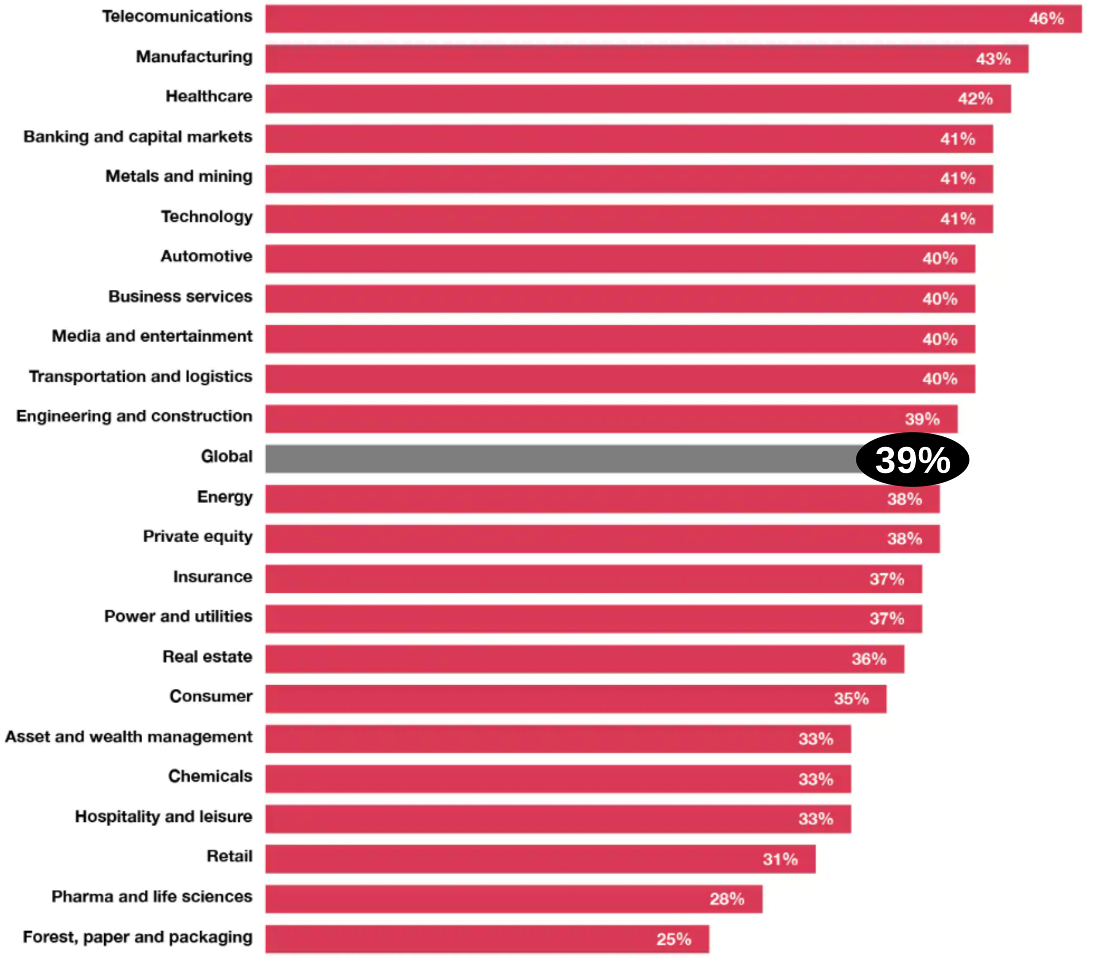
Fracturing world disrupts supply chains. This localises technology investments which further exacerbates the gap between available skills and those that are needed.



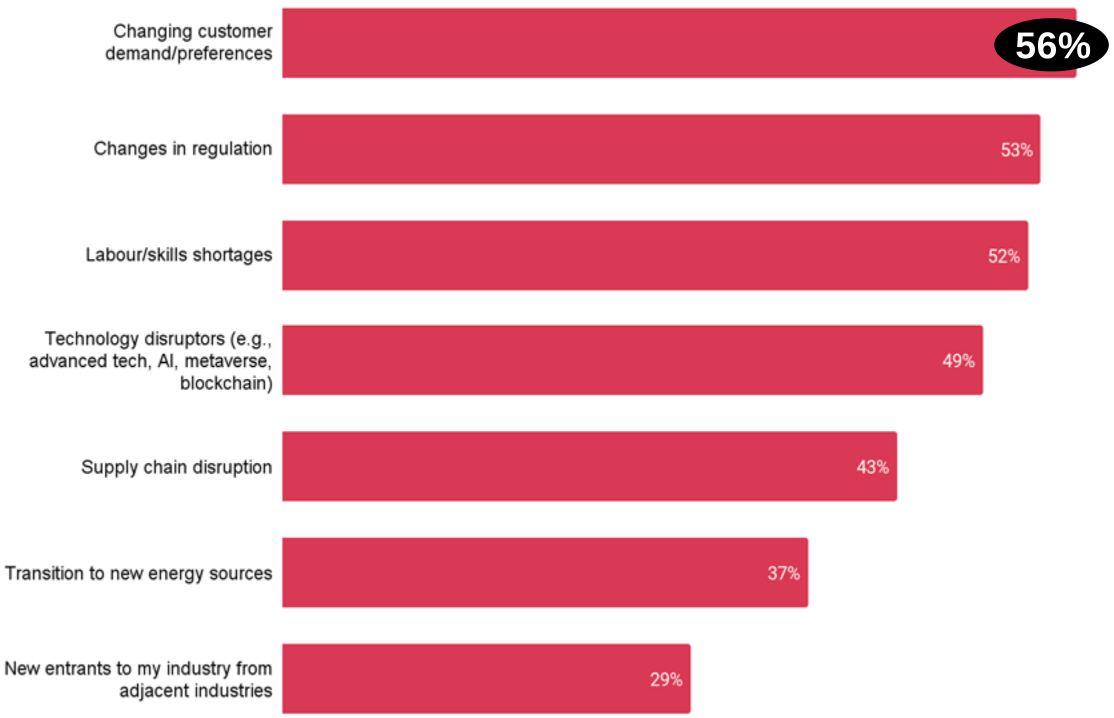
Source: PwC

39% of global CEOs think their companies will not be economically viable a decade from now if they continue on their current path.

Economic viability under current path over the next decade



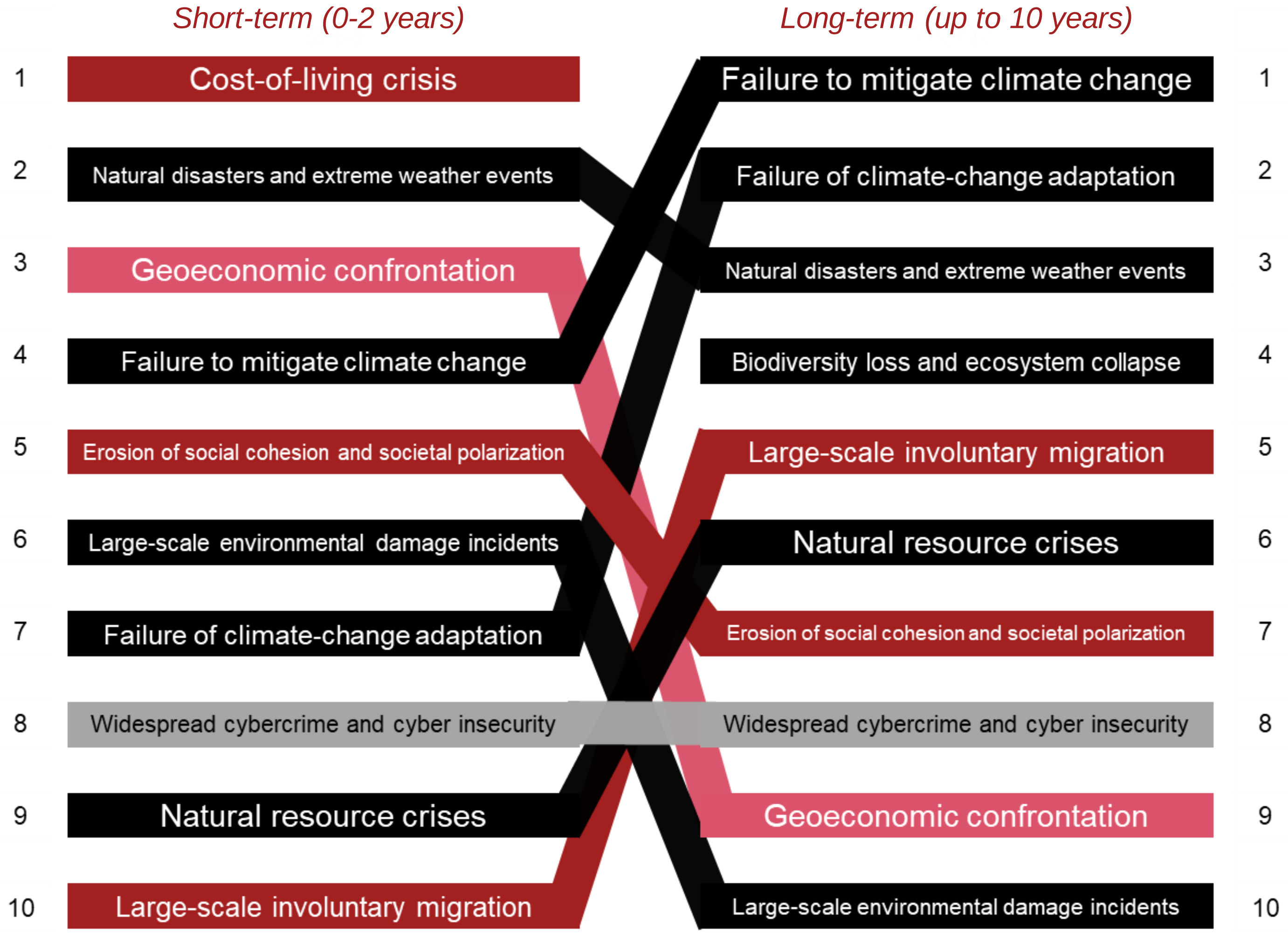
Largest impacts on business over the next decade



56% of CEOs believe that changing customer demand and preferences will have the biggest impact on profitability over the next 10 years

Source: PwC’s 26th Annual Global CEO Survey

Global business leaders expect society to fail in addressing the climate and social challenges that the world is currently facing.



The list of short-term risks are very similar to the long-term risks. So **why are we expecting society to fail in addressing today's major risks?**

Public sector is expected to drive climate action, but companies do not have faith in this process

Socio-economic challenges are expected to get worse as social cohesion deteriorates

Technological change is anticipated to only increase cyber risks and information challenges

Key:

Economic	Environmental	Geopolitical	Societal	Technological

Sources: PwC's 26th Annual Global CEO Survey, WEF Global Risks Report 2023

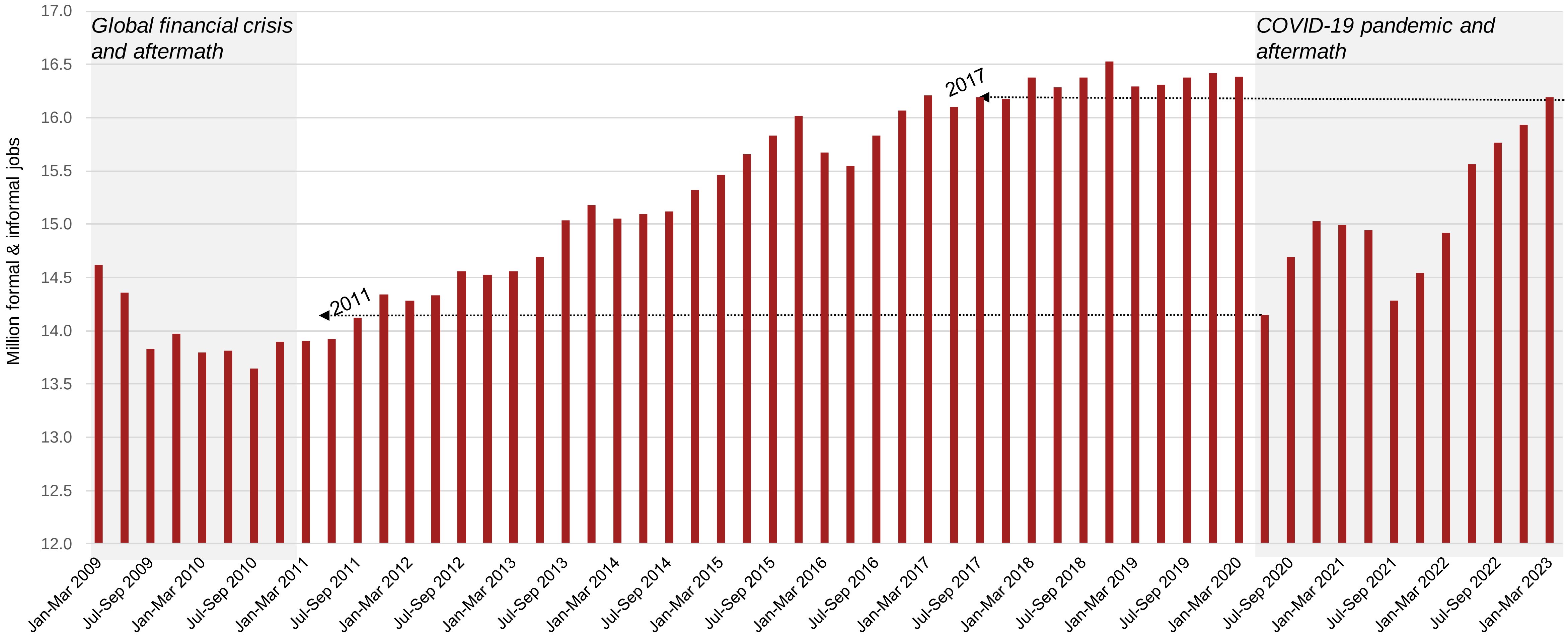
2 Local socio-economic situation

Societal risk is growing as the economy struggles to recover from COVID-19

Operation Vulindlela – there is some good news to report.

Activity status	Reforms
No data/reform not yet started	• Strengthen regulation of price and service standards in the water sector • Expand visa waivers and explore visa recognition system • Develop a fit-for-purpose procurement regime for state-owned entities
Reform facing crucial challenges, likely not to be achieved	• Improve Energy Availability Factor (EAF) to over 70%
Reform facing significant challenges, intervention required	• Address institutional inefficiencies in municipal electricity distribution • Address institutional inefficiencies in municipal water distribution • Improve efficiency of ports • Implement third-party access to freight rail network • Create an enabling legal and regulatory environment for hemp and cannabis • Expedite the issuance of title deeds for subsidised housing
Reform delayed/off track, but work underway	• Implement the energy action plan • Procure new generation capacity in terms of IRP 2019 • Create a modern and efficient mining rights system • Establish Transport Economic Regulator through Economic Regulation of Transport Bill • Finalise the revised raw water pricing strategy • Review and adjust the fuel price formula • Establish a National Water Resource Infrastructure Agency • Complete migration from digital to analogue signal • Develop a strategy for the devolution of passenger rail to local authorities
Reform progress on track	• Finalise the amendment to the Electricity Regulation Act to establish a competitive electricity market • Complete restructuring of Eskom • Reinstate the Blue Drop, Green Drop and No Drop water quality monitoring system • Streamline and improve water-use license application process • Enhance the role of Private Sector Participation in the Water Sector
Reform completed, further work required	• Corporatise the Transnet National Ports Authority (TNPA)
Reform completed, no further work required	• Publish revised Critical Skills List • Finalise the White Paper on National Rail Policy • Raise licensing threshold for embedded generation • Complete spectrum auction • Finalise Rapid Deployment Policy and Policy Direction • Implement e-Visa system in fourteen countries, including China, India, Kenya and Nigeria • Enable municipalities to procure power from independent power producers • Streamline process for wayleave approvals • Review policy framework and processes for work visas • Clear backlog of water use license applications

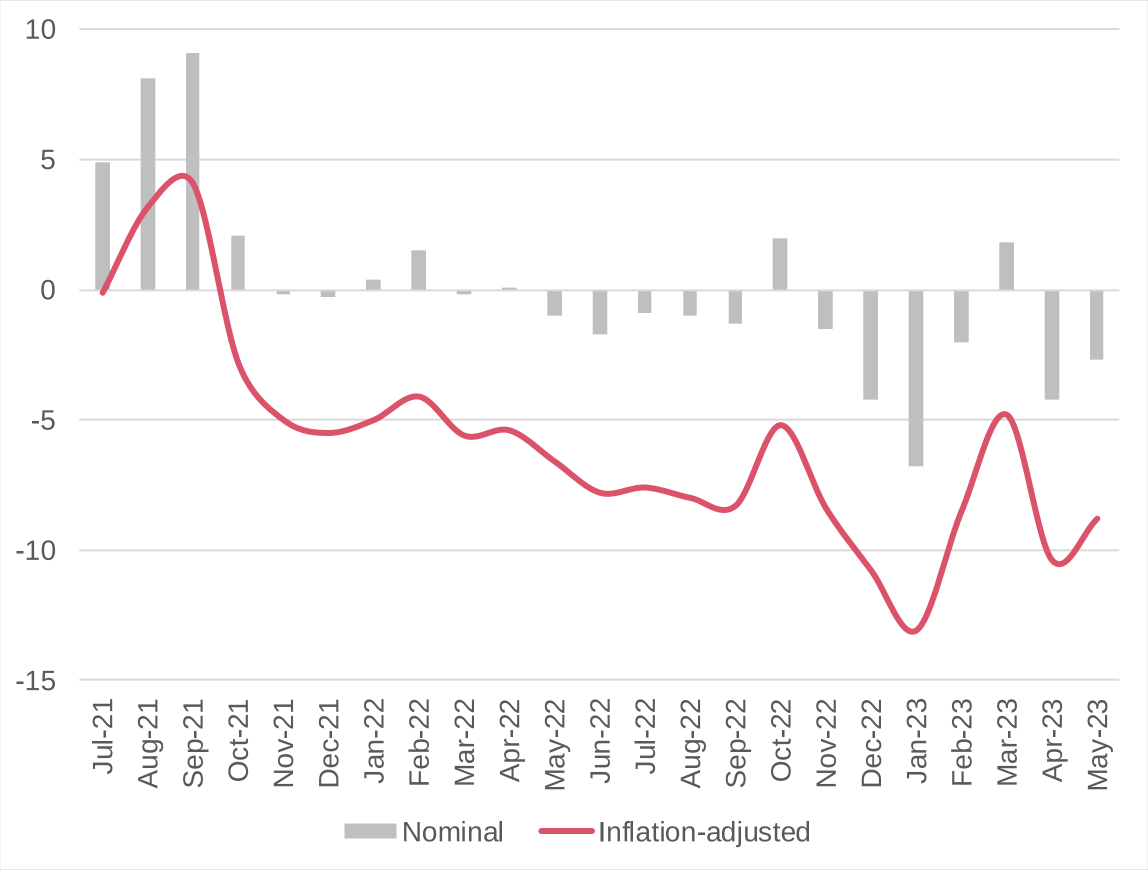
Back to the Future: after some recent gains, employment in 2023Q1 was at the same level as seen in 2017.



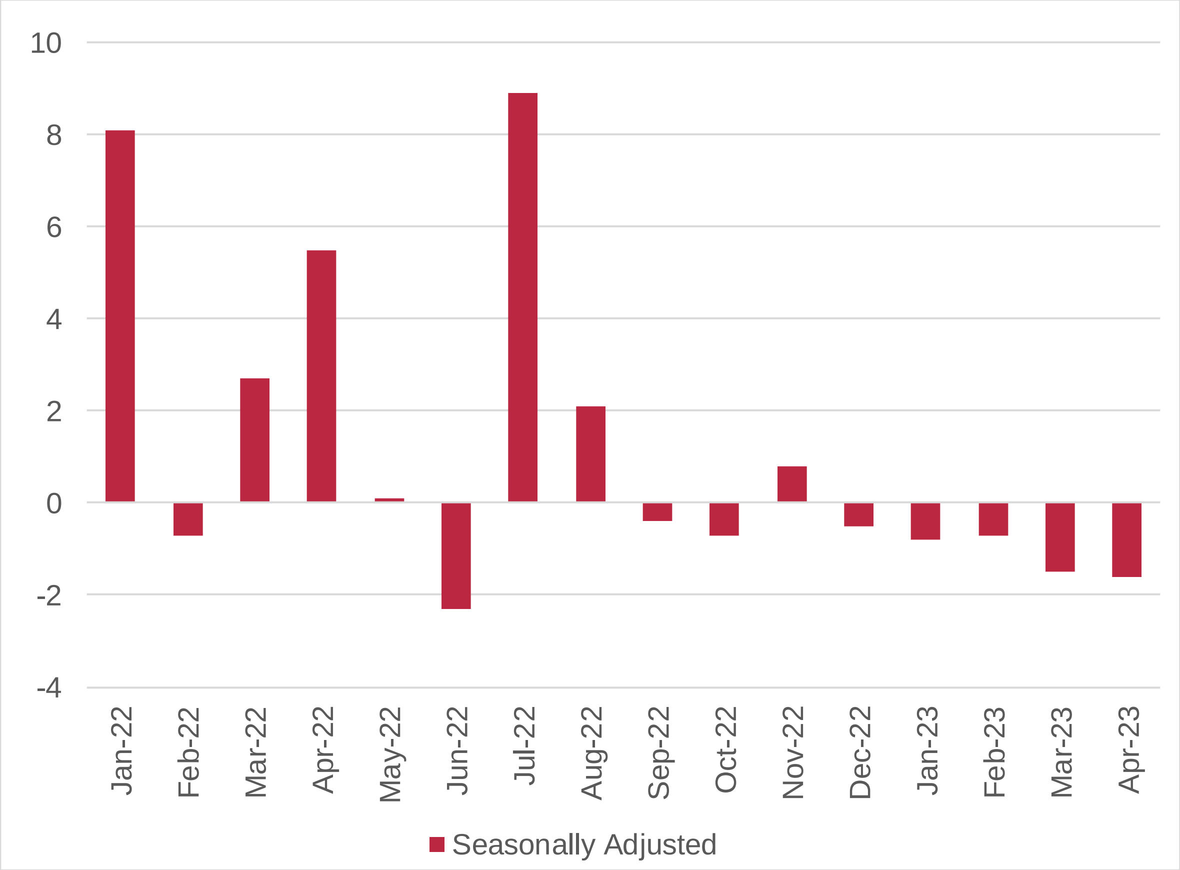
Source: Statistics South Africa

Consumer spending is under pressure from an erosion in real take-home pay.

TAKE-HOME PAY (% CHANGE Y-O-Y)

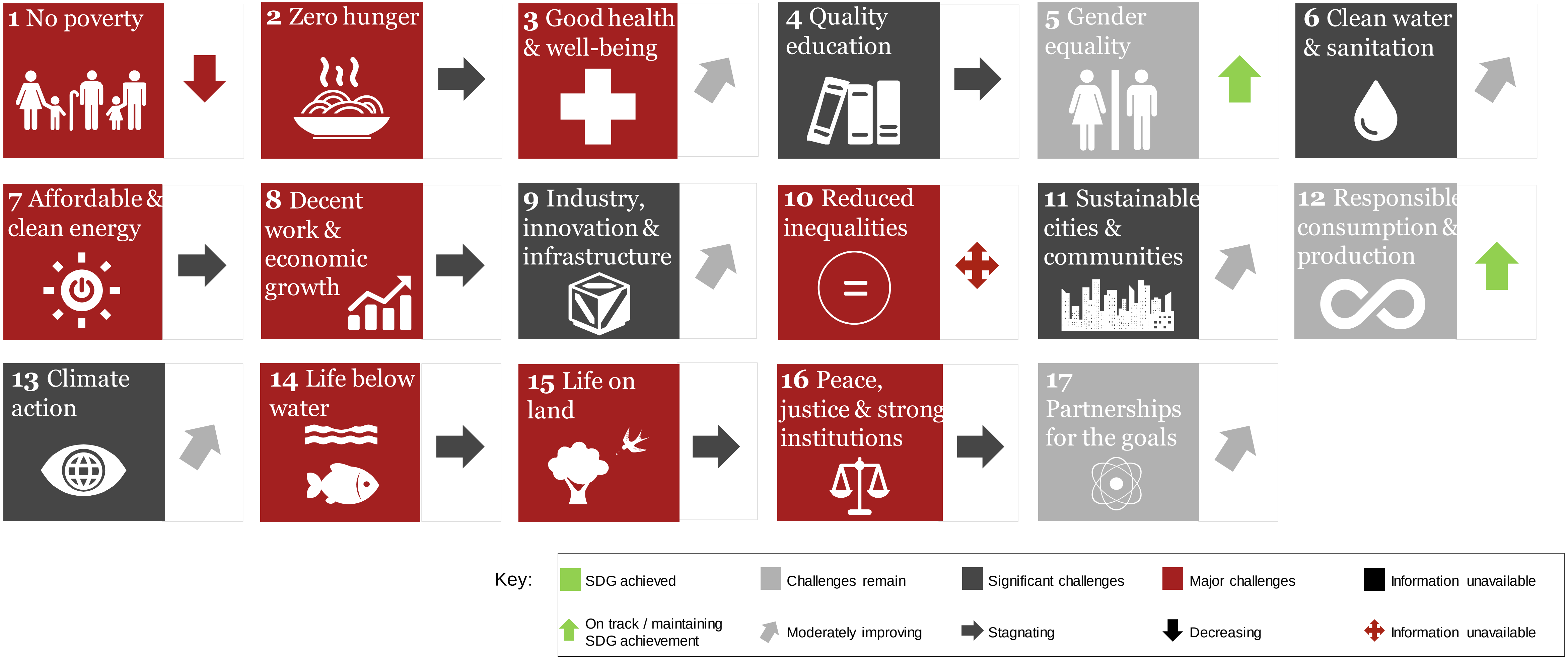


RETAIL SALES (% CHANGE Y-O-Y)



Source: PwC

South Africa's socio-economic development status quo is far from sustainable.



Source: United Nations

Deterioration in the country’s socio-economic conditions has also resulted in a decline in social cohesion among South Africans.

Social relationships: social networks, trust, as well as the acceptance and value placed on diversity in a society

Participation: active involvement in political life

Belonging: identity, shared norms and values, as well as feelings of acceptance and belonging in society

Legitimacy: trust in institutions and feelings of representation

Inclusion: access and participation in economic and social life, including quality of life indicators

Source: PwC

3 Kruger Lowveld perspective

Industry challenges reflect national obstacles

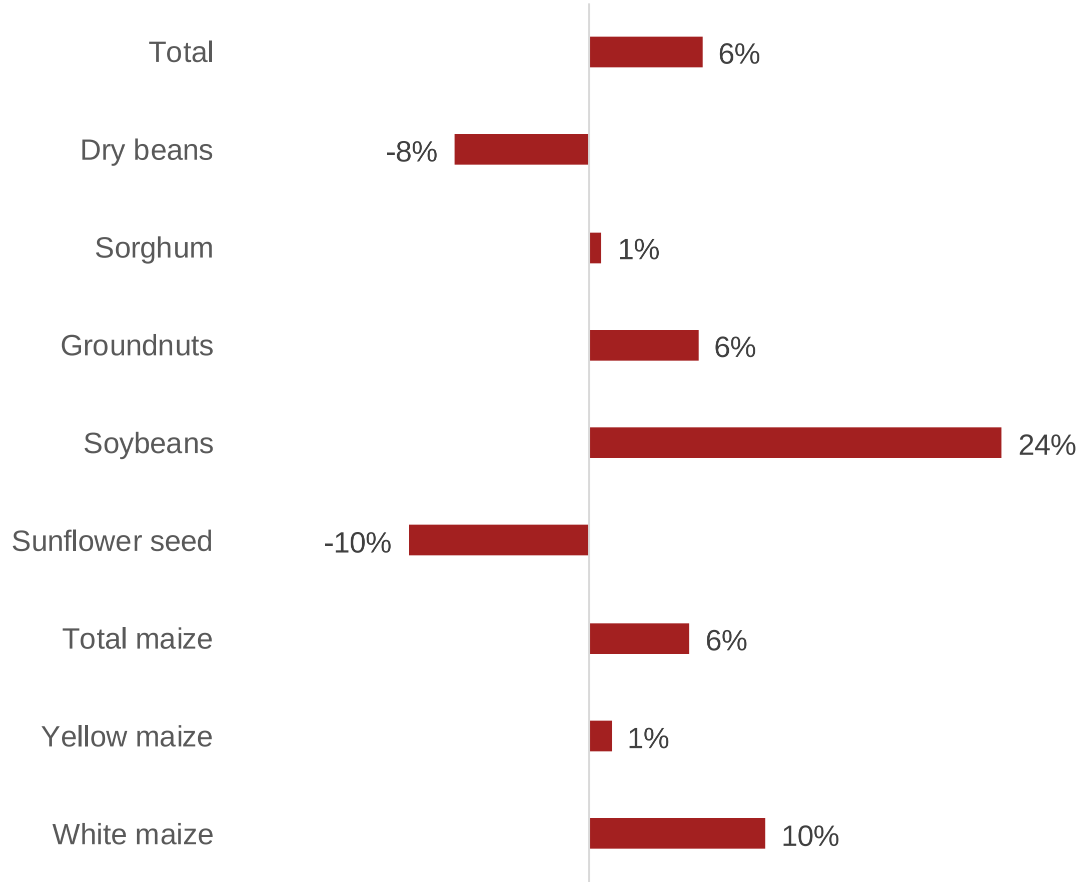
Macroeconomic perspective of the region

	Local municipalities within the Ehlanzeni District of Mpumalanga that are covered by KLCBT			
	City of Mbombela	**Bushbuckridge**	**Nkomazi**	**Thaba Chweu**
Population size	**624 469** people	**584 160** people	**417 627** people	**110 918** people
Unemployment rate	**28.9%** unemployed	**52.7%** unemployed	**34.7%** unemployed	**20.6%** unemployed
Largest economic sectors (% of total GDP for local municipality)	1. Finance, **23.1%** 2. Manufacturing, **18.6%** 3. Wholesale and retail trade, **15.5%**	1. Community / personal services, **27.9%** 2. Government, **15.4%** 3. Wholesale and retail trade, **15.3%**	1. Agriculture, **27.7%** 2. Manufacturing, **17.1%** 3. Finance, **12.5%**	1. Mining, **38.6%** 2. Manufacturing, **18.9%** 3. Wholesale and retail trade, **10.9%**

Sources: Quantec, South African Business

Farming: a positive outlook for crop yields but many structural challenges remain to agricultural prosperity.

NATIONAL TRENDS – 2023 HARVEST FORECASTS (% CHANGE)

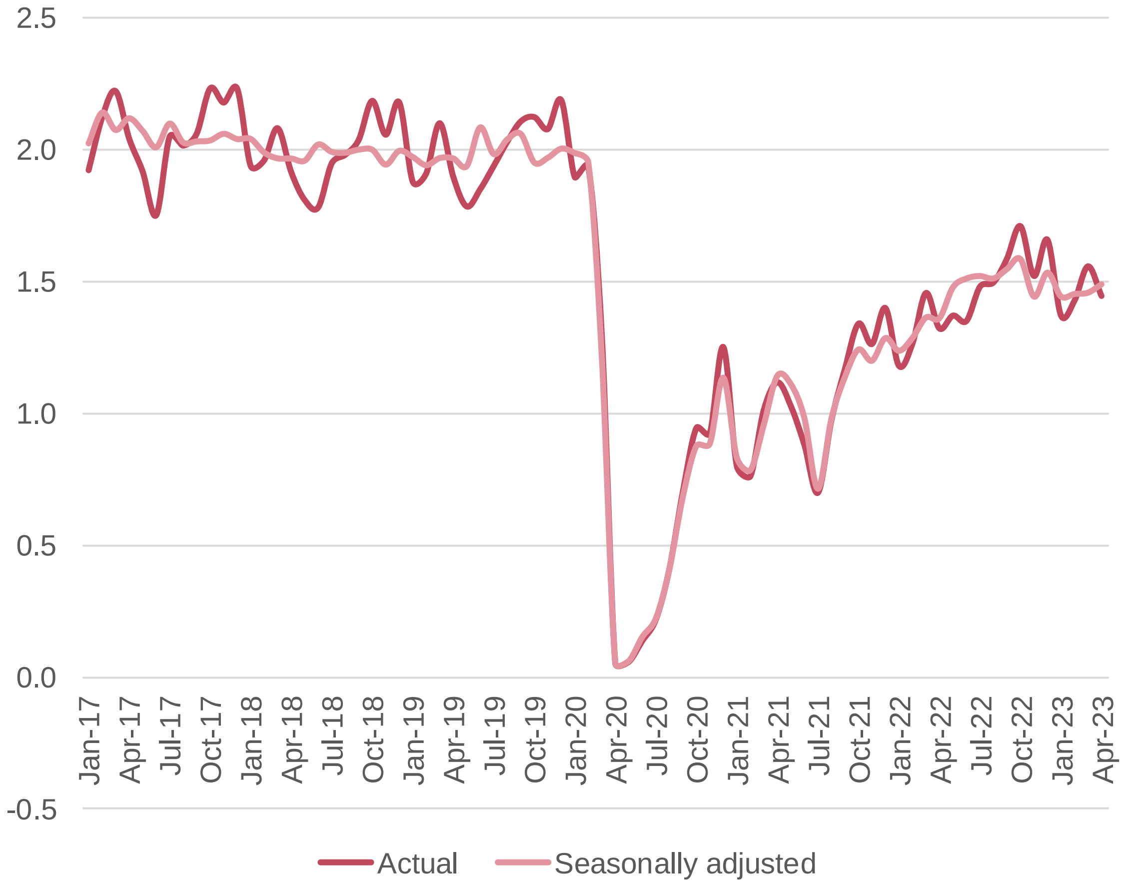


LOCAL CHALLENGES

- Water scarcity
- Land degradation
- Climate change
- Lack of infrastructure
- Access to finance and credit
- Land tenure and land reform
- Skills and education
- Policy and regulatory challenges

Tourism: still not back to pre-pandemic levels, with local obstacles limiting long-term growth of the hospitality sector.

NATIONAL TRENDS – UNITS NIGHTS SOLD (MILLIONS)

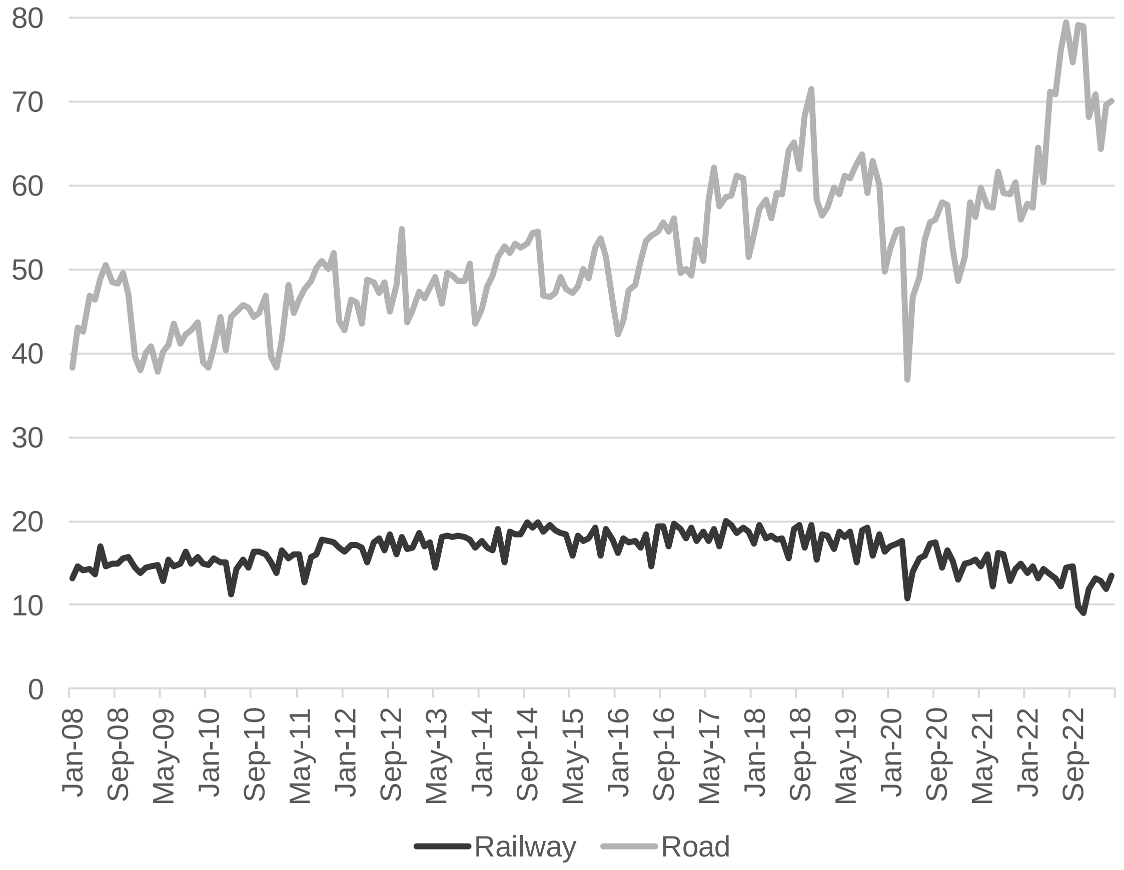


LOCAL CHALLENGES

- Crime and safety
- Infrastructure and accessibility
- Poaching and habitat destruction
- Permit and regulatory challenges
- Global economic and political factors
- Local political and governance factors
- Service diversity

Transport: road freight is now also under significant pressure after picking up the slack in railway performance.

NATIONAL TRENDS – PAYLOAD (MILLION TONNES)



LOCAL CHALLENGES

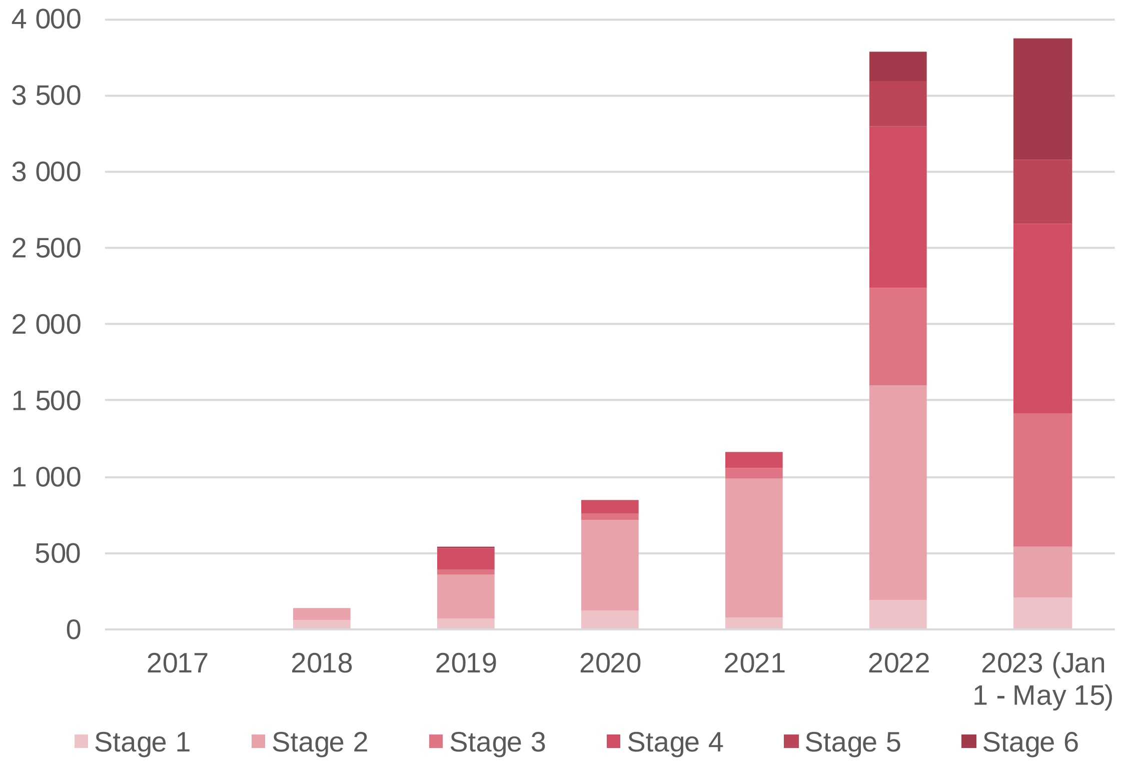
- Infrastructure maintenance
- Road safety
- Distance and rural access
- Crime and corruption
- Congestion in urban centres
- Lack of integrated transport planning
- Seasonal weather impacts
- Traffic management

4 South Africa economic outlook

Scenarios for key macro variables

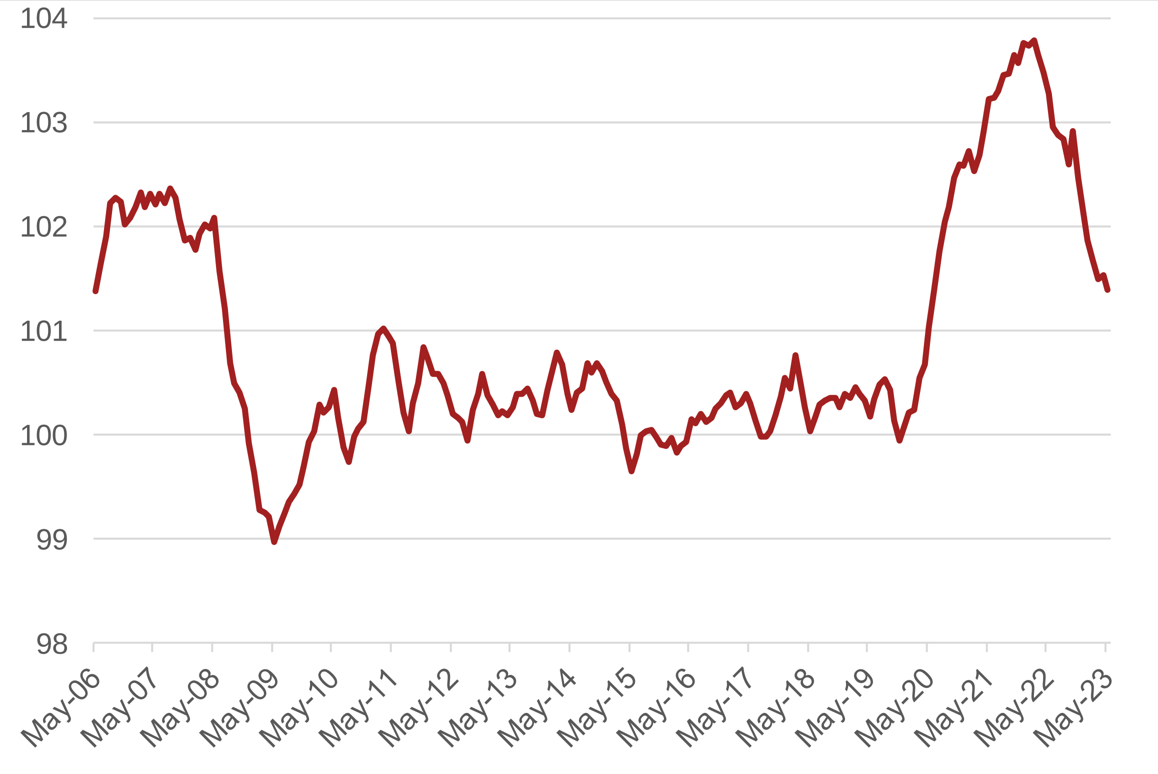
Disruption is the new normal: electricity production/supply chains are constantly seeing shocks to their reliability and performance.

ELECTRICITY LOAD-SHEDDING (HOURS PER STAGE)



South Africa has on average experienced only 2.5 hours per day without power cuts during 2023. Load-shedding has increased from an average of Stage 2 in 2021 to Stage 3 in 2022 and Stage 4 in the first half of 2023.

COMPOSITE SUPPLY CHAIN PRESSURE INDEX

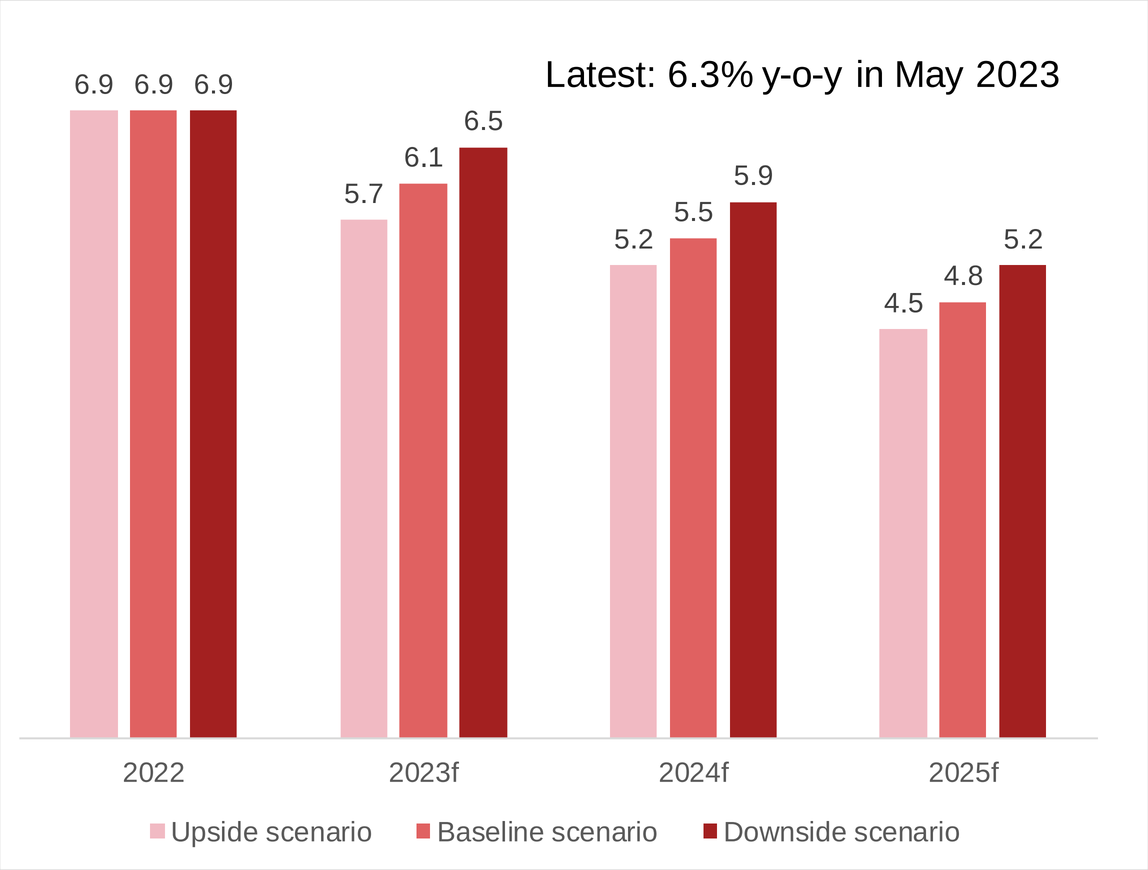


Research by the SARB shows that domestic supply chain pressures were higher in 2022 and 2023 so far than seen during the worst of the COVID-19 pandemic (2020) and the global financial crisis (2008-2009).

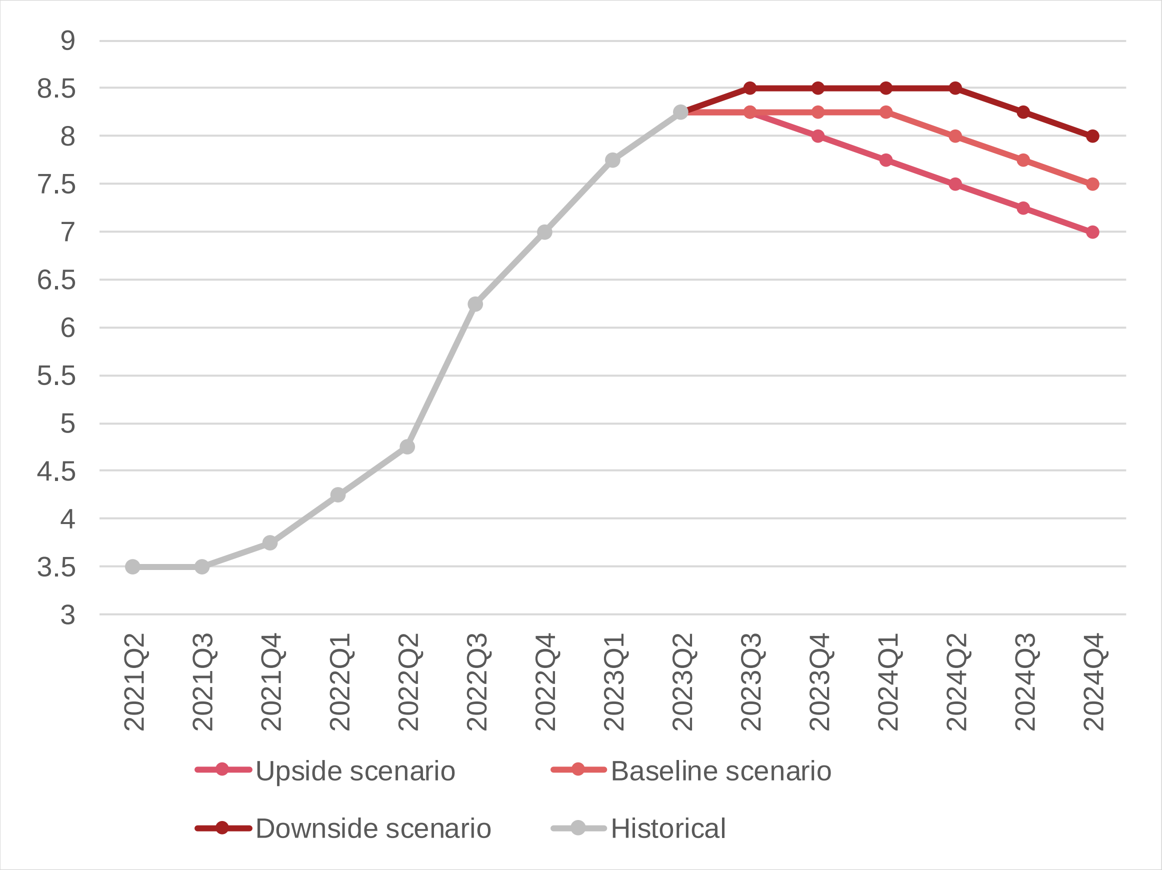
Sources: CSIR, Eskom, SARB

Interest rates have likely peaked but could take some time to come down again – it all depends on the speed of disinflation.

CONSUMER PRICE INFLATION (%)



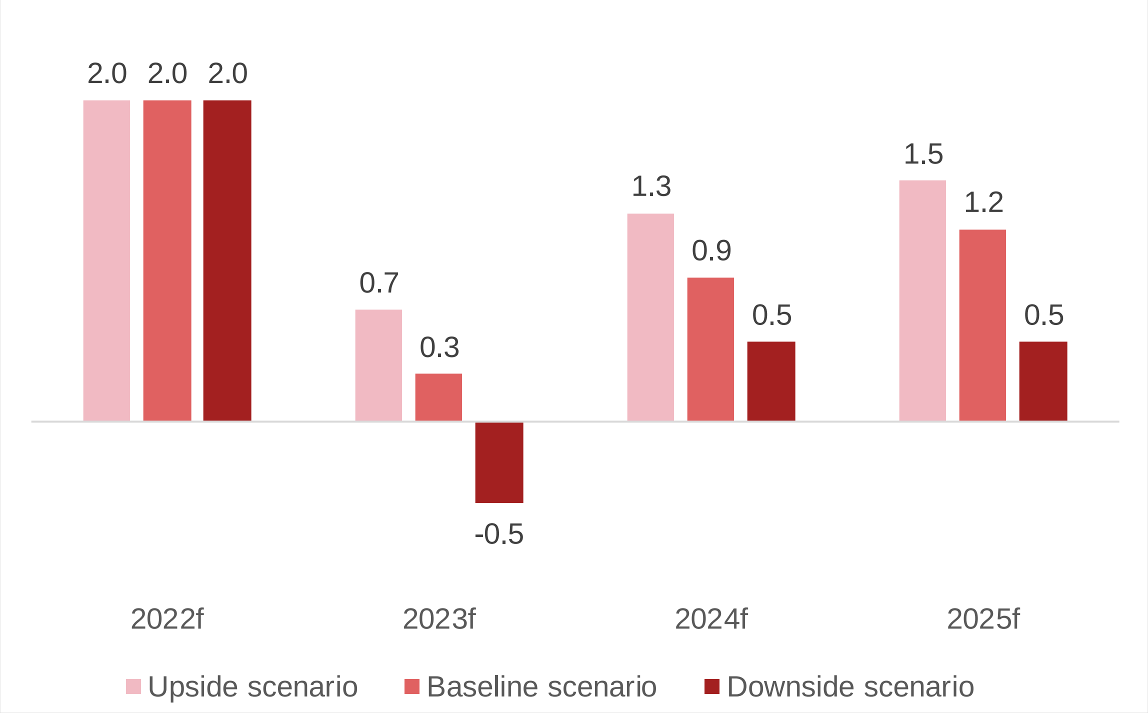
SARB REPO RATE (%)



Source: PwC

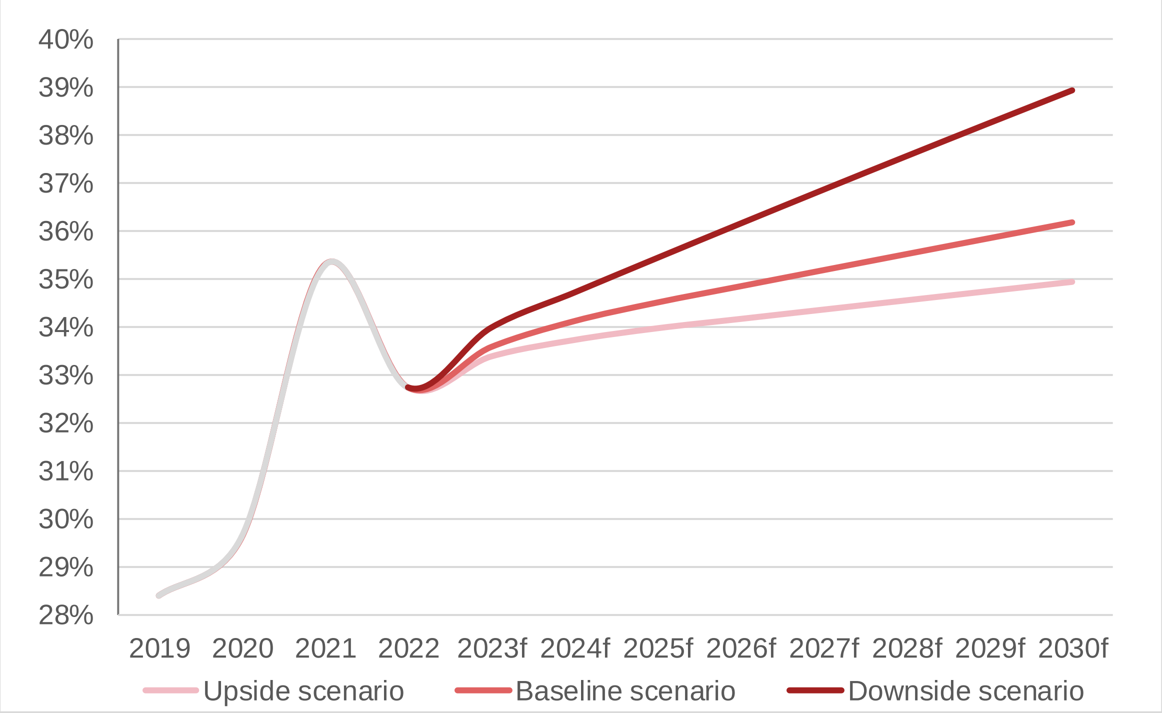
Our long-term economic growth forecasts for South Africa will not be sufficient to bring down the world's highest unemployment rate.

REAL GDP GROWTH (%)



After last year's economic bounce-back, the South African economy is close to stagnating in 2023 largely due to the negative impact of load-shedding. A recession is not impossible.

UNEMPLOYMENT RATE (%)



Our slow-growth trend means that, even under an upside scenario, the SA economy will not be able to create enough jobs to reduce the unemployment rate. We could reach a 40% unemployment rate in the next decade.

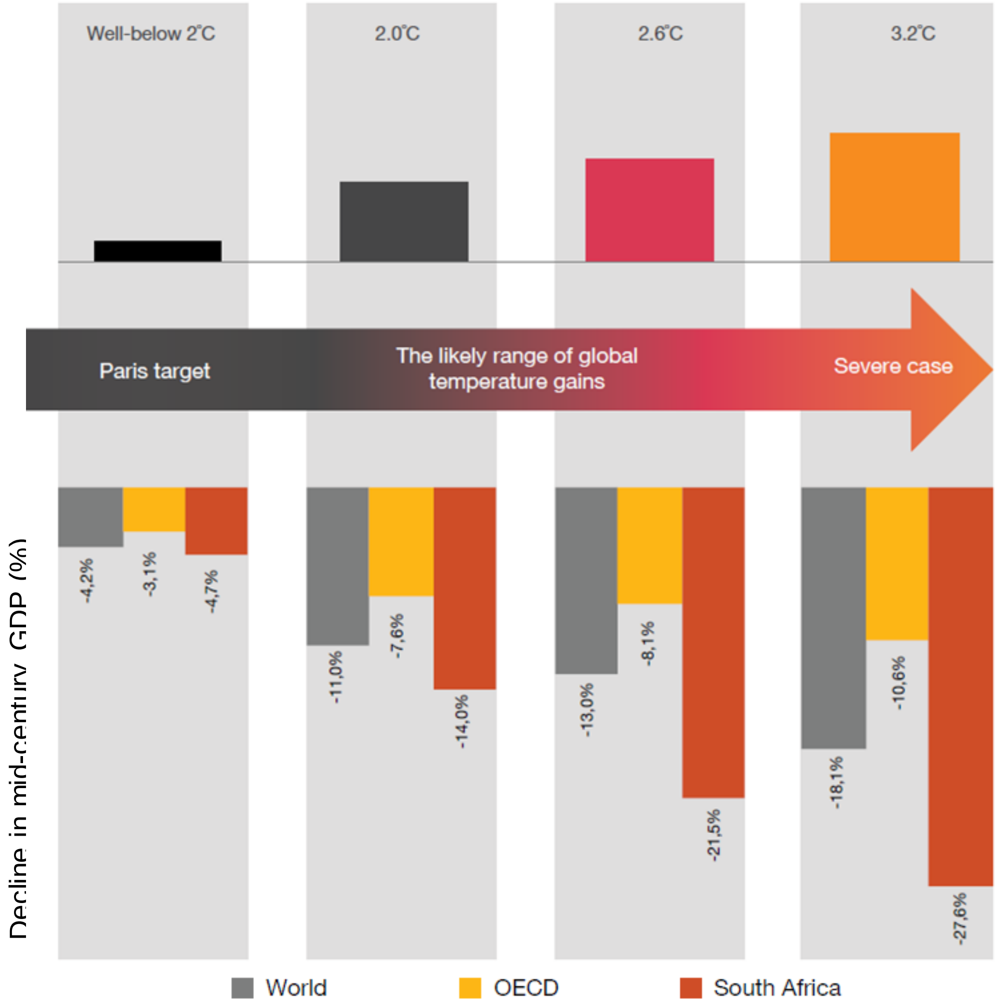
Source: PwC

Future economic impact of climate change on South Africa.

The economic effects of climate change will be felt across six impact channels

- **Agricultural productivity**: higher temperatures and carbon concentration levels, and changing precipitation patterns impact crop yields and agricultural productivity.
- **Human-health**: rising temperatures will likely lead to higher mortality and morbidity of certain diseases.
- **Labour productivity / heat stress**: higher temperature and humidity lead to more frequent pauses, interruptions, lower speed and higher probability of injury.
- **Sea level rise**: rising temperatures lead to thermal expansion of oceans and melting glaciers that drive sea-level rise, leading to land loss through erosion, inundation and salt intrusion.
- **Tourism flows**: warm regions will become less attractive (e.g., due to heat, erosion of beaches) and cold regions more attractive as tourist destinations.
- **Household energy demand**: rising temperatures will reduce demand for heating oil, but there will be more demand for electric cooling.

Potential impact of temperature increases: decline in mid-century GDP relative to a world without climate change (i.e. 0°C)



Source: Swiss Re Institute

5 What now?

Building business resilience against long-term socio-economic headwinds

PwC's 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.

Changing the resilience mindset and bringing the right people together for the risk management conversation.

Practical steps for business leaders to build business resilience

- Bring the right people together to view risk through a cross-functional lens
- Develop the relevant human capital skills, mindsets, and behaviours
- Empowering employees with power and choice – this makes them better workers
- Work out the interconnected components of operations and how to recover them
- Boards must understand why the C-suite has changed the way it views risk
- Embracing transparency helps identify weaknesses earlier

For a South African organisation to build resilience and thrive, it needs to access its people's full potential

- Anticipate and plan
- Build trust in the organisation
- Optimise the workforce productivity and performance
- Enable skills of the future
- Prepare for and deploy technology with humans in mind
- Build ability to rapidly access and deploy talent

Source: PwC

Business resilience strategies to help South African companies address the Megatrends challenges.

	Trend		*Implications*	*Possible solutions*
Climate change	1st	SA is the most carbon intensive country in G20, with a **carbon intensity** more than double the world average	• EU CABM have a direct impact on export competitiveness • Rising costs of doing business through e.g. insurance against extreme weather • Severe resource shortages - water stresses	• Developing sector, supply chain and business-specific sustainability strategies • Business continuity planning
Technological disruption	74%	74% of SA CEOs believe **technology disruptors will impact industry profitability** over the next 10 years	• Increasing disinformation and misinformation • More competition and loss of market share • Increased cyber risk • Loss in capacity of workforce • Mismatch between required & available skills	• Investment in improved tech capability to build client-facing assets and client engagement solutions • Invest in upskilling workers
Demographic shifts	50%	Half of SA's **labour force aged 25-34 are unemployed.**	• Shift in consumption patterns • Mismatch between available and required skills • Breakdown in social cohesion • Emigration as discontent increases • Failing welfare systems and erosion of tax base:	• Staff upskilling. • Collaboration with training institutions to build skills pipeline • Coopetition with all stakeholders to improve the education system
Fracturing world	53%	53% of SA CEOs believe their company is moderately, highly or extremely **exposed to geopolitical conflict**	• Trade and supply chain disruptions • Difficulty of doing business in a world of conflicting rules and regulations • Economic and financial markets instability • Insistence on localisation policies	• Environmental, Social and Governance (ESG) strategies • Occupational health and safety protection • Sanction screenings
Social instability	4th	South Africa has the fourth-highest global **risk protests and riots** over the next 12 months.	• Risk of business disruption • Pressure to increase transparency while managing reputational risk • Responsibility to take care of all needs of employees • Greater need to invest in the creation of trust	• Business continuity planning and resilience strategy • Communications strategy to increase transparency and build trust

Sources: PwC, IHS

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