

FREE STATE PROVINCIAL ECONOMIC REVIEW & OUTLOOK



FREE STATE PROVINCE

March 2023

PR328/2022

ISBN: 978-0-621-50775-1

Provincial Economic Review & Outlook (PERO) document for the Free State is compiled using the latest available macroeconomic and labour market data sourced from reputable international, national and private databases. The provided information is thoroughly and ethically analyzed for policy formulation and public dissemination.

To obtain additional copies of this document, please contact:

Communications Directorate
Free State Provincial Treasury
Fidel Castro Building
Bloemfontein
9300

For enquiries, please contact:

Mr Steven Mngoma
Acting Chief Director: Sustainable Resource Management
Email: mngoma@treasury.fs.gov.za



MEC's FOREWORD

The prevailing macroeconomic outlook on the global, domestic and provincial economic performance is mixed and cautiously subdued in the medium- and long-term, given the combined effects of the myriad adverse global and idiosyncratic structural domestic shocks, which the South African economy is directly vulnerable to, and transmitted to the provincial economy via indirect channels.

Consequently, the policy trade-off to tackle the cost-of-living, support productive economic growth and lower unemployment has become acutely difficult given broadening inflation (price increase) pressures, tight global financial conditions, growing geopolitical fragmentation (most notably, in between economic superpowers such as the United States and China, and among advanced countries), limited fiscal space and debt crisis (mostly, in developed economies), to mention a few.

Therefore, to shield the South African and the Free State domestic economies from the negative impacts of adverse shocks emanating from global and domestic developments, as well as to amplify the impacts of positive spillovers; it is important for policymakers to proactively fast-track the implementation of radical macroeconomic and fiscal reforms, given that “*time is now of the essence*”.

Moreover, to better understand how effective policies and remedial strategies can be formulated by optimizing the provincial budget as a fiscal tool, led the Free State Provincial Treasury (FSPT) to compile the 2023 *Provincial Economic Review and Outlook* (PERO), which consists of three (3) Chapters that provides an overview on macroeconomic performance, and labour market dynamics from the global, domestic and provincial perspectives. Additionally, the analytical discourse in the 2023 PERO, is accompanied by applicable policy recommendations for consideration by policymakers.

Reflecting on more recent economic data, global growth is forecasted to slow down to 2.9 percent in 2023 from 3.4 percent posted in 2022, while the higher-than-expected global inflation appeared to have peaked in 2022 and is projected to recede to 6.6 percent in 2023 from 8.8 percent in 2022 (IMF, 2023). On the positive side, if this disinflation trajectory continues, a reprieve from the sustained hike in interest rates and an improvement in cost-of-living would likely materialize, while the re-opening of China's economy is expected to improve global growth and trade flow being an important source of global demand as the second-largest economy in the world. Even so, the adverse global developments mentioned earlier, the lingering (but diminished) effect of COVID-19, the Central Bank's globally synchronized hawkish stance to raise domestic interest rates to curb inflation and cool domestic economies, and persistent global supply bottleneck—posed a significant threat to global growth and inflation outlook.

On the South African economy, IMF's recently forecasted a severely low growth of 1.2 percent in 2023, nonetheless, this growth rate has been drastically cut to 0.3 percent by the South African Reserve Bank in its Monetary Policy Statement in January this year. Also, the Reserve Bank expects a decline in the elevated headline inflation rate of 6.9 percent in 2022 to 5.4 percent in 2023, which falls slightly below 6 percent—the upper band of the inflation target. While, the latest Quarterly Labour Market Survey report by Statistic South Africa (Stats SA, 2023) documented a marginal decline in the official unemployment rate, which fell to 32,7% in 2022: Q4 from 32,9% in 2022: Q3.

Notwithstanding, notable downside risks to our domestic growth and inflation outlook remains, *inter alia*, the extensive shortage of electricity supply, which affects business productivity and earnings, elevated domestic inflation rate, weakening Rand exchange rate, low gross fixed capital formation, and declining household disposable income.

But, the provincial government is hopeful that the speedy implementation of radical economic reforms outlined in the *Operation Vulindela* initiative spearheaded by the Presidency (in collaboration with the National Treasury) would stimulate economic activity levels, lower the unemployment rate by creating jobs, ameliorate the impact of the existing energy crisis, and attract the much-needed foreign and capital investment into the country.

Coming closer to home, the Free State economy contracted to 2 percent in 2022 contrasting the 3.6 percent growth rate recorded in 2021, and the provincial economy is expected to grow by 0.1 percent in 2023, owing to marked contractions in the agriculture, manufacturing and mining sectors. Similarly, the latest QLFS report (Stats SA, 2023) documents a marginal increase in our provincial unemployment rate to 34.6 per cent in 2022: Q4 from 33.8 percent in 2022: Q3.

By and large, women and the youth population continued to bear the brunt of the high unemployment rate in the Free State province. To drive this point home, for example, women unemployment and youth (for ages 15 to 34 years) unemployment rates rose to 39.1 percent and 47.1 percent respectively, in the fourth quarter of 2022. Interpretively, out of the economically active (working) population of about 1.21 million in the province, about 332 000 women and 275 000 youth were employed, in the fourth quarter of 2022.

At the present moment, the clouds look grey and policymakers stand at a crossroads ruminating on how to successfully navigate the stormy waters to carry the masses towards safer shores. Affirmatively, the medium and long-term outlook on economic growth, financial health and labour market dynamics of both the country and province appear to be bleak, and the mammoth task to turn these tides is not for the faint-hearted!

Nevertheless, the provincial government is unyielding in its commitment to improving the general welfare of Free Staters (i.e., citizenry), hence the decision to immediately revise the Free State Development Strategy (FSGDS)–policy document to provide a clear-cut policy guideline with a short-, medium-, and long-term outlook. Based on the insightful deductions gleaned from the analytical discussion in the 2023 PERO, the FSPT intends to optimally utilize the available budget and join hands with the provincial government to, among others:

- Strengthen revenue-enhancement and debt restructuring frameworks,
- Encourage the initiation of growth-enhancing reforms to revitalize the provincial economy’s sectors, with a particular focus on agriculture, manufacturing, mining, construction and tourism sectors.
- Embark on the revitalization of SEZs to attract private investment and capital flow;
- Intensify efforts on proper implementation of the Expanded Public Works Programmes and Community Work Programme, solely to harness the unemployment-reducing effects of these programmes to improve the labour market conditions by creating jobs;
- Develop a long-term infrastructure plan to contribute meaningfully to job creation and inclusive economic development in the province,
- Focus on strengthening financial management and fiscal prudence to reduce the large accrued debts and servicing costs across FS municipalities, and
- Proactively support the creation of skill development programmes, and improve access to quality education.
- Reinforce the existing private-public-partnership (PPP) to enhance associated positive spin-offs.

I have a strong conviction that a collaborative effort between the provincial government, non-profit organizations (NGOs)s and the private sector would create inclusive economic growth and development in our beloved province.

We certainly need to join hands together to create the [**#FreeStateWeWant**](#).

Mrs Gadija Brown (MPL)
MEC for Finance

Date:



EXECUTIVE SUMMARY

The world economy is currently facing a very difficult outlook. The biggest energy market shock since the 1970s and the rising cost of living brought on by rising inflation pressures are posing increasing challenges to the global economy. Before Russia invaded Ukraine on 24 February 2022, the global recovery from the Covid-19 pandemic was anticipated to continue in 2022 and 2023, aided by progress with global vaccination efforts, supportive macro-economic policies in the major economies and favourable financial conditions. However, just as some of the supply-chain issues seemed to be fading, the Russia-Ukraine war impeded global growth and escalated inflationary pressures, creating a new negative supply shock for the global economy. Consequently, the global economy is likely to slow to its third-weakest pace in nearly three decades, overshadowed only by the 2009 and 2020 global recessions.

The global economy is forecast to decelerate from 3.4 per cent growth in 2022 to 2.9 per cent in 2023. Likewise, the economic growth rate of advanced economies is projected to decelerate from 2.7 per cent to 1.2 per cent over the same period. Contrariwise, the economic growth rate of EMDEs is projected to rise marginally from 3.9 per cent in 2022 to 4.0 per cent in 2023.

To address these difficult times, policymakers across the globe must adopt audacious measures, that is, unconventional economic reforms that include well-designed and timely policy interventions to maintain economic stability, enhance energy security and strengthen the prospects for future growth.

The breakout of the Covid-19 pandemic in March 2020 weakened an already fragile South African economy. The domestic economy only managed an average growth of 1 per cent for the period from 2012 to 2019. During the peak of the pandemic, the national economy contracted by 6.3 per cent, before recovering somewhat in 2021 with 4.9 per cent growth. However, the momentum of this recovery was short-lived, restrained by the Russia-Ukraine war. As a result, the economic growth rate of the country decelerated to 2.6 per cent in 2022. The domestic economy is projected to grow by 1.2 per cent and 1.4 per cent in 2023 and 2024, respectively.

Although the Free State economy was already in a recession in 2019, the breakout of the Covid-19 pandemic led to a deeper contraction of 7.0 per cent in 2020. As the global and domestic economies re-opened, the Free State economy posted a growth rate of 3.7 per cent in 2021.

This publication notes numerous long-standing structural impediments to a higher economic growth trajectory in South Africa and subsequently the Free State province. Among these, are (i) the unreliable electricity supply, (ii) weaken public governance and financial management, (iii) high energy costs and food prices, (iv) severe destruction by frequent natural disasters, (v) the limited fiscal space, which limits revenue collection (i.e., tax base) and unsustainable (high) gross government debt, (vi) high levels of market concentration and barriers to entry which suppress the emergence and growth of small businesses. These current macroeconomic conditions effectively constraint job creation, and heightens poverty incidence and income inequality.

A section titled ***Policy implications to mitigate the key risks in the economy*** in this publication details the policy interventions required to ignite the South African economy and chart a path to sustained and inclusive growth.

The impact of the pandemic on the labour market was catastrophic with about 1.4 million jobs lost in the country and 40 thousand jobs lost in the province in 2020. A further 479 thousand and 18 thousand jobs were lost in the country and province respectively in 2021. In the first half of 2022, about 26 thousand jobs were gained in the province, decreasing the unemployment rate to 32.4 per cent in 2022:Q2, compared to 36.5 per cent in the same period of the previous year.

South Africa's unemployment rate declined in 2022:Q3 despite the inflated cost of living, rising interest rates and fuel prices, and worsening load shedding. The latest data from Stats SA (2022:Q3) put South Africa and the Free State's unemployment rates at 32.9 per cent and 33.8 per cent, respectively. The Free State's official unemployment rate decreased by 4.3 percentage points year on year and 1.4 percentage points quarter-to-quarter. However, unfavourable labour market conditions continue to deter private sector investment and limit job creation.

These conditions include frequent labour strikes, high wage demands, high input costs, and continued power shortages.

Unemployment in the Free State reflects a strong age dimension. The youth unemployment rate in the province is 46.0 per cent, compared to the adult rate of 32.5 per cent. High youth unemployment means young people are not gaining the skills or experience needed to drive the economy forward. This lack of skills can have long-term adverse effects on the provincial economy. If the youth unemployment problem is not addressed as a matter of urgency, the situation is likely to increase levels of frustration and impatience among the youth. Additionally, this undesirable labour market condition will contribute to a cycle of chronic unemployment and poverty, forcing the young population and subsequent generations to live in a perpetual poverty cycle.

Therefore, the provincial government can only proactively tackle the growing unemployment rate in the Free State with the combination of short- and long-term policy measures that encompass increasing demand for labour, improving education and skills, and labour market interventions that improve the employability of young people. However, labour market policies alone cannot end unemployment in the province. To create more jobs, it is critical for the provincial economy to achieve more rapid, sustained and inclusive growth. In this regard, policies that support accelerated and sustained economic growth are important because a growing economy boosts labour demand and decent employment opportunities. Without accelerated and sustained economic growth and a high employment absorptive capacity of that growth, unemployment is likely to remain high.

As the provincial government of the Free State, we remain resolute in combating the triple challenge of poverty, inequality and unemployment. Accelerated inclusive and pro-job economic growth is crucial to attaining this task.

Ms M. Sesing, CA(SA)
HOD: Free State Provincial Treasury

Date:

Table of Contents

CHAPTER 1: GLOBAL, REGIONAL AND DOMESTIC (NATIONAL) MACROECONOMIC PERFORMANCE

1. GLOBAL AND REGIONAL ECONOMIC OUTLOOK	3
1.1. Regional Developments	7
2. DOMESTIC OUTLOOK: THE SOUTH AFRICAN ECONOMY	11
2.1. Key risks for the South African economy	17
2.1.1. Policy implications to mitigate the key risks in the economy.....	17

CHAPTER 2: ECONOMIC STRUCTURE AND PERFORMANCE OF THE FREE STATE PROVINCE

2.1. INTRODUCTION	24
2.2. STRUCTURAL COMPOSITION OF FREE STATE ECONOMY	24
2.3. OVERVIEW OF THE PROVINCIAL ECONOMIC PERFORMANCE	27
2.4. ANALYSIS OF PRIORITY SECTORS OF THE PROVINCIAL ECONOMY	29
2.4.1. Analysis of the Provincial Economy's Primary Industries	29
2.4.1.1. Performance of the Agriculture, Forestry and Fishing sub-industries	30
2.4.1.2. Performance of the Mining and quarrying sub-industries	31
2.4.2. Analysis of the Provincial Economy's Secondary industries	33
2.4.2.1. Performance of the Manufacturing sub-industry	33
2.4.2.2. Performance of the Construction sub-industry.....	35
2.4.3. Analysis of the Provincial Economy's Tertiary Industries	36
2.4.3.1. Performance of the Wholesale, retail and motor trade; catering and accommodation sub-industries.....	37
2.4.3.2. Transport, storage and communication sector.....	41
2.7 CONCLUSION	42

CHAPTER 3: THE FREE STATE LABOUR MARKET

3.1. INTRODUCTION	45
3.2. GLOBAL LABOUR MARKET	45
3.2.1. Global unemployment trends	46
3.2.2. Global youth unemployment	48
3.3. DOMESTIC LABOUR MARKET DEVELOPMENTS: SOUTH AFRICA	49
3.3.1. South Africa's Labour market characteristics.....	50
3.3.2. Unemployment trends in South Africa.....	51
3.4. PROVINCIAL LABOUR MARKET: FREE STATE PROVINCE	53
3.4.1. The Free State Province's Labour market characteristics.....	53
3.4.2. Employment Trends in the Free State Province.....	56
3.4.4. Unemployment Trends in the Free State Province.....	58

3.4.5. Level of educational attainment	62
3.4.6. Free State Province's profile of those Not in Education and Not in Employment (NEET).....	63
3.5. CONCLUSION	65

List of Figures

Figure 1.1: Global Inflation (percentage Change)

Figure 1.2: South Africa's Repo, Prime and Inflation Rates

Figure 2.1: Tress Index

Figure 2.2: Location quotient

Figure 2.3: South Africa and Free State GDP growth rates (2012-2021)

Figure 2.4: Free State quarterly GDP size and growth rate, 2018:Q1 – 2022Q2.

Figure 2.5: South Africa and Free State agriculture, forestry and fishing sector growth rates, 2012 – 2021

Figure 2.6: South Africa and Free State mining and quarrying sector growth rates, 2012 – 2021.

Figure 2.7 South Africa and Free State manufacturing sector growth rates

Figure 2.8: South Africa and Free State's Construction sector growth rates, 2012 – 2021.

Figure 2.9: South Africa and Free State wholesale, retail and motor trade; catering and accommodation sector growth rates

Figure 2.10: Number of trips by purpose of the trip (percentage growth 2012-2021)

Figure 2.11: South Africa and Free State transport, storage and communication sector growth rates

Figure 3.1: Top ten countries with the highest unemployment rate, 2019

Figure 3.2: Labour force participation and absorption rates for South Africa, 2016:Q1- 2022:Q3

Figure 3.3: South Africa's unemployment level ('000) and rate (%), 2016-2022

Figure 3.4: Free State province's share of the labour force by age group (2013 -2022)

Figure 3.5: Free State's labour force participation rate and the absorption rate (%), 2013 – 2022

Figure 3.6: Share of employment by occupation in the Free State Province, 2013 vs. 2022

Figure 3.7: Free State Province's Unemployment rate (%) and numbers (thousands), 2013 - 2022

Figure 3.8: Free State Province's Unemployment rate by age group (%), 2013 –2022

List of Tables

Table 1. Global and Regional Economic Performance

Table 1.2: Global prices of selected commodities

Table 1.3: Advanced Economies

Table 1.4: Emerging Economies

Table 1.5: Sub-Saharan Africa forecast summary

Table 1.6: GDP growth in SA per quarter (constant 2015 prices)

Table 1.7: Percentage change in real gross domestic expenditure (seasonally adjusted but not annualised rates –residual excluded)

Table 1.8: Headline inflation in South Africa (% change over 12 months)

Table 1.9: Global and domestic risks

Table 2.1: Share of sectoral contributions to the Free State economy (current prices)

Table 2.2: Provincial contribution to national GDP (constant 2015 prices)

Table 2.3: Free State quarterly economic growth rate, 2021:Q1 – 2022:Q2.

Table 2.4: Contribution of provinces to agriculture, forestry and fishing sub-sectors to the national primary industry (%), 2012 – 2021

Table 2.5: Contribution of provincial mining and quarrying sub-sectors to the national primary industry (%), 2012 – 2021

Table 2.6 Contribution of Provincial manufacturing sectors to the national secondary industry (%)

Table 2.7 Contribution of the Provincial Construction sectors to the national industry (%)

Table 2.8 Contribution by provincial wholesale, retail and motor trade; catering and accommodation sub-sectors to the national tertiary industry (%), 2012 – 2021.

Table 2.9: Number of trips by purpose of the trip (percentage share)

Table 2.10: Number of trips by purpose of the trip (percentage share of South Africa)

Table 2.11 Number of trips by the origin of tourist

Table 2.12: Contribution by the province to the transport, storage and communication sector (%)

Table 3.1: Global Unemployment Rates, 2019 – 2023

Table 3.2: Youth unemployment level and rate by sex, world and country group, 2019–2022

Table 3.3: South Africa's working age population (15-64 years), 2020 – 2022

Table 3.4: Working-age population of the Free State Province, 2013 – 2022

Table 3.5: Characteristics of the employed in the Free State Province, 2013 – 2022

Table 3.6: Share of employment by industry in the Free State Province, 2013 – 2022

Table 3.7: Free State Province's Characteristics of the unemployed, 2013 – 2022.

Table 3.8: Free State Province's Level of educational attainment, 2013 – 2022

Table 3.9: The not in education and not in employment (NEET), 2013 – 2022

LIST OF ACRONYMS

ASGISA	Accelerated and Shared Growth Initiative of South Africa
BRICS	Brazil Russia India China South Africa
COVID-19	Corona Virus Disease of 2019
EA	Euro Area
EMDE	Emerging Markets and Developing Economies
ESKOM	Electricity Supply Commission
FET	Further Education and Training
FMD	Foot-and-Mouth Disease
FSGDS	Free State Growth and Development Strategy
GDE	Gross Domestic Expenditure
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
GFCF	Gross fixed capital formation
GVA	Gross Value Added
ILO	International Labour Organization
IMF	International Monetary Fund
KZN	KwaZulu-Natal
LGFV	Local Government Financing Vehicles
MTBPS	Medium Term Budget Policy Statement
NDP	National Development Plan
NECOM	National Energy Crisis Committee
NEET	Not in education, employment or training
NPA	National Prosecuting Authority
OECD	Organization for Economic Cooperation and Development
PMG	Platinum Group Metals
QLFS	Quarterly Labour Force Survey
SACMEQ	Southern and Eastern Africa Consortium for Monitoring Educational Quality
SANRAL	South African National Road Agency Limited
SARB	South African Reserve Bank

SARS	South African Revenue Services
SDG	Sustainable Development Goals
SIU	Special Investigative Unit
SMME	Small Micro Medium Enterprises
SOE	State-Owned Enterprises
TIMSS	Trends in Mathematics and Science Study
UK	United Kingdom
USA	United States of America
VET	Vocational Education and Training

CHAPTER 1

GLOBAL, REGIONAL AND DOMESTIC (NATIONAL) MACROECONOMIC PERFORMANCE

Chapter 1: Quick Facts

- The global economy was on a path to recovery in 2021 recording a growth rate of 6.2 per cent.
- The deleterious effect of increasing geo-political tensions, most notably the ongoing Russia-Ukraine war, has resulted in a muted growth forecast of 3.4 per cent and 2.9 per cent for 2022 and 2023 (WEO, 2023–January update).
- Globally, some impacts of the ongoing Russia-Ukraine war so far, include (i) global supply chain disruption, (ii) decreasing trade flow from both Russia and Ukraine, (iii) elevated global inflation, (iv) a hawkish monetary policy by Central Banks to curb rising inflation rate, (v) weakened exchange rates of emerging and developing economies, and (vi) tighter financial conditions. Additionally, other factors affecting global growth entails China's weaker economic growth and the growing impacts of global warming—causing unpredictable weather pattern and natural disasters.
- The economic growth rate of advanced economies is expected to fall to 2.7 per cent in 2022 (from 5.4 per cent in 2021), and 1.2 per cent in 2023.
- Likewise, the economic growth rate of the emerging and developing economies (EMDE) is forecasted to slow down to 3.9 per cent in 2022 (from 6.7 per cent in 2021), followed by a marginal increase to about 4.0 per cent in 2023.
- High commodity demand and prices continued to benefit the Sub-Saharan Africa (SSA) region, causing a growth rate of 4.7 per cent in 2021. Nonetheless, economic growth is expected to slow down to about 3.8 per cent in 2022 and 2023, due to adverse global development and/or emergent conditions, which will remain the same in 2023.
- Domestically, the economic growth outlook for South Africa is unimpressive and faces downside risks owed to, for example, extensive shortage of electricity supply, rising inflation, aggressive tightening of monetary policy stance adopted by South African Reserve Bank (SARB), ageing rail, freight and road infrastructures, stubbornly high unemployment rate, limited fiscal space driven by burgeoning gross government debt and debt service costs, and natural disasters.
- Due to the combined effects of the existing unfavourable global developments and structural domestic constraints, the South African economy is anticipated to grow to 2.6 per cent in 2022, followed by a further decline to 1.2 per cent in 2023.
- On the policy front, to stimulate economic growth in South Africa, the National Treasury (2022) recommends that the national government: (i) maintain the existing macroeconomic framework and accelerate reforms in various sectors, (ii) strengthen state capacity, (iii) invest in infrastructure, (iv) mitigate and adapt to climate change, (v) address risks faced by SOEs such as SANRAL and ESKOM, (vi) modernise procurement, (vii) fight crime and corruption, as well as (viii) avoid the grey-listing.

1. GLOBAL AND REGIONAL ECONOMIC OUTLOOK

- *The Global Economic Performance*

In the aftermath of the significant decline in global growth rate to 3.0 per cent in 2020, at the height of the Covid-19 pandemic and strict lockdown restrictions to curb widespread infection, the global economy was on a fragile recovery part, as it rebounds to record a growth rate of 6.2 per cent in 2021, owing to, amongst others, the rapid development and uptake of the Covid-19 vaccine, eased lockdown restrictions, the buoyant world commodity market performance as cross-border trade flow increased, as well as the adoption of an accommodative fiscal- and monetary policy stance by Central Banks across the globe to stimulate economic activity levels domestically.

Table 1.1: Global and Regional Economic Performance

	Actuals	Projections	
	2021	2022	2023
World Output (or GDP)	6,2	3,4	2,9
Advanced Economies	5,4	2,7	1,2
United States	5,9	2,0	1,4
Euro Area	5,3	3,5	0,7
Germany	2,6	1,9	0,1
France	6,8	2,6	0,7
Italy	6,7	3,9	0,6
Spain	5,5	5,2	1,1
Japan	2,1	1,4	1,8
United Kingdom	7,6	4,1	-0,6
Canada	5,0	3,5	1,5
Other Advanced Economies	5,3	2,8	2,0
Emerging Market and Developing Economies	6,7	3,9	4,0
Emerging and Developing Asia	7,4	4,3	5,3
China	8,4	3,0	5,2
India	8,7	6,8	6,1
Emerging and Developing Europe	6,9	0,7	1,5
Russia	4,7	-2,2	0,3
Latin America and the Caribbean	7,0	3,9	1,8
Brazil	5,0	3,1	1,2
Mexico	4,7	3,1	1,7
Middle East and Central Asia	4,5	5,3	3,2
Saudi Arabia	3,2	8,7	2,6
Sub-Saharan Africa	4,7	3,8	3,8
Nigeria	3,6	3,0	3,2
*South Africa	4,9	2,6	1,2
<i>Memorandum</i>			
Low-Income Developing Countries	4,1	4,9	4,9
European Union	5,5	3,7	0,7
ASEAN-5	3,8	5,2	4,3

Source: IMF's *World Economic Outlook*, (2023, Jan.)

Nonetheless, the Russia-Ukraine war that began in February 2022 puts global growth under immense pressure, after the emergence of the Covid-19 pandemic in 2019. Overall, the economic outlook for the world economy, from 2022 onwards, is dampened by several downside risks which include, e.g., the heightened global inflation, the economic growth slowdown in China, increased global supply chain disruptions, (iv) growing effects of global

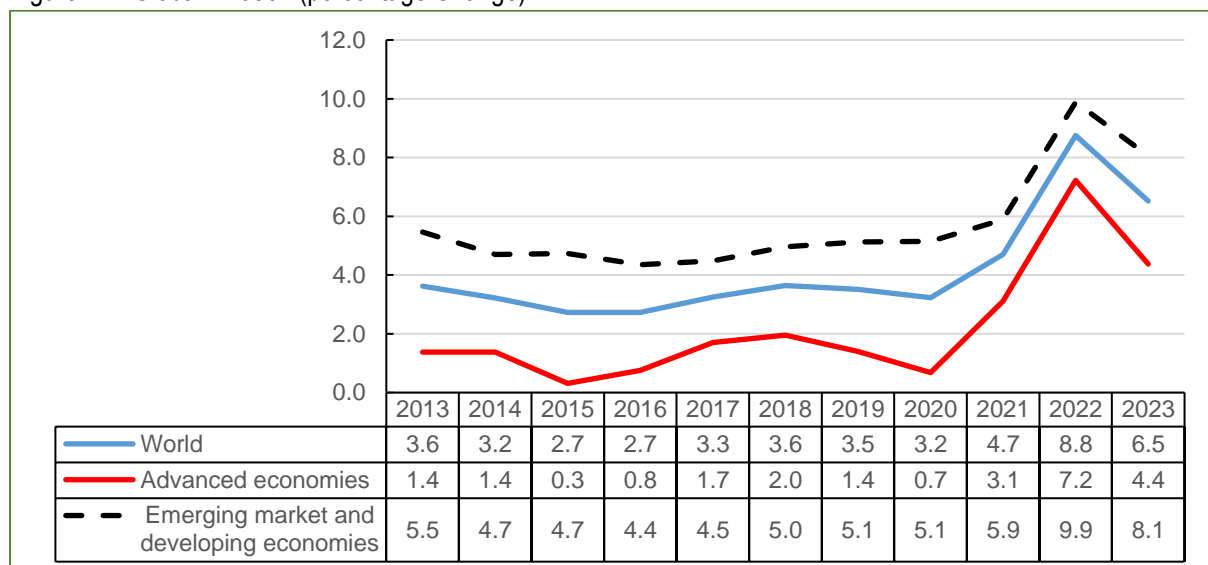
warming that causes unpredictable climate change, and weather pattern, rising geo-political tensions, and decreased global trade flow. The global economic growth is anticipated to decline to 3.4 per cent in 2022 (from 6.2 per cent in 2021) and 2.9 per cent in 2023.

Based on a recent growth forecast by the International Monetary Fund (IMF) in its published World Economic Outlook (WEO) reported in Table 1, economic activity level is anticipated to fall across the globe, with growth expected to fall in the advanced economies (AE) to 2.7 and 1.2 per cent in 2022 and 2023 respectively. A notable economic slowdown is anticipated in the United States (U.S), the Euro Area (EA) and the United Kingdom (U.K), possibly due to the high inflation rate and tightening monetary policy and the direct impact of the Russia-Ukraine war on the trade flow with the euro area. Contrariwise, the economic growth of the emerging and developing economies (EMDEs) is projected to fall to 3.9 per cent in 2022 but rise marginally to 4.0 per cent in 2023. This recent economic outlook for the region is influenced, majorly by the continued output losses associated with supply-side disruptions, the direct impact of the rafts of regional (trade and economic) sanctions imposed on Russia for invading Ukraine (higher-than-expected inflation, aggressive tight monetary policy stance adopted by the European Central Bank (ECB). However, the re-opening of China, the second largest world economy (perceived as a global growth driver), towards the end of 2022 is anticipated to positively contribute to global growth in 2023.

- **Global Inflation Outlook**

The global inflation rate decreased from 3.6 per cent in 2013 to 3.5 per cent in 2019. The global recession caused by the Covid-19 pandemic resulted in a further decline from 3.5 per cent in 2019 to 3.2 per cent in 2020. The Covid-19 associated economic and social lockdowns also resulted in major supply chain disruptions globally; however, the subdued economic environment outweighed the impact of the supply disruption in 2020. Together with the fiscal- and monetary policy support across various countries in 2020/21, the lockdown regulations eased following the development and distribution of vaccines, and economic activity subsequently picked up.

Figure 1.1: Global Inflation (percentage Change)



Source: IMF’s World Economic Outlook (2022, Oct.).

Furthermore, the existing supply disruptions continued, and all these factors fuelled the global inflation rate from 3.2 per cent in 2020 to 4.7 per cent in 2021. These pandemic effects persisted and were elevated by the further supply chain disruptions related to the Russia-Ukraine war. Thus, the global inflation rate quickened to 8.8 per cent

in 2022. However, major and developing economies applied monetary policy tightening at a faster pace in 2022, to try to anchor inflation and its future expectations. This, together with the slowdown in economic activity, might result in the decline of the global inflation rate from 8.8 per cent in 2022 to 6.5 per cent in 2023.

- ***Global Commodity Price Performance***

Commodity prices were elevated in 2021 and 2022 due to the pandemic's effects, as well as the Russia-Ukraine war. In the main, headline inflation surged due to rising food and energy prices, supply chain disruptions, an increase in economic activity and demand, as well as the demand for industrial commodities. Furthermore, the 2022 currency depreciation for some countries has led to an increase in commodity prices for importers. However, the slowdown in the global economic growth rate between 2022 and 2024 will likely dampen commodity prices in 2023 as well as in 2024.

To be specific, Russia's top export product is crude oil, and the outbreak of the Russia-Ukraine war resulted in the imposition of sanctions on Russia by some advanced economies, including the EU. Although Russia shifted some of its supplies to countries such as India and China, the general shortage of crude oil in key export markets such as the EU resulted in the surge of its prices from \$42.3 per bbl in 2020 to \$100.0 per bbl in 2022. The re-opening of economies in 2021 across the world as countries relaxed the Covid-19 lockdown measures also resulted in a surge in crude oil prices. Additionally, the war in Ukraine escalated these prices further. However, the weaker global economic prospects in 2023 might cause the price of crude oil to decline to \$92 per bbl, although the ongoing supply constraints may keep the price elevated.

Less demand and supply of crude oil has resulted in increased demand for its alternatives, which are coal and natural gas, e.g. in the EU. Whilst the price of coal increased from \$60.8 per mt in 2020 to \$138.1 per mt in 2021, it surged further to \$320 per mt in 2022. Also, whilst the price of natural gas rose from \$3.2 per MMBtu in 2020 to \$16.1 per MMBtu in 2021, the war's effects caused a further surge to \$40 per MMBtu in 2022. However, the World Bank (2022) anticipates that energy prices to reduce in 2023 and 2024, as economic activity subsides.

Global food inflation reached its peak in the second quarter of 2022, fuelled by supply disruptions in edible oils and meals following the Russia-Ukraine war outbreak (and the La Nina episode). Ukraine and Russia are top exporters of cereal crops (e.g. wheat, maize, and barley), whilst they are also key exporters of sunflower oil, which is one of the world's most dominant vegetable oils. Furthermore, food inflation has also been fuelled by input costs (e.g. fertilizers and crude oil), as well as hoarding by exporters after the outbreak of the war (e.g. Indonesia in relation to palm oil). As such, the price of sunflower oil has jumped from \$1057 per mt in 2020 to \$2021 per mt in 2022, whilst the price of palm oil rose from \$752 per mt to \$1275 per mt over the same period. The price of maize surged from \$165 per mt in 2020 to \$315 per mt in 2022, whilst the price of chicken rose from \$1.63 per kg to \$3.35 per kg over the reference period. Furthermore, the prices of key fertilizers also surged (e.g. the price of DAP increased from \$312 per mt in 2020 to \$790 per mt in 2022), together with that of crude oil. However, the downside risks faced by the global economy, together with the return of Ukraine's exports into the global market, will abate these prices in 2023/24.

The trend of global beverage prices has been mixed between 2020 and 2022. The price of Arabica coffee grew uninterruptedly from \$3.32 per kg in 2020 to \$5.90 per kg in 2022. The increase in the coffee price between 2021 and 2022 is attributed to the weather-induced shortfall in the production of the commodity in Brazil in 2021. Furthermore, the ongoing La Nina episode presents an upside risk to the price of coffee between 2022 and 2023. However, the replenishment of coffee production, together with the reduced demand, may allow the price to subside from \$5.90 per kg in 2022 to \$5.50 per kg in 2023. The price of tea escalated from \$2.69 per kg in 2021

to \$3.10 per kg in 2022. However, the tea price might subside to \$2.80 per kg in 2023. The 2022 price increase of tea is attributed to reduced production in key producers and exporters, due to rising input costs such as fertilisers. Furthermore, floods and sharp wage hikes caused a decrease in supply from India, whilst East African countries experienced drought. The price of tea might decline in 2023 as demand subsides in regions such as Eastern Europe and Central Asia (World Bank, 2022).

Table 1.2: Global prices of selected commodities

	2020	2021	Forecasts		
			2022	2023	2024
Crude oil, Brent (\$/bbl)	42,3	70,4	100,0	92,0	80,0
Australian coal (\$/mt)	60,8	138,1	320,0	240,0	212,3
European natural gas (\$/mmbtu)	3,2	16,1	40,0	32,0	28,0
			Edible oils		
Palm oil (\$/mt)	752	1131	1275	1050	1054
Soybean oil (\$/mt)	838	1385	1675	1550	1537
Sunflower oil (\$/mt)	1057	1719	2021	1840	1840
Olive oil (\$/mt)	2628	4185	4140	4065	4065
Iron ore (\$/dmt)	108,9	161,7	120,0	100,0	98,0
Aluminium (\$/mt)	1704	2473	2700	2400	2434
Copper (\$/mt)	6174	9317	8700	7300	7361
Gold (\$/toz)	1770	1800	1775	1700	1650
Maize (\$/mt)	165	260	315	290	287
Rice, Thailand 5% (\$/mt)	497	458	435	435	436
Chicken (\$/kg)	1,63	2,26	3,35	3,10	3,07
Beef (\$/kg)	4,67	5,39	5,90	5,80	5,82
Cocoa (\$/kg)	2,37	2,43	2,35	2,30	2,34
Coffee, Arabica (\$/kg)	3,32	4,51	5,90	5,50	5,41
Tea (\$/kg)	2,70	2,69	3,10	2,80	2,82
DAP (\$/mt)	312	601	790	750	650
Phosphate rock (\$/mt)	76	123	270	200	175
TSP (\$/mt)	265	538	735	650	550

Source: World Bank's Commodity Markets Outlook (2022, Oct.) & IMF's World Economic Outlook (2022, Oct.).

Contrariwise, the price of Cocoa is expected to decline uninterruptedly from \$2.43 per kg in 2021 to \$2.30 per kg in 2023, due to robust global supply and a decline in global demand. Most of the metal prices shown in table 1.4 below declined in 2022 and 2023. The price of iron ore is projected to decline from \$161.7 per dmt in 2021 to \$100 per dmt in 2023, due to (i) the slowing economic activity in 2022 and 2023, (ii) high input costs e.g. energy prices, (iii) the oversupply in the market, as well as (iv) the slowing construction activity and lockdowns in China. Copper prices are projected to decline from \$9317 per mt in 2021 to \$7300 per mt in 2023, due to the weak demand from China and the slowing global economy. However, the global price of aluminium increased from \$2473 per mt in 2021 to \$2700 per mt in 2022, due to lower production associated with high energy costs, which offset the effects of the slower global manufacturing activity. Although the price of aluminium is projected to fall to \$2400 per mt in 2023, it faces upside risks associated with lower production due to energy rationing in Europe as well as more sanctions imposed on Russian aluminium exports.

Lastly, the price of gold is projected to decline uninterruptedly from \$1800 per toz in 2021 to \$1700 per toz in 2023. The demand for gold was lowered by rising interest rates as well as the strength of the dollar in 2022. Gold is priced in Dollars, and the rising interest rate environment increases the opportunity cost of buying zero-yield safe haven assets. Therefore, these two factors more than offset any (potential) rise in demand caused by increasing global risks, such as rising global inflation and increased geopolitical tensions.

1.1. Regional Developments

The discussion in this sub-sector focuses on important macroeconomic developments, trade and labour market dynamics, influencing regional economic growth.

- **Advanced Economies Region**

The economic growth in the advanced economies grew by 5.4 per cent in 2021, but fell to 2.7 per cent in 2022, while a much lower growth of 1.2 per cent is forecasted for 2023 (Tables 1 and 2). Nonetheless, tourism-dependent countries among the AE recorded higher growth rates in 2022, for example, Spain and Italy grew by 5.2 per cent and 3.9 per cent, respectively.

Table 1.3: Advanced Economies

	Real GDP growth			CPI (% changes)		
	Actual	Expected		Actual	Expected	
	2021	2022	2023	2021	2022	2023
Aggregate AE	5,4	2,7	1,2	3,1	7,2	4,4
USA	5,9	2,0	1,4	4,7	8,1	3,5
Euro Area	5,3	3,5	0,7	2,6	8,3	5,7
United Kingdom	7,6	4,1	-0,6	2,6	9,1	9,0
Japan	2,1	1,4	1,8	-0,2	2,0	1,4
	Current Account balances (% of GDP)			Official unemployment rates		
	Actual	Expected		Actual	Expected	
	2021	2022	2023	2021	2022	2023
Aggregate AE	0,6	-0,6	-0,3	5,6	4,5	5,0
USA	-3,7	-3,9	-3,1	5,4	3,7	4,6
Euro Area	2,5	1,0	1,4	7,7	6,8	7,0
United Kingdom	-2,6	-4,8	-4,5	4,5	3,8	4,8
Japan	2,9	1,4	2,2	2,8	2,6	2,4

Source: IMF's WEO (Oct.2022 & Jan.2023)

Looking at the country-specific growth forecast among the AE countries, lower growth in economic activities is anticipated in the US (1.2 per cent), the UK (1.4 per cent) and Japan (0.7 per cent) in 2023, in comparison to the previous year (Table 2).

On the other hand, the inflation rate (measured by the consumer price index, CPI) is anticipated to ease somewhat in 2022—falling to about 4.4 per cent, in comparison to the marked growth rate of 7.2 per cent recorded in 2022 in the AE (Table 2). A similar pattern of ease in inflationary pressure is evident across the AE countries/region.

Particularly, among the AE grouping, a significant fall in general prices of goods and services is expected in the US and euro area, as the inflation rate declines to nearly 3.5 per cent (from 8.1 per cent in 2022) and 5.7 per cent (from 8.3 per cent in 2022) in 2023, respectively. While, countries like the UK and Japan are expected to experience marginal decreases in inflation rates of about 9 per cent and 1.4 per cent in 2023, in contrast to the CPI growth rate of 9.1 per cent and 2.1 per cent recorded in the previous year.

Overall, the pass-through effects of higher energy and food commodity prices, resulting from the raft of international sanctions on Russia (the second largest oil producer in the world) and trade flow constraints facing Ukraine to export produced grains (or wheat including other agricultural products such as fertilizer), may have caused the dramatic rise in global inflation (particularly in the AE) in 2022, albeit the resultant remedial strategies (for example, the repurposing coal mines, investment in alternative energy sources and the ramping up of oil production by OPEC+ countries) by the European Union (EU) and the US, to some extent, has lowered inflationary pressure globally.

Furthermore, the repercussion of the anticipated slowdown in global economic growth on the labour market performance palpably worsens the unemployment rate outlook, globally (see Table 2). More specifically, in line with the forecasted growth rate, the unemployment rate is expected to rise marginally to 5 per cent in 2023 (from 4.5 per cent) in the AE group. On the country/regional level, the UK is projected to produce the largest change in unemployment growth rate (+1.0 percentage point), followed by the US (+0.9 percentage point), while the relatively small change is forecasted for the euro area (0.2 percentage point).

- ***Emerging markets and developing economies (EMDE) Region***

In the EMDE region, economic growth contracted to 3.9 per cent in 2022 from 6.7 per cent in 2021 and is projected to rise to 4.0 per cent in 2023. Apart from the adverse impact of the widespread Covid-19 pandemic and ensuing hard lockdown restriction; shortage of supply of natural gas, sharp growth in world oil-price and agricultural produce emanating from the expanding international sanction from major advanced economies (especially, the US, UK, EU, and Japan) on Russia for Ukraine's invasion are noteworthy global factors impacting heavily on economic activity level performance in EMDE region. The Chinese real estate crisis and its zero-Covid 19 restrictions also amplified the restraint on EMDE's regional growth.

Considering growth performance on a country-specific level (Table 3), economic growth in China--the leading country amongst the EMDE group, is projected to expand to about 5.2 per cent in 2023 (from 3.0 per cent in 2021) due to, for example, the recent opening up of the country's domestic economy as the stringent zero-Covid-19 regulation is removed. Meanwhile, intensifying public investments in climate transition and infrastructure projects will stimulate domestic growth in China (OECD, 2022).

In the rest of EMDE, economic growth is broadly anticipated to a slowdown in 2023, for instance, contraction in the economic growth of 6.1 per cent, 1.2 per cent, and 2.6 per cent are projected for India, Brazil and South Africa, while Russia is expected to experience negative growth (-2.2 per cent), over the period under review.

Akin to the downward revision of global inflation, except in China, the general price level of goods and services is anticipated to fall to 5.1 per cent (from 6.9 per cent), 4.7 per cent (from 9.4 per cent), 5.0 per cent (from 13.8 per cent), and 5.1 per cent (from 6.7 per cent) for India, Brazil, Russia and South Africa.

As regards labour market performance in the EMDE grouping, owed to varying idiosyncratic and domestic structural factors existing in each country, the unemployment rate is generally expected to rise in both Russia and South Africa to nearly 4.3 per cent (from 4 per cent in 2021) and 35.6 per cent (from 34.6 per cent in 2021),

respectively. On the contrary, improvement in labour markets in China and Brazil is expected in 2023, with unemployment rates decreasing to 4.1 (from 4.2) per cent and 9.5 (from 9.8) per cent, respectively.

Table 1.4: Emerging Economies

	Real GDP growth			CPI (% changes)		
	Actual	Expected		Actual	Expected	
	2021	2022	2023	2021	2022	2023
Aggregate EMDE	6,7	3,9	4,0	5,9	9,9	8,1
China	8,4	3,0	5,2	0,9	2,2	2,3
India	8,7	6,8	6,1	5,5	6,9	5,1
Brazil	5,0	3,1	1,2	8,3	9,4	4,7
Russia	4,7	-2,2	0,3	6,7	13,8	5,0
South Africa	4,9	2,6	1,2	4,6	6,7	5,1
	Current Account balances (% of GDP)			Official unemployment rates		
	Actual	Expected		Actual	Expected	
	2021	2022	2023	2021	2022	2023
Aggregate EMDE	0,8	1,3	1,0	n/a	n/a	n/a
China	1,8	1,6	1,3	4,0	4,2	4,1
India	-1,2	-3,5	-2,9	n/a	n/a	n/a
Brazil	-1,7	-1,5	-1,6	13,2	9,8	9,5
Russia	6,9	12,2	11,1	4,8	4,0	4,3
South Africa	3,7	1,2	-1,0	34,3	34,6	35,6

Source: IMF's WEO (Oct.2022 & Jan. 2023)

- **Sub-Saharan Africa (SSA) Region**

The performance of economic activity level in the SSA region is susceptible to previously discussed favourable and adverse global developments. Overall, compared to other regions in the world, SSA's economic performance has been resilient to global and regional shocks, particularly at the height of the Covid-19 pandemic. As shown in Table 1.5, the region's economy expanded by 4.3 per cent in 2021, but contracted to 3.4 per cent in 2022 and is expected to grow to 3.6 per cent in 2023 (World Bank, 2023). Some of the major risks facing the SSA region include the slowdown of advanced- and emerging market economies, tight global financial conditions and volatile commodity prices (IMF, 2022). Additionally, the considerable rise of global and domestic inflation resulted in tight global financial conditions have increased food and energy costs, causing food insecurity for over 140 million people in the region. Further, the food insecurity problem in the SSA is deepened by the growing external debts and limited space for fiscal policy to provide safety nets for the most vulnerable. Also, the deleterious effects of the ongoing Russia-Ukraine war have differentiated effects on African countries in the SSA region, with oil exporters benefiting from a 16 per cent increase in their terms of trade due to the rise in global oil price, whilst non-resource-intensive countries faced a worsened terms-of-trade of about by 4.5 per cent (IMF, 2022).

The economic performance of the SSA regions continued to be supported by net oil producers, which include Nigeria and Angola. The economic performance of the three largest economies (based on GDP), namely Nigeria, South Africa and Angola (NSA) collectively declined from 3.9 per cent in 2021 to 2.6 per cent in 2022, partly because of the dramatic contraction in South Africa's growth to 2.6 per cent (from 4.9 per cent) (World Bank, 2023). Moreover, despite the benefit of higher oil prices, Nigeria's economic growth fell to 3.1 per cent in 2022 from

the recorded 3.6 per cent in the previous year. This unusual economic decline in Nigerian's GDP can be attributed to the sudden reduction in global demand for crude oil (owing to the international sanction on Russia for invading Ukraine), heightened (public, financial and political) insecurity owed to weakened foreign exchange, reduced financial liquidity, and prolific insurgency by Boko Haram, with a larger adverse effect on the non-oil section of the economy (World Bank, 2022). Contrariwise, Angola's economic growth accelerated from 0.8 per cent in 2021 to 3.1 per cent in 2022, because of increased global demand for oil and a surge in global oil prices.

Looking forward, in 2023, the economic growth of NSA is anticipated to slow down, somewhat to about 2.3 per cent in 2023 (from 2.6 per cent recorded in 2022). This mild economic contraction in the NSA group can be attributed to country-specific idiosyncratic and structural shocks, for example, the economic activity level in South Africa is expected to fall because of an extensive infrequent electricity supply, limited fiscal space, weakened financial landscape due to greylisting, fiscal consolidation that severely limit government bailout for failing public entities, sluggish growth, subdued consumer demand, fall in trading partner's growth and demand. While, Nigeria is still burdened with production and security challenges in its oil sector, which will also restrain the performance of the non-oil sector in 2023. In addition, global oil prices are anticipated to soften in 2023, which could adversely affect the receipts of oil revenue by Nigeria and Angola.

Table 1.5: Sub-Saharan Africa forecast summary

Annual percentage changes (unless indicated otherwise)	2021	2022	2023
	Estimate	Forecast	
EMDE SSA, GDP	4,3	3,4	3,6
Private consumption	10,1	3,7	3,1
Public consumption	-2,1	0,7	0,7
Fixed investment	6,0	6,8	7,0
Exports, GNFS	2,7	6,0	6,6
Imports, GNFS	15,5	8,7	7,2
Memo items: GDP			
SSA excluding South Africa, Nigeria and Angola	4,6	4,2	4,8
<i>Oil exporters</i>	3,1	3,1	2,9
<i>CFA countries</i>	4,1	4,3	5,2
GDP of SSA's three largest (or leading) economies	3,9	2,6	2,3
South Africa	4,9	1,9	1,4
Nigeria	3,6	3,1	2,9
Angola	0,8	3,1	2,8

Source: World Bank's Global Economic Prospects (2023), January.

Considering other important developments in the SSA region (see, Table 1.5), the subdued macroeconomic prospects for regional growth in SSA so far, have resulted in a decline in private consumption growth to 3.7 per cent in 2022 (from decelerated from 10.1 per cent in 2021), and expected to contract further to about 2.9 per cent in 2023, on aggregate. On the other hand, since 2021, public consumption improved somewhat, rising to about 0.7 per cent in 2022, following the notable decline of 2.1 per cent in 2021. On aggregate, the growth in public consumption in the SSA is forecasted to remain at 0.7 per cent, partially owed to countries such as Cameroon, Kenya and Nigeria that have implemented fuel subsidies in response to the rising global oil prices. On the upside, the anticipated steady recovery in the global economy would support vibrant economic growth in the SSA region.

Furthermore, the growth trend of fixed investment in the SSA region remains impressive since 2021 (Table 1.5), which grew to about 6.8 per cent in 2022 (from 6 per cent in 2021), and is projected to improve further to 7.0 per

cent in 2023. Aggregated regional export growth followed the same growth trajectory, growing to 6 per cent in 2022 from 2.7 per cent in 2021, and export growth of 6.6 per cent is expected in 2023. Notably, the muted global economic outlook for 2023 may cause the world prices of precious metals and oil commodities to soften, reflecting a marginal growth in the aggregated fixed investment and exports for the SSA region in 2023.

Lastly, the growth rate of imports in the SSA region, on aggregate, is projected to fall from 15.5 per cent in 2021 to 8.7 per cent in 2022, and a further decline to 7.2 per cent is anticipated in 2023. This impact is most likely due to the rising costs of imports, which reduces import demand.

All in all, SSA's economic growth is anticipated to expand from 2023 onward, as the elevated inflation rate decreases, and export demand for oil and natural gas increases. Some of the major downside risks for the region include contractionary monetary policy stance by Central Banks to curb inflation, unsustainable growing fiscal debt (and debt servicing costs), continued tight global financial conditions and heightened geo-political tensions, global economic slowdown, and shrinking fiscal space.

2. DOMESTIC OUTLOOK: THE SOUTH AFRICAN ECONOMY

After a decade of slow growth, the South African economy (SAn, hereafter domestic or national economy), on average, grew just above 1 per cent between 2012 and 2019. While the country is faced with a severe low-growth condition, the emergence of the Covid-19 pandemic caused a drastic economic slump that resulted in negative growth of 6.3 per cent in 2020, accompanied by a 5.6 per cent decline in income per capita in 2020. However, South Africa's post-Covid-19 pandemic recovery resulted in an economic growth rate of 4.9 per cent in 2021, due to the re-opening of the global economy.

Nonetheless, the momentum of this notable South African economic recovery was short-lived, owing to adverse global and structural domestic shocks, which led to a 2.6 per cent contraction in domestic growth in 2022. Although the first half of 2022 saw a considerable uptick in employment growth, even so, most of the socio-economic indicators underperformed due to the endogenous and global downside risks facing the fragile South African economy in the same year. For example, the labour market dynamics were still grim, whilst inflation rose to a 13-year high. Additionally, poverty levels reached heights not seen in more than a decade. Given this gloomy picture, it has become crucial for the national government to intensify its efforts to fast-track the ongoing economic reforms (for instance, *Operation Vulindlela*) to support economic recovery, attract foreign direct investment and create a conducive business environment. These pro-growth measures are also necessary to address the prevailing high unemployment rate, poverty rate and growing inequality in the country.

As a small-open economy, South Africa remains susceptible to transmitted shocks associated with global developments, especially most recent unfavourable global conditions such as the volatile commodity prices, deepening global fragmentation (or geopolitical tensions), the decline in trade and capital flows further exacerbated by the continuing Russia-Ukraine war, etcetera. On top of these, the deleterious impacts of idiosyncratic and structural shocks on the South African economy are telling; for example, the National Treasury (MTBPS, 2022) highlights some of the long-standing structural constraints affecting economic growth trajectory, which includes the unreliable and extensive shortage of electricity supply, weak state capacity (i.e., poor public and financial governance), rising inflation reflected in high electricity costs- and food prices, significant destruction caused by natural disasters linked to unpredictable climate change, the limited fiscal space -causes low revenue and elevated gross government debt (as a share of GDP), as well as high levels of market concentration and barriers to market entry which suppress the emergence and growth of small businesses.

Deductively, the current macroeconomic environment severely limits the effective and efficient creation of jobs, leaving the country unable to elevate economic growth and reduce the high levels of poverty and inequality.

- ***The trend of the South African Gross Domestic Product (GDP) Growth***

As previously mentioned, South Africa's economy rebounded in 2021 by expanding by 4.9 per cent—this growth rate is 2 percentage points lower than the National Treasury's forecast tabled in the 2021 MTBPS (National Treasury, 2021). However, the unfavourable impacts of the widespread Covid-19 infection and the violent protests that started in Kwazulu-Natal province in July 2021 had a considerable detrimental impact on the country's economic performance in the third quarter, which resulted in a contraction of about 1.8 per cent in 2021. Nonetheless, the 4.9 per cent economic growth rate in 2021 was an improvement from the 6.3 per cent economic contraction recorded in 2020.

Turning to a sectoral performance presented in Table 1.6, the sectors that recorded the highest growth rates in 2021 were mining (12.0 per cent), manufacturing (6.5 per cent) and trade (6.4 per cent). Mining benefited from the re-opening of the global economy which resulted in an increase in the demand and prices of industrial commodities. Post the 2021 July social unrest, manufacturing recovered significantly in the last quarter of 2021, as production increased in eight of the ten sub-industries, in response to the increase in export demand following the easing of shipping constraints. As the global and domestic economies re-opened, the retail and tourism sub-components of the trade industry expanded, in line with an improvement in final household expenditure (SARB, 2022).

Although the domestic economy shrunk from 4.9 per cent in 2021 to 2.6 per cent in 2022, it subsequently grew by 1.7 per cent in the 1st quarter of 2022 on the back of strong performance from some secondary and tertiary sectors, with the highest growth rates recorded in manufacturing (5.0 per cent), followed by trade (3.1 per cent), transport and finance (1.8 per cent each). Despite the persistent global supply chain disruptions, a shortage of raw materials as well as power shortages (load shedding), manufacturing managed to increase the production of both durable and non-durable goods.

After the economic recovery in 2021, the trade sector and sub-sectors experienced some growth, while the performance of the transport industry was supported by the shift from transporting commodities via rail to the road. Albeit, the finance industry remained resilient, recording good performance across the insurance, real estate and business services subsectors, alongside a recovery in the financial markets.

Contrariwise, the primary industries of the economy reflected a visible contraction in the first quarter of 2022. Agriculture and mining declined by 2.4 per cent and 2.1 per cent respectively. Agriculture was among the industries that sustained the economy amid the Covid-19 outbreak, but it battled with biosecurity issues in 2021. For instance, the outbreak of locust infestation negatively affected crops, while the Foot-and-Mouth Disease (FMD) hindered the export- and sales of animals and related products such as beef and wool. Meanwhile, the ongoing Russia and Ukraine conflict also exerts considerable pressure on the performance of the country's Agricultural sector, as the raft of international sanctions on Russia limits its trade flow with South Africa.

Furthermore, the above-average rainfall and operational efficiency challenges at the Durban and Cape Town ports were among the factors that affected the performance of the agricultural sector at the start of 2022. For instance, Cape Town's port holds about 40 per cent of South Africa's agriculture and agro-processing products' exports, and the emergence of any disruption would have negatively affected agricultural trade. Strikes and the ramp-up of load shedding in the country have weighed heavily on mining as an energy-intensive sector. In addition, the activity in the mining sector declined following a strike at South Africa's second-largest gold producer, Sibanye-Stillwater, between March 9th and June 13th.

After two consecutive quarters of growth, real economic activity in South Africa contracted by 0.7 per cent in the second quarter of 2022 – this is a sector-wide activity contraction, partly attributed to the adverse effects of global sanctions on Russia. In this quarter, economic activity in both the primary and secondary sectors declined, whereas the tertiary sector remained resilient, albeit more slowly. Specifically, the economic activity in the primary sector fell by 5.1 per cent owing to low production in the mining and agriculture sectors, with the latter falling by 7.7 per cent in the second quarter of 2022 (as a result of lower production of animal goods caused by the FMD outbreak and significant rise in input costs), while output in the mining sector dipped by 3.5 per cent (as production fell across its related subsectors).

In contrast, economic activities improved in only three sectors, with the highest growth observed in the transport sector at 2.4 per cent and the personal services sector produced the lowest growth of 0.1 per cent (Table 1.6). Overall, South Africa’s economic growth in the first half of 2022 was 1.4 percentage points higher compared to the same period a year earlier, but 0.3 percentage points lower than the 2019 level.

Looking at the sectoral performance in the third quarter of 2022, the South African economy expanded by 1.6 per cent, as most of the industries expanded and performed better than in the preceding quarter. In this quarter, significant growth in economic activity was observed in the agriculture sector (19.2 per cent), followed by transport (3.7 per cent) and construction (3.1 per cent). Particularly, the notable growth in the agricultural sector can be associated with the increased production of field crops and horticulture, whereas the transport sector performed positively because of increased road transportation, and the expanding communication sector. Meanwhile, the rail network challenges persisted during this period, and the growth in the construction sector was supported by the increased economic activity level of its sub-components.

Table 1.6: GDP growth in SA per quarter (constant 2015 prices)

	2021:Q1	2021:Q2	2021:Q3	2021:Q4	2022:Q1	2022:Q2	2022:Q3
Primary industries							
Agriculture	6,1	11,3	-24,7	16,4	-2,4	-11,1	19,2
Mining	4,1	2,0	-1,1	-3,2	-2,1	-3,5	2,1
Secondary industries							
Manufacturing	0,4	-1,8	-4,3	2,4	5,0	-5,7	1,5
Electricity	-0,6	0,6	0,3	-3,1	2,0	-1,2	-2,1
Construction	0,2	-1,6	-1,1	-2,6	-0,8	-2,0	3,1
Tertiary industry							
Trade	0,9	3,2	-4,4	3,9	3,1	-1,0	1,3
Transport	-2,8	6,7	-1,6	2,9	1,8	2,4	3,7
Finance	0,9	-0,5	1,2	-0,7	1,8	2,5	1,9
General government services	0,2	-0,5	0,3	-0,3	1,4	-1,5	0,3
Personal services	1,0	2,7	0,3	2,5	0,8	0,1	-1,2
GDP at market prices	0,8	1,4	-1,8	1,4	1,7	-0,7	1,6

Source: Statistics South Africa (2002)

Conversely, the electricity and personal services sectors contracted in the third quarter of 2022, by 2.1 per cent and 1.2 per cent, respectively. Extensive electricity supply shortage (i.e., load shedding) led to a considerable

decline in electricity production and consumption during the quarter being discussed, this in turn, adversely affects water consumption. However, the economic activity decline observed in the personal services sector most likely reflects the subdued demand for personal business services by consumers and businesses.

- **The trend of South Africa’s Domestic Expenditure**

Generally, the gross domestic expenditure (GDE) reflects the total value of spending within a border of a country for a specified period, including expenditure by households, government and firms. As depicted in Table 1.7, except for the third quarter of 2021, a positive GDE was positive in South Africa but with a minute growth in 2021, which is in line with the country’s economic recovery in the same year. The recovery in production and expenditure continued in the first quarter of 2022, and GDE expanded by 2.2 per cent, supported by an increase in gross fixed capital formation (3.4 per cent), household expenditure (1.2 per cent), and government (1.1 per cent).

However, consistent with the contraction in real GDP, the growth of GDE slowed down drastically to 0.9 per cent in the second quarter of 2022, with a slight growth in both household expenditure and gross fixed capital formation (GFCF) by 0.6 per cent and 0.4 per cent, respectively, while general government contracted by 0.8 per cent in the period being analysed. Whereas household expenditure only added a 0.4 percentage point to total growth, and GFCF contributed a 0.1 percentage point, whilst government expenditure subtracted a 0.1 percentage point from total growth. Furthermore, real inventory holdings accumulated at a faster pace over the same period, reflecting the decline in economic activity in the same quarter.

Table 1.7: Percentage change in real gross domestic expenditure (seasonally adjusted but not annualised rates – residual excluded)

GDE Growth	2021				2022		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Final consumption expenditure							
Final household consumption	0,5	1,6	-2,8	3,0	1,2	0,6	-0,3
Final government consumption	-0,6	0,4	0,5	0,2	1,1	-0,8	0,5
Gross fixed capital formation	-3,1	-0,3	-1,1	1,6	3,4	0,4	0,3
Domestic final demand	-0,2	1,1	-1,9	2,2	1,5	0,3	-0,1
Change in inventories (R billions)	-21,8	-41,6	6,0	-25,0	4,8	31,4	62,9
Gross domestic expenditure	1,8	0,6	-0,8	1,5	2,2	0,9	0,6
Exports of goods and services	1,7	3,0	-6,9	8,3	3,8	-0,2	4,2
Imports of goods and services	6,7	0,2	-3,4	8,4	5,1	5,5	0,6
Expenditure on gross domestic product	0,6	1,4	-1,8	1,5	1,8	-0,7	1,6

Source: Statistic South Africa (2022:Q3) & South Africa Reserve Bank (2022:Q3, GDE).

Nevertheless, in the second quarter of 2022, households spent more on services, while expenditure on goods declined. In the same period, government consumption expenditure fell by 0.8 per cent, in part due to the low capital outlay investment across all spheres of government, the decline in real compensation of employee payments as well as goods and services. However, the GFCF expanded at a slower pace in the same quarter owing to the slow growth in private (sector) expenditure, and lower public (sector) expenditure.

By and large, it is worth mentioning that export growth deteriorated from 8.3 per cent in the fourth quarter of 2021, to 0.2 per cent in the second quarter of 2022, as a result of deteriorating rail infrastructure and industrial strikes. Import growth fell to 5.4 per cent in the first quarter of 2022 from 8.4 per cent in the last quarter of 2021. However, imports recovered and expanded by 5.5 per cent in the second quarter of 2022, reflecting the increased import of refined petroleum products, chemicals, prepared foodstuff, beverages and tobacco (SARB, 2022)

Moreover, the GDE deteriorated from 0.9 per cent in the second quarter of 2022 to 0.6 per cent in the third quarter of 2022, partly because of final household expenditure contraction and decreased expenditure on GFCF. In this quarter, final household consumption decreased by 0.3 per cent, and GFCF growth slowed down to 0.3 per cent from 0.4 per cent. Despite the improvement of the final government consumption from a contraction of 0.8 per cent in the second quarter of 2022 to an expansion of 0.5 per cent in the third quarter of 2022, the overall domestic final demand declined by 0.1 per cent in the third quarter. The decline in the demand within the economy was also evident through the changes in inventory and slow import growth.

On the other hand, inventory accumulation increased in the third quarter, as its value doubled from R31.4 billion in the previous quarter to R62.9 per cent, whilst the import growth rate fell to 0.6 per cent (from 5.5 per cent) over the same period. Nonetheless, the performance of exports improved, from a contraction of 0.2 per cent in the second quarter of 2022 to an expansion of 4.2 per cent in the succeeding quarter, owing to increased export of machinery & equipment, prepared foodstuff, beverages and tobacco (SARB, 2022).

- ***Trends of Inflation and Interest Rate in South Africa***

Similar to the global inflation's trajectory, the inflation rate in South Africa rose above the 6 per cent upper band of the inflation targeting range in 2022, in part, owed to the surge in commodity prices, especially oil and agricultural produce, underpinned by the restrictive international economic sanctions on Russia (the 2nd largest oil-producer in the world) for Ukraine's invasion, and subsequent constrained export of agricultural product (i.e., grains, wheat and fertilizer) from Ukraine to its trading partners. As a result, the headline inflation in South Africa grew from 5.7 per cent in January 2022 to its peak of 7.8 per cent in July 2022.

At the sectoral level, in the same period, domestic inflation was highest in transport (25.0 per cent), followed by food & non-alcoholic beverages (9.7 per cent) and restaurants & hotels (6.5 per cent). Inflation in the transport sector peaked in the same month, while it reached 12.5 per cent in the food & non-alcoholic beverage in November 2022, and averaged 7.9 per cent in the restaurants & hotels sector between September and December 2022. In addition to the rising geo-political tensions in 2022, structural endogenous shocks in South Africa significantly contributed to the elevated inflation growth rate, these include ageing rail infrastructure, weakened domestic currency exchange rate, higher utility costs and unexpected natural disasters, particularly the destructive flood in KwaZulu-Natal province that left many people homeless and public (i.e., water, electricity and road) infrastructures severely damaged.

At the same time, it is worth mentioning that the domestic inflation rate, that is, in South Africa is responding to the interest rate normalisation path (or monetary policy stance) adopted by the South African Reserve Bank (SARB) to gradually raise the interest rate to prevent the economy overheating since the domestic interest was cut drastically between 2020 and 2022 to ease the burden of the restrictive Covid-19 regulations that led to the closure of businesses, decline in domestic demand and production. In particular, the inflation rate fell to 7.2 per cent in (December) 2022 and decelerated from 7.8 per cent in (July) 2022.

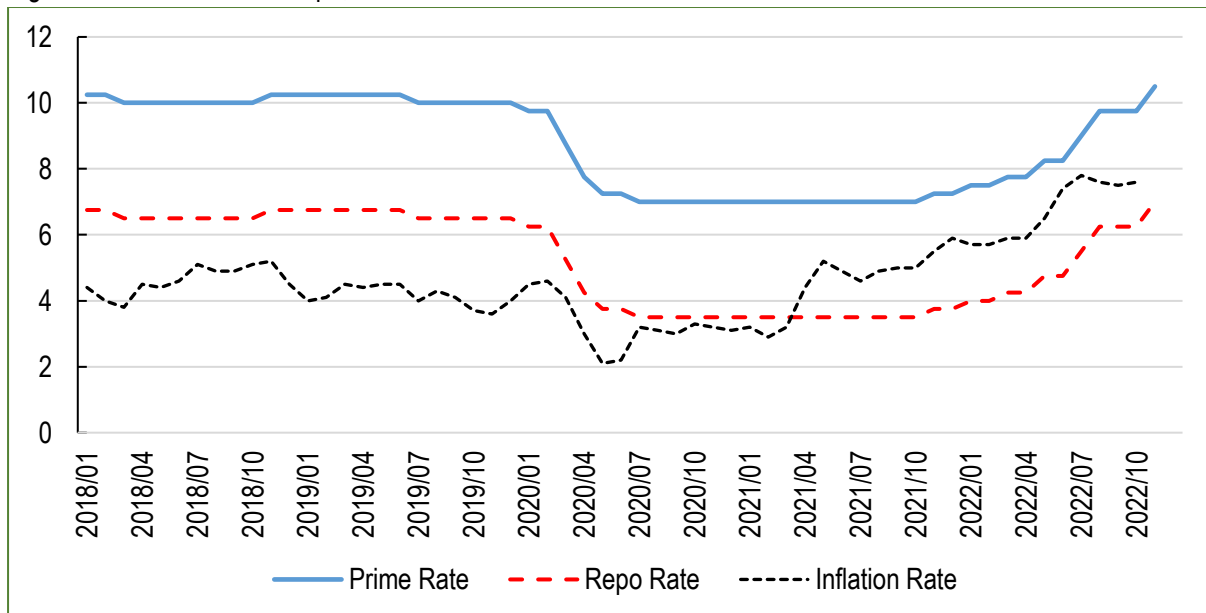
Table 1.8: Headline inflation in South Africa (% change over 12 months)

	2022												
	Weight	January	February	March	April	May	June	July	August	September	October	November	December
All items CPI - headline	100,0	5,7	5,7	5,9	5,9	6,5	7,4	7,8	7,6	7,5	7,6	7,4	7,2
Food and non-alcoholic beverages	17,24	5,7	6,4	6,2	6,0	7,6	8,6	9,7	11,3	11,9	12,0	12,5	12,4
Alcoholic beverages and tobacco	5,82	4,7	4,8	5,9	6,3	6,6	6,7	5,5	5,1	5,9	6,2	6,5	6,2
Clothing and footwear	3,83	1,5	1,6	1,6	1,7	1,7	2,0	2,3	2,5	2,8	2,8	2,7	2,8
Housing and utilities	24,62	4,3	4,4	4,8	4,8	4,9	5,1	4,0	4,0	4,2	4,3	4,3	4,1
Household contents and services	4,35	2,2	2,6	3,0	3,3	4,3	4,7	4,9	5,1	5,1	5,5	5,6	6,1
Health	1,40	3,4	4,9	4,9	4,7	4,9	5,1	4,5	4,6	4,3	4,6	4,8	4,8
Transport	14,28	14,5	14,3	15,7	14,7	15,7	20,0	25,0	21,2	17,9	17,1	15,3	13,9
Communication	2,63	-0,9	-0,9	-0,9	-0,9	-0,6	-0,2	-0,6	-0,3	-0,4	-0,4	-0,9	-0,9
Recreation and culture	5,16	1,9	2,0	1,7	1,5	1,9	2,1	3,0	2,8	2,9	2,9	2,9	3,4
Education	2,53	4,1	4,1	4,4	4,4	4,4	4,4	4,4	4,4	4,4	4,4	4,4	4,4
Restaurants and hotels	3,09	5,0	6,1	6,7	5,6	6,2	6,2	6,5	5,8	7,9	7,8	7,9	7,8
Miscellaneous goods and services	15,05	4,6	3,2	3,2	3,8	3,9	4,0	3,6	3,7	4,0	4,8	4,8	4,9

Source: Statistics South Africa (2022, Consumer Price Index), December.

On the policy front, the SARB (2022) opined that rapid implementation of the structural reforms will boost productivity growth, and lowers inflation and interest rates. These reforms include alleviating the prevailing energy crisis (in this case interrupted electricity supply), which could raise real private investment in the energy sector by roughly 15 per cent annually from 2023 to 2025, and raise the economic growth rate by about 0.9 percentage points in the first year.

Figure 1.2: South Africa's Repo, Prime and Inflation Rates



Source: SARB (2022, Prime rate and repo rates), Statistics South Africa (2022, Consumer Price Index, Oct)

2.1. Key risks for the South African economy

Table 1.9 below summarises the risks faced by the global and national economies as of January 2022.

Table 1.9: Global and domestic risks

Global Risks	Domestic Risks
On-going Covid-19 pandemic	Disrupted global recovery
The impact of the Russia-Ukraine war	Rising inflation (food, petrol, etc)
Elevated global inflation	Supply disruptions
Ongoing supply chain disruptions	Damage to rail infrastructure
Rising oil prices	Poorer conditions of road infrastructure
Rising food costs (including input costs)	Aggressive monetary policy tightening
Tightening financial conditions for EMDE	Load shedding
Rising interest rates amongst AE and EMDE	Less fiscal space
Potential capital outflows for EMDE	Limited revenue avenues
Weakening currencies	Rising public debt
Elevated debt levels amongst EMDE	Expensive/ high debt service cost
Potential financial instability amongst EMDE	Additional permanent expenditure items e.g. BIG
Reduced growth in China	Subdued business investment
Stop-start lockdowns	Rising unemployment rate
Worsening property/ construction challenges	Increased dependency burden
Rising geo-political tensions	Reduced private consumption
Less global co-operation	Natural disasters
Diversion of global trade and supply disruptions	The April 2022 KZN floods
Reduced global trade	Floods caused by the current La Nina episode
Weaker private consumption recovery	Corruption
Tight labour markets	
USA and other advanced economies	
Climate change	

2.1.1. Policy implications to mitigate the key risks in the economy

- *IMF's World Economic Outlook (October 2022)*

The IMF (2022) recommends policies to tackle the current global challenges, categorised according to the period of their impact i.e. immediate impact, medium-term impact, as well as long-term impact.

In the short term, countries need to tackle the high level of inflation, by raising interest rates long enough and at a pace that will keep inflation (and inflation expectations) anchored. Additionally, fiscal policy should support monetary policy in overheating economies and labour markets. Each country needs to take into account:

- (i) the timing and the costs associated with disinflation;
- (ii) the coordination of monetary- and fiscal policy;
- (iii) other idiosyncratic tools available to manage international capital flows whilst maintaining the fitting path for monetary- and fiscal policy;
- (iv) protecting the vulnerable during the normalization of policy;
- (v) Reducing and/or eliminating Covid-19 risks;

In the medium term, countries need to (i) improve frameworks related to debt resolution, (ii) prepare for tighter financial conditions, and (iii) implement structural reforms such as increasing supply to ease inflation.

In the long term, countries need to (i) implement climate change policies, and (iii) strengthen multilateral coordination to reduce geo-political and/or geo-economic fragmentation.

- *The 2022 Medium Term Policy Statement (MTBPS) by National Treasury*

The National Treasury (2022) listed the structural impediments to higher economic growth as load shedding; inefficient and costly ports and rail networks; crime and corruption; weak state capacity; and high levels of market concentration as well as barriers to entry for SMMEs. In summary, the Minister of Finance made the following recommendations.

- (i) Grow an inclusive economy
 - Maintain the country's macro-economic framework;
 - Accelerate reforms in various sectors such as electricity and logistics.
- (ii) Strengthen state capacity
- (iii) Invest in infrastructure which enables economic growth
 - Reverse the trend of the declining gross fixed capital formation (GFCF),
 - Create policy certainty and ease constraints and costs of doing business,
 - Address supply constraints related to the energy and transport industries, and
 - Increase on-budget infrastructure allocation.
- (iv) Mitigate and adapt to climate change
 - Finalise negotiations on the pledges by the International Partner Group for the Just Transition;
 - Ensure that the energy transition is just;
 - Cabinet has approved the investment plan that will facilitate the energy transition.

(v) Address risks faced by State-Owned Entities

- The funding of SOEs will come with strict pre- and post-conditions.

(vi) SANRAL

In addressing the costs incurred to implement the Gauteng Freeway Improvement Project:

- The Gauteng Provincial Government (GPG) will pay 30 per cent of the SANRAL debt and interest thereof;
- The national government will pay 70 per cent of the remaining financial obligations;
- The GPG will cover the costs to maintain the project as well as the interchanges of roads, by raising funds through the existing e-toll infrastructure or new toll plazas, or by other revenue-sourcing means.

(vii) ESKOM

- The government will take over between one-third or two-thirds of the utility's R400 billion debt;
- Eskom and the associated stakeholder will follow strict conditions before and during the transfer of the debt;
- The conditions will address the utility's challenges such as managing its costs, addressing municipal and household arrears, as well as providing greater clarity and transparency related to tariff pricing.
- National Treasury will lead the review of ESKOM's operations.

(viii) Modernising procurement

- The highest standards of transparency in the tendering process will be applied;
- The Public Procurement Bill will be introduced to parliament in March 2023;
- The new Preferential Procurement Regulations of 2022 replaced the 2017 regulations.

(ix) Fighting crime and corruption

- Protect honest accountants and authorities who make decisions in good faith from prosecution and civil litigation
- The auditing and other preventative measures will be strengthened;
- Companies and individuals who facilitate corruption will face punitive administrative action; and
- Additional resources will be allocated to security forces;
- Police will recruit an additional 15000 constables over the medium term.

(x) Avoid the grey-listing by the Financial Action Task Force

- Two bills have already been tabled in Parliament to address weaknesses within the legislative framework

- Significant progress has been made by the Directorate of the National Prosecuting Authority, the Asset Forfeiture Unit, the SIU as well as SARS in combating anti-money laundering and corruption;
- Additional resources will be allocated to the NPA, SIU, the Financial Intelligence Centre and SARS to improve state capability in investigating and prosecution related to financial crime;
- The government will publish a revised national risk assessment strategy on anti-money laundering and terror financing.
- *South Africa's Energy Action Plan*

South Africa is currently facing a national energy crisis, with a 6000MW shortage of energy availability. Old and unmaintained fleet, design flaws in the construction of Medupi and Kusile power stations, as well as theft, fraud and sabotage, caused this challenge. Even before the Energy Action Plan was developed, several undertakings took place to alleviate challenges at Eskom. These included:

- The revival of the renewable energy procurement programme in 2018;
- Bid Window 4 was able to connect 2000 MW of energy to the grid;
- 2600MW of energy was procured through Bid Window 5, which will be added to the grid in early 2024;
- Other parties were allowed to generate electricity besides ESKOM;
- The licensing threshold for other parties was raised from 1MW to 100MW;
- Regulations were changed to allow municipalities to procure power independently;
- Land was availed next to the Mpumalanga power stations to generate renewable energy to the tune of 1800MW.

The National Energy Crisis Committee (NECOM) was established and the President presented the Energy Action Plan in July 2022. This action plan has five objectives, which are to (i) improve the performance of Eskom's existing fleet of power stations, (ii) accelerate the procurement of new generation capacity, (iii) increase private sector investment in electricity generation, (iv) encourage businesses and households to invest in rooftop solar, as well as (v) fundamentally transform the electricity industry for its future sustainability.

(i) *Improve the performance of Eskom's existing fleet of power stations*

- Eskom will increase the budget allocation of critical maintenance;
- The red tape concerning buying maintenance spares and equipment will be reduced;
- The utility is recruiting skilled personnel, which include former senior Eskom plant managers and engineers who moved to the private sector;
- Additional electricity from other sources will be brought through existing IPPS, as well as mines, paper mills, shopping centres and other private entities with surplus power;
- Energy will also be imported from other Southern African countries such as Botswana and Zambia, through the Southern African Power Pool;
- Mobile generators will be utilised in the interim to supplement energy generation;
- A programme to encourage consumers to utilise energy efficiently during peak times will be implemented;

- National Treasury will finalise a sustainability solution for the Eskom debt;
- External funding for the Just Transition will be utilised to invest in the grid and repurpose end-of-life cycle power stations;
- The first solar and storage projects will be constructed at Komati, Majuba, Lethabo and several other power stations, to generate 500MW;
- Arrests are being made whilst others are being prosecuted for corruption and fraud related to Eskom contracts;

(ii) Accelerate the procurement of new generation capacity from renewables, gas and battery storage

- The construction of all Bid Window 5 projects will start on schedule;
- A pragmatic approach to the local content requirements for projects will be taken;
- The procurement of capacity through Bid Window 6 for wind and solar energy will be doubled from 2600MW to 5200 MW
- Proposals for battery storage be done, whilst the request for gas power will immediately follow;
- The Integrated Resource Plan of 2019 will be reviewed to include extra generation capacity, a decision on the remaining allocations of the plan; more bid windows will be opened;

(iii) Increase private sector investment in electricity generation

- The licensing threshold for embedded generation capacity was removed in 2022;
- New generation projects must still be registered with the regulator and comply with the technical requirements for grid connection and environmental legislation;
- The regulatory requirements for solar projects in low and medium environmentally sensitive areas will be reduced;
- In low and medium sensitivity areas, Eskom can expand power lines and substations without environmental authorisation;
- There will be a single point of entry for the application of energy projects;

(iv) Encourage businesses and households to invest in rooftop solar

- Rules and pricing structure (feed-in-tariff) will be developed by Eskom to encourage greater rooftop solar installation for commercial and residential purposes;
- Excess energy created through the rooftop solar installation can be sold to Eskom;

(v) Fundamentally transform the electricity industry for its future sustainability

CHAPTER 2

ECONOMIC STRUCTURE AND PERFORMANCE OF THE FREE STATE PROVINCE

Chapter 2: Quick Facts

- The Free State's contribution towards the national GDP has declined from 5.3 per cent in 2012 to 5.0 per cent in 2021.
- Within the Free State province, the size of the primary industries has collectively enlarged from 14.3 per cent in 2012 to 16.8 per cent in 2021. However, the secondary- and tertiary industries have reduced in size, as the secondary industries have declined from 16.7 per cent to 14.8 per cent, whilst the tertiary industries have declined from 69.0 per cent to 68.4 per cent over the reference period.
- Despite the reduction of the tertiary industries between 2012 and 2021, this group still encompasses the largest industries provincially, which are community services (27.8 per cent), finance (20.3 per cent) and trade (12.6 per cent).
- Contrariwise, the smallest industry in the province is the construction industry, which accounted for 1.7 per cent as of 2021, followed by electricity (3.3 per cent) and agriculture (6.6 per cent).
- For the period 2012 to 2021, all provinces became less diversified in terms of their sectors. As it relates to the Free State province, its Tress Index has increased from 41.73 to 42.51 over the reference period. In 2021, Mpumalanga had the most diversified economy with a Tress Index of 38.56, followed by the Free State province.
- Furthermore, the Free State province has a comparative advantage in agriculture (2.42), mining (1.19), transport (1.08), community services (1.08) and electricity (1.06).
- The Russia-Ukraine war interrupted the path to economic recovery, which resulted in an economic growth rate of 3.7 per cent in 2021 in the Free State province. Although the 2022 estimates are currently not available, the provincial economic growth is likely to decrease in 2022.
- Similar to the national economy, the Free State province faced the following challenges in 2022: 1) heightened global- and domestic inflation, 2) tighter financial conditions for the consumers and businesses, as well as 3) reduced consumer welfare.
- The Russia-Ukraine war intensified at the beginning of 2023. That is, countries such as Germany, the USA, the UK and Poland have supplied weapons to Ukraine. Furthermore, interest rates are rising globally to anchor inflation, whilst Covid-19 has dampened growth expectations for China in 2023. Additionally, load shedding will be a permanent fixture in the next two years. Therefore, the national- and provincial economic outlooks face downside risks.
- To this end, the economic growth rate of South Africa was revised downwards to 1.2 per cent in 2023, which means the Free State province will expand by a minute growth rate as well.

2.1. INTRODUCTION

Although the Free State economy was experiencing a recession in 2019, the outbreak of the highly transmissible Covid-19 pandemic and the ensued restrictive lockdown regulation deepened the economic activity slump further, which led to a negative provincial growth of 7.0 per cent in 2020. As the global and domestic economies re-opened, the provincial economy rebounded, posting a growth of 3.7 per cent in 2021. But, this recovery was interrupted by the continuing Russia-Ukraine war that began in February 2022, resulting in, *inter alia*, the heightening of the global and domestic inflation rates, tightening global financial conditions, weakened domestic exchange rates and lower cross-border trade flows. The cumulative effects of the global and structural endogenous shocks have led to a lower growth outlook for the country in 2022 (2.6 per cent) and 2023 (1.2 per cent).

Given that the provincial economy historically follows the same growth trajectory as the domestic economy, a similar muted economic outlook is forecasted for the Free State, evinced by a much lower growth estimate of about 2 per cent in 2022, and 0.8 per cent in 2023. Going forward, this provincial economic growth outlook may worsen, for example, if the extensive load shedding (i.e., frequent electricity supply shortage) persists, and the Russia-Ukraine war escalates.

2.2. STRUCTURAL COMPOSITION OF FREE STATE ECONOMY

The composition of the Free State economy is presented in Table 2.1 showing its aggregated sectoral structure, in terms of its three main industries (i.e., primary, secondary and tertiary industries) and their nine sub-industries.

Based on the performance data in Table 2.1, the tertiary industry contributed 68.4 per cent to the Free State economy, with the primary and secondary industries contributing about 16.8 and 14.8 per cent, respectively, in 2021. Further, a 10-year review reveals that, on average, the tertiary industries contracted to 68.4 per cent in 2021 (from 69.0 per cent in 2012), representing a 0.6 percentage point contraction. Whereas the size of the secondary industries contracted from 16.7 per cent in 2012 to 14.8 per cent in 2021 (equivalent to a 1.9 percentage points reduction). Conversely, the share of the primary industries grew to 16.8 per cent (from 14.3 per cent in 2012), denoting a 2.5 percentage point growth.

Table 2.1: Share of sectoral contributions to the Free State economy (current prices)

Industry	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Primary Industries	14.3	14.1	14.1	12.3	13.4	13.6	13.5	13.4	16.4	16.8
Agriculture, forestry and fishing	4.2	4.2	4.7	5.0	5.6	5.7	5.7	5.1	6.5	6.6
Mining and quarrying	10.1	9.9	9.4	7.4	7.8	7.9	7.8	8.3	9.9	10.2
Secondary Industries	16.7	16.8	16.2	17.7	17.8	16.7	17.1	16.3	14.9	14.8
Manufacturing	11.0	11.1	10.4	11.7	12.0	11.0	11.4	10.9	9.9	9.8
Electricity, gas, water	3.0	2.8	3.1	3.4	3.4	3.3	3.3	3.2	3.2	3.3
Construction	2.7	2.9	2.6	2.5	2.4	2.3	2.4	2.2	1.8	1.7
Tertiary	69.0	69.1	69.6	70.0	68.7	69.7	69.5	70.3	68.7	68.4
Trade, catering and accommodation	14.7	14.2	13.9	13.6	13.2	13.4	13.4	13.2	12.0	12.6
Transport, storage and communication	9.0	9.0	9.5	9.5	9.3	9.0	9.0	8.9	7.8	7.7
Finance, real estate and business services	17.5	17.7	18.5	18.9	18.1	19.5	19.5	20.2	20.5	20.3
Community services	27.8	28.1	27.8	27.9	28.1	27.9	27.8	28.1	28.4	27.8

Source: IHS Markit's Regional eXplorer (2022)

Moreover, an in-depth analysis of the six priority industries of the province shows that only agriculture and mining grew significantly over 10 years, that is from 2012 to 2021 (see Table 2.1). More specifically, the share of the agriculture industry increased from 4.2 per cent in 2012 to 6.6 per cent in 2021, while mining increased by 10.2 per cent in 2021 from 10.1 per cent in 2012.

Meanwhile, the remaining four industries, namely manufacturing, trade, transport and construction, declined over the reference period, with a notable decline in the share of the manufacturing industry from 11.0 per cent to 9.8 per cent, tourism decreased from 14.7 per cent in 2012 to 12.6 per cent in 2021), and transport's contribution declined from 9.0 per cent in 2012 to 7.7 per cent in 2021. Whereas, construction, generally contributes the least to the provincial economic growth, declined from 2.7 per cent to 1.7 per cent in the same period being studied.

Table 2.2: Provincial contribution to national GDP (constant 2015 prices)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Western Cape	14,0	14,0	14,1	14,1	14,2	14,2	14,2	14,2	14,3	14,4
Eastern Cape	7,9	7,8	7,8	7,7	7,8	7,7	7,7	7,7	7,6	7,7
Northern Cape	2,1	2,0	2,1	2,1	2,0	2,1	2,1	2,1	2,0	2,1
Free State	5,3	5,2	5,2	5,2	5,1	5,1	5,1	5,1	5,0	5,0
KwaZulu-Natal	16,1	16,1	16,2	16,1	16,2	16,2	16,2	16,2	16,2	16,0
North-West	5,3	5,3	5,1	5,3	5,1	5,1	5,1	5,1	5,0	5,1
Gauteng	35,7	35,8	35,9	35,9	36,0	36,0	36,1	36,2	36,4	36,3
Mpumalanga	6,9	6,9	6,9	6,9	6,8	6,8	6,8	6,8	6,7	6,6
Limpopo	6,8	6,8	6,7	6,8	6,7	6,7	6,7	6,7	6,7	6,8

Source: IHS Markit's Regional eXplorer (2022)

Similarly, Table 2.2 gives the relative contribution (in constant prices) across the nine South African provinces to the domestic (or national) GDP, over a 10-year period, that is, from 2012 to 2021. Based on a 10-year growth analysis, on average, Gauteng appeared as the largest growth contributor to South Africa's GDP, contributing about 36.0 per cent over the review period, followed by Kwazulu-Natal, which contributed about, 16.1 per cent, and the Western Cape with a share of 14.2 per cent, over the reviewed period.

But, the Northern Cape emerged as the lowest contributor to domestic GDP, producing an average growth of 2.1 per cent between 2012 and 2021. On the other hand, based on the 10-year analysis, smaller provinces such as the Free State and North West produced average growth of roughly 5.1 per cent and 5.2 per cent, respectively, to the national GDP.

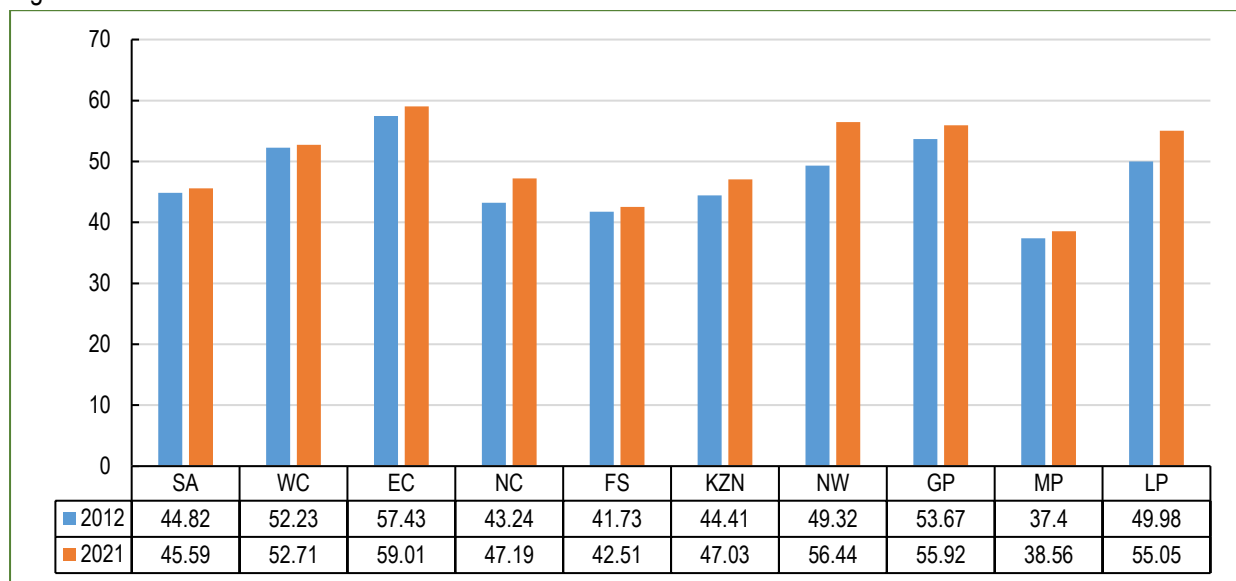
Next, the Tress index measures the concentration of economic activity by a particular sector in an economy (see Figure 2.1). As the tress index moves closer to zero, it indicates a diversified economy and that all sectors contribute at the same scale to the gross value added (GVA) of the economy. On the contrary, if the tress index is closer to 100, it indicates that the economy is dependent on one or a few industries (or sectors). Because of the deleterious effects of the widespread Covid-19 pandemic, many industries had difficulties getting back to their optimal performance level. For instance, the tress index for the Free State economy deteriorated to 42.5 in 2021 from 41.7 in 2012, which is lower than the national tress index of 45.6 in 2021 (from 44.82 recorded in 2012).

Holistically, the tress index of other provinces also worsened over the 10-year reference period, with North West having the worst-performing tress index which fell to 56.4 in 2021 (from 49.3 in 2021), whereas, Mpumalanga remain the most diverse economy with a tress index of 38.7 in 2021, followed by the Free State, as previously elucidated.

On the other hand, in 2021, the Free State province had a comparative advantage in the agriculture, mining, electricity, transport and community services industries, with the latest location quotient of these industries reflecting 2.42, 1.19, 1.06, 1.08 and 1.08, respectively. Based on a 10-year review period, an increase in location quotient only occurred in the agriculture and transport sectors. In this context, agriculture’s location quotient grew from 1.94 to 2.42, while transport’s quotient rose to 1.08 (from 1.02). Contrariwise, the location quotient of mining declined from 1.49 in 2012 to 1.19 in 2021, and a similar decrease is noted for the electricity sector, decreasing to 1.06 from 1.1, over the same period. Last but not the least, the location quotient of community services declined from 1.14 in 2012 to 1.08 in 2021.

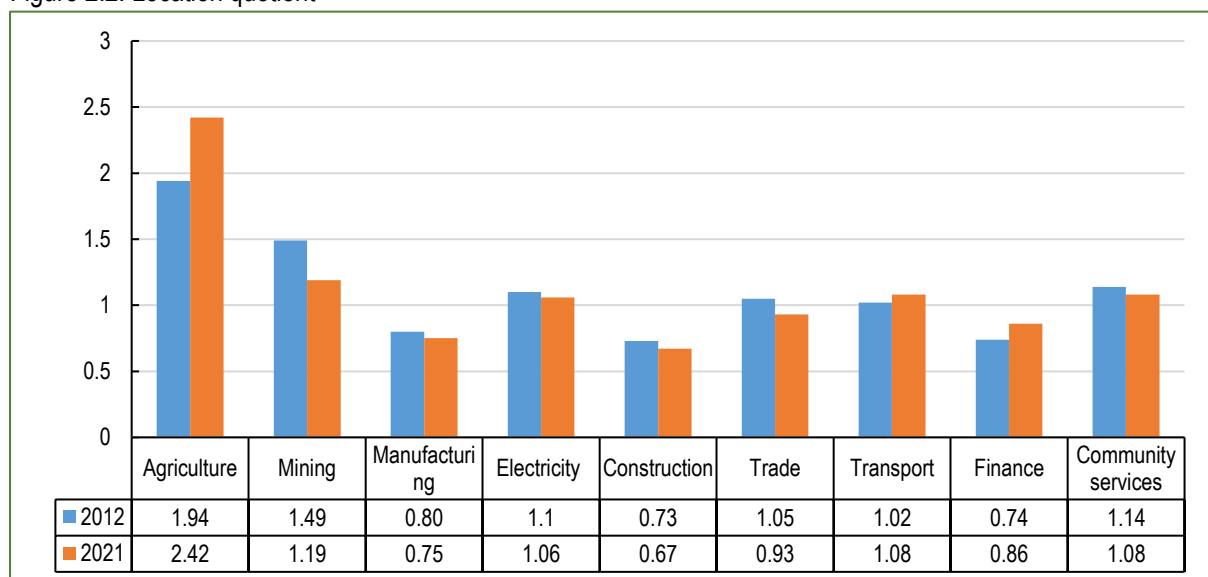
Meanwhile, manufacturing, construction, trade and finance all have location quotients below one (1) and worsened further over the 10-year review period, nonetheless, only the location quotient of finance increased from 0.74 in 2012 to 0.86 in 2021 (see Figure 2.2).

Figure 2.1: Tress Index



Source: IHS Markit’s Regional eXplorer (2022)

Figure 2.2: Location quotient



Source: IHS Markit’s Regional eXplorer (2022)

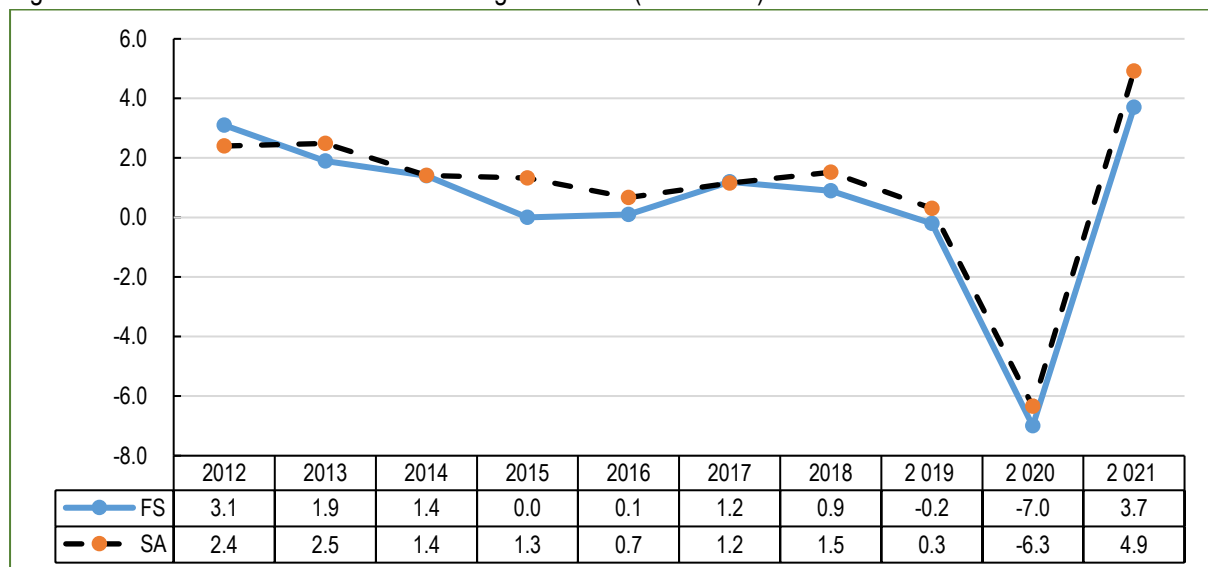
2.3. OVERVIEW OF THE PROVINCIAL ECONOMIC PERFORMANCE

Over the last decades or so, South Africa’s economy grew, on average, by 1.0 per cent, which is 0.5 percentage points above the Free State’s average growth rate of 0.5 per cent between 2012 and 2021. In the same review period, the national (and consequently the provincial) economy suffered a couple of major setbacks, which include, among others (i) the 2012-2014 global commodity slump, (ii) the 2015/16 drought, (iii) the 2015 domestic currency depreciation, (iv) the 2018 early currency depreciation and the USA-China trade tension, (v) the on-going load-shedding, and (vi) the highly contagious Covid-19 infection that evolved into a global pandemic in 2019.

Nevertheless, toward the end of the year 2019, the world experience the unhealthy effects of the Covid-19 infection that infected millions across the globe, causing a massive death toll, rapid economic disruption as restrictive lockdown rules (that hinder cross-border trade flow, migration and transportation) are widely implemented across countries/regions around the globe to curtail the prevalence of the Covid-19 infection virus, to curtail. As previously mentioned, the deleterious impact of this global development and lockdown regulations implemented by the South African government, worsen the Free State’s economic performance, which declined to 7.0 per cent in 2020 and negative growth of 0.2 per cent in 2019. Nonetheless, the easing of the restrictive lockdown rules that open the domestic economy and allow inter-provincial migration, allowed the provincial economy to rebound somewhat in 2021, registering an economic growth of 3.7 per cent (see Figure 2.3).

As can be seen in Figure 2.3, amid the emergence of recent global shocks, the South African economy recovered in 2021, to post a growth rate of about 4.9 per cent in 2021, but fell to 1.9 per cent 2022 (National Treasury, 2022). Also, the domestic challenges faced by the country in 2022 include rising input costs, the outbreak of the foot-and-mouth disease, the disastrous flood in KZN province, continued supply chain disruptions, industrial strike(s), and extensive electricity supply shortage (long-hours load-shedding), as mentioned earlier in Chapter 1.

Figure 2.3: South Africa and Free State GDP growth rates (2012-2021)

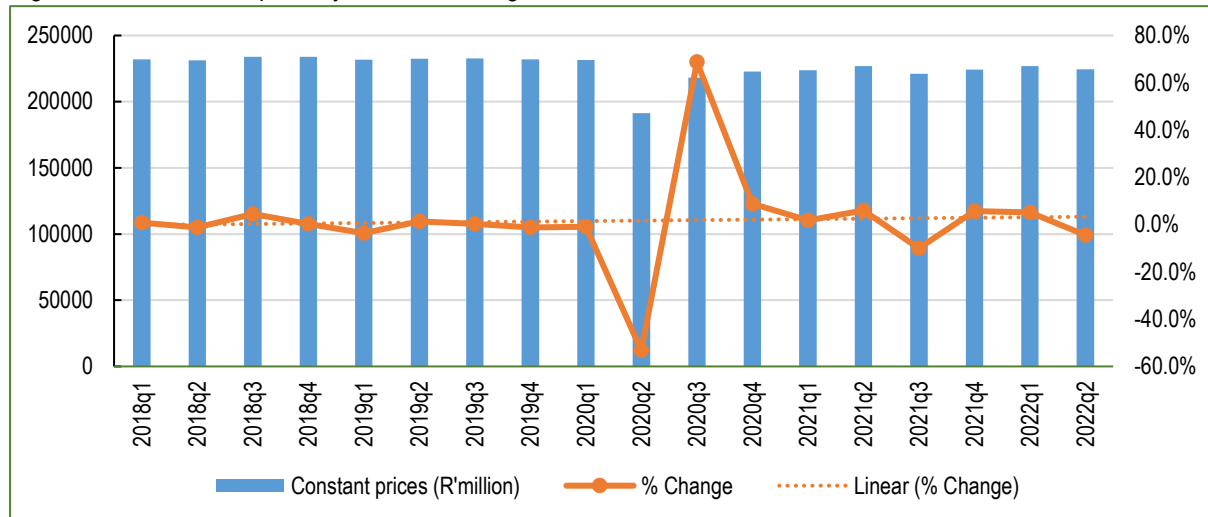


Source: IHS Markit’s Regional eXplorer (2022)

For an insightful analysis, Figure 2.4 gives the changes in Free State’s economic size and growth trend spanning the period 2018 to 2022 (see Figure 2.4). As evident, the Free State economy recorded low economic growth in 2018, during recent recessions in 2019 and 2020. Akin to the global and domestic (i.e., South African) economy, the province experienced an economic recovery in 2021 (see Figure 2.3), growing by 1.8 per cent, 5.9 per cent and 5.7 per cent in the first, second and last quarters of 2021, respectively. In the main, the observed expansion

in the provincial economy during these aforementioned three quarters was buoyed by the favourable growth performance in the agriculture, trade, transport and finance sectors. But, in the third quarter of 2021, the provincial economy declined by 10 per cent, partly owed to the effects of violent protests in Kwazulu-Natal and Gauteng in July 2021, July riots, which led to a dramatic fall in output performance in the primary, secondary and half of the tertiary industries.

Figure 2.4: Free State quarterly GDP size and growth rate, 2018:Q1 – 2022Q2.



Source: IHS Markit's Regional eXplorer (2022)

Moreover, Table 2.3 provides a clearer picture of the quarterly performance of the Free State economy by industry (or sector) in 2022. In the first quarter, the provincial economy expanded by 5.1 per cent supported by growth in the manufacturing (25.6 per cent), trade (10.7 per cent) and transport (8.8 per cent) sectors. Noticeably, the favourable performance of manufacturing and trade industries supported the ongoing economic recovery, given a subsequent increase in production and the sale of both durable and non-durable goods such as petroleum and its by-products, as well as food and beverages, among others. While, in the same quarter, the transport industry benefitted from the surge in the transportation of commodities (e.g. coal) by road to ports.

It is important to note that the primary industries declined in the first quarter of 2022, partly because of the decline in the mining sector by 19.1 per cent, and agriculture by 7.9 per cent. The decline in the mining industry can be attributed to, among others, the recent industrial strike support by the Unions in the gold sector, the continued shortage of electricity supply and high input costs. On the contrary, the slump in the agriculture sector performance was, in part, due to the crop damage caused by the La Nina episode during the 2021/22 production season, high input costs, and lower production of animal products.

Looking at the second quarter of 2022, the provincial economy shrunk by 4.5 per cent, as economic activity in the primary and secondary industries dropped dramatically. Among these industries, the largest contractions occurred in the agriculture (26.3 per cent), followed by manufacturing (22.3 per cent) and mining (20.4 per cent) sector. The poor performance in the agriculture sector can be linked to, for example, the outbreak of the Foot-and-Mouth disease that caused low sales, and production of animal products, rising input costs (e.g. fertilizers), and constrained trade flow underpinned by the ongoing Russia-Ukraine war. In the same vein, the observed poor performance in the manufacturing industry is associated with the low production of petroleum & by-products, extensive load shedding, elevated input costs, port disruptions, and supply chain bottleneck. Most of these factors also affected the performance of the mining sector in the first quarter of 2022.

Table 2.3: Free State quarterly economic growth rate, 2021:Q1 – 2022:Q2.

	Free State					
	2021:Q1	2021:Q2	2021:Q3	2021:Q4	2022:Q1	2022:Q2
Agriculture	33,3	57,9	-67,1	86,7	-7,9	-26,3
Mining	1,9	-1,9	-13,3	-20,2	-19,1	-20,4
Manufacturing	-15,0	-15,0	-20,4	9,1	25,6	-22,3
Electricity	-2,2	1,8	-0,1	-13,7	4,4	-6,4
Construction	0,5	-6,5	-4,4	-10,1	-3,1	-9,2
Trade	2,6	12,5	-17,5	15,1	10,7	-7,0
Transport	-10,5	29,8	-5,9	12,9	8,8	10,5
Finance	5,2	-1,5	5,0	-2,9	7,0	9,7
Community services	2,4	6,1	0,9	5,8	3,5	-2,0
Total GDP Growth	1,8	5,9	-10,0	5,7	5,1	-4,5

Source: IHS Markit's Regional eXplorer (2022)

2.4. ANALYSIS OF PRIORITY SECTORS OF THE PROVINCIAL ECONOMY

In general, the Free State's economy constitute of five prioritized industries, as mentioned in the Free State Growth and Development Strategy (FSGDS)—an provincial economic policy document. These priority sectors were selected to fast-track Pillar 1 of the six pillars governing the vision, which are (i) inclusive growth and sustainable job creation, (ii) education, innovation and skills development, (iii), improved quality of life, (iv) sustainable rural development, (v), building social cohesion and (vi) good governance. In this context, the industries analysed in this sub-section consist of five drivers, which will contribute towards realising the vision in 2030. These drivers are:

- Driver 1: Diversify and expand agricultural development and food security.
- Driver 2: Minimise the impact of the declining mining sector and ensure that existing mining potential is harnessed.
- Driver 3: Expand and diversify manufacturing opportunities.
- Driver 4: Capitalise on transport and distribution.
- Driver 5: Harness and increase tourism potential and opportunities.

Furthermore, though the construction industry is not a priority industry, it remains a vital industry needed to urgently stimulate the provincial economy, improve economic development and create labour-intensive jobs. Therefore, the construction industry is poised to play a vital role in the post Covid-19 recovery. Likewise, policymakers at the national and provincial levels, need to improve expenditure on infrastructure investments to drive output growth and capital accumulation (in this case, GFCF) to reinforce growth recovery. Premised on this rationale, an analysis of the performance of the construction industry along with the identified priority industries is discussed here.

2.4.1. Analysis of the Provincial Economy's Primary Industries

Considering first, the analysis of the primary sector, comprising the agriculture and mining industries, which collectively account for 16.8 per cent of the Free State economy (IHS Markit, 2022). This 2021 figure explains the mainstay of the province's primary sector that rose from the recorded 13.4 per cent in 2019. Moreover, the agriculture sector contributed nearly 5.1 per cent in 2019 to the primary sector's performance, which increased further to 6.6 per cent in 2021. Similarly, the size of the mining industry increased from 8.3 per cent in 2019 to 10.2 per cent in 2021.

Noticeably, the agricultural industry played a significant role to shore up the provincial economy during the heights of the Covid-19 pandemic and accompanying restructure lockdown regulations, as it grew by 15.3 per cent in 2020. The re-opening of the most domestic economies globally, aided the impressive performance of the primary sector in 2021, which expanded by 12.1 per cent (see Table 2.4). Despite the continued resilience of this particular sub-sector, it faces several downside risks since 2021, such as severe natural disasters (droughts), escalating input costs, as well as foot-and-mouth disease. Thus far, the agriculture industry recorded negative growth rates in the first two quarters of 2022 (Table 2.3), and it is expected that its size will shrink further in the long term.

During the Covid-19 pandemic, the provincial mining industry declined by 13.1 per cent, as the 2020 lockdown regulations prevented industries from operating, and the price of base metals fell. But, the re-opening of economies in 2021 led to an increase in the demand and prices of base metals; these positive external developments caused the provincial mining industry to expand by 1.7 per cent in 2021. It is noteworthy to mention that the gold sub-industry dominates the provincial mining industry; even so, the gold and uranium sub-industry fell by 3.0 per cent, and a decline of 8.8 per cent was recorded in the coal and lignite sub-industry in 2021, despite the fragile recovery of the provincial mining industry. Going forward, the combined effects of rising domestic interest rates, and, a fall in the demand for, and price of gold as a safe-haven asset, would cause a considerable contraction in the Free State's mining industry in 2022 and 2023.

2.4.1.1. Performance of the Agriculture, Forestry and Fishing sub-industries

The contribution of each South African province to the national agricultural industry is presented in Table 2.4. Compared to other provinces, between 2012 and 2021, the Free State's agriculture sector contributed, on average, about 10.7 per cent to the national agriculture industry, following the same industries in the KwaZulu-Natal and the Western Cape, with impressive contributions of 25.1 per cent and 22.1 per cent, respectively to the national agriculture industry. Whereas, the agriculture sectors in provinces like Eastern Cape, Northern Cape and the North West yielded the least contribution to the national agricultural industry, averaging 5.7 per cent, 6.2 per cent and 6.7 per cent, respectively.

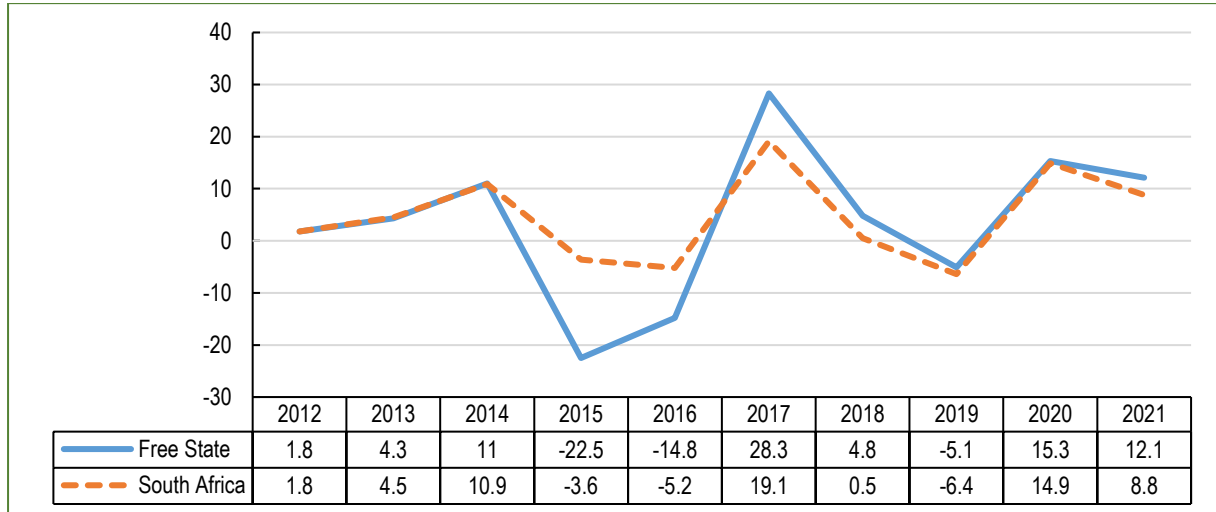
Table 2.4: Contribution of provinces to agriculture, forestry and fishing sub-sectors to the national primary industry (%), 2012 – 2021

Province	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Western Cape	22.3	22.3	22.0	21.7	22.1	21.9	22.0	22.1	22.2	22.8
Eastern Cape	5.7	5.5	5.9	6.0	6.1	6.2	5.6	5.4	5.3	5.4
Northern Cape	6.6	6.3	6.8	7.0	6.2	6.2	6.1	5.8	5.6	5.6
Free State	9.6	9.7	9.9	10.1	10.5	10.3	11.2	11.5	11.9	12.1
KwaZulu-Natal	26.1	26.4	25.5	25.6	25.3	25.1	24.8	24.7	24.5	23.2
North West	6.5	6.5	6.9	6.5	6.8	6.9	6.6	6.8	6.8	6.9
Gauteng	6.4	6.5	6.8	6.8	7.0	6.8	6.5	6.7	6.7	6.8
Mpumalanga	9.1	9.3	9.2	8.9	8.6	8.8	8.9	8.7	8.6	8.8
Limpopo	7.8	7.5	7.1	7.4	7.5	7.8	8.4	8.2	8.4	8.5

Source: IHS Markit's Regional eXplorer (2022).

The same as the national agricultural sector, the Free State's agricultural sector comprises sub-sectors such as aquaculture, horticulture, dairy farming, game farming, and fruit production, crop and animal production. The province accounts for about 14.5 per cent of South Africa's commercial farming, as of 2023. Hence, this industry remains a major and the most significant mainstay of the provincial economy, particularly as a source of employment and food security.

Figure 2.5: South Africa and Free State agriculture, forestry and fishing sector growth rates, 2012 – 2021



Source: IHS Markit's Regional eXplorer (2022)

Albeit, the agriculture industry has faced several challenges recently such as the adverse impact of Covid-19, unfavourable climate (e.g., severe drought), insufficient water available for farming, and the, food-and-mouth disease outbreak that restricted animal export and cattle sale. Moreover, the low production and limited export opportunities create financial distress for farmers, while the increasing prices of crude oil (petrol) and diesel escalate production costs. Then again, consumer welfare is adversely affected by the heightened inflation rate, which in turn, lowers aggregate domestic demand and consumption of some agricultural products.

Given the status quo, the provincial government can only stimulate substantial growth in the agricultural sector via intensive public investment and providing sustained support for small commercial farmers. Additionally, a conducive environment that enhances unfretted access to durable land, a vibrant export market and funding is needed to invigorate the sectoral contribution of the provincial agriculture sector to both the national GDP and provincial GDP.

Also, the province needs to develop a detailed database for small-scale commercial farmers to connect to a viable source of financing and potential investors. To raise provincial exports, diversification (e.g., crop) in the agriculture sector, the use of innovative technology for water and rainfall prediction, and early detection of animal and crop diseases become essential.

2.4.1.2. Performance of the Mining and quarrying sub-industries

As shown in Table 2.1, the Free State mining industry contributed roughly 10.2 per cent to the provincial GDP in 2021, and mining commodities benefitted from the re-opening of global economies, while there was also a surge in the demand and prices of base metals. Consequently, the metal ores sub-industry contributed about 13.8 per cent to the economic activity growth in the provincial economy in 2021, with the mining and quarrying sub-industry expanding by 11.2 per cent (IHS Markit, 2022).

Relatedly, the gold sub-industry also grew by 3.0 per cent in 2021, but a marginal increase of 1.7 per cent in the mining industry's contribution to the Free State economy was recorded, reflecting the province's heavy dependence on the mining of precious metals compared to base metals. As stated previously, the combined effects of rising interest rates globally, as well as the declining demand-and prices of precious metals may cause the Free State's mining industry to underperform in 2022.

A closer look at Table 2.5 depicts the contribution of provincial mining and quarrying industries to the national mining and quarrying industry. Utilizing a 10-year analysis spanning the period 2012 to 2021, the largest contributing provincial mining and quarrying sectors to the same national (primary) industry are Limpopo (25.0 per cent), followed by North West (23.9 per cent) and Mpumalanga (21.7 per cent). Notably, Limpopo province has a diversification of mineral deposits, including platinum, chrome, coal and diamonds, while the North West province is infamous for its PMG deposits, and Mpumalanga's main mining reputation centres on coals.

The provinces that contributed the least to the national mining industry are Eastern Cape (0.2 per cent), Western Cape (0.5 per cent) and KwaZulu-Natal (3.2 per cent), during the review period. However, the Free State province's mining and quarrying sector contributed, on average, 6.8 per cent to the same national industry, between 2012 and 2021, thus ranking fifth among the South African provinces. It is worth mentioning that the main commodities mined in the Free State are gold, diamonds, bituminous coal, as well as construction minerals (e.g., clay, sandstone, etc.).

Table 2.5: Contribution of provincial mining and quarrying sub-sectors to the national primary industry (%), 2012 – 2021

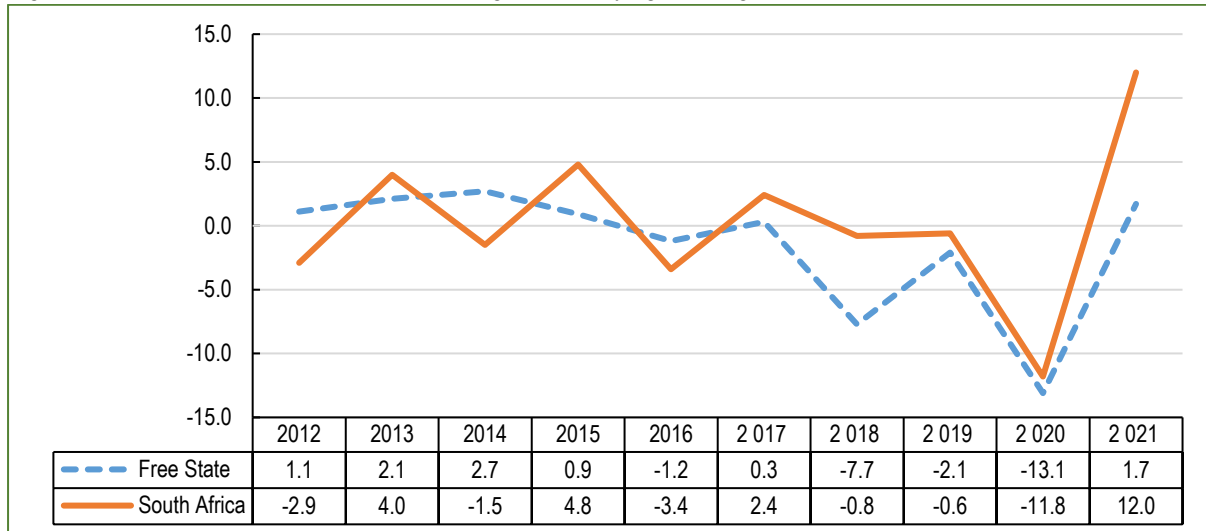
Province	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Western Cape	0.4	0.4	0.4	0.5	0.4	0.5	0.5	0.4	0.5	0.5
Eastern Cape	0.3	0.3	0.3	0.2	0.1	0.2	0.1	0.2	0.1	0.1
Northern Cape	6.0	6.1	6.1	5.6	5.4	5.7	5.8	5.8	5.7	6.3
Free State	7.4	7.2	7.3	6.4	6.6	6.8	6.5	6.6	7.2	6.0
KwaZulu-Natal	3.4	3.3	3.5	3.0	3.1	3.2	3.1	3.2	3.2	2.9
North West	20.3	23.9	23.7	24.9	23.6	23.6	24.2	24.6	24.6	26.3
Gauteng	14.5	13.7	13.3	12.9	14.4	13.3	12.7	12.2	11.2	10.5
Mpumalanga	24.1	21.6	21.8	22.0	21.2	21.5	21.7	21.6	22.2	19.5
Limpopo	23.7	23.6	23.8	24.5	25.1	25.3	25.4	25.5	25.4	27.8

Source: IHS Markit's Regional eXplorer (2022)

On average, the Free State mining industry declined by 1.5 per cent between 2012 and 2021, in contrast, the South African mining industry grew by a minute 0.2 per cent during the same period. Over the past decade, growth in both the national- and provincial mining industries has been negatively affected by, for example, the extensive load shedding (i.e., electricity supply shortage), industrial strikes backed by the Unions, high operating and input costs, and deterioration of rail infrastructure.

In 2021, as the global economy recovered from the Covid-19 pandemic economies re-opened and surged in demand for industrial commodities, the highly diversified South African mining industry recorded a 12.0 per cent growth rate, but the provincial mining industry was unable to capitalise on the global recovery, partly owed to its high concentration in precious metals and bituminous coal.

Figure 2.6: South Africa and Free State mining and quarrying sector growth rates, 2012 – 2021.



Source: IHS Markit's Regional eXplorer (2022)

2.4.2. Analysis of the Provincial Economy's Secondary industries

Focusing the performance of secondary industries of the Free State economy, which comprises manufacturing, electricity and construction industries; collectively contributed 14.7 per cent to the province's GDP in 2021. Individually, the manufacturing, electricity, and construction industries contributed 9.8 per cent, 3.3 per cent and 1.7 per cent, respectively. Although the electricity industry grew from 3.0 per cent in 2012 to 3.3 per cent in 2021, the share of the manufacturing sector declined to 9.8 per cent (from 11.0 per cent in 2012), and the contribution of the construction sector also fell to 1.7 per cent (from 2.7 per cent in 2012).

To amplify the growth-enhancing effects of the manufacturing sector, re-industrialisation facilitated through the localisation of production is vital in both the provincial and national (domestic) economies. On the contrary, the Free State province only has two industrial parks, which are situated in, the Maluti-a-Phofung special economic zone (SEZ) and Botshabelo Industrial Park in Bloemfontein. These industrial parks are expected to, create opportunities for jobs, and skills transfer, support small-scale businesses and promote international trade.

Lastly, the construction industry is vital to create jobs for unskilled people, deepening productivity in the value chain and supply chain, and improving the quality of life by producing new and/or renovated infrastructure (Trade & Investment Kwazulu-Natal, 2022). Equally, on a global scale, the growth of the industry relies on civil construction, with residential and non-residential activities supporting this industry.

In South Africa and the Free State province, the size of the construction industries has shrunk between 2012 and 2021. Specifically, GFCF has been declining since 2015, due to the implementation of strict fiscal consolidation and poor economic performance. In general, the construction industry is seen as an effective tool in boosting the national and provincial economies through the integration of smaller companies into the supply chain, particularly the local supply chain and deepening the value chain within the industry, as well as with other industries.

2.4.2.1. Performance of the Manufacturing sub-industry

Although the size of the Free State manufacturing industry declined between 2012 and 2021, the industry has great potential for expansion. The industry is expanding its capacity for pharmaceutical research and development, with Sasol being a major producer of petrochemicals and a future important player in the green hydrogen economy.

More developments are taking place within Sasol, which is now positioned to produce pharmaceuticals in the province. Additionally, the University of the Free State has also enhanced its research capacity in biotechnology and medicine, which will benefit the manufacturing industry. Currently, the learning institution is generating patents in several medical fields. These are some of the developments taking place within the provincial manufacturing industry.

Table 2.6 provides the provincial contribution to the national manufacturing sector over the period 2012 to 2021. Gauteng, KwaZulu-Natal and the Western Cape are the largest contributors to the national manufacturing industry, with an average share of 39.8 per cent, 21.2 per cent and 15.7 per cent, respectively, during the period being reviewed. Whereas, provinces like the Northern Cape, Limpopo as and North West made a relatively low contribution, averaging 0.5 per cent, 1.6 per cent and 2.5 per cent, respectively, between 2012 and 2021.

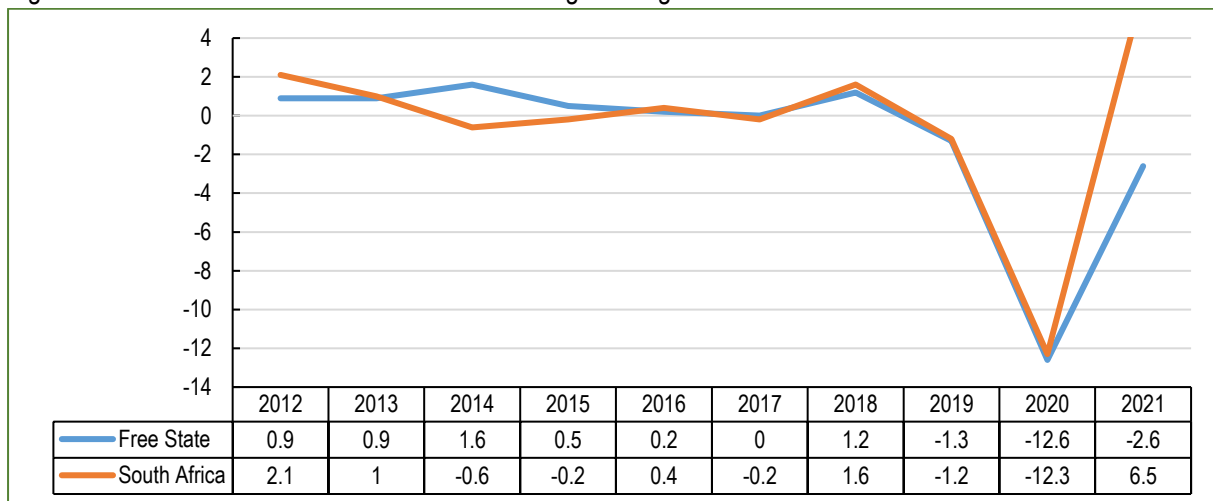
Table 2.6 Contribution of Provincial manufacturing sectors to the national secondary industry (%)

Province	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Western Cape	15.9	15.9	15.2	15.5	15.6	15.7	15.8	15.7	15.8	15.6
Eastern Cape	7.3	7.3	6.7	7.1	7.2	7.4	7.6	7.5	7.6	7.6
Northern Cape	0.5	0.6	0.5	0.5	0.6	0.5	0.6	0.5	0.5	0.5
Free State	4.0	4.0	3.7	4.2	4.3	4.0	4.1	3.9	3.9	3.7
KwaZulu-Natal	21.0	21.0	21.4	21.5	21.4	21.3	21.0	21.1	21.0	20.8
North West	2.6	2.6	2.5	2.5	2.4	2.4	2.4	2.4	2.3	2.4
Gauteng	40.0	39.9	40.5	39.2	39.3	39.6	39.4	39.9	40.0	40.4
Mpumalanga	7.2	7.2	7.7	7.8	7.6	7.5	7.7	7.5	7.5	7.5
Limpopo	1.5	1.5	1.7	1.7	1.6	1.7	1.5	1.5	1.4	1.4

Source: IHS Markit's Regional eXplorer (2022)

Noticeably, among the provinces, the Free State have a small-sized manufacturing industry, which contributed about 4.0 per cent, on average, to the national manufacturing industry over the review period. Moreover, over e past 10 years, the size of the Free State's manufacturing industry has marginally decreased in size f to 3.7 per cent in 2021 (from 4.0 per cent in 2021).

Figure 2.7 South Africa and Free State manufacturing sector growth rates



Source: IHS Markit's Regional eXplorer (2022)

As mentioned earlier, the rolling blackouts in the country have detrimental effects on the performance of the manufacturing industry, at the national and provincial levels, such as reduced production and high input costs. On the other hand, the manufacturing industry can absorb a large number of low-skilled labourers, which in turn, lowers the unemployment rate. Nevertheless, the overall performance and contribution of the manufacturing industry in the country would be severely constrained in the absence of sufficient capital investment, adoption of innovative technology to optimise production, and extensive electricity shortage.

2.4.2.2. Performance of the Construction sub-industry

South Africa is one of the leading industrialized and technologically driven economies in Africa. Broadly, the construction industry remains a significant driver of employment, and a fundamental engine of economic growth in South Africa, given its labour-intensive nature. Although the national- and provincial construction industries are relatively small, accounting for 2.5 per cent and 1.7 per cent of their respective economies in 2021, these industries contribute to job creation for semi- and low-skilled workers. But, since 2015, the national GFCF has steadily declined (see Table 2.6), hence an intensified public and private investment effort is needed to rejuvenate the performance of the construction industry, which can drive economic growth, improve labour force absorption rate, and living standards of the citizenry, as well as, create an attractive business environment in the country.

Looking at the provincial construction industry's contributions to the same national industry presented in Table 2.7, the three provinces with the largest average contribution to the national construction industry are Gauteng (34.7 per cent), Western Cape (19.1 per cent) and KwaZulu-Natal (17.7 per cent), over the 10-year period (i.e., 2012 and 2021) being considered. In particular, the Free State is one of the three provinces with the lowest contribution to the national construction industry, averaging, 3.4 per cent, followed by Northern Cape (1.5 per cent) while North West's contributed about 3.8 per cent), over the reference period.

Table 2.7 Contribution of the Provincial Construction sectors to the national industry (%)

Province	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Western Cape	18.9	20.1	19.0	19.4	19.2	19.0	18.7	18.9	18.9	18.9
Eastern Cape	7.7	9.1	8.4	8.1	8.2	7.9	8.0	7.9	7.9	7.8
Northern Cape	1.3	1.5	1.4	1.5	1.8	1.6	1.6	1.5	1.5	1.4
Free State	3.6	3.6	3.3	3.3	3.2	3.3	3.4	3.3	3.3	3.3
KwaZulu-Natal	18.1	18.3	18.5	18.5	17.4	17.8	17.2	17.1	17.1	16.9
North West	3.2	3.7	4.0	3.9	3.9	3.8	4.0	3.9	3.9	3.9
Gauteng	36.2	31.6	33.4	33.5	34.4	35.2	35.4	35.6	35.6	36.0
Mpumalanga	5.7	6.2	6.4	6.0	6.0	5.8	6.1	6.2	6.2	6.2
Limpopo	5.3	5.9	5.7	5.9	5.9	5.6	5.7	5.6	5.6	5.6

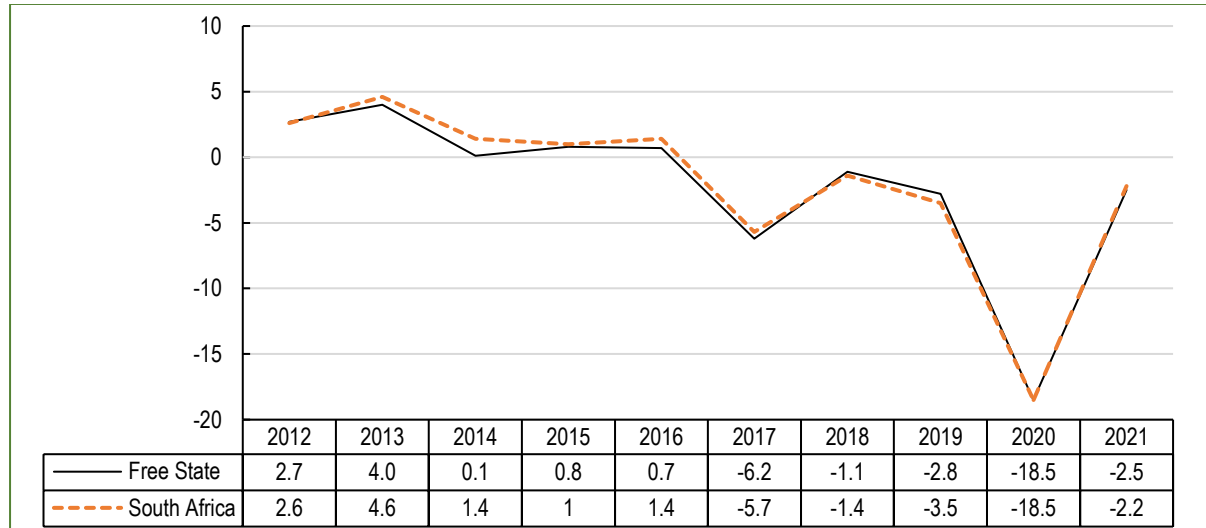
Source: IHS Markit's Regional eXplorer (2022)

Focusing on the performance of the Free State's construction industry; as depicted in Figure 2.8, the provincial construction industry's contribution to its national industry has been on a steady decline since 2012. Specifically, the provincial construction industry fell from 3.6 per cent in 2012 to 3.3 per cent in 2021. Furthermore, it is worth noting that the province maintained a contribution percentage of 3.3 per cent from 2019 to 2021.

A detailed assessment reveals that the unimpressive performance of the provincial construction industry, could be partly attributed to, a lack of capital investment, the pitiable state of municipalities in the province to attract potential

investors, prevalent corruption (e.g., bribe solicitation), financial maladministration, tender manipulation, lack of consequence management to discipline corrupted official (or contractors), poor workmanship (i.e., shoddy construction jobs), escalating overhead and material costs.

Figure 2.8: South Africa and Free State’s Construction sector growth rates, 2012 – 2021.



Source: IHS Markit’s Regional eXplorer (2022)

2.4.3. Analysis of the Provincial Economy’s Tertiary Industries

The trade, transport, finance and community services industries form part of the tertiary industries, and collectively contributed 68.4 per cent to the Free State’s GDP in 2021, with these industries individually contributing 12.6 per cent, 7.7 per cent, 20.3 per cent and 27.8 per cent. On sectoral performance, the share of the trade industry declined from 14.7 per cent in 2012 to 12.6 per cent in 2021, while the transport industry’s share decreased to 7.7 per cent from 9.0 per cent, over the same period. Contrariwise, the size of the finance industry increased from 17.5 per cent to 20.3 per cent over the 10-year review, whereas the community services industry’s size grew from 27.8 per cent in 2012 to 27.8 per cent in 2021.

At the onset of the Covid-19 pandemic, the size of the national and provincial trade and transport industries shrunk, owing to the adverse impact of the strict lockdown restrictions imposed in 2020, limiting both trade and transportation of goods and services, as well as restricting the movement of people, in general. On the contrary, the size of the finance and community services industries increased in 2020 as a result of the increasing role played by financial markets that improve liquidity, and investments, including the advancement of fintech, to combat the deleterious effects of the widespread (and highly contagious) Covid-19 infection.

As global, domestic and provincial economies re-opened (i.e., the draconian lockdown rules were relaxed) in 2021, the trade industry expanded to 12.6 per cent in 2021 from 12.0 per cent in 2020 owing to a rise in trading activities. Nonetheless, during the same period, the size of the transport industry shrunk marginally to 7.7 per cent from 7.8 per cent, notably due to prolific rail infrastructure vandalism since 2020, the 2021 riots in KZN and Gauteng, as well as the cyber-attack at Transnet.

Similarly, the size of the finance industry decreased to 20.3 per cent in 2021 from 20.5 per cent in 2020, partially owed to the lower level of activity in the financial markets in the fourth quarter of 2021. While the community services industry contracted in size from 28.4 per cent to 27.8 per cent over the review period, as a result of the reduction in the headcount of government employees across all spheres of government (SARB, 2021).

2.4.3.1. Performance of the Wholesale, retail and motor trade; catering and accommodation sub-industries

The easing of lockdown regulations from 2021 onward benefitted the trade industry but the commencement of the ongoing Russia-Ukraine war exacerbates the pre-existing global and local supply chain disruptions. Additionally, soaring operational costs linked to rising fuel prices, persistent electricity supply shortage, and weakened purchasing power of consumers led to an underwhelming performance of the trade industry for the rest of 2022. In 2023, the envisaged weak global and domestic growth prospects remain a crucial source of downside risk for the industry's performance.

Table 2.8 Contribution by provincial wholesale, retail and motor trade; catering and accommodation sub-sectors to the national tertiary industry (%), 2012 – 2021.

Province	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Western Cape	14.7	15.7	15.6	15.6	15.8	15.7	15.7	15.8	15.8	16.0
Eastern Cape	10.7	10.7	10.6	10.6	10.4	10.4	10.2	10.1	10.0	10.1
Northern Cape	1.5	1.6	1.8	1.8	1.7	1.6	1.5	1.6	1.5	1.5
Free State	5.2	5.0	4.9	4.9	4.7	4.9	4.8	4.7	4.7	4.7
KwaZulu-Natal	17.3	16.6	16.2	16.2	16.4	16.2	16.4	16.3	16.3	16.0
North West	4.6	5.0	4.8	4.8	4.7	4.7	4.7	4.6	4.5	4.6
Gauteng	30.8	30.2	31.5	31.4	31.7	31.7	32.0	32.1	32.3	32.4
Mpumalanga	7.5	7.8	7.2	7.3	7.2	7.3	7.4	7.3	7.4	7.4
Limpopo	7.7	7.5	7.4	7.4	7.3	7.4	7.5	7.5	7.6	7.5

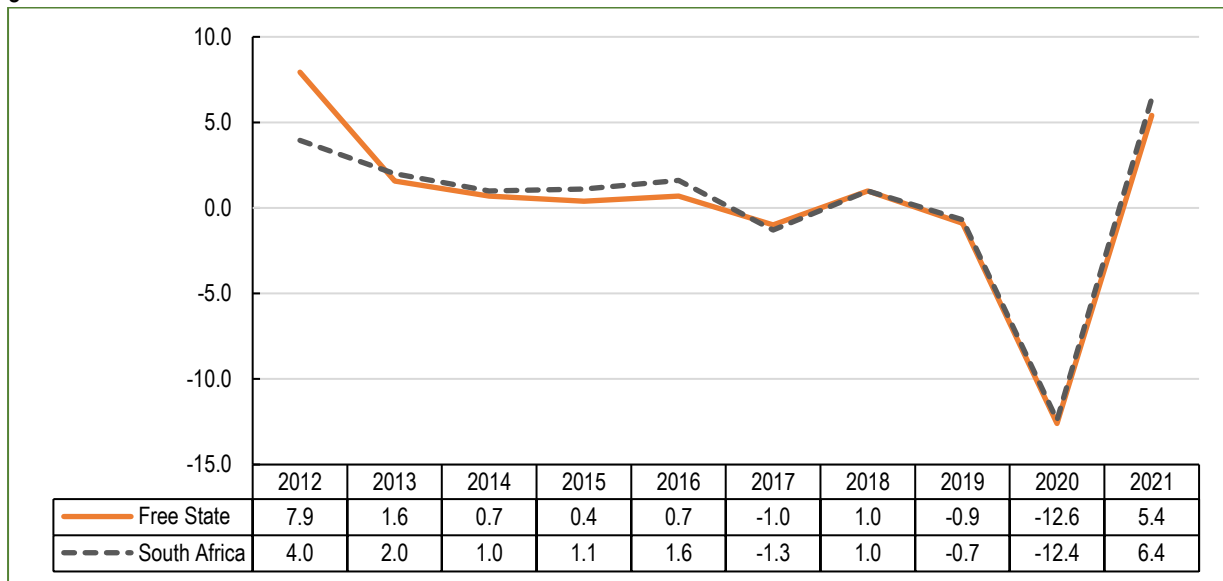
Source: IHS Markit's Regional eXplorer (2022)

A furtive glance at Table 2.8 reveals the provincial trade industry's contribution to the national industry from 2012 to 2021. On average, the largest provincial contribution is produced by Gauteng (31.6 per cent), followed by Kwazulu-Natal (16.4 per cent) and Western Cape (15.6 per cent), over the review period. The Northern Cape Province recorded the lowest contribution that averaged about 1.6 per cent, while the Free State province and North West contributed about 4.8 per cent and 4.7 per cent, respectively to the national trade industry. It is worth mentioning that the size of the trade industry in the Free State province, declined to 4.7 per cent in 2021 from 5.2 per cent in 2012, representing a 0.5 percentage point decline, over the same period.

On average, both the Free State- and South African trade industries grew by 0.3 per cent between 2012 and 2021. In the pre-Covid-19 period, the trade industry in the Free State province declined by 0.9 per cent in 2019, with a decline of 0.9 per cent recorded by the national industry, during the same year. In the same year, both consumer and business confidence deteriorated, as a result of slow wage growth and rising fuel cost, high input costs and low aggregate demand. In 2020, the provincial trade industry contracted by 12.6 per cent and a 12.4 per cent decline is observed in the national industry (see Figure 2.9).

As the global and domestic economies re-opened in 2021, the Free State and South African trade industries also bounced back, expanding by 5.4 per cent and 6.4 per cent, respectively. In particular, the Free State trade industry expanded in the first, second and fourth quarters of 2021, with significant growth in the second (5.9 per cent) and fourth quarter (5.7 per cent). The easing of lockdown restrictions in 2021, and the low-interest rate environment, supported the improvement in personal finances of households, which boosted the wholesale industry, sales (e.g. Black Friday and the festive season), the motor sub-industry and domestic tourism.

Figure 2.9: South Africa and Free State wholesale, retail and motor trade; catering and accommodation sector growth rates



Source: IHS Markit's Regional eXplorer (2022)

- *Performance of the Tourism sub-industry*

The tourism industry in South Africa and the Free State is a high-contact, high-impact industry, because it is centred on people and mobility, and it can absorb low-skilled workers. As of the third quarter of 2022, the tourism industry in South Africa was rated 16th globally by the Tourism Sentiment Index (TSI), which is a global initiative that provides tourism marketers insight into global tourists' destination preferences and tastes. Based on the TSI, South Africa's tourism sentiment score of 23.6 per cent is above the global benchmark of 21.2 per cent, with the country's tourism industry favourably rated for wildlife viewing (15 per cent), restaurants & dining (12 per cent), as well as festival, events and concerts (10 per cent), among other categories. Factly speaking, the wildlife viewing rating places South Africa among the top 10, globally.

Based on the available data, as of 2020, the Free State province contributed the second least towards the national tourism industry, despite having many wildlife viewing destinations such as the Caledon nature reserve, the Clarens village conservancy, the Golden gate national park, the Gariiep dam nature reserve, and the Vredefort dome, among others. An inadequate advertising strategy remains one of the pertinent problems facing provincial tourism. For instance, the province created the Free State Big Five Tourism routes to lure tourists, but aggressive and modern advertising methods (e.g. social media) needed to boost the industry is lacking, up till now. For policy consideration, cost-saving tourism packages improved customer-centric service, and intensify investment are some of the possible strategies that aid the provincial tourism industry.

The available data on the number of tourist visits to the Free State province presented in Table 2.9 shows that the number of trips made by tourists in the Free State fell sharply to 1.7 million in 2021 from 2.6 million in 2012, reflecting a significant reduction of 35.3 per cent.

Furthermore, there is an evident general decline in sub-categories of the provincial tourism industry. For example, the largest source of tourists visiting the province are visitors to friends and relatives, and this category shrunk from 62.5 per cent in 2012 to 54.7 per cent in 2021. While, the second largest source of tourists is those visiting the province for leisure or holiday, and this category rose from 19.3 per cent in 2012 to 21.3 per cent in 2021. The visit for "business" and "other" has also grown steadily over the years, with the former category increasing from 8.9 per

cent to 12.8 per cent, and the share of the latter category grew from 9.3 per cent to 11.2 per cent, over the 10-year review period.

Table 2.9: Number of trips by purpose of the trip (percentage share)

	Free State			
	2012	2012 % Share	2021	2021 % share
Leisure / Holiday	495,705	19.3	353,667	21.3
Business	228,459	8.9	212,466	12.8
Visits to friends and relatives	1,605,983	62.5	908,365	54.7
Other (Medical, Religious, etc)	237,633	9.3	185,686	11.2
Total	2,567,780	100.0	1,660,184	100.0

Source: IHS Markit's Regional eXplorer (2022)

Next, Table 2.10 presents the contribution of the Free State's tourism industry to the national industry, and it has increased to 7.0 per cent in 2021 from 5.3 per cent in 2012. Additionally, there is a general growth in the contributions of the provincial tourism sub-industries to the national industry, over the reference period. For instance, the provincial tourism's sub-category contribution to the national industry on *visitors for leisure/holiday* increased from 5.0 per cent in 2012 to 6.1 per cent in 2021, whereas, the *business* category contribution rose from 5.5 per cent to 8.0 per cent. Further, the contribution of the *visitors to friends and relatives* grew from 5.5 per cent to 7.2 per cent, and the contribution of the other category increased from 5.3 per cent to 7.2 per cent.

Table 2.10: Number of trips by purpose of the trip (percentage share of South Africa)

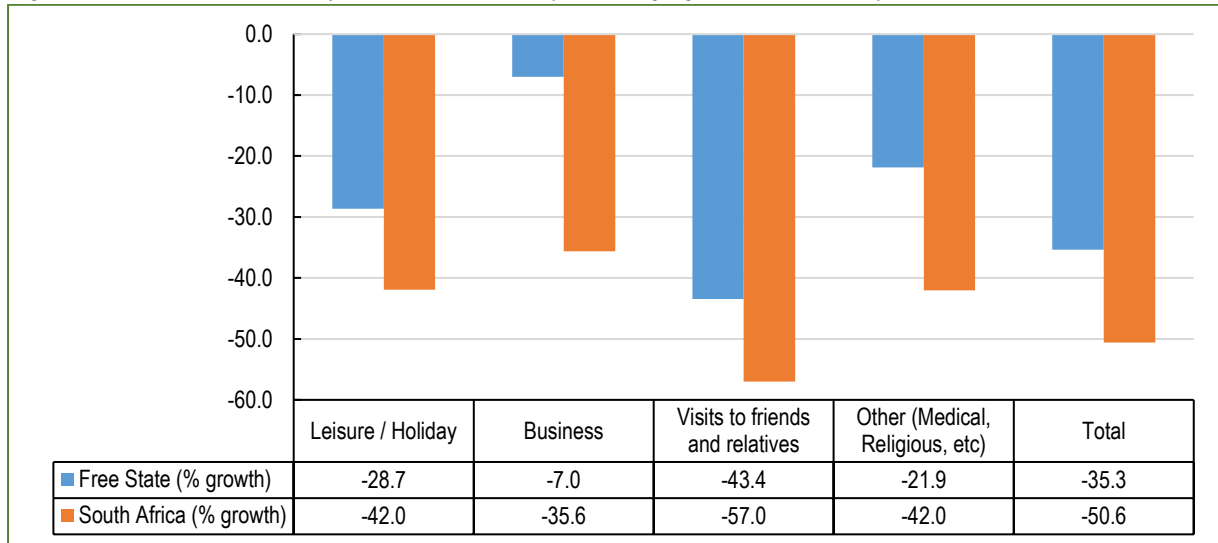
	2012			2021		
	Free State	South Africa	% Share	Free State	South Africa	% Share
Leisure / Holiday	495 705	10 013 176	5,0	353 667	5 812 264	6,1
Business	228 459	4 136 890	5,5	212 466	2 663 855	8,0
Visits to friends and relatives	1 605 983	29 406 729	5,5	908 365	12 651 390	7,2
Other (Medical, Religious, etc)	237 633	4 458 594	5,3	185 686	2 584 539	7,2
Total	2 567 780	48 015 389	5,3	1 660 184	23 712 048	7,0

Source: IHS Markit's Regional eXplorer (2022)

Moreover, the number of tourists that visited the Free State between 2012 and 2021, declined by 35.3 per cent compared to the contraction of about 50.6 per cent in the same category for South Africa (see Figure 2.10). Overall, there a general decline across different sub-categories of the tourism industry, but the contractions in contribution share (measured in percentages) is more significant for the country, compared to the province. In this context, tourist data shown in Figure 2.10 reveals that the *leisure category* declined by 28.7 per cent in the Free State, but the same category in the national tourism industry declined by 42.0 per cent.

Equally, the *business category* in the province declined by 7.0 per cent, while the national category contracted by 35.6 per cent. The visits to *friends and relatives category* shrunk by 43.4 per cent for the province, and the similar category declined by 57.0 per cent nationally. Lastly, the *other category*, which includes *medical and religious visits*, declined by 21.9 per cent, but decreased by 42.0 per cent, nationally.

Figure 2.10: Number of trips by purpose of the trip (percentage growth 2012-2021)



Source: IHS Markit’s Regional eXplorer (2022)

Also, as can be seen in Table 2.11, the proportion of domestic tourists visiting the Free State province increased from 79.6 per cent in 2012 to 90.1 per cent in 2021, but the proportion of international tourists visiting fell to 9.9 per cent in 2021 from 20.4 per cent recorded in 2012. Based on the 10-year analysis covering 2012 to 2021, the total number of domestic tourists declined by 26.9 per cent, while international tourists also decreased by 68.5 per cent. As of 2021, the Free State province received 1.5 million domestic tourists, while approximately 165 thousand international tourists visited the province in the same year.

Table 2.11 Number of trips by the origin of tourist

	Free State				
	2012	2021	% growth (2012-2021)	% share in 2012	% share in 2021
Domestic tourists	2,045,042	1,495,659	-26.9	79.6	90.1
International tourists	522,738	164,525	-68.5	20.4	9.9
Total tourists	2,567,780	1,660,184	-35.3	100.0	100.0

Source: IHS Markit’s Regional eXplorer (2022)

Based on the foregoing discussion, to improve the performance of the provincial tourism industry, the provincial government needs to: develop time-based turnaround marketing, branding and advertisement strategies to attract more tourists, improve electricity supply, repair (or maintain) and construct new public infrastructure (e.g., road networks), upgrade dilapidating tourist sites/centres, and reduce the crime rate by improving security.

Additionally, the province needs to promote the wildlife-viewing category on social media and other innovative platforms to gain the public’s attention and foster the *Restaurants & Dining* category to play a complementary role. More importantly, the *Adventure Travel* category should be re-branded to complement the *Wildlife Viewing* category for tourist attractions. Lastly, the provincial government should create an online (public) platform to facilitate interactions with potential tourists and their tourists’ preferences, tastes, and styles and to get feedback on sites visited by the tourists, as well as, the different tourism services offered.

2.4.3.2. Transport, storage and communication sector

The transport industry is a high-impact industry that is directly or indirectly linked to other industries. The passenger transport category of the industry is an important sub-industry and was negatively affected by the strict Covid-19 lockdown regulations enacted in South Africa and in the Free State Province between 2019 and early 2021. The freight transportation sub-category is crucial for the transportation of tradable minerals- and commodities. More recently, the transport industry suffers from insufficient (public and private) investment and the deteriorating rail network (i.e., ageing rail infrastructure), which have led to a dramatic decline of cargo freight to 179 million tons in 2021 from 230 million tons in 2017. Then again, continued vandalism of the rail infrastructure coupled with cyber-attacks experienced by Transnet in 2021, hampers the performance of this industry and its contribution to the national GDP.

However, there are several favourable opportunities and developments exist in the telecommunication industry of South Africa, these include, for example, increased appetite for telecommunication products since the outbreak of the Covid-19 pandemic, increased and faster network capacity to cater for the high demand for fibre and wireless connectivity, affordable data prescriptions, the advancement of Fintech, and the advancement of cloud solutions which are business specific.

On sectoral performance, Table 2.12 depicts the size of the transport, storage and communication industry by province. In general, the three largest provincial economies comprise the largest industries, led by Gauteng with a contribution of nearly 36.0 per cent to the national transport, storage and communication industry in 2021, followed by KwaZulu-Natal (21.2 per cent) and Western Cape (15.0 per cent). Whereas, provinces such as the Northern Cape, North West and Limpopo contributed about 2.5 per cent, 3.7 per cent and 3.8 per cent, respectively, to the national industry. However, the Free State Province's transport industry contribution to the national transport industry grew from 5.1 per cent in 2012 to 5.4 per cent in 2021, ranking it sixth among provinces.

Table 2.12: Contribution by the province to the transport, storage and communication sector (%)

Province	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Western Cape	15.0	14.7	15.0	15.1	15.0	15.1	15.0	14.9	14.9	15.0
Eastern Cape	7.3	7.3	7.1	7.0	7.2	7.1	6.9	6.9	6.8	6.9
Northern Cape	2.4	2.4	2.6	2.7	2.6	2.5	2.4	2.5	2.5	2.5
Free State	5.1	4.9	5.2	5.3	5.3	5.2	5.3	5.3	5.4	5.4
KwaZulu-Natal	21.6	21.8	21.9	21.8	21.7	21.6	21.6	21.5	21.4	21.2
North West	3.8	3.8	3.6	3.8	3.9	3.9	3.7	3.7	3.7	3.7
Gauteng	36.0	36.2	35.8	35.6	35.8	35.9	36.0	35.9	36.0	36.0
Mpumalanga	5.0	5.1	5.0	5.1	5.0	5.1	5.3	5.4	5.6	5.5
Limpopo	3.8	3.8	3.8	3.8	3.6	3.7	3.8	3.8	3.8	3.8

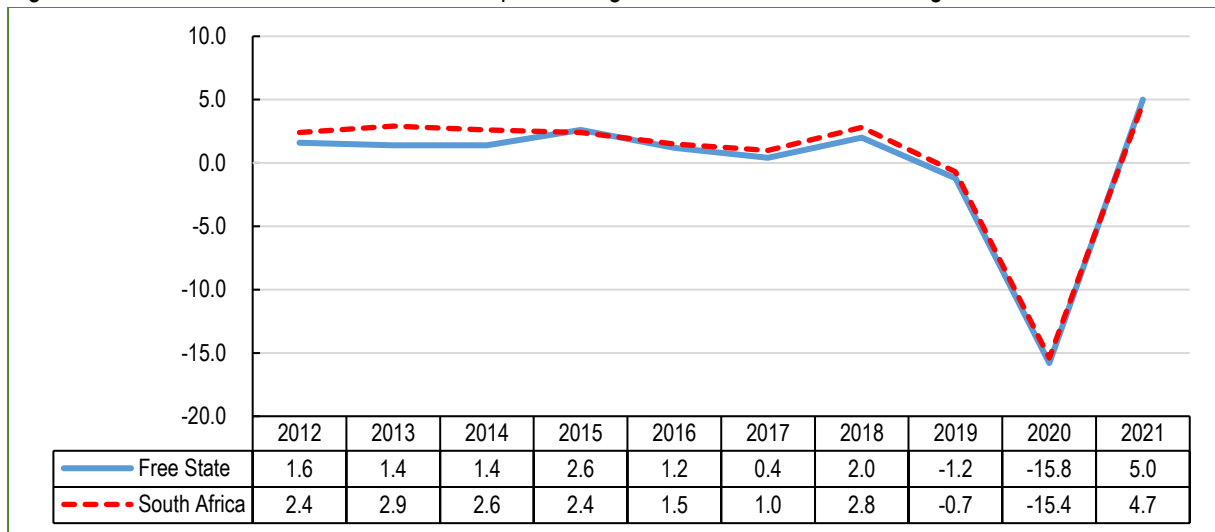
Source: IHS Markit's Regional eXplorer (2022)

A comparative analysis between the growth rate of South Africa and the Free State's transport industries between 2012 and 2021, is depicted in Figure 2.11, showing that the provincial transport industry declined by 0.1 per cent, on average, over the period being studied, and the national industry expanded by 0.4 per cent.

Furthermore, as shown in Figure 2.11, there is an apparent decline in the performance of the transport industry in the provincial (in this case, the Free State province) and national economies. For instance, in 2019, the growth of the Free State's transport industry declined by 1.2 per cent, which was 0.5 percentage points lower than the national industry. A similar trend continues, as the deleterious effects of the Covid-19 infection, adopted lockdown

regulations and widespread vandalism on rail infrastructure networks intensify, causing the Free State industry to shrink by 15.8 per cent, while the national transport industry decreased by 15.4 per cent.

Figure 2.11: South Africa and Free State transport, storage and communication sector growth rates



Source: IHS Markit's Regional eXplorer (2022)

By and large, the re-opening of the global and domestic economies resulted in the expansion of the provincial transport industry by 5.0 per cent in 2021, which is 0.3 percentage points above the growth of the national industry. Further, the national and provincial transport industries expanded the most in the second quarter of 2021, supported by the strong recovery of the agricultural and mining commodity prices, inventory re-stocking by businesses, and courier/parcel delivery.

On the other hand, the transport industries in the Free State and the country expanded in the fourth quarter of 2021, as a result of a considerable increase in land transport and transport support services. Even so, the transport industry declined in the first and third quarters of 2021, as rail infrastructure vandalism surged and violent protests in the KZN and Gauteng in July 2021.

2.7 CONCLUSION

The analytical and narrative discourse in this chapter reveals that the Free State economy has a growing primary sector, which increased from 14.3 per cent in 2012 to 16.8 per cent in 2021. On the contrary, the growth of the province's secondary industry has shrunk to 14.8 per cent from 16.7 per cent over the review period. This unimpressive growth of the province's tertiary sector is worrisome given the government's priority to facilitate vibrant industrialization and establish labour-intensive industries that mostly utilize unskilled labours to improve the absorption of a large number of unemployed people in the province. Also, the size of the tertiary industry has shrunk from 69.0 per cent in 2012 to 68.4 per cent in 2021, with the performance of strategic industries (most notably, tourism and transport) deteriorating, over the same period.

Akin to the national economy, the Free State economy is susceptible to the negative impact of global events. In the medium and long term, to support economic growth, create jobs and narrow the widening income inequality gap, both the national and provincial governments need to urgently implement radical economic reforms to improve sectoral performance, attract private (or foreign) investment, provide a conducive business environment, buoyed export growth and provide a better life for the citizens.

CHAPTER 3

THE FREE STATE LABOUR MARKET

Chapter 3: Quick Facts

- The Covid-19 pandemic had a detrimental effect on the global labour market, affecting workers in the travel, hospitality and leisure industries the most.
- The global rate of unemployment fell below 5 per cent in 2018, which was the lowest since the 2008 financial crisis.
- In 2020, the global unemployment rate surged to 6.6 per cent, before decreasing slightly to 6.2 per cent in 2021.
- An estimated 224 million people were unemployed globally in 2020 during the pinnacle of the pandemic. Global unemployment is projected to decline to 207 million in 2022, which is still 21 million more than in 2019 before the novel COVID-19 pandemic began.
- The global unemployment rate is projected to lessen to 5.9 per cent in 2022 and furthermore to 5.7 per cent in 2023.
- The global youth unemployment rate was 15.6 per cent in 2021, more than three times the adult unemployment rate.
- South Africa has one of the highest unemployment rate in the world, which was 32.9 per cent in the third quarter of 2022. About 7.7 million people are unemployed in South Africa.
- In 2020, the number of employed people fell by approximately 1.5 million and the wages of workers who still had jobs decreased by roughly 10 to 15 per cent, due to the Covid-19 induced recession in South Africa.
- The majority of the employment in the Free State is in the formal sector (non-agricultural at about 61.4 per cent, whilst the informal sector (non-agricultural)'s share of employment was 19.2 per cent, followed by agriculture (11.7 per cent) and then private households (7.6 per cent).
- The biggest employer in the province in 2022:Q3 was the community and social services (31.1 per cent), followed by trade (20.8 per cent) and agriculture (11.7 per cent). On the other end, the smallest employers were utilities (0.2 per cent), mining (3.1 per cent) and transport (5.5 per cent).
- The number of unemployed in the Free State has increased during the review period, from 374 thousand in 2013:Q3 to 407 thousand in 2022:Q3. During this period the unemployment rate increased slightly by 0.1 of a percentage point, from 33.7 per cent to 33.8 per cent.
- The unemployment rate peaked at 38.1 per cent in 2021:Q3, following the economic contraction due to Covid-19 lockdown restrictions.
- The youth unemployment rate in the Free State was 46.0 per cent in 2022:Q3, declining marginally from 46.2 per cent in 2013:Q3.
- In 2022:Q3, about 75.9 per cent (or 309 thousand) of the unemployed were in long-term unemployment. This percentage has increased from 66.3 per cent in 2013:Q3.
- Approximately 15.3 million South Africans are NEET, and about 7.9 million of those are the youth between the ages of 15 – 34 years. The majority of NEETs are actually female at 8.8 million, with males estimated at 6.5 million.
- In the Free State Province, 833 thousand people are NEET; about 60 percent of those are females and half are the youth. Just over 90 per cent of the NEET are Black/African.

3.1. INTRODUCTION

The breakout of the Covid-19 pandemic in March 2020 pushed the Free State provincial economy into a recession, contracting by 7.0 per cent, but the provincial economy rebounded with 3.7 per cent growth in 2021, as the global and domestic economies re-opened. The impact of the pandemic on the labour market was ruinous with about 1.4 million jobs lost in South Africa and 40 thousand jobs lost in the province in 2020. Also, a further 479 thousand and 18 thousand jobs were lost in the country and province respectively in 2021. But, in the first half of 2022, about 26 thousand jobs increased in the province, decreasing the unemployment rate to 32.4 per cent in 2022:Q2, compared to 36.5 per cent in the same period of the previous year. In this context, job creation remains one of the most pressing challenges faced by the province and the country at large.

Against this backdrop, this chapter provides relevant, timely, and accurate labour market information on the Free State Province to stakeholders, and gives insight into the developments and characteristics of the labour market in the province with the primary purpose of informing policy-making.

The chapter is organised into four main sections. The first section examines the performance of the global labour market. In this section, the emphasis is on the unemployment trends. The second section of the chapter analyses the labour market trends in South Africa, while the third section looks into the Free State Province's labour market trends. Finally, the chapter provides some insightful concluding remarks and highlights certain policy views for consideration based on the assessed economic and labour market developments.

3.2. GLOBAL LABOUR MARKET

Since the global economy had a relatively sound pre-Covid-19 labour market, the immediate effect of the pandemic across countries appeared similar. Workers in the travel, hospitality, and leisure industries were the foremost affected by the onset of the pandemic in the initial stages. Most countries across the globe quickly adopted emergency measures to soften the impact on their economies and labour market. While developed countries were able to increase government expenditure to support incomes (although at the expense of increasing debt), developing countries were fiscally constrained to follow the same strategy. Nonetheless, a key undesirable feature of many labour markets was the uneven impact of unemployment (or employment) on gender; for example, in numerous countries, female employment and labour force participation fell more than their male counterparts did.

According to the recent *World Employment and Social Outlook-Trends* report by the International Labour Organization (ILO) in 2022, global unemployment was estimated at 207 million in 2022, surpassing its 2019 level by some 21 million. The Covid-19 pandemic dominated the global economy for a second year in 2021, preventing a full and balanced recovery of labour markets.

Although new, multiple global crises are unfolding, such as the impact of the ongoing Ukraine-Russia war, nevertheless, restrictive measures relating to Covid-19 have largely been lifted around the world. For instance, the strict form of workplace closures (economy-wide closures that only exclude essential workers or workplaces) has been phased out in most cases. Conversely, since the onset of the recovery, employment growth trends in low- and middle-income countries have remained significantly below those observed in richer economies, owing largely to the lower vaccination rates and tighter fiscal space in developing countries.

The impact of Covid-19 has been particularly severe for developing countries that experienced higher levels of inequality, more divergent working conditions and weaker social protection systems even before the onset of the pandemic. Overall, key labour market indicators in all regions, which include Africa, the Americas, the Arab States, Asia and the Pacific, and Europe and Central Asia, are yet to return to pre-pandemic levels.

3.2.1. Global unemployment trends

The global rate of unemployment fell below 5 per cent in 2018, which was the lowest since the 2008 financial crisis (ILO, 2019). But, this relatively low unemployment rate is temporary due to the impact of the Covid-19 pandemic. In 2020, the global unemployment rate surged to 6.6 per cent, before decreasing slightly to 6.2 per cent in 2021. An estimated 224 million people were unemployed globally in 2020 during the peak of the pandemic. On this basis, global unemployment declined to 207 million in 2022, which is still 21 million more than in 2019 before the novel Covid-19 pandemic began (ILO, 2022).

As shown in Table 3.1, the global unemployment rate is projected to fall to 5.9 per cent in 2022 and 5.7 per cent in 2023, which is lower than the 6.6 per cent and 6.2 per cent rates recorded in 2020 and 2021, respectively, but remains above the 5.4 per cent recorded in 2019. Unemployment rates are closest to their pre-pandemic levels in high-income countries like the U.S., the U.K., and Canada, where unemployment is at or near historic lows. Most of the world's economies suffered during the height of the Covid-19 pandemic, with many countries facing a surge in unemployment levels. As the world emerges from the pandemic, conditions have improved; even so, the world faces a new set of challenges, such as high inflation, global supply chain problems, and the prevailing Russia-Ukraine war that is affecting food supplies around the world.

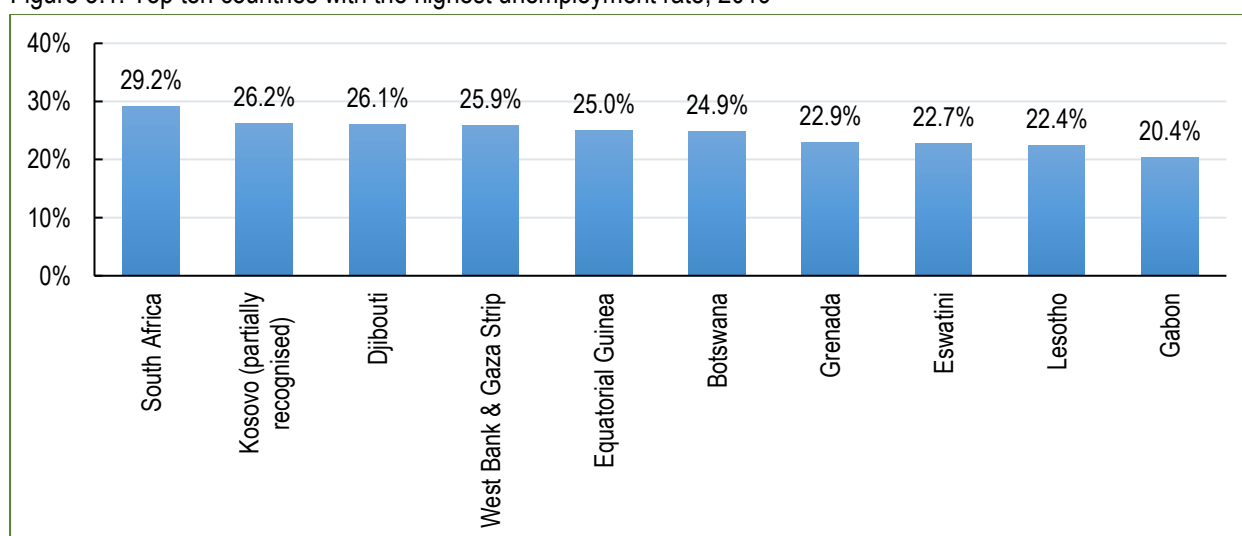
Table 3.1: Global Unemployment Rates, 2019 – 2023

	Unemployment rate					Unemployment (millions)				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
World	5.4	6.6	6.2	5.9	5.7	186	224	214	207	203
Low-income countries	4.9	5.6	5.9	6.0	5.7	12	14	15	16	16
Lower-middle-income countries	5.1	6.6	5.9	5.6	5.4	64	81	74	72	72
Upper-middle-income countries	6.0	6.7	6.7	6.6	6.3	80	88	90	88	85
High-income countries	4.8	6.5	5.6	4.9	4.7	29	40	35	31	29

Source: ILO (2022)

Moreover, countries with the highest unemployment rates are plotted in Figure 3.1, and it reveals that South Africa had the highest unemployment rate at 29.2 per cent in 2019, even though it is the second-richest country in this grouping, having an estimated GDP per capita to be \$6,994.2 in 2021 (World Bank, 2022).

Figure 3.1: Top ten countries with the highest unemployment rate, 2019



Source: World Bank (2021)

Nevertheless, the country with the second highest unemployment rate was Kosovo (26.2 per cent), followed by Djibouti (26.1 per cent), West Bank & Gaza Strip (25.9 per cent) and Equatorial Guinea (25.0 per cent). Another palpable feature in Figure 3.1 is that seven of the top ten countries with the highest unemployment rate are African countries.

On aggregate, the unemployment rate in Africa was estimated at 7.0 per cent in 2019, before rising to 7.8 per cent and further to 8.1 per cent in 2020 and 2021 respectively, largely owing to the impact of the Covid-19 pandemic (ILO, 2022). On the other hand, countries with the lowest unemployment rates in 2019 were Qatar (0.3 per cent), Cambodia (0.6 per cent), Niger (0.8 per cent), Solomon Islands (1.0 per cent) and Lao PDR (1.3 per cent), while the countries with the lowest unemployment rates in Africa are Benin (1.6 per cent) and Rwanda (1.6 per cent).

Conversely, it is important to note that having a low unemployment rate does not necessarily mean a country's economy is particularly strong. For instance, in 2021, Niger had only a 0.8 per cent unemployment rate, but its GDP per capita was \$594.9 whereas, Burundi had a 1.8 per cent unemployment in 2021, but a GDP per capita of \$236.8 (World Bank, 2022). Evidently, these countries may have had low unemployment rates, partly because their economies rely heavily on agriculture, which is labour-intensive but seasonal. For example, Lao PDR employed 61 per cent of its workforce in agriculture in 2019 (World Bank, 2021). Likewise, a low unemployment rate does not necessarily indicate that a country's people are living in favourable, sustainable conditions. For instance, the majority of the 3.3 billion people throughout the world who are technically employed are working under substandard conditions that offer too little pay, poor economic security, and little to no opportunity for advancement (ILO, 2021).

Box 3.1: The challenge of comparing international unemployment rates

When evaluating the unemployment rates of countries in comparison with one another, it is vital to keep in mind that it is not always an apples-to-apples comparison. For starters, not every country has the same definition of unemployment—for instance, some countries say that if a person is able to work but not currently employed, that person is unemployed. However, other countries only consider a person unemployed if they are actively seeking work. People who are not working and not looking for work are not considered unemployed. Obviously, these different definitions will have an impact on the unemployment rates posted by those countries.

To see this impact in action, examine the 2019 unemployment rate in South Africa, using data from the International Labour Organization. According to the ILOSTAT database, unemployment rate is 29 per cent when filtered using all three criteria (not employed, available, and looking), 38 per cent when filtered by "not employed but available" with no measure of looking, and a full 40 per cent when filtered by "not employed but looking" with no availability requirement.

A cross-country comparative analysis using unemployment data is feasible, since most countries currently report their unemployment according to an established international standard. Nevertheless, the possibility of a mismatch still exists and can be a helpful thing to keep in mind—especially if you encounter data that seem surprising.

An additional concern is the timeliness of the data, because unemployment rates can change significantly from month to month, let alone year to year. So, comparing one country's 2020 rate to another country's 2015 rate is likely to give an inaccurate impression. Having said that, if no new data have been released, older data are still better than no data at all.

Source: World Bank (2022)

Then again, unemployment has many adverse effects; such as increased depression and other mental health problems, increased crime rates, overall lower economic productivity and consumption, lower rates of volunteerism, and erosion of skills. Surprisingly, exceptionally low unemployment can also create economic challenges, such as excessive inflation (when everyone is employed and has money to spend, demand for products can outstrip supply, which causes a rise in prices), leading to a higher cost of living, which in turn, erodes household disposable income, especially for those living in developing and/or low-income countries.

Interestingly, it is possible to have both a low unemployment rate and a rich economy, for example, the case of Qatar with a GDP per capita of about \$61,276 in 2021 (World Bank, 2022). The rich economy –the low unemployment rate in Qatar, can be explained by its economic structure as a major producer of oil and natural gas, as well as economic diversification towards financial services, construction, restaurants, and hotels.

3.2.2. Global youth unemployment

The global youth unemployment rate was 15.6 per cent in 2021, more than three times the adult rate. Globally, in 2021, some 75 million young people were unemployed, 408 million were in employment, and 732 million were out of the labour force. The relatively low labour force participation rate of young people is due to their pursuit of an education. This can improve their chances of achieving higher labour market returns later on. In 2020, around 531 million (i.e., 44 per cent) of young people worldwide are enrolled in education without having paid work.

It is widely accepted that young people in employment gain valuable work experience and a significant proportion of them are simultaneously enrolled in education. More than one in five young people is not in education, employment or training (NEET). Alarming, the available labour data shows that the youth NEET rate rose by 1.5 percentage points in 2020. Further, about 282 million young people in the NEET grouping in 2020 missed a crucial early stage of their personal development and risk facing severe disadvantages in the labour market in the future. In 2020, the youth NEET rate surged to its highest level in at least 15 years¹.

ILO projects that global youth unemployment is to decline to 73.0 million in 2022 from 75.1 million in 2021, which would still be 6 million above the 2019 level (see Table 3.2). This decline follows an increase in youth unemployment by 4.1 million between 2020 and 2021 as young people re-entered the labour market. Moreover, the unemployment rate rose strongly in 2020, by 1.7 percentage points, partly because of an increase in the number of unemployed (the nominator) and a contraction in the labour force. In 2021, the youth unemployment rate rose by only 0.4 percentage points, despite the number of unemployed increasing more than in 2020, due to the simultaneous large increase in the labour force.

Also, the recovery of youth unemployment rates is projected to diverge between low- and middle-income countries on the one hand and high-income countries on the other. It is anticipated that youth unemployment rates are likely to return to their 2019 levels by the end of 2022, only in the high-income countries, while in the other country income groups, youth unemployment would likely remain 1 percentage point above their pre-crisis values. Also, across the globe, young women's unemployment rate was below that of the male before and throughout the Covid-19 health crisis, and a gender gap is expected to continue in the near future. For instance, at 13.1 per cent in 2019, the unemployment rate among young women stood 0.7 percentage points below that of young men

¹Generally, NEET rates are a better indicator of deficits in young people's access to the labour market than unemployment rates, because one needs to be in the labour force to be unemployed, whereas the NEET rate considers the entire population.

On the whole, the response to the Covid-19 crisis highlighted various shortcomings in addressing the needs of young people, especially vulnerable ones such as first-time jobseekers, school dropouts, fresh graduates with low skills and the many young people who remain inactive not by choice.

Table 3.2: Youth unemployment level and rate by sex, world and country group, 2019–2022

Country group	Sex	Unemployment rate				Number of unemployed			
		2019	2020	2021	2022	2019	2020	2021	2022
World	Total	13.5	15.2	15.6	14.9	67.2	71.0	75.1	73.0
	Female	13.1	14.7	15.0	14.5	25.2	26.4	28.1	27.4
	Male	13.8	15.5	15.9	15.2	42.0	44.6	47.1	45.6
Low income	Total	8.2	9.1	9.6	9.8	5.5	5.9	6.5	6.9
	Female	8.0	9.0	9.6	9.6	2.4	2.6	3.0	3.1
	Male	8.4	9.2	9.6	10.0	3.0	3.3	3.6	3.8
Lower-middle income	Total	15.2	16.6	17.9	17.0	31.5	32.1	36.0	34.8
	Female	14.4	15.3	16.4	15.9	9.6	9.5	10.6	10.6
	Male	15.5	17.2	18.7	17.5	21.9	22.6	25.4	24.3
Upper-middle income	Total	14.7	16.3	16.4	16.1	23.4	24.0	24.9	24.3
	Female	15.5	17.1	17.8	17.4	10.1	10.2	11.0	10.7
	Male	14.2	15.8	15.5	15.2	13.3	13.8	13.9	13.6
High income	Total	10.8	14.5	12.3	11.0	6.9	8.9	7.7	6.9
	Female	10.2	14.3	11.8	10.3	3.0	4.1	3.5	3.0
	Male	11.3	14.7	12.7	11.6	3.8	4.8	4.3	3.9

Source: Global Employment Trends for Youth (ILO, 2022)

As a proposed remedial action, government-designed labour market programmes and policies, and social protection systems should shift their focus to outreach beyond the labour market, and these should be complemented with sound educational and care facilities. Such efforts should consider the local context and be gender-responsive to ensure that no one is left behind. The global community has already missed the SDG target of substantially reducing the youth NEET rate by 2020, and renewed efforts are necessary to achieve the new target by 2030 (IMF, 2022).

3.3. DOMESTIC LABOUR MARKET DEVELOPMENTS: SOUTH AFRICA

As already mentioned in the section above, South Africa has the highest unemployment rate in the world, which was estimated at 34.5 per cent in the second quarter of 2022 (Stats SA, 2022). South Africa entered the Covid-19 pandemic with low levels of employment and a decade of low job creation, far below the standards of most upper-middle-income countries. Despite the government's comprehensive response to the pandemic, job losses were unavoidable, and recovery has since been slow. By the end of 2020, despite two-quarters of employment growth, the number of employed people had fallen by approximately 1.5 million, and the wages of workers who still had jobs had fallen by roughly 10 to 15 per cent. By mid-July 2021, only 40 per cent of employment losses had been recovered (IMF, 2021).

The IMF's *South Africa Economic Update* report (2021) found that job losses during the Covid-19 period are disproportionately concentrated among low-income earners, worsening the existing severe inequalities, despite the government's decisive and pro-poor response with transfer programs that partially cushioned the negative impacts of the pandemic. Also, the Covid-19 pandemic crisis exposed structural weaknesses in the job market, with low-wage workers experiencing almost four times more job losses than high-wage earners. In particular, young people

face an acute unemployment rate, with incidence twice as high as among older age groups. Among 15–24 year-olds, 63 per cent are unemployed and looking for work, whereas, among 25–34 year-olds, it reaches 41 per cent. When discouraged workers are included, unemployment rates are as high as 74 per cent for 15–24 year-olds and 51 per cent for 25–34 year-olds.

3.3.1. South Africa's Labour market characteristics

Broadly, the working-age population is the total population in an area that is considered able and likely to work based on the number of people in a predetermined age range. In this context, the working-age population measure gives an estimate of the total number of potential workers within an economy.

As illustrated in table 3.3, South Africa's working-age population was estimated at 40 million in 2022:02, up from 38.8 million in 2020:1. Over this period, the country's population of working-age increased by approximately 1.5 million people (or 3.7 per cent). About 50.4 per cent of these people are female, whilst the remaining 46.4 per cent are males. This gender distribution remained constant throughout the review period. Just under half of the working-age population is located in Gauteng (27.2 per cent) and KwaZulu-Natal (18.5 per cent). Northern Cape and Free State have the smallest share at 2.1 per cent and 4.8 per cent, respectively.

Table 3.3: South Africa's working age population (15-64 years), 2020 – 2022

	Jan-Mar 2020	Apr-Jun 2020	Jul-Sep 2020	Oct-Dec 2020	Jan-Mar 2021	Apr-Jun 2021	Jul-Sep 2021	Oct-Dec 2021	Jan-Mar 2022	Apr-Jun 2022	Jul-Sep 2022
Thousand											
Both sexes	38,874	39,021	39,167	39,311	39,455	39,599	39,745	39,888	40,033	40,177	40,322
Women	19,625	19,696	19,767	19,837	19,907	19,977	20,047	20,117	20,187	20,257	20,327
Men	19,249	19,325	19,400	19,474	19,548	19,623	19,698	19,771	19,846	19,920	19,995
Population groups	38,874	39,021	39,167	39,311	39,455	39,599	39,745	39,888	40,033	40,177	40,322
Black/African	31,429	31,575	31,720	31,865	32,007	32,152	32,299	32,442	32,589	32,734	32,880
Coloured	3,500	3,508	3,517	3,523	3,531	3,537	3,543	3,550	3,556	3,562	3,568
Indian/Asian	1,018	1,020	1,022	1,024	1,026	1,029	1,031	1,033	1,035	1,037	1,039
White	2,926	2,918	2,909	2,899	2,891	2,881	2,872	2,863	2,853	2,844	2,834
South Africa	38,874	39,021	39,167	39,311	39,455	39,599	39,745	39,888	40,033	40,177	40,322
Western Cape	4,708	4,731	4,753	4,766	4,796	4,818	4,839	4,859	4,879	4,899	4,919
Eastern Cape	4,325	4,336	4,348	4,369	4,371	4,382	4,396	4,410	4,425	4,440	4,455
Northern Cape	808	810	812	816	815	817	819	821	823	825	827
Free State	1,911	1,913	1,915	1,917	1,918	1,920	1,922	1,923	1,925	1,927	1,929
KwaZulu-Natal	7,188	7,214	7,240	7,268	7,291	7,317	7,343	7,370	7,397	7,424	7,451
North West	2,630	2,641	2,651	2,661	2,672	2,682	2,692	2,702	2,712	2,722	2,732
Gauteng	10,508	10,557	10,607	10,634	10,704	10,753	10,799	10,843	10,886	10,930	10,974
Mpumalanga	2,980	2,990	3,001	3,016	3,023	3,034	3,045	3,057	3,068	3,079	3,091
Limpopo	3,816	3,829	3,841	3,864	3,865	3,877	3,890	3,904	3,917	3,931	3,945

Source: Statistics South Africa (2022)

In terms of race, an overwhelming majority of the country's working-age population are Blacks/African with a share of 81.5 per cent in 2022:2, followed by Coloureds (8.8 per cent), Whites (7.0 per cent) and lastly Indians/Asians (2.6 per cent). This is, however, not surprising given that Blacks/Africans make up about 88 per cent of the total population of the Free State.

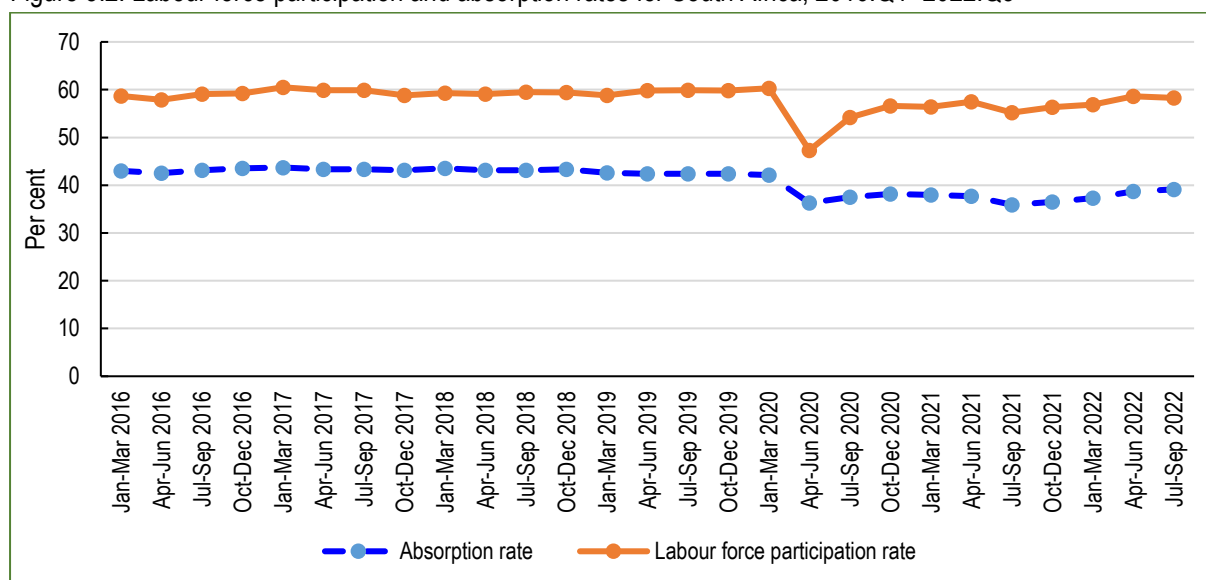
Changes in the size of the working-age population can significantly affect the labour market and the economy. A growing working-age population provides opportunities for economic growth while at the same time creating

challenges for job creation and integration of new labour market entrants. Key indicators to monitor the working-age population and labour force include the absorption rate and labour force participation rate, amongst others. The two indicators are analysed in figure 3.2 below.

Historically, South Africa's labour force participation and absorption rates have remained relatively low during the review period, as shown in Figure 3.2. More importantly, labour absorption is imperative to labour policymakers for specific reasons. Firstly, it is a broader measure of labour market performance than unemployment, because it comprises the labour force participation behaviour. The second possible reason is that higher labour absorption rates are conducive to more opportunities and human development.

As elucidated in Figure 3.2, the country's labour force participation rate declined to 47.3 per cent in 2020:Q2 from 60.3 per cent in 2020:Q1 and remained relatively low for the rest of the year. The decreasing participation rate during Covid-19 is mainly due to several factors, such as dependent care demands, increased unemployment benefits, and people being afraid of being infected by the Covid virus. Alike, South Africa's labour absorption rate has remained low at around 40 per cent throughout the review period, although there was a significant decline in 2020 due to the effects of the Covid-19 pandemic-induced economic downturn.

Figure 3.2: Labour force participation and absorption rates for South Africa, 2016:Q1- 2022:Q3



Source: Statistics South Africa (2022)

Moreover, South Africa's continually rising unemployment rates appear to be severe if measured by labour absorption. Meanwhile, the country's low absorption rates could continue to hamper economic growth if factors affecting labour absorption rates are not clearly defined. By implication, the low level of labour absorption in South Africa reflects the weak economy and indicates the gap in the labour market. Persistent efforts to better understand factors affecting labour absorption in South Africa would ultimately aid the labour market to absorb a large pool of both skilled and unskilled labour and thus contribute to the unemployment rate reduction.

3.3.2. Unemployment trends in South Africa

The South African labour market has undergone considerable changes since 1994 due to the elimination of multiple statutory restrictions on labour market access and participation (UN, 2015), which has led to rapid growth in the labour force that exceeded the growth in the working-age population. Although employment growth tends to keep

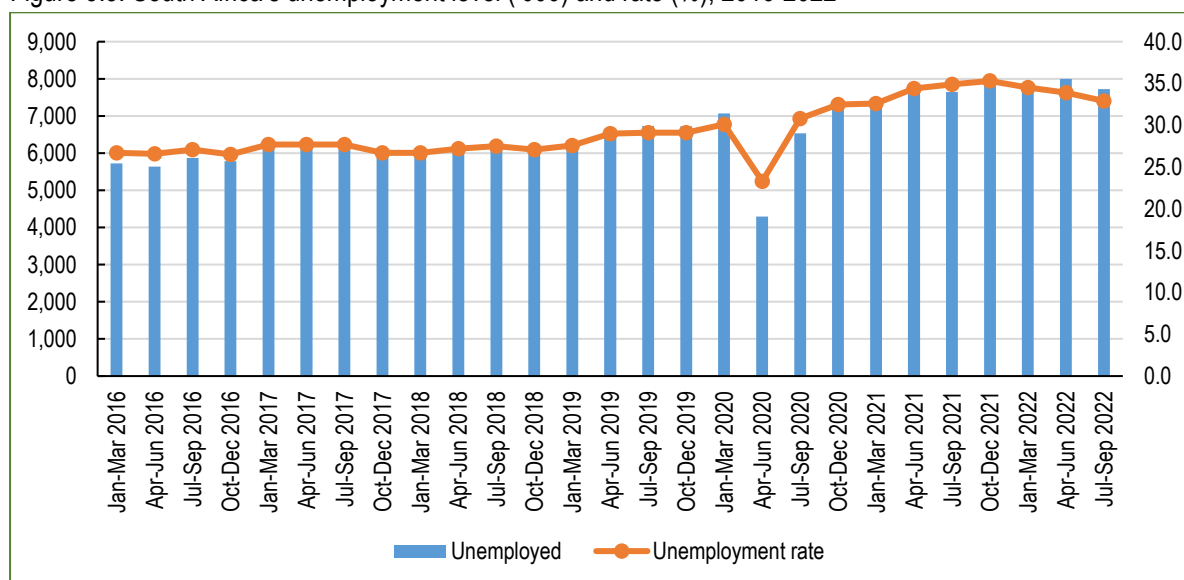
up with the growth in the working-age population, nonetheless, it was unable to grow at the same pace as the labour force, resulting in a rapid increase in the unemployment rate.

Since 1994 up till now, the high unemployment rate remains one of South Africa's most pressing socio-economic problems. Over the past two decades, it has also proved to be one of the country's most policy-resistant issues given that the plethora of policies and interventions to address the high level of unemployment has failed to make a significant difference with the unemployment rate surging upwards. During the early post-apartheid period, South Africa recorded significant employment growth. But, post the 2009 economic recession, employment growth has slowed down dramatically, while both the unemployment level and rate have increased substantially.

According to Stats SA's Quarterly Labour Force Survey (2022:Q3) report, graphically reflected in Figure 3.3, the unemployment level fell to about 4.3 million while the unemployment rate declined to 23.3 per cent during the height of the Covid-19 pandemic. The surprising second quarter outcome was counter-intuitive as it represented the lowest unemployment rate since the second quarter of 2009 given the marked contraction in real economic activity following the Covid-19 outbreak, as well as the subsequent decrease of 2.2 million employed persons. At the same time, the official unemployment rate rose rapidly to 30.8 per cent in the third quarter of 2020, above its pre-Covid level, as the hard lockdown restrictions eased.

Palpably, the sharp fall in the official unemployment rate in the second quarter was a temporary anomaly, reflective of the national lockdown that impeded people's ability to actively search for work, together with several classification and measurement problems encountered by Statistics South Africa (Stats SA) when conducting the second-quarter 2020 Quarterly Labour Force Survey (QLFS). International comparisons reveal similar movements in the official unemployment rate of most countries to that of South Africa during the second quarter of 2020, although the timing of the full impact differed (SARB, 2020).

Figure 3.3: South Africa's unemployment level ('000) and rate (%), 2016-2022



Source: Statistics South Africa (2022)

Furthermore, the latest Stats SA data shows the unemployment level at 7.7 million and the rate at 32.9 per cent (see Figure 3.3). On one hand, there was a steady rise in the unemployment rate from 26.7 per cent in 2016:Q1 to 32.5 per cent in 2022:Q3, which can be attributed to losses of jobs mainly from the private households (170 thousand), construction (139 thousand) mining (64 thousand) sectors (Stats SA, 2022). In 2021, on a global list of 82 countries, South Africa's unemployment rate surged to the highest according to Bloomberg (2022).

Additionally, Statistics South Africa (2022) reveals that two out of every three young people (under 35 years) in South Africa are unemployed, and this rises to three out of four of the under-25s. On the whole, the advent of the Covid-19 pandemic has seriously affected the already distressed labour market, as many Small and Medium Micro Enterprises (SMME) were forced to close down due to the total lockdown imposed by the South African government.

Deductively, high unemployment may manifest in various social ills such as crime, poor health and, in extreme, political instability. Whereas, the short-run effect of the Covid-19 pandemic has worsened South Africa's unemployment problem, which averaged 33.8 per cent in the first three quarters of 2022 (Figure 3.3). On this basis, two policy responses to the rising unemployment in the country that needs to be considered by the national government entail skill upgrade and easy entrance into the existing labour market. Unfortunately, none of these remedial actions has been adopted because of the dynamic nature of the structural unemployment existing in South Africa which is a multi-causal and complex phenomenon. For instance, the implementation of an effective skill development strategy has proven to be a challenge for policymakers.

On one hand, South Africa demonstrates poor performance in international standardised tests such as the Trends in Mathematics and Science Study (TIMSS), and Southern and Eastern Africa Consortium for Monitoring Educational Quality (SACMEQ), which reflects negatively on the quality of education offered. This, in turn, constrains the capacity for people to develop skills in future. On the other hand, labour market reforms remain a contentious political-economy issue in the country.

3.4. PROVINCIAL LABOUR MARKET: FREE STATE PROVINCE

This section of the publication analyses trends in the Free State labour market over ten years spanning from 2013 to 2022, using the labour data from Statistic South Africa. The current socio-economic situation in the Free State province poses the challenge of providing opportunities for the integration of the marginalised and excluded population into productive activities, as well as the general mainstream economy primarily through employment and general labour market participation. Hence, eradicating unemployment is one of the major perennial challenges in the province. However, the solution to the high unemployment rate problem should not be the burden of the alone but also requires a collective effort of different public stakeholders, which includes the private sector, businesses, non-governmental organizations, and communities, at large.

3.4.1. The Free State Province's Labour market characteristics

By definition, the working-age population consists of able-bodied people between 15 and 64 years old. The basic indicator for employment is the proportion of the working-age population aged 15-64 who are employed. Generally, the working-age population is determined based solely on the number of people that fall into a specified age range, producing an estimate regarding the number of capable workers that are available within a particular economy, country or province. It does not differentiate between those that are working and those that are currently unemployed, as the working-age population considers how many people are likely willing and able to work. Based on this, an analysis of the components of the working-age population (i.e. the employed, unemployed and not economically active) provides insights into the factors that drive the supply and demand of labour and the policies developed to assist in increasing participation in the labour market.

The working-age population trends in the Free State province for the period 2013:Q3 to 2022:Q3 is provided in Table 3.4, and it shows the province's working-age population of nearly 1 929 000 people in 2022:Q3 up from 1 845 000 in 2013:Q3 (which is equivalent to an increase of 34 000 people or 4.6 per cent). In particular, about 50.4 per cent of the working-age population in 2022:Q3 are women and 49.6 per cent are men. Based on a year-

on-year analysis, the number of females of working age increased by 15 000, while a decrease of 8 000 is recorded for men. However, a longer-term analysis shows women growing by 22 000 and men by 63 000 over the past ten years. In terms of racial groups, an overwhelming majority of the working-age population are Africans (89.5 per cent), followed by Whites (7.1 per cent), Coloureds (2.2 per cent) and Asians (1.3 per cent).

Table 3.4: Working-age population of the Free State Province, 2013 – 2022

	Jul-Sep 2013	Jul-Sep 2014	Jul-Sep 2015	Jul-Sep 2016	Jul-Sep 2017	Jul-Sep 2018	Jul-Sep 2019	Jul-Sep 2020	Jul-Sep 2021	Jul-Sep 2022
	Thousand									
Both sexes	1,845	1,858	1,872	1,884	1,890	1,900	1,908	1,915	1,922	1,929
Women	950	924	957	965	951	976	963	978	957	972
Men	894	934	915	919	939	924	945	937	965	957
Population groups	1,845	1,858	1,872	1,884	1,890	1,900	1,908	1,915	1,922	1,929
Black/African	1,669	1,657	1,681	1,721	1,676	1,756	1,773	1,753	1,732	1,726
Coloured	31	43	47	36	55	41	41	60	53	43
Indian/Asian	4	6	8	6	18	9	9	5	11	25
White	141	151	135	121	140	94	85	97	126	136

Source: Statistics South Africa (2022)

It is worth mentioning that data on labour and its components, including derived indicators derived, have both economic and social uses. First, statistical analysis of labour data describes and analyses the supply of labour (a) towards the formulation, implementation and monitoring of macro-economic and micro-economic policies and programmes and (b) in human resource development planning. Second, these statistics provide measures of the supply side of the labour market such as the size and characteristics of the labour force, labour input into production, the structure and conditions of employment, and the extent of utilization of available labour resources (volume and persons).

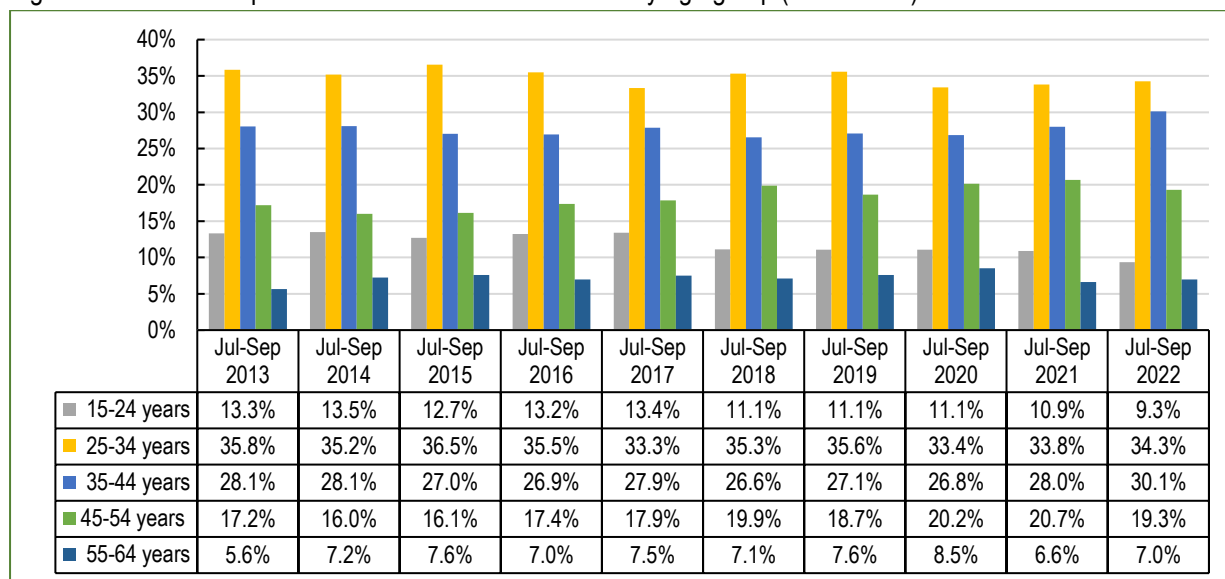
In light of the above, the distribution of the labour force by the age group from 2013:Q3 to 2022:Q3 is graphically illustrated in Figure 3.4, which indicates that an estimated 34.3 per cent of the labour force constitutes the age group between 25 and 34 years (which is the largest group of the working age population), followed by those between 35 and 44 years with a share of 30.1 per cent.

In the South African context, the youth population comprises able-bodied labour participants between the ages of 15 and 34 years, which make up 43.6 per cent of the Free State's labour force, with the remaining 56.4 per cent viewed as the adult grouping consisting of between 35 to 64 years old. From this standpoint, it can be inferred the Free State province, has a large pool of young labour participants.

Considering the period being reviewed, the province's labour force grew by some 94 thousand, with the largest growth evident in the 35 to 44-year-old group (51 thousand increase in the labour force), followed by the 45 – 54 years group (with 42 thousand increase in labour force participants). On the contrary, the labour force participation of the age group between 15 and 24 years of age decreased by some 35 thousand participants.

Moreover, Figure 3.5 presents the labour force participation and absorption rates of the Free State by gender between 2013:Q3 and 2022:Q3. It is worth noting that the labour force participation rate is the percentage of the working-age population that forms part of the total labour force. Also, it is a measure of what proportion of a country's population is employed or actively looking for employment. And, the higher the labour force participation rate, the more of the country's population is interested in working.

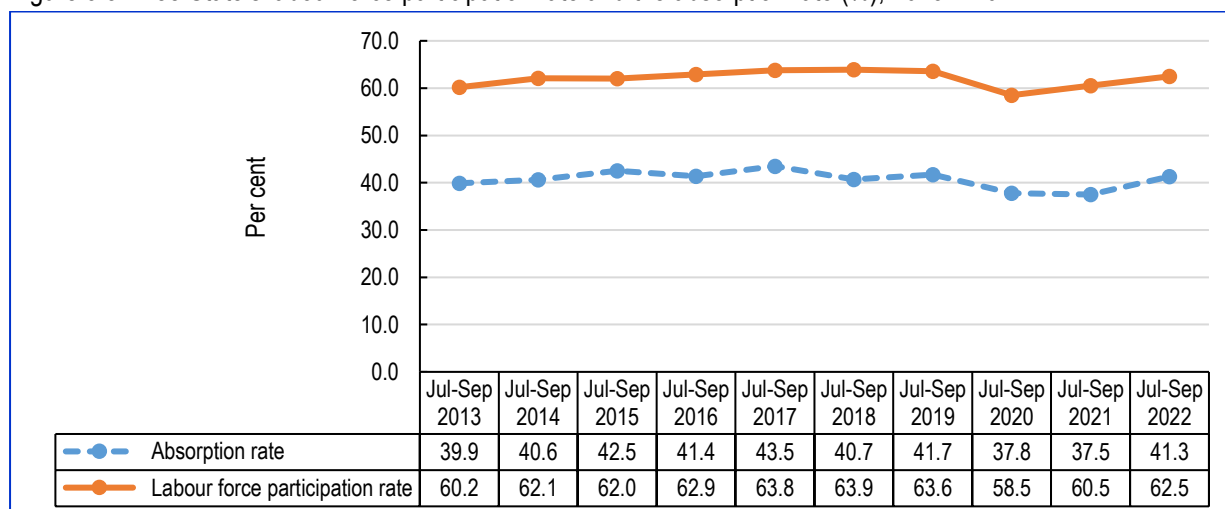
Figure 3.4: Free State province's share of the labour force by age group (2013 -2022)



Source: Statistics South Africa (2022)

From Figure 3.5, the Free State's labour force participation rate was 62.5 per cent in 2022:Q3, up from 60.2 per cent in 2013:Q3. Mostly, the labour force participation rate had been on a constant increase in the province before the Covid-19 pandemic outbreak and subsequent measures implement to curb its spread. Notably, the drop in the province's labour force participation and absorption rates in 2020 can be associated with several factors, such as lockdown restrictions, dependent care demands, increased unemployment benefits, or people being afraid of getting sick from Covid-19. Nonetheless, the removal of the Covid-19 restrictions, led to a marginal recovery in the province's labour force participation rate and absorption, closer to the pre-pandemic levels.

Figure 3.5: Free State's labour force participation rate and the absorption rate (%), 2013 – 2022



Source: Statistics South Africa (2022)

According to Posel and Casale (2003), labour absorption is a supply-side variable, which provides a different indication of the unemployment rate regarding the lack of employment opportunities in the labour market. A higher labour absorption means more work-seekers are finding employment, whilst a lower absorption rate shows more people are struggling to find employment (Stats SA, 2020). The mechanisation of the labour market has implied that a large pool of unskilled labour in these countries with high unemployment rates is often left on the brink, with

no hope of sustainable employment, leaving people trapped in the vicious cycle of poverty. As a result, people face prolonged periods before transitioning into the labour market, and an erosion of human capital results beyond the economic and psychological effects

3.4.2. Employment Trends in the Free State Province.

Employment is important to the economy for many reasons. One of the most important reasons is that jobs are generally a primary source of income. Thus, jobless people earn no wages, and as a result, they would suffer from several associated problems such as poverty, depression, etc. To tackle the epidemic of poverty and inequality, the province needs to foster the creation of meaningful jobs that add net value to society. Therefore, this section focuses on the characteristics of employment in the Free State province.

An employed person is, broadly speaking, a person in the working-age population who, during the short reference period, performed some economic activity or who would have performed such activity had they not been temporarily absent from work. The employed population is all persons in the working age population who, during a specified short reference period of one week or one day, met any one of the following conditions:

- (i) performed some work for a wage, salary, profit or family gain, in cash or kind;
- (ii) are temporarily absent from a job in which they had already worked and to which they maintained a formal attachment; or
- (iii) are temporarily absent from work in an enterprise they own (such as a business enterprise, a farm or a service undertaking), for some specific reason.

The majority of the employment opportunities in the Free State exist in the formal sector (non-agricultural). For example, about 61.4 per cent of the employed are working in the formal sector (non-agricultural) in 2022:Q3, whereas, the informal sector's (i.e., non-agricultural) share of employment was 19.2 per cent, followed by agriculture (11.7 per cent) and then private households (7.6 per cent) in the same period. Consequently, the formal sector is the main driver of employment in the province, nonetheless, the informal sector still contributes significantly, to some extent.

It is worth mentioning, that during the review period, the shares of the formal sector and private households have declined by 3.6 percentage points and 4.0 percentage points, respectively. On the other hand, the shares of the informal sector and agriculture increased by 4.8 percentage points and 2.7 percentage points, respectively. The growing share of the informal sector, in the province, is encouraging given its potential to absorb a large number of the unemployed without the requisite skills to enter the formal (employment) sector. Mostly because of weak economic growth, employment creation remains the Free State's most pressing social problem. About 798 thousand people were employed in 2022:Q3, up from 737 thousand in 2013:Q3, indicating an increase of 94 thousand jobs over the period. In contrast, about 23 thousand jobs were lost during this period compared to 2017:Q3.

Moreover, the distribution of employment by sector in the Free State province is presented in Table 3.6. The biggest employer in the province in 2022:Q3 was the community and social services (31.1 per cent), followed by trade (20.8 per cent) and agriculture (11.7 per cent). While, the smallest employers are utilities (0.2 per cent), mining (3.1 per cent) and transport (5.5 per cent).

Table 3.5: Characteristics of the employed in the Free State Province, 2013 – 2022

	Jul-Sep 2013	Jul-Sep 2014	Jul-Sep 2015	Jul-Sep 2016	Jul-Sep 2017	Jul-Sep 2018	Jul-Sep 2019	Jul-Sep 2020	Jul-Sep 2021	Jul-Sep 2022
	Thousand									
Population 15-64 yrs	1845	1,858	1,872	1,884	1,890	1,900	1,908	1,915	1,922	1,929
Labour Force	1,111	1,154	1,161	1,186	1,205	1,215	1,213	1,121	1,163	1,205
Employed	737	755	795	781	821	774	795	723	720	798
Formal sector (Non-agricultural)	479	499	496	478	497	474	511	455	445	490
Informal sector (Non-agricultural)	106	128	140	146	161	133	128	139	120	153
Agriculture	66	54	65	60	75	74	56	49	72	93
Private households	86	73	94	97	88	92	100	81	82	61

Source: Statistics South Africa (2022)

In line with the ambitious transformation of the provincial economy from a resources-based to a modern services-based economy, the tertiary sector is the biggest employer with a share of 72.3 per cent of employment. The implication of this transformation is the growing demand for highly skilled workers, while the majority of the employed persons, in the province, are poorly skilled, thus causing a skill mismatch and structural unemployment. Over the review period, the share of the primary sector grew from 12.1 per cent to 14.8 per cent, partly due to the increased share of the agricultural sector in the provincial economic structure. As such, the structure of the province's labour market necessitates the development of a skilled labour force to meet the demands of the services industries and the retraining or reskilling of the unskilled labourers historically found in the primary industries.

Table 3.6: Share of employment by industry in the Free State Province, 2013 – 2022

	Jul-Sep 2013	Jul-Sep 2014	Jul-Sep 2015	Jul-Sep 2016	Jul-Sep 2017	Jul-Sep 2018	Jul-Sep 2019	Jul-Sep 2020	Jul-Sep 2021	Jul-Sep 2022
Agriculture	9.0%	7.2%	8.2%	7.6%	9.2%	9.6%	7.0%	6.7%	10.1%	11.7%
Mining	3.1%	3.7%	3.8%	3.6%	2.1%	3.0%	1.9%	2.3%	2.6%	3.1%
Primary Industries	12.1%	10.9%	12.0%	11.2%	11.3%	12.6%	8.9%	9.0%	12.7%	14.8%
Manufacturing	7.9%	10.7%	7.5%	7.7%	6.6%	8.5%	7.4%	6.6%	4.4%	7.0%
Utilities	0.7%	0.4%	1.4%	1.3%	1.3%	1.4%	1.3%	0.4%	0.7%	0.2%
Construction	7.2%	7.1%	7.6%	7.0%	8.9%	8.3%	5.8%	7.3%	4.5%	5.6%
Second Industries	15.7%	18.2%	16.5%	16.0%	16.9%	18.1%	14.5%	14.3%	9.6%	12.8%
Trade	19.3%	20.4%	20.8%	22.6%	21.6%	18.2%	22.5%	22.2%	22.7%	20.8%
Transport	4.7%	4.4%	4.2%	4.9%	6.2%	4.5%	5.0%	5.8%	6.7%	5.5%
Finance	8.8%	8.9%	7.5%	8.1%	9.2%	9.2%	10.5%	10.8%	12.2%	7.3%
Community and social services	27.5%	27.4%	27.2%	24.7%	24.1%	25.4%	26.0%	26.8%	24.7%	31.1%
Private households	11.7%	9.7%	11.8%	12.5%	10.7%	11.9%	12.6%	11.2%	11.4%	7.7%
Tertiary Industries	72.0%	70.9%	71.5%	72.8%	71.8%	69.2%	76.6%	76.7%	77.7%	72.3%

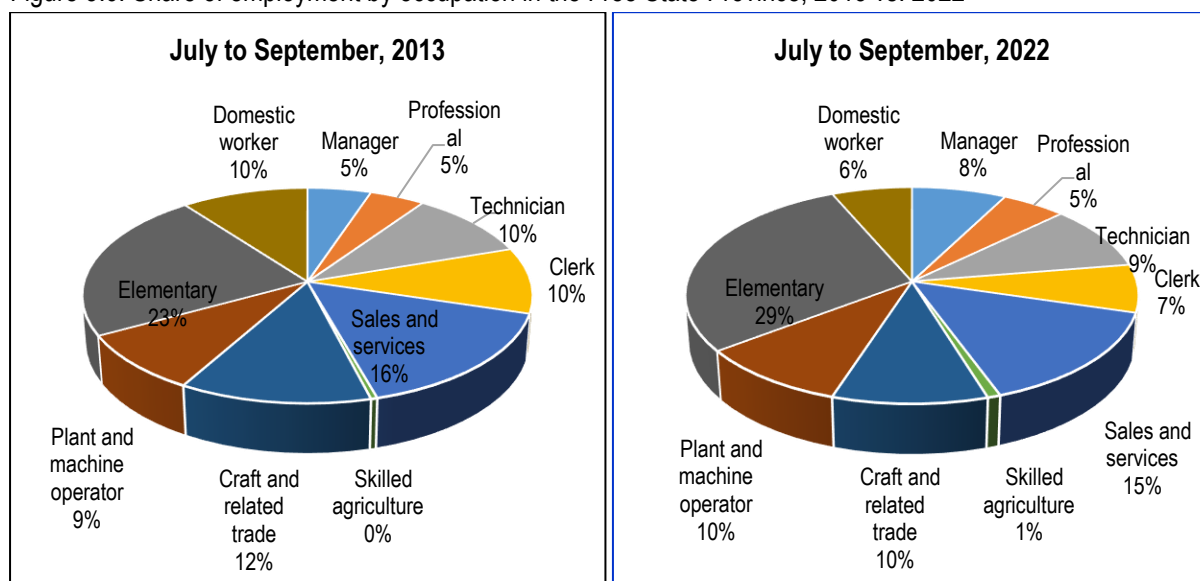
Source: Statistics South Africa (2022)

As illustrated in Figure 3.6, the *elementary occupation* is the largest employer in the province constituting over a quarter of employment. Even though the share of this occupation category is not only the largest, it is also on the

rise, from 23 per cent in 2013:Q3 to 29 per cent in 2022:Q3. Furthermore, sales and services remain the second largest employing sector, with a share of 15 per cent in 2022:Q3, followed by plant and machine operator, as well as craft and related trade with a 10 per cent share each. Whereas, skilled agriculture (1 per cent), professional (5 per cent) and domestic workers (6 per cent) are the smallest employers.

Considering skills level, an estimated 43 per cent found employment in semi-skilled occupations, with 35 per cent in low-skilled occupations and only 22 per cent in skilled occupations in 2022:Q3. Compared to 2013:Q3, the share of skilled occupations increased by 2 percentage points, while that of the semi-skilled increased by 4 percentage points and the low-skilled occupations increased by 2 percentage points. This trend is contradictory to the needs of the provincial economy that demands skilled over unskilled workers.

Figure 3.6: Share of employment by occupation in the Free State Province, 2013 vs. 2022



Source: Statistics South Africa (2022)

The shift of labour from the primary to the tertiary sectors normally results in the growing demand for highly skilled professionals, technicians and managers to develop, implement, operate and maintain new technologies associated with the services economies. At the same time, this technology substitutes unskilled and low-skilled labourers, farming workers, production workers and basic service workers. The declining share in the production of these workers also had the effect of increasing the share of the non-production workers; namely transport workers and clerical and sales workers. As such, the main beneficiaries of this structural change are highly skilled occupations including the service sectors, while the losers are low-skilled occupations, usually associated with the primary sectors. In this case, one can conclude that the shift in the Free State economy's structure to a more knowledge-based economy has increased the need for workers with reasoning, problem-solving, and behavioural skills, a positive cognitive style, and specific occupational and professional competencies. This structural transformation in the provincial economy poses a real risk of increased marginalization of low-skilled workers in the labour market, but also creates an opportunity for the reskilling of the low-skilled workers.

3.4.4. Unemployment Trends in the Free State Province

Premised on South Africa's labour context, the unemployed population consists of those in the working-age population who during the reference period were simultaneous:

- (i) "without work", i.e. not employed, where employment is as defined above;

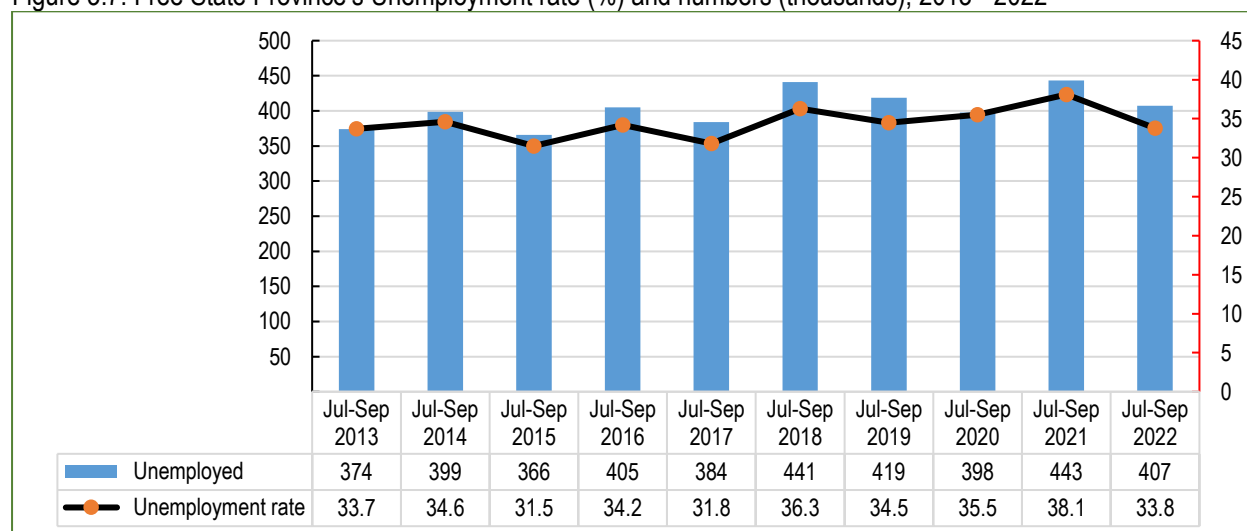
- (ii) “currently available to work”, i.e., are available for employment during the reference period; and
- (iii) “seeking work”, i.e. had taken specific steps in a specified recent period to look for employment.

As stressed previously, persistently high unemployment is one of the major socioeconomic issues in both the Free State province and South Africa. Conventionally, a high unemployment rate tends to result in an economic slowdown or poor economic growth. As economic activity improves and aggregated consumption demand increases, companies will demand additional workers to increase their workforce in response to growing consumer demand, thus allowing the unemployment rate to fall. And, if unemployment remains high for an extended period, it may become structural, creating myriad problems.

Globally, job creation is a critical policy objective, and the South African government have implemented several employment-creating policies, since 1994. For example, the Growth, Employment and Redistribution (GEAR) policy aimed at creating 400 000 jobs per annum to achieve an annual employment growth rate of 6 per cent, whereas the Accelerated and Shared Growth Initiative of South Africa (ASGISA) had the goal of reducing the unemployment rate to 14 per cent by 2014. Also, the introduction of legislation such as the Employment Equity Act of 1998 and the *Basic Conditions of Employment Act* (BCEA) of 1997 aimed at improving the employment prospects and working conditions of the previously disadvantaged groups (which includes, Africans, females, and disabled people). Then again, the more recent New Growth Path (NGP) policy focused on creating about 5 million jobs over 10 years, particularly in infrastructure, agriculture, mining, green economy, tourism, business services and manufacturing. Most recently, the objective of the National Development Plan (NDP) adopted in 2010, is to half unemployment by the year 2030. Nonetheless, despite these policy interventions, unemployment remains stubbornly high in South Africa, and in the Free State province.

Looking at the available labour data presented in Figure 3.7, Free State province’s unemployment levels remain relatively high above 30 per cent for the past ten years. Specifically, the number of unemployed in the Free State increased from 374 thousand in 2013:Q3 to 407 thousand in 2022:Q3. During the same period, the unemployment rate grew slightly by 0.1 of a percentage point, from 33.7 per cent to 33.8 per cent. Meanwhile, the unemployment rate peaked at 38.1 per cent in 2021:Q3, following the economic contraction due to Covid-19 lockdown restrictions. Albeit, the relaxation and eventual lifting of the *National State of Disaster* from 5 April 2022, led to a recovery of the labour market to marginally lower the unemployment rate to 33.8 per cent in 2022:Q3, with the number of unemployed also falling to 407 thousand.

Figure 3.7: Free State Province’s Unemployment rate (%) and numbers (thousands), 2013 - 2022



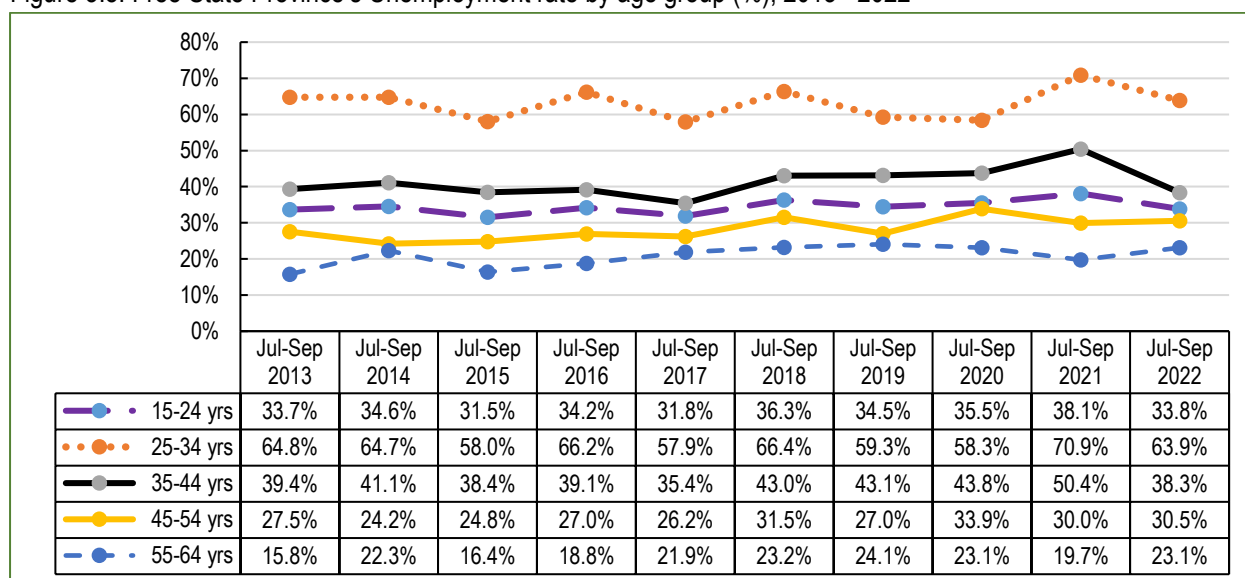
Source: Statistics South Africa (2022)

To effectively tackle the persistently high unemployment rate, the provincial government needs to implement rapid growth-enhancing reforms that stimulate economic activity levels in the province and create jobs. It is, however, crucial that the province not only increase economic growth but also provide training opportunities to improve low-skilled or poor-skilled workers' access to employment in highly skilled sectors.

Conversely, Figure 3.8 shows that the unemployment rate in the Free State province appears to have an age dimension to it. The population that falls between 24 and 34 years are the most vulnerable to the prevailing high unemployment level in the province, with a 63.9 per cent unemployment rate in 2022:Q3. Whereas, the youth unemployment rate (i.e. 15 – 34 years) in the Free State province was 46.0 per cent in 2022:Q3, declining marginally from 46.2 per cent in 2013:Q3.

Over the review period, the youth unemployment rate in the province attained its lowest rate in 2018 at 40.3 per cent. On the whole, youth unemployment has worsened over the past ten years despite a great deal of policy attention and the implementation of various public and private interventions. According to Stats SA (2022), the youth unemployment rate in the Free State Province is twice the total provincial unemployment rate. For instance, the adult unemployment rate in the province was 32.5 per cent in 2022:Q3 (up from 28.4 per cent in 2013:Q3), and about 13.5 percentage points lower than the youth unemployment rate.

Figure 3.8: Free State Province's Unemployment rate by age group (%), 2013 –2022



Source: Statistics South Africa (2022)

Based on the foregoing analysis, it cannot be overemphasised that high youth unemployment implies that young people do not gain the required skills and/or experience needed to productively participate in the labour market, and to contribute to the domestic economy. Typically, a lack of skills can have long-term adverse effects on the provincial economy.

In the same vein, the persistently high youth unemployment is not only one of the country's most pressing socio-economic problems but also a ticking time bomb that needs to be defused urgently through the implementation of effective policies or strategies. For example, the National Planning Commission (NPC, 2011) diagnostic report affirms that *"this (i.e., high unemployment rate) time bomb is the greatest risk to social stability in South Africa."* The NPC report indicates that if a young person fails to get a job by the age of 24, he or she may not be able to gain formal full-time employment. Consequently, about 60 per cent of an entire generation could live their lives without ever holding a formal job. Despite the promise of a democratic South Africa, it is young people from the

poorest households who struggle the most to find jobs, and if this trend is not addressed urgently, the situation could deepen the frustration and cause restlessness (or impatience) among the youth. Additionally, the persistently high youth unemployment rate for an extended period can evolve into chronic unemployment and the poverty cycle, with young people, who are likely to become parents unemployed, and their children are poorly raised, and will also live in poverty in future.

Moreover, the characteristics of the unemployed in the Free State province are presented in Table 3.7, and it shows that the majority of the unemployed are the new entrants (38.3 per cent) to the provincial labour market in 2022:Q3, followed by job losers (31.2 per cent). Particularly, in 2022:Q3, about 127 thousand jobs were lost in the province and about 156 thousand new entrants could not find employment. Deductively, it is noted that not only is the provincial economy not creating sufficient new jobs but also it is shedding a lot of existing jobs. Thus, as a policy measure, the province needs to simultaneously preserve existing jobs and create new employment opportunities.

Table 3.7: Free State Province's Characteristics of the unemployed, 2013 – 2022.

	Jul-Sep 2013	Jul-Sep 2014	Jul-Sep 2015	Jul-Sep 2016	Jul-Sep 2017	Jul-Sep 2018	Jul-Sep 2019	Jul-Sep 2020	Jul-Sep 2021	Jul-Sep 2022
	Thousand									
Unemployed	374	399	366	405	384	441	419	398	443	407
Job losers	116	131	128	135	123	142	142	151	156	127
Job leavers	27	24	24	22	20	30	30	24	13	15
New entrants	153	154	148	160	152	169	142	142	196	156
Re-entrants	5	7	5	11	8	8	13	9	1	9
Other	73	84	61	78	80	93	92	72	78	101
Unemployed	374	399	366	405	384	441	419	398	443	407
Long-term unemployment	248	279	245	277	266	314	280	264	344	309
Short-term unemployment	126	120	121	128	118	127	139	133	100	98

Source: Statistics South Africa, 2022

In addition, the labour data in Table 3.7 also provides insight into the duration of unemployment in the Free State over the past ten years. Specifically, in 2022:Q3, about 75.9 per cent (or 309 thousand) of the unemployed are in long-term unemployment, compared to 66.3 per cent (or 248 thousand) recorded in 2013:Q3. By implication, the long-term unemployment in the province has grown significantly since 2013, implying these people have been unemployed for two years or more.

Further, the structural nature of the unemployment problem in the province is reinforced by a large number of people in long-term unemployment, which increased from 248 thousand in 2013:Q3 to 309 thousand in 2022:Q3. Also, long-term unemployment has increased as a proportion of the labour force from 22.3 per cent in 2013:Q3 to 25.6 per cent in 2022:Q3, equivalent to a growth of 3.3 percentage points.

By the same token, the long-term unemployment level in the Free State province appears to be rising because of the combined effects of the prevailing cyclical and structural unemployment in the provincial (and national) economy. While, cyclical unemployment is typically caused by an economic recession, as firms' production falls and labour demand decreases (workers are fired or new ones are not employed), structural unemployment occurs when workers' skills no longer meet the needs of the job market. In this context, long-term cyclical and structural unemployment influences one another. Intuitively, a recession causes a massive rise in cyclical unemployment,

since those who cannot find jobs become long-term unemployed. If a person is out of work long enough, their skills become obsolete, and this contributes to structural unemployment, over time. Also, unemployed people spend less due to limited income, resulting in reduced consumer demand, which indirectly slows down economic growth, translating into cyclical unemployment.

From this viewpoint, the Free State's economy has experienced five negative annual growth rates since 2009 and performed poorly in the years in between. It can be surmised, that these events contributed to cyclical unemployment in the province, in addition to existing the lack of skills and/or mismatch of skills, which reinforces the existence of structural unemployment in the province. On a technicality, there is no sensible scenario where long-term unemployment can simply be shrugged off as one of the glitches in society. As more and more people become unemployed, there is a greater risk of them becoming permanently detached from the labour market. The scarring effects of long-term unemployment on a typical worker are directly linked to two crucial roles in the labour market, which include (i) the loss of skills over time, and (ii) that even upon finding work the individual may accept lower wages than previous income earned.

3.4.5. Level of educational attainment

Unemployment in the Free State province is highest among those with no Grade 12/Matric as shown in Table 8. For those with just Grade 12/Matric, the unemployment rate is about 35.8 per cent, whereas those leaving school without Grade 12/Matric have the highest unemployment rate at around 40.9 per cent, further making the unemployment rate issue to be paramount and worrisome.

Key inferences that can be observed in the available labour data in Table 8 are as follows: Firstly, a matric / national certificate education without university exemption subjects is insufficient for employment in the existing skill-intensive labour market given that approximately 34.8 per cent of the labour force completed secondary school and just over a third of this category are unemployed, while about 36.9 per cent of the same group are unemployed in the third quarter of 2022.

Secondly, nearly half (40.9 per cent) of those with Standard 9/Grade 11 and who want to work are unemployed, indicating that having a population without any form of schooling, in this case, the national certificate, worsens the unemployment rate in the province. Thirdly, an overwhelming 95.4 per cent of the not economically active population have completed Grade 12 or less.

Fourthly, unemployment is most prominent amongst the less skilled (i.e. those with Grade 12 or less). This evidence lends credence to the notion that education reduces the likelihood of unemployment. Last but not the least, a key feature of structural unemployment is that unemployment is not universal, and the data analysed in Table 3.8 affirms that structural unemployment is a serious problem in the Free State province.

Besides, the supply of labour in the unskilled labour market is considerably large, but the labour demand is low, in the Free State Province (Table 3.8), given that roughly 95.4 per cent of the provincial labour force has matric or less, while only 3.5 per cent has post-secondary school qualification. Evidently, the supply of labour in the unskilled labour market in the Free State is significantly large, because of the growing population of people without a good education and adequate skill training. Conversely, demand for labour decreases because technological innovation provides more efficient ways of performing a given task.

Nonetheless, labour supply in the highly skilled labour market is very limited with relatively high, suggesting a skill-intensive provincial labour market. Unfortunately, only about 3.5 per cent of the Free State labour force has a tertiary education degree or higher qualification. And, the continued emigration of an educated and skilled population to other provinces or abroad, seeking greener pasture of better working condition and salary indirectly reduces the supply, and the immigration of highly skilled workers to the province remain severely limited.

Table 3.8: Free State Province's Level of educational attainment, 2013 – 2022

	Jul-Sep 2013	Jul-Sep 2014	Jul-Sep 2015	Jul-Sep 2016	Jul-Sep 2017	Jul-Sep 2018	Jul-Sep 2019	Jul-Sep 2020	Jul-Sep 2021	Jul-Sep 2022
	Thousand									
Highest level of education of the employed	737	755	795	781	821	774	795	723	720	798
No schooling	11	16	17	19	19	12	13	7	8	6
Less than primary completed	92	63	89	87	85	61	72	42	45	60
Primary completed	35	49	39	43	50	37	38	30	30	33
Secondary not completed	262	261	296	286	292	322	290	261	277	257
Secondary completed	199	218	229	236	225	208	224	238	213	269
Tertiary	137	145	121	108	150	132	154	145	144	164
Other	1	3	4	2	1	2	4		3	8
Highest level of education of the unemployed	374	399	366	405	384	441	419	398	443	407
No schooling	2	11	1	2	5	12	2	4	2	2
Less than primary completed	38	28	20	30	25	20	25	18	20	29
Primary completed	21	19	14	22	15	24	22	24	16	15
Secondary not completed	177	202	187	195	191	208	226	165	221	178
Secondary completed	114	123	125	132	121	147	123	149	151	150
Tertiary	21	16	20	21	26	31	18	38	33	32
Other	1	0	0	3		1	2		1	2
Highest level of education of the not economically active	734	705	711	699	685	685	694	794	758	724
No schooling	26	31	38	26	27	23	38	17	12	16
Less than primary completed	103	87	96	85	93	79	88	90	69	51
Primary completed	50	40	46	63	55	61	53	56	52	48
Secondary not completed	396	380	386	373	352	385	376	389	405	400
Secondary completed	130	131	113	119	136	117	114	205	183	176
Tertiary	22	30	30	25	16	19	21	36	35	25
Other	6	6	1	8	5	2	5	1	3	9

Source: Statistics South Africa (2022)

Conclusively, the analysed labour data for the Free State province elucidates that education remains critical for the reduction of the unemployment rate and stimulation of economic growth. Thus, intensifying government support to improve access to education and skill development programmes is a feasible solution to tackle the existing structural and cyclical unemployment problems in the Free State province; otherwise, the province will continue to suffer from a high unemployment rate and poor economic performance. Although, skilled labourers are employed in the province, still unskilled and unemployed are between 30 per cent and 40 per cent.

3.4.6. Free State Province's profile of those Not in Education and Not in Employment (NEET)

The unemployed group that is receiving a great deal of attention nowadays are those who are not-employed-or-in-education-or-training (NEET). The NEET group neither engaged in the labour market nor want to gain access to the labour market, emerging as an imminent threat to social stability in South Africa (Department of Higher Education and Training, 2014). Researchers frequently raise the spectre of idle youth as a ticking social time

bomb, however, there is now heightened awareness about the NEET comprising mostly of the youth, presenting a potential source of social disruption. In South Africa, the impact of NEET is brought to the fore by crime statistics that reveal that the average age of house robbers is between 19 and 25 years and that of all arrested robbers (about 90 per cent) have no Grade 12 certificate and/mostly unemployed. Consequently, the monitoring of NEET trends and speedy policy interventions are required to reduce the growing population of NEET, as well as to promote peace and stability in society (Department of Higher Education and Training, 2018).

Currently, approximately 15.3 million South Africans fall into the NEET group and about 7.9 million of those are youth between the ages of 15 and 34 years. The majority of NEETs are female at 8.8 million, with males estimated at 6.5 million. Whereas, in the Free State Province, 833 thousand people are NEET, with about 60 per cent being females and half being youth (see Table 3.9). Also, in the province, over 90 per cent of the NEET group are Black/African.

Over the past ten years, Table 3.9, shows that the NEET population grew from 784 thousand in 2013:Q3 to 833 thousand in 2022:Q3, with females accounting for 71.4 per cent of the subsequent increase of 49 000. However, the share of the 15-24 year in the NEET steadily falls to 18.2 per cent from 21.3 per cent, which represents a decline of 15 thousand, during the review period.

Table 3.9: The not in education and not in employment (NEET), 2013 – 2022

	Jul-Sep 2013	Jul-Sep 2014	Jul-Sep 2015	Jul-Sep 2016	Jul-Sep 2017	Jul-Sep 2018	Jul-Sep 2019	Jul-Sep 2020	Jul-Sep 2021	Jul-Sep 2022
	Thousand									
Both sexes	784	782	766	792	740	779	809	836	889	833
Women	460	452	455	466	456	462	450	471	490	495
Men	324	330	311	326	284	317	359	365	399	338
Age group	784	782	766	792	740	779	809	836	889	833
15-24 yrs	167	172	158	167	162	150	144	147	170	152
25-34 yrs	245	246	243	247	215	241	275	253	292	256
35-44 yrs	162	154	137	147	141	158	157	191	187	188
45-54 yrs	104	106	98	113	98	122	117	127	104	117
55-64 yrs	106	103	130	118	125	109	116	118	135	120
Population groups	784	782	766	792	740	779	809	836	889	833
Black/African	736	725	710	743	661	734	769	772	810	765
Coloured	13	11	20	12	27	18	18	36	31	26
Indian/Asian	1	0			6	0	0		4	5
White	34	46	36	37	45	27	22	28	43	37

Source: Statistics South Africa (2022)

The South African government has embarked on several initiatives to reduce the number of young people in the NEET group. Nevertheless, to effectively reverse the prevailing trend of the youth in the NEET group, policymakers need to prioritise how to ensure young people's access to higher education, vocational education and training. To this end, the government's National Development Plan (NDP), as a national policy, targets to improve youth access to Further Education and Training (FET) colleges to 1.25 million students by the year 2030, as well as, access to Higher Education Institutions up to 1.6 million by 2030. NDP also aims to offer the opportunity for young people to complete Grade 12 by providing an adult matric qualification that reaches about 1 million adults by 2030.

3.5. CONCLUSION

The analytical discussion in this particular chapter elucidates that government policies that lower the high unemployment rate would improve the general welfare of the citizenry by directly reducing the poverty rate and inequality, especially in the Free State province. Moreover, it has been confirmed that the burden of unemployment in the Free State province falls on the youth, who are the most vulnerable due to having no skills and/or having little/ no experience in formal employment. Thus, because of these shortcomings, it is extremely difficult for these unemployed youth to gain employment opportunities, while it is anticipated that a large population of unemployed youth presently, may never gain formal sector employment.

Also, there are many obstacles to job creation in South Africa. *The World Economic Forum's global competitiveness report* (2019) indicates that the South African labour market suffers from, for example, inefficient hiring and firing practices, little cooperation between employers and employees as well as a poor relationship between pay and productivity. These unregulated labour practices allow employers to replace labour (particularly the less skilled and inexperienced ones) with capital (i.e., using machines), preventing the hiring of new workers.

However, at the provincial level, lack of and/or mismatch of skills are identified as causes of high unemployment rate on the supply side, in addition to the insufficient economic growth, which is a major cause of the unemployment rate, from the demand side.

On the policy front, both short- and long-term measures are required by the provincial government to address the province's high unemployment level, since these strategies typically raise labour demand improve access to adequate education and skills via training, as well as labour market interventions that improve the young people's employability. To that end, policy interventions to deal with the high and rising unemployment levels in the Free State province should focus on those with low qualifications, and on improving the quality of flexible work as well as the quality and relevance of training and qualifications, to enable the youth and adult to gain access to the provincial labour market (and some women with childcare responsibilities in mid-life) to escape from a cycle of low-status, temporary and low-skilled work. Also, it is crucial to address skill shortages and mismatch through collaborative efforts between the government and the private sectors, for example, to redesign the public education curriculum to include formal and non-formal general education, Vocational Education and Training (VET) and apprenticeship training.

Likewise, the provincial government need to intensify its policy effort to improve literacy skills through better primary education. In this case, education policies should focus on improving access to secondary education for disadvantaged youth, especially those experiencing financial constraints to afford registration and/or tuition fees. This action is paramount, in the case of young women, who are limited by social and cultural barriers. Moreover, the use of new technologies in education and access to open educational resources would enhance long-distance learning, flexible course delivery and customised training, particularly required by youth. All in all, education interventions need to raise the quality of basic and higher education, encourage school dropouts to re-enter the education system and provide an environment that facilitates high-quality academic, technical and vocational skills.

The descriptive analysis in this chapter affirms that labour market policies alone cannot end unemployment in the Free State province. To create more jobs, it is crucial the provincial economy achieve rapid, sustainable and inclusive growth. Therefore, policies that support accelerated and sustained economic growth are important since a growing economy boosts labour demand and decent employment opportunities. Without accelerated and sustained economic growth and a high employment absorptive capacity of that growth, a high unemployment rate will persist.

All in all, it is prudent that the provincial government pursue an aggressive skill development and vocational training programme to meet the demands of the labour market on the one hand and implement the provincial economic growth strategies to revive the provincial economy on the other hand.

REFERENCES

- Department of Employment and Labour (2022), *Annual Labour Market Bulletin 2020 – 2021*. Pretoria: South Africa.
- Department of Transport (2021), *White Paper on National Transport Policy*. May 2022. Pretoria: South Africa.
- Eurostat (2022), *Euro indicators: Annual inflation up to 9.9% in the euro area*. Available at <https://ec.europa.eu/eurostat/documents/2995521/15131946/2-19102022-AP-EN.pdf/92861d37-0275-8970-a0c1-89526c25f392>.
- Free State Business (2022), *The Guide to Business and Investment in Free State Province*. Global Africa Network Media. December 2021. Available at: https://issuu.com/globalafricanetwork/docs/free_state_business_2022.
- Free State Development Corporation (2022), *Active Pharmaceutical Ingredients (API) manufacturing*. Bloemfontein: South Africa. Available at: <https://www.fdc.co.za/index.php/investment-manufacturing>.
- Free State Development Corporation (2022), *Agriculture and Agro Processing*. Bloemfontein: South Africa Available at: <https://www.fdc.co.za/index.php/addons/fs-economic-sectors/agriculture-agro-processing>.
- IHS Markit (2022), *Regional eXplorer 2294*, version 2.6q. IHS Markit.
- ILO (2022) *Global Employment Trends for Youth 2022: Investing in transforming futures for young people*. International Labour Organisation. Geneva: Switzerland. Available at: https://www.ilo.org/global/publications/books/WCMS_853321/lang-en/index.htm
- ILO (2022), *World Employment and Social Outlook*. International Labour Organisation. Geneva: Switzerland. Available at <https://www.ilo.org/global/research/global-reports/weso/trends2022/lang-en/index.htm>
- IMF (2022). *Europe's Job Retention Schemes Contained Unemployment, But Challenges Remain*. International Monetary Fund. October. Washington, D.C. Available at: <https://www.imf.org/en/News/Articles/2022/03/30/cf-europe-job-retention-schemes-contained-unemployment>
- IMF (2022), *World Economic Outlook Database*. International Monetary Fund. October. Washington, D.C. Available at <https://www.imf.org/en/Publications/WEO/weo-database/2022/October>.
- IMF (2022), *World Economic Outlook: Countering the Cost-of-Living Crisis*. International Monetary Fund. October. Washington, D.C. Available at: <https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022#:~:text=Press%20Briefing%3A%20World%20Economic%20Outlook%2C%20October%202022,-October%2011%2C%202022&text=The%20IMF%20forecasts%20global%20growth,acute%20phase%20of%20the%20pandemic>.
- IMF (2023), *World Economic Outlook Update: Inflation Peaking amid Low Growth*. International Monetary Fund January. Washington, D.C. Available at: <https://www.imf.org/en/Publications/WEO/Issues/2023/01/31/world-economic-outlook-update-january-2023>
- McKinsey & Company (2022), *Want to drive inclusive economic growth? Start with manufacturing*. Available at: <https://www.mckinsey.com/capabilities/operations/our-insights/want-to-drive-inclusive-economic-growth-start-with-manufacturing>.
- National Treasury (2021), *Medium Term Budget Policy Statement*. October, 2021. Pretoria: South Africa.
- National Treasury (2022), *Medium Term Budget Policy Statement*. October, 2022. Pretoria: South Africa.
- OECD (2022), *Economic Outlook. Volume 2022 Issue 1*. Organisation for Economic Co-operation and Development Available at: https://www.oecd-ilibrary.org/economics/oecd-economic-outlook-volume-2022-issue-1_d2124689-en.
- South African Reserve Bank (2022), *Online Statistical Query*. December 2022. Pretoria: South Africa
- South African Reserve Bank (2022), *Quarterly Bulletin. (March, June, September and December, 2022)*. Pretoria: South Africa.
- Statistics South Africa (2020) *Labour Market Dynamics in South Africa, 2020*. Pretoria: South Africa

- Statistics South Africa (2022) *Quarterly Labour Force Survey*. Third quarter, 2022. Pretoria: South Africa
- Statistics South Africa (2022), *Consumer Price Index. (from February to December, 2022)*. Pretoria: South Africa.
- Statistics South Africa (2022), *GDP P0441 -2022Q3*. December, 2022. Pretoria: South Africa.
- The Presidency (2022). *Address by President Cyril Ramaphosa on actions to address the electricity crisis*. The Republic of South Africa. Union Building, Pretoria: South Africa. Available at: <https://www.thepresidency.gov.za/speeches/address-president-cyril-ramaphosa-actions-address-electricity-crisis%2C-union-buildings%2C-tshwane>.
- The Wall Street Journal (2022), *Russia's Inflation Rate Jumped to 16.7% in March*. Available at: <https://www.wsj.com/livecoverage/russia-ukraine-latest-news-2022-04-08/card/russia-s-inflation-rate-jumped-to-16-7-in-march-woXfSx8SheiellPJTWX#:~:text=The%20annual%20rate%20of%20inflation,range%20of%20prices%20sharply%20higher>.
- The White House (2022), *The Employment Situation in September*. Washington, DC. Available at <https://www.whitehouse.gov/cea/written-materials/2022/10/07/the-employment-situation-in-september-2/>
- Trade & Investment KwaZulu-Natal (2022), *Sector Study: Construction*. KwaZulu-Natal, South Africa. Available at: <https://www.tikzn.co.za/resources/docs/research/Construction%20%20Sector%20Study.pdf>.
- World Bank (2021) *South Africa's Labor Market Can Benefit from Young Entrepreneurs, Self-Employment*. South Africa Economic Update. July 2021. Washington, D.C.: World Bank Group. Available at: <https://www.worldbank.org/en/country/southafrica/publication/south-africa-economic-update-south-africa-s-labor-market-can-benefit-from-young-entrepreneurs-self-employment>
- World Bank (2022), *Commodity Markets Outlook*. October, 2022. Washington, D.C.: World Bank Group.
- World Bank (2023), *Global Economic Prospects*. January, 2023. Washington, D.C.: World Bank Group.