LIMPOPO

PROVINCIAL GOVERNMENT

REPUBLIC OF SOUTH AFRICA

PROVINCIAL TREASURY

LIMPOPO

Quarterly Economic Bulletin Q 2

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The heartland of southern Africa - development is about people

Foreword

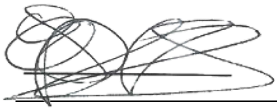
The second quarter Quarterly Economic Bulletin is presented during the ongoing steam of COVID-19 and the continuing war between Russia and Ukraine. The global economy, still reeling from the effects of the pandemic as well as the Russia's invasion of Ukraine, is facing an increasingly gloomy and uncertain outlook. Many of the downside risks flagged in the April World Economic Outlook have begun to materialize and is triggering a tightening of global financial conditions. These are higher than expected inflation, especially in the United States and major European economies. China's slowdown has been worse than anticipated amid COVID-19 outbreaks and lockdowns, and there have been further negative spill overs from the war in Ukraine. As a result, global output contracted in the second quarter of 2022.

Under the International Monetary Fund (IMF) baseline forecast, growth slows from last year's 6.1 percent to 3.2 percent this year and 2.9 percent next year, downgrades of 0.4 and 0.7 percentage points from April. This reflects stalling growth in the world's three largest economies namely, the United States, China and the euro area with greatest consequences for the global outlook.

In the United States, reduced household purchasing power and tighter monetary policy is projected to drive growth down to 2.3 percent in 2022 and 1 percent in 2023. In China, further lockdowns, and the deepening real estate crisis pushed growth down to 3.3 percent in 2022 the slowest in more than four decades, excluding the pandemic. And in the euro area, growth is revised down to 2.6 percent in 2022 and 1.2 percent in 2023, reflecting spill-overs from the war in Ukraine and tighter monetary policy.

South Africa's economy shrank by 0.7 percent in the second quarter of 2022, which is slightly better than expected. The median expectation among economists polled by a Bloomberg survey was for a contraction of 0.8 percent in the second quarter. Economic activity in the manufacturing industry shrank by 5.9 percent, in part due to the impact of flooding in KwaZulu-Natal, which killed more than 400 people and wrecked infrastructure in April. Manufacturing is the largest industry in KwaZulu-Natal, accounting for a fifth of national manufacturing production, Statistics SA reported. The agriculture industry decreased by 7.7 percent in the second quarter, while the mining and quarrying industry shrank by 3.5 percent.

Continuous load shedding by Eskom took a heavy toll in the Limpopo provincial economy as major industries were hit by power outages on more than half of the days in the second quarter. Also, higher interest rates weighed-in to the provincial growth prospects. So far this year, the Reserve Bank has hiked the repo rate four times from 3.75 percent to 5.50 percent with more increases expected in September and November. The knock-on effects of the Ukraine invasion, particularly higher food and fuel prices has affected the poor people in the province, as food and fuel has become extremely expensive for the poor and the working class.



21 September 2022

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DDG: Sustainable Resource Management

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1.1. Introduction

A cautious economic recovery in 2021 has been followed by increasingly gloomy developments in 2022 as risks began to materialize. Global output contracted in the second quarter of this year, owing to downturns in China and Russia, while US consumer spending undershot expectations. Several shocks have hit a world economy already that has weakened by the pandemic. The higher than expected inflation rate worldwide, especially in the United States and major European economies is triggering tighter financial conditions, a worse than anticipated slowdown in China, reflecting COVID- 19 outbreaks and lockdowns and further negative spill-overs from the war in Ukraine is putting more pressure on the world inflation.

The ongoing war between Russia and Ukraine has triggered a costly humanitarian crisis that demands a peaceful resolution. The economic damage from the conflict is a major contributing factor to a significant slowdown in global economic growth in 2022, as well as the inflation pressures. The cost of fuel and food items have increased rapidly, and this has a huge bearing to the vulnerable populations in low-income countries. In the previous year, South African economy reflected a rebound of 4.9 percent as it started to recover from a 6.4 percent slump in 2020 due to pandemic-related lockdowns. The economy reaches its pre-pandemic size in the first quarter of 2022, a year earlier than most expectations. But this recovery was short-lived since the 0.7 percent decline in the second quarter dragged GDP back below pre-pandemic levels.

Indications are that the Russia-Ukraine conflict is also expected to put a major dent to the country positive economic prospects, as the country has already witnessed spikes in the fuel prices, which has an effect in the production and transportation of many agricultural products. The electricity interruptions in the country continue to have a negative impact to both the country and provincial economic recovery, as under the current condition businesses could barely thrive with the load shedding conditions, as they were still trying to cope with the effects of the pandemic.

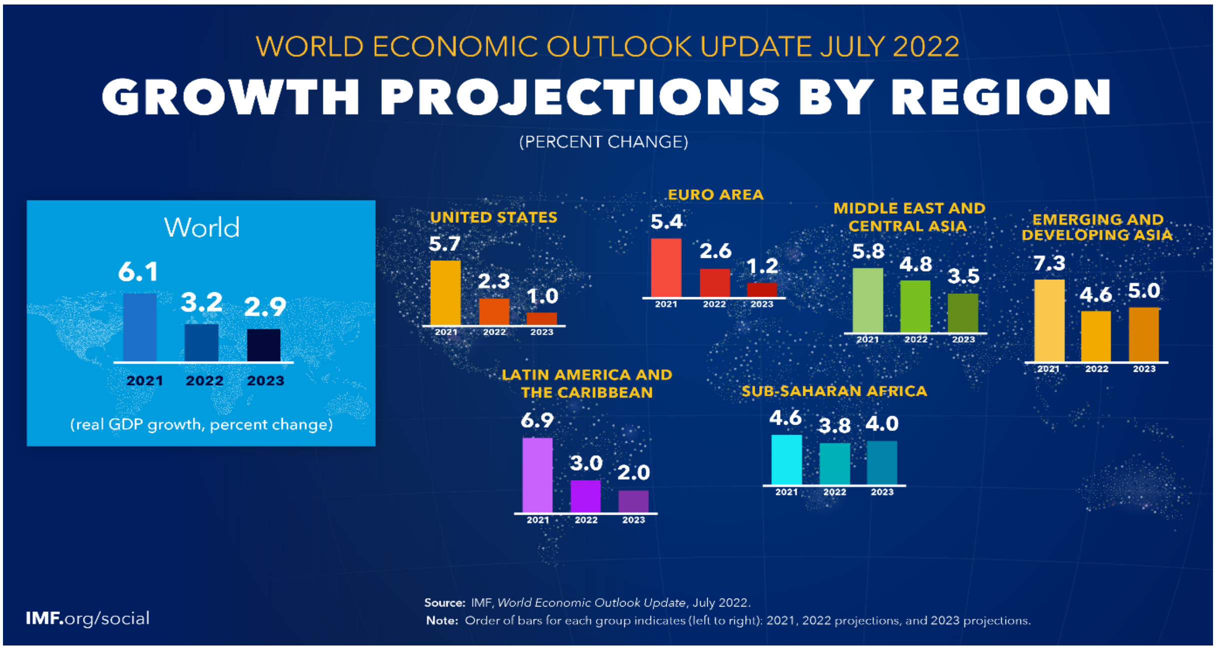
1.2. World Economic Outlook

1.2.1. World Economic Outlook

The World economy entered 2022 in a weaker position than previously expected as the Russia-Ukraine war is continuing to pose a new challenge to the global economy prospects. The war is continuing to bring major disruptions to the commodity prices and trade among major countries in the world. Rising energy prices and supply disruptions have resulted in higher and more broad-based inflation than anticipated, notably in the United States and many emerging market and developing economies such as South Africa.

The war in Ukraine could lead to a sudden stop of European gas imports from Russia; inflation could be harder to bring down than anticipated either if labour markets are tighter than expected. The tighter global financial conditions could induce debt distress in emerging market and developing economies; renewed COVID-19 outbreaks and lockdowns as well as a further escalation of the property sector crisis might further suppress Chinese growth; and geopolitical fragmentation could impede global trade and cooperation.

Figure 1:World Economic Outlook Real GDP, annual percent change



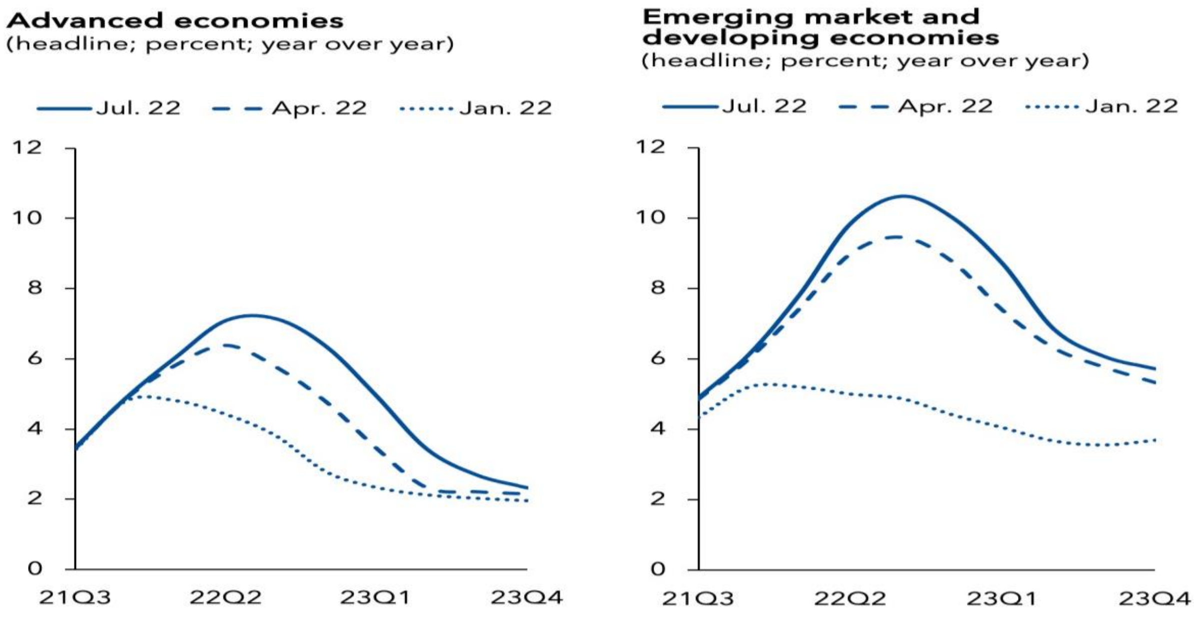
Source: International Monetary Fund (IMF), July 2022

As per the figure above, the baseline forecast for the Global economy is to shrink from 6.1 percent in 2021 to 3.2 percent in 2022, 0.4 percentage point lower than in the April 2022 World Economic Outlook forecasts. Earlier this year, the lower growth reduced household purchasing power while tighter monetary policy drove a downward revision of 1.4 percentage points in the United States. In China, further lockdowns and the deepening real estate crisis have led growth to be revised down by 1.1 percentage points, with major global spill overs. And in Europe, significant downgrades reflect spill overs from the war in Ukraine and tighter monetary policy. Global inflation has been revised up due to food and energy prices as well as lingering supply-demand imbalances and is anticipated to reach 6.6 percent in advanced economies and 9.5 percent in emerging market and developing economies this year upward revisions of 0.9 and 0.8 percentage point, respectively. In 2023, disinflationary monetary policy is expected to bite, with global output growing by just 2.9 percent. The risks to the outlook are overwhelmingly tilted to the downside.

1.2.2. Global Inflation

Global inflation has been revised up and is projected to remain elevated for longer period.

Figure 2: Global inflation outlook



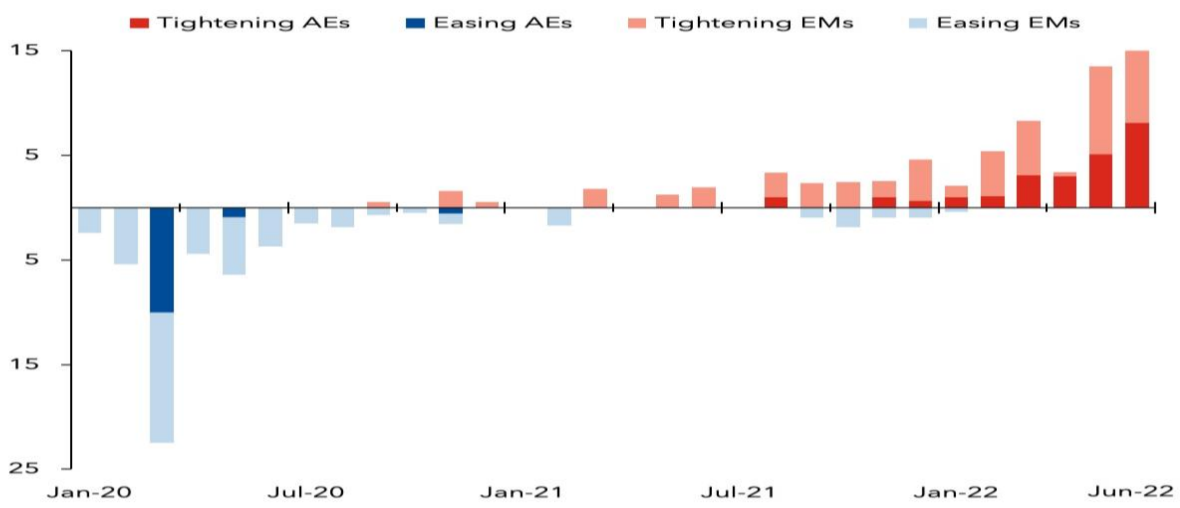
Source: International Monetary Fund (IMF), July 2022

As depicted in the figure above, global inflation has been revised upward in part due to rising food and energy prices and this is despite slowing economic activity. Inflation for 2022 is anticipated to reach 6.6 percent in advanced economies and 9.5 percent in emerging market and developing economies upward revisions of 0.9 and 0.8 percentage points respectively and is projected to remain elevated longer. Inflation has also broadened in many economies, reflecting the impact of cost pressures from disrupted supply chains and historically tight labour markets.

1.2.3. World Interest Rate

During the COVID-19 pandemic, central banks in both advanced and emerging market economies took unprecedented measures to ease financial conditions and support the economic recovery, including interest-rate cuts and asset purchases. With inflation at multi-decade highs in many countries and pressures broadening beyond food and energy prices, policymakers have pivoted toward tighter policy. Central banks in many emerging markets proactively started to hike rates earlier last year, followed by their counterparts in advanced economies in the final months of 2021.

Figure 3: Advanced Economies and Emerging Market Interest rates



Source: International Monetary Fund(IMF), July 2022

The monetary policy cycle is now increasingly synchronized around the world. Importantly, the pace of tightening is accelerating in several countries, particularly in advanced economies, in terms of both frequency and magnitude of rate hikes. Some central banks have begun to reduce the size of their balance sheets, moving further toward normalization of policy.

Stable prices are a crucial prerequisite for sustained economic growth. With risks to the inflation outlook tilted to the upside, central banks are continuing to normalize to prevent inflationary pressures from becoming entrenched. The banks are acting resolutely to bring inflation back to their target, avoiding a de-anchoring of inflation expectations that would damage credibility built over the past decades.

Monetary policy can't resolve remaining pandemic-related bottlenecks in global supply chains and disruptions in commodities markets due to the war in Ukraine. It can however slow overall demand to address demand-related inflationary pressures, so a tightening of financial conditions is the goal. The high uncertainty clouding the economic and inflation outlook hampers the ability of central banks to provide simple guidance about the future path of policy. But clear communication by central banks about the need to further tighten policy and steps required to control inflation is crucial to preserve credibility. Clear communication is also critical to avoid a sharp, disorderly tightening of financial conditions that could interact with, and amplify, existing financial vulnerabilities, putting economic growth and financial stability at risk down the road.

1.2.4. Risk to the Global outlook

The following risks to the outlook are overwhelmingly tilted to the downside:

- The war in Ukraine could lead to a sudden stop of European gas flows from Russia.
- Inflation could remain stubbornly high if labour markets remain overly tight or inflation expectations de-anchor, or disinflation proves costly than expected.
- Tighter global financial conditions could induce a surge in debt distress in emerging market and developing economies.
- Renewed COVID-19 outbreaks and lockdowns might further suppress China's growth.
- Rising food and energy prices could cause widespread food insecurity and social unrest.
- Geopolitical fragmentation might impede global trade and cooperation.

In a more likely alternative scenario where some of these risks materialize, including a full shutdown of Russian gas flows to Europe, inflation will rise and global growth decelerate further to about 2.6 percent this year and 2 percent next year, a pace that growth has fallen below just five times since 1970. Under this scenario, both the United States and the euro area experience near-zero growth next year, with negative knock-on effects for the rest of the world.

1.3. South African Economic Overview

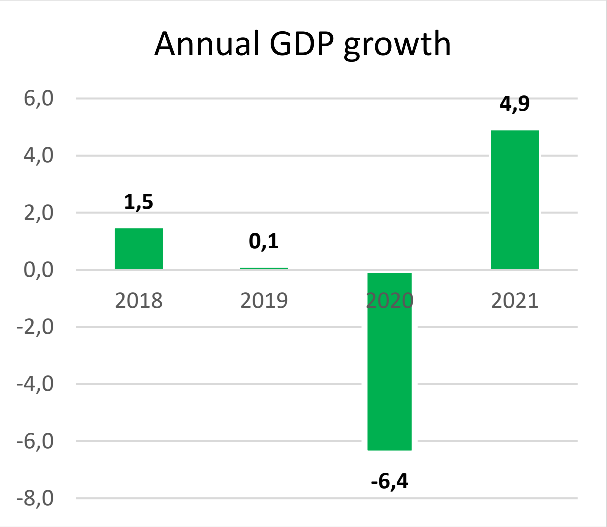
1.3.1. SA annual GDP growth

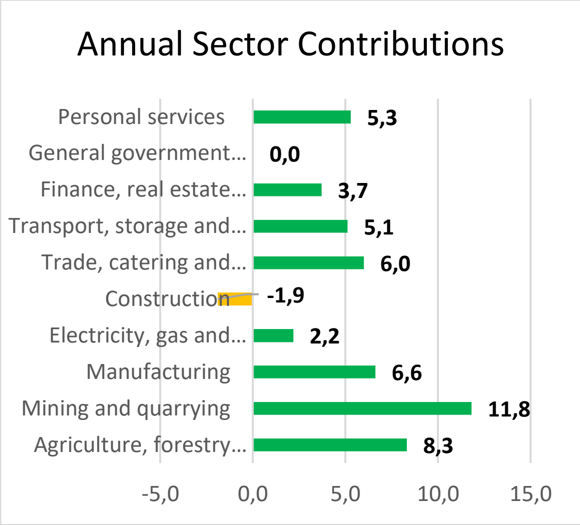
The South African economy took almost two years to recover from the worst of the COVID-19 pandemic after plummeting in the second quarter of 2020, when lockdown restrictions were at their most stringent. The South African gross domestic product (GDP) clawed itself back to pre-pandemic levels in the first quarter of 2022 (Q1: 2022), as highlighted in Stats SA's set of GDP results released in June.

Compared with 51 other nations, South Africa's recovery has been sluggish, according to data from the International Monetary Fund (IMF). Economic recovery times can be assessed with reference to two reference periods, namely Q4: 2019 (when economic activity was still 'normal' across all countries), and the low point of Q2: 2020. South Africa's recovery extended over seven quarters, reaching its pre-pandemic level in Q1: 2022.

After a dismal 2020 South African Gross Domestic Product (GDP) performance, which saw the economy contracting by 6.4 percent, economic activity increased by 4.9 percent in 2021, and projections are that the economy will slow down to 1.8 percent in 2022. The war between Russia and Ukraine gave a boost to South African commodity export, such as coal, iron ore, platinum, and rhodium that generally increased in the first half of 2022, they surged higher with the war.

Figure 4: Annual growth in GDP at constant 2015 prices (measured by production)





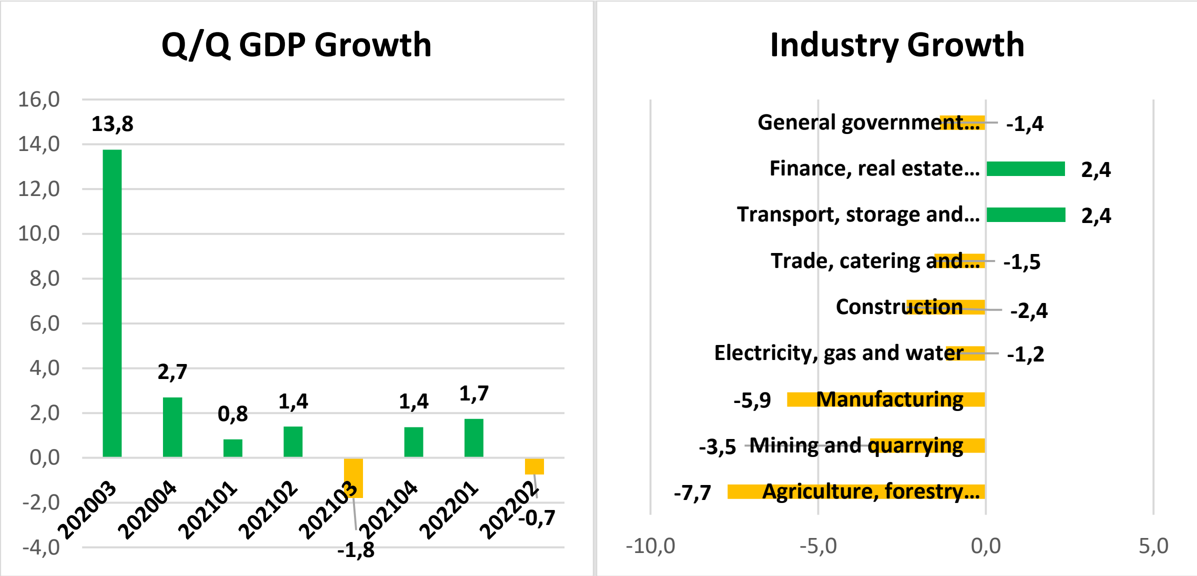
Source: StatsSA, Gross Domestic Product, Q4 2021

The Mining Sector is at 11.8 percent, Agriculture at 8.3 percent and Manufacturing at 6.6 percent and recorded the highest growth rates in 2021, with the construction industry being the only industry that contracted in 2021, falling by 1.9 percent. This was the fifth consecutive year of decline in Construction Sector. Even in 2022 first quarter there are no signs of improvement in the Construction sector.

1.3.2. SA quarterly GDP growth

In Q1: 2022, the real GDP reached pre-pandemic levels following the sluggish recovery from the impact of COVID-19. The recovery did not sustain, with the 0.7 percent decline in Q2: 2022 dragging GDP back below the Q4: 2019 pre-pandemic level. The economic recovery is more complicated when considering that in Q2: 2022, only four industries were at or above their pre-pandemic levels of production. After slumping in Q2: 2020, the finance, real estate and business services industry took two quarters to recover to its Q4: 2019 level, while personal services took three quarters to get back on its feet. Agriculture, forestry, and fishing; and government seem to have weathered the pandemic relatively well. Six industries have not yet recovered, with construction currently in the worst shape. The construction industry is 24 percent smaller than it was before the pandemic. Mining briefly recovered in Q2: 2021 but has since remained below its Q4: 2019 level.

Figure 5:SA GDP growth at market prices (constant 2015 prices seasonally adjusted percent change Q on Q) and Industries growth



Source: StatsSA, Gross Domestic Product, Q2 2022

After two consecutive quarters of positive growth, real gross domestic product (GDP) decreased by 0.7 percent in the second quarter of 2022 (Q2: 2022). The devastating floods in KwaZulu-Natal and load shedding contributed to the decline, weakening an already fragile national economy that had just recovered to pre-pandemic levels. The flooding had a negative impact on a number of industries, most notably manufacturing. Manufacturing is the largest industry in KwaZulu-Natal, according to 2019 data, accounting for a fifth of national manufacturing production. The damage to factories and plants, and disruptions to logistics and supply chains, pulled national manufacturing output down by 5.9 percent. The biggest drags on growth were petroleum and chemical products, food and beverages, and transport equipment.

Sectors such as Trade, catering and accommodation was negatively impacted by both the floods in KwaZulu-Natal and power cuts across the country. The industry recorded a contraction of 1.5 percent as floods damaged retail outlets and storage facilities. There was also a loss of trading hours due to load shedding. Mining production was dragged lower by gold, coal and diamonds, with the decrease in coal production caused partly by the flooding. Mining output was also negatively affected by load shedding.

Economic activity in the electricity, gas and water supply industry was hampered mainly by load shedding due to lack of generation capacity. There were also disruptions to water supply too, caused by both the floods in KwaZulu-Natal and drought in Eastern Cape. Agriculture, forestry and fishing activity decreased by 7.7 percent, pulled lower by a decrease in the production of animal products. Electricity outages and the spread of foot-and-mouth disease contributed to the decline.

On the upside, the finance, real estate and business services industry made the biggest positive impact on GDP growth in Q2: 2022, rising by 2.4 percent. Growth was driven by increased activity in the banking sector, as well as in insurance and pension funding.

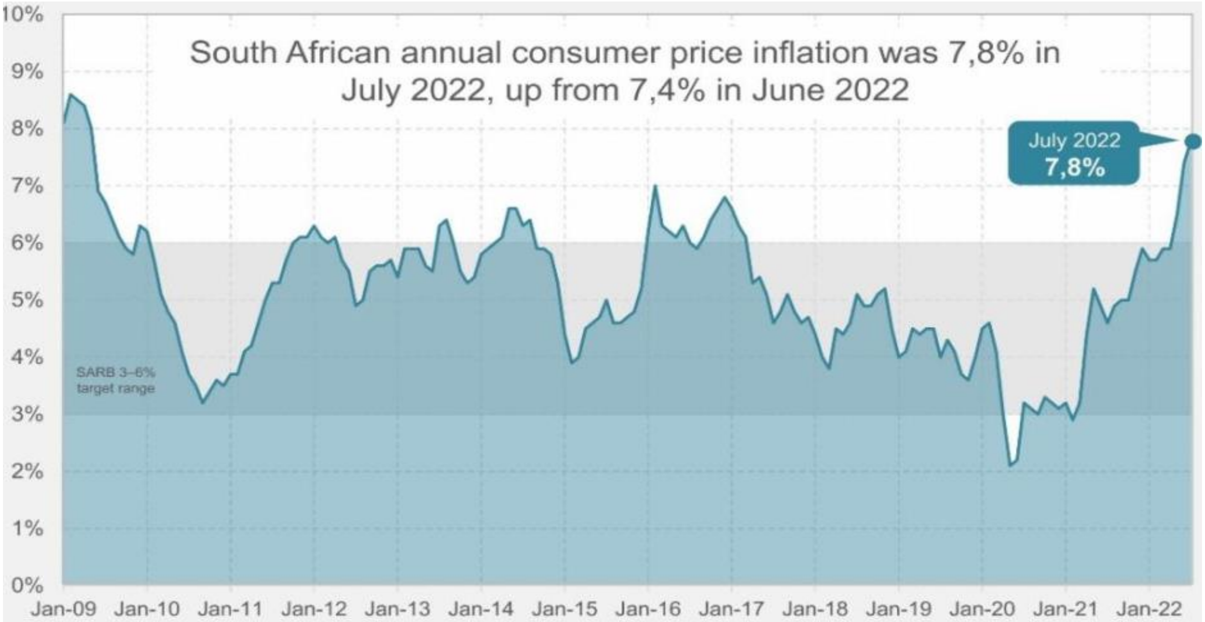
1.4. Headline Consumer Price Index (CPI)

The on-going war between Russia and Ukraine continue to have a major impact in falling of the consumer prices which were already on an upward spiral due to the COVID-19 pandemic. On average, headline Consumer Price Inflation (CPI) for goods and services in the country has been on the decline since 2016 to 2020, declining from 6.4 percent in 2016 to a low of 3.3 percent in 2020. Annual consumer inflation reached another 13-year high, increasing to 7.8 percent in July from 7.4 percent in June. Transport, food and non-alcoholic beverages (NAB); and housing and utilities continue to place upward pressure on the annual rate. Bread and cereals, oils and fats, fuel and electricity all made a notable impact on this month’s reading. The consumer price index (CPI) jumped by 1.5 percent between June 2022 and July 2022, only the fourth time since 2008 (i.e., since the beginning of the current CPI series) that the monthly increase was 1.5 percent or higher.

The annual change in the consumer price index (CPI) is continuing testing the 6 percent upper limit of the South African Reserve Bank’s monetary policy target range.

The headline inflation was lastly above the target range five years ago, in March 2017 when the rate was 6.1 percent.

Figure 6:CPI headline quarter-on quarter and year-on-year rates



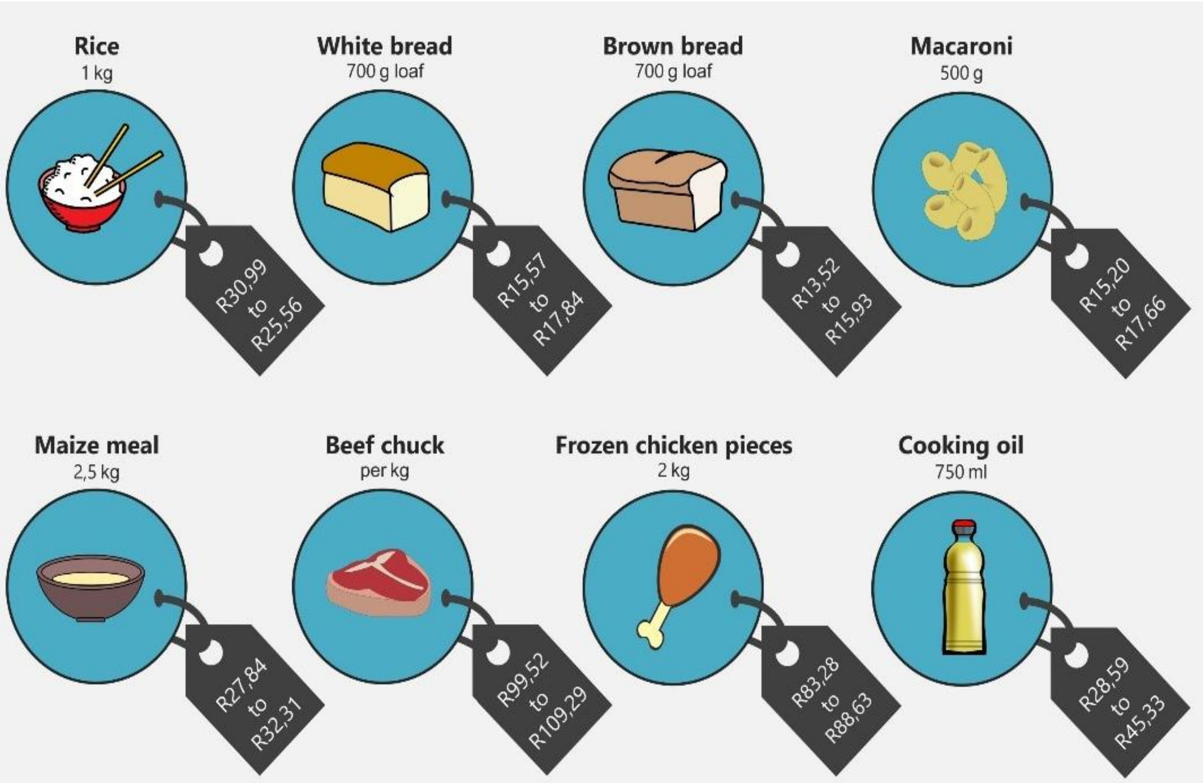
Source: StatsSA, CPI 2022

Consumers are feeling the pinch, particularly for non-durable goods. Those items bought most frequently, such as food, drink, electricity, fuels, and medicine. Annual inflation for non-durable goods is in double-digit territory, at 14.4 percent. This is much higher than the rates recorded for durable goods (4.8%) and services (4.2%). The annual rate for food and NAB was 9.7 percent in July, higher than the 8.6 percent recorded in June. Bread and cereals inflation continues to quicken, with the annual rate rising to 13.7 percent from 11.2 percent in June; the monthly increase was 2.4 percent in July, with large monthly price increases recorded for maize meal (4.2%), cake flour (6.3%), macaroni (5%) and white bread (2.8%). Rice bucked the trend, with prices decreasing by 3.1 percent. Oils and fats continue to register the highest annual rate of increase among food products, accelerating to 36.2 percent in July from 32.5 percent in June. Municipalities increases service charges in July every year, as such electricity tariffs increased on average by 7.5 percent, equivalent to the 7.5 percent benchmark approved by the National Energy Regulator of South Africa (NERSA). This increase is lower than last year's rise of 13.8 percent but higher than the 2020 increase of 6.3 percent.

In addition to the rise in electricity tariffs, consumers had to deal with further fuel price increases. Transport costs were up by 4.8 percent between June and July, with fuel rising by 9.4 percent. Fuel is 56.2 percent more expensive than it was twelve months ago, with the price of a litre of inland 95-octane petrol rising from R17.39 in July 2021 to R26.74 in July 2022. The average price for diesel increased from R16.58 to R26.61 per litre over the same period. Those relying on public transport didn't escape the pain. Taxi fares jumped in July too, rising by 9 percent from June and taking the annual rate to 16.4 percent. There is much public interest in the impact of actual price increases on consumers.

The graphic below shows the change in average prices, from July 2021 to July 2022, for a selection of commonly purchased food items.

Figure 7: Average prices for selected food products between July 2021 and July 2022



Source: StatsSA, CPI 2022

1.5. SA Fuel prices

1.5.1. September SA fuel prices

The Department of Mineral Resources and Energy (DMRE) has published the official fuel price adjustments for September which came into effect on Wednesday, the 7th of September. The data shows petrol drivers are in for the biggest relief, with the price of this fuel type being cut by R2.04 across the board. Diesel drivers can expect a smaller, but still significant drop of 46 cents and 56 cents per litre for Diesel 50ppm and 500ppm, respectively.

This would put petrol prices back to levels seen before the steep hikes in June, but still around R3 more expensive than in February 2022, before the global pressures from Russia's invasion of Ukraine took effect. Local fuel prices are easing due to a lower oil price and stronger rand. Though both of these metrics have come under continued pressure throughout the month. Oil prices have accelerated slightly to above $100 a barrel, from around $96 a barrel at the start of the month. While the rand has been largely driven by global markets, specifically sentiment around the United States Federal Reserve and its appetite to hike interest rates.

The official price adjustments for September 2022 as provided by the DMRE are as follows:

- Petrol 93 – Decrease of R2.04 per litre
- Petrol 95 – Decrease of R2.04 per litre
- Diesel 0.05% – Decrease of 56 cents per litre
- Diesel 0.005% – Decrease of 46 cents per litre
- Illuminating paraffin – Decrease of 82 cents per litre

These changes would have been even more substantial had it not been for the adjustment of the Slate Levy which added 30 cents per litre back onto the price of each fuel type in the country for September. With the price of oil trading below 100 US dollars per barrel and the expected dip in global demand, fuel prices could be pushed lower in the coming months, but petrol prices are not expected to go below R21 a litre.

1.5.2. What affects local fuel prices

The average international product prices for petrol, diesel and illuminating paraffin decreased during the period under review. The rand appreciated against the US dollar during the period under review, on average, when compared to the previous period. The average rand/US dollar exchange rate for the period 29 July to 1 September 2022 was R16.70 compared to R16.87 during the previous period. This led to a lower contribution to the Basic Fuel Prices on petrol, diesel and illuminating paraffin by 12.97 c/l, 15.63 c/l and 15.90 c/l, respectively.

The combined cumulative petrol and diesel Slate balances at the end of July 2022 amounted to a negative balance of R13.168 billion; however, the department has approved a Slate Levy of 83.68 c/l (an increase of 30.66 c/l) to be implemented into the price structures of petrol and diesel with effect from 07 September 2022.

For September, the bulk of the drop in local fuel prices can be attributed to decreasing international oil product prices. On 29 July Brent Crude was trading at roughly $100 per barrel while on 2 September, it sat closer to the $93 per barrel mark. Similarly, a favourable Rand/US dollar exchange rate during the month of August also contributed to the drop in fuel prices, although to a lesser degree. The average exchange rate between these currencies for the most recent period under review was R16.70, compared to R16.87 during the previous period. This led to a lower contribution to the Basic Fuel Prices on petrol by 12.97 c/l, diesel by 15.63 c/l, and illuminating paraffin by 15.90 c/l.

With these factors accounted for, the prices at the pump in September 2022 will reflect as follows:

Table 1: SA September 2022 fuel prices

Fuel type	Inland	Coastal
Petrol 93	R22.95	R22.30
Petrol 95	R23.38	R22.73
Diesel 0.05%	R23.96	R23.31
Diesel 0.005%	R24.16	R23.52
Illuminating Paraffin	R17.60	R16.81

Source: DMRE, 2022

1.6. Limpopo Economic Growth

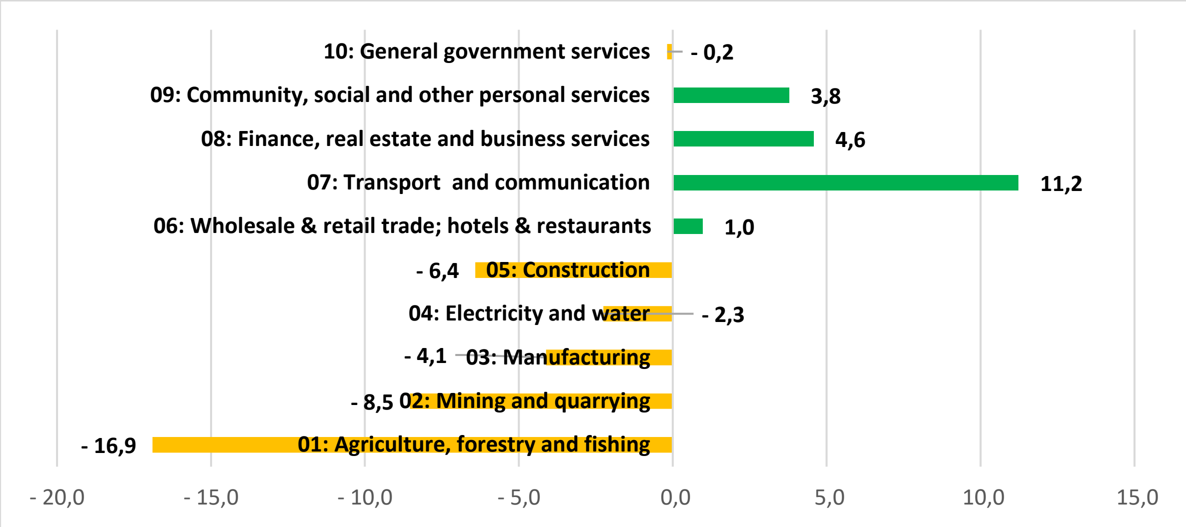
The effect of COVID-19 continues to be felt in the Limpopo Provincial economy. Provincial GDP growth has been on a decline in recent years since it was affected by the pandemic. Limpopo GDP growth has been on a negative trajectory growing on a minus between 2019 and first quarter 2021. From 2021 quarter 2 the provincial economy grew by 21.0 percent, which was a rebound from the effects of the pandemic. The province experienced positive growth in 2021 quarters and this can be credited to the booming mining commodity prices.

Figure 8: Limpopo Total Gross Domestic Product (GDP) Q/Q

Source: Quantec, 2022

During the second quarter of 2022, the provincial economy declined to negative 0.4 percent and this was mainly caused by the continuing Eskom blackouts that had a negative impact in the performance of the provincial economic sectors. The mining output and demand for minerals also faced a decrease in this period.

Figure 9: 2022 Q1 Sector % change quarter-on-quarter (seasonally adjusted and annualised)



Source: Quantec, 2022

In 2022 second quarter the industries that contributed positively towards the provincial gross domestic product was Transport at 11.2 percent, Finance at 4,6 percent and Community services which contributed 3.8 percent. The Agriculture sector contributed negatively to the provincial GDP at 16.9 percent point, followed by Mining, Manufacturing, Electricity, Construction and government services at -8.5, -4.1, -2.3, -6.4 and-0.2 respectively. The continuing Eskom load shedding will have a detrimental effect to the recovery of the provincial economy, as businesses are faced with long shut down hours during the black outs.

1.7. The South African and Limpopo Tourism performance

On the 23 of August 2022, the Limpopo Tourism Agency (LTA) launched Provincial Tourism Month launch under the theme “Rethinking Tourism “, with the theme also being promoted by United Nations of World Tourism Organization (UNWTO). This year’s theme is aimed at inspiring insightful discussions within the tourism industry to rethink the way we are doing business, its development and identifying sustainable opportunities for future growth of the sector in Limpopo province.

The South African tourism industry is well on its way to recovery following the catastrophic impact of the Covid-19 pandemic, with domestic tourism recording more than a 100 percent increase in trips in the first six months of 2022 compared to same period last year. The tourism industry suffered devastating losses when international borders were closed in 2020 to control the spread of Covid-19, as the hospitality sector in the country and the province, especially those that heavily relied on international tourists, had to lay off workers while some businesses closed down. This situation is improving in the first half of 2022 as more tourist are starting to travel to the country and the province and expectations are that this will further improve as the seasons moves to the spring and summer months of the year.

In the first half of the year, 15.2 million domestic trips were taken in the country, marking a 114 percent increase compared to the same period in 2021, this was way above the same period in 2019, which saw 8.6 million domestic trips taken. This has led to a significant increase in domestic spend. Local demand for travel has surged following the easing of Covid-19 travel restrictions and removal of travel bans. Many of the small tourism businesses that struggled during the travel restrictions in the country and the province are enjoying benefits from the spend that the tourism industry is seeing now. The domestic tourism performance to date, is a result of various factors, including marketing efforts and meaningful collaborations with the trade.

The tourist arrivals into cities like Cape Town continued to show impressive recovery. As of July 2022's performance showed that passengers arriving through the Cape Town International Airport (CTIA) international terminal reached a recovery rate of around 87 percent when compared to the same period in 2019. This is the highest recovery rate over the last five months. This is very promising and bodes well for peak tourist periods such as the festive season.

The tourism sector has a major role to play in the economy of the country and the province as it assists in contributing to the gross value added by the tourism sector and it has high potential of job creation through direct and indirect jobs created across the entire tourism value chain.

The tourism and the hospitality sector is an important part of both the national and provincial economies, and this calls for the provincial government, through LTA to promote Limpopo as destination of choice through marketing. In Limpopo the reopening of the Airport added while the province still had a way to go to restore domestic arrivals, it was encouraging to see total two-way domestic passengers between January and July of this year already on an increase and it boded well for the rest of the year. It is the job of the provincial government through Gateway Airport Authority Limpopo (GAAL) to ensure that this continues, by improving air connectivity, marketing of the destination both at home and abroad, especially in Africa and the rest of the world and by removing barriers that stand in the way of the growth of this important sector. Support to small businesses in the tourism sector, which have been hard-hit by the pandemic in the province is very crucial and is also of critical importance in resuscitating the sector and assisting the province to stimulate job creation and economic growth.

1.8. Conclusion and policy recommendations

The Global economy is on a rebound from the deadly COVID-19 pandemic, though the momentum has weakened affected by the on-going war between Russia-Ukraine. Though the world has developed a coping mechanisms towards COVID-19, the war in Ukraine has triggered a new calamity and it is proving to be costly humanitarian crisis that will highly demand a peaceful resolution among the counties. At the same time, economic damage from the conflict will contribute to a significant slowdown in global growth in 2022 and add to inflation. Fuel and food prices have increased rapidly, hitting vulnerable populations in low-income countries hardest.

As world economies raise interest rates to fight inflation, financial conditions are tightening, especially for their emerging-market counterparts. Countries must appropriately use macro prudential tools to safeguard financial stability. Where flexible exchange rates are insufficient to absorb external shocks, policy makers will need to be ready to implement foreign exchange interventions or capital flow management measures in a crisis scenario. These challenges come at a time when many countries in the world lack fiscal space, with the share of low-income countries in or at high risk of debt distress at 60 percent, up from about 20 percent a decade ago. Higher borrowing costs, diminished credit flows, a stronger dollar and weaker growth will push even more into distress.

Inflation at current levels represents a clear risk for current and future macroeconomic stability and bringing it back to central bank targets should be the top priority for policymakers. Central banks of major advanced economies are withdrawing monetary support faster than expected, while many in emerging market and developing economies had already started raising interest rates last year. The resulting synchronized monetary tightening across countries is historically unprecedented, and its effects are expected to bite, with global growth slowing next year and inflation decelerating. Tighter monetary policy will inevitably have real economic costs, but delaying it will only exacerbate the hardship. Central banks that have started tightening should stay the course until inflation is tamed.

Targeted fiscal support can help cushion the impact on the most vulnerable. But with government budgets stretched by the pandemic and the need for an overall disinflationary macroeconomic policy stance, offsetting targeted support with higher taxes or lower government spending will ensure that fiscal policy does not make the job of monetary policy even harder. With increasing prices continuing to squeeze living standards worldwide, taming inflation should be the first priority for policymakers. Tighter monetary policy will inevitably have real economic costs, but delay will only exacerbate them.

Targeted fiscal support can help cushion the impact on the most vulnerable, but with government budgets stretched by the pandemic and the need for a disinflationary overall macroeconomic policy stance, such policies will need to be offset by increased taxes or lower government spending. Tighter monetary conditions will also affect financial stability, requiring cautious use of macro prudential tools and making reforms to debt resolution frameworks all the more necessary. Policies to address specific impacts on energy and food prices should focus on those most affected without distorting prices. And as the pandemic continues, vaccination rates must rise to guard against future variants.

From a policy perspective, fiscal and monetary authorities have started rolling back the stimulus provided over the past two years. The national budget deficit is on a narrowing path while the South African Reserve Bank (SARB) has started increasing interest rates. Private investment has also proved to be more resilient than previously expected. Tourism, hospitality and construction sectors are starting to experience stronger recoveries as the year progresses.