KWAZULU-NATAL PROVINCE

TREASURY
REPUBLIC OF SOUTH AFRICA

SOCIO-ECONOMIC REVIEW AND OUTLOOK

2023/24

Growing KwaZulu-Natal Together

PROVINCE OF KWAZULU-NATAL

Socio-Economic
Review and Outlook

2023/2024

KwaZulu-Natal Provincial Government

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FOREWORD

The 2023 KwaZulu-Natal *Socio-economic Review and Outlook (SERO)*, which is presented amid deteriorating global economic prospects, provides a comprehensive economic review at global, national and provincial levels. The socio-economic profile information contained in this publication indicates how government should target their service delivery plans to ensure that community access to basic social services is improved and universal coverage is achieved.

The world economic recovery path has been disrupted by the ongoing geopolitical tensions between Russia and Ukraine that started early in 2022, with spillovers to the global economy through commodity markets, global supply chains, inflation and financial markets. The global economic growth decelerated to an estimated 3.4 per cent in 2022 and is projected to decline further to 2.9 per cent in 2023.

The uncertain global conditions compounded by the domestic structural constraints, particularly the extensive electricity load-shedding that prompted the President to declared a national state of disaster over the country's power shortages, have weighed on the national economic activity. In this regard, the South African economy decelerated to an estimated 2.5 per cent in 2022 and is expected to drop sharply to 0.9 per cent in 2023. Inflation has surged to high levels, prompting fast-paced monetary policy tightening. This implies a rising cost of living, which could undermine progress in reducing the challenge of poverty and income inequality.

Similarly, KwaZulu-Natal 's economic environment has been greatly shaken by global developments, as well as turbulent internal challenges. The province experienced unsolicited destruction to social and economic infrastructure and the loss of lives owing to disastrous flooding early in 2022. Encouragingly, the provincial economy emerged from these challenges, with a real gross domestic product growth rate estimated at 2.2 per cent in 2022. However, this expansion is projected to plunge to 0.6 per cent in 2023, before moderating to 1.6 per cent in 2024 as the energy crisis persists.

The structural challenges hamper much-needed inclusive and sustainable growth to create employment opportunities. Thus Employment has been recovering at a slow pace, as it remains below pre-pandemic levels whilst unemployment remains unacceptably high. For example, in KwaZulu-Natal, the number of people employed averaged 2.46 million during the third quarter of 2022, leading to the official unemployment rate of 30.6 per cent.

Notably, the youth population remains the most affected by unemployment. Therefore, the provincial government continues to implement various programmes, such as the KwaZulu-Natal Youth Empowerment Fund, to promote youth-owned businesses, Radical Socio-Economic Transformation, Job Massification, as well as economic recovery plans for the identified sectors. In addition, the province also benefits through national employment initiatives such as the Presidential Youth Employment Initiative.

It is a pleasure to present this important publication, which will assist the provincial administration in bringing the services closer to the people of KwaZulu-Natal.

Ms N.P. Nkonyeni
MEC for Finance

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List of Acronyms

AE	Advanced Economies
AfCFTA	African Continental Free Trade Area
APSS	Agro-Processing Support Scheme
BCI	Business Confidence Index
BEEI	Basic Education Employment Initiative
BER	Bureau of Economic Research
BoE	Bank of England
BR&E	Provincial Business Retention and Expansion
CCI	Consumer Confidence Index
CFC's	Chlorofluorocarbons
CO2	Carbon dioxide
COVID-19	Coronavirus Diseases 2019 South Africa (SA)
CPI	Consumer Price Index
DBE	Department of Basic Education
DoE	Department of Education
Dtic	Department of Trade, Industry and Competition
EA	Euro Area
EAP	Economically Active Population
EAs	Education Assistants
EC	Eastern Cape
ECB	European Central Bank
EMDEs	Emerging Market and Developing Economies
EPWP	Expanded Public Work Program
ESKOM	Electricity Supply Commission
EU	European Union
FCS	Fixed Capital Stock
FDI	Foreign Direct Investments
FPL	Food poverty line (FPL)
Fed	Federal Reserve
FNB/BER	First National Bank/Bureau of Economic Research
FS	Free State
GBV	Gender Based Violence
GDP	Gross Domestic Product
GDP-R	Regional gross domestic product

GFCF	Gross Fixed Capital Formation
GHGs	Greenhouse gases
GHS	General Household Survey
GP	Gauteng
GSAs	General School Assistants
GVA	Gross Value Added
HDI	Human Development Index
IHME	Institute for Health Metrics and Evaluation
IPCC	Intergovernmental Panel on Climate Change
ICT	Information Communication Technology
ILO	International Labour Organisation
IMF	International Monetary Fund
IT	Information Technology
KW	Kilowatt
KZN	KwaZulu-Natal
KZNYEF	KZN Youth Empowerment Fund
LAC	Latin America and the Caribbean
LAR	Labour absorption rate
LFPR	Labour force participation rate
LSEN	Learners with Special Education Needs
LBPL	Lower-bound poverty line
LP	Limpopo
MP	Mpumalanga
MPC	Monetary Policy Committee
MW	Megawatt
NC	Northern Cape
NDP	National Development Plan
NFCF	Net Fixed Capital Formation
NW	North West
NDP	National Development Plan
NHI	National Health Insurance
OECD	Organisation for Economic Co-operation and Development
PEDs	Provincial Education Departments
PES	Presidential Employment Stimulus
PGDP	Provincial Growth and Development Plan

PGDS	Provincial Growth and Development Strategy
PGMs	Platinum Group Metals
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PRB	Population Reference Bureau
PYEI	Presidential Youth Employment Initiative
S&P	Standard and Poor
SRDG	Social Relief of Distress Grant
SA	South Africa
SACU	Southern African Customs Union
SAMA	South African Medical Association
SADC	Southern African Development Community
SALDRU	Southern Africa Labour and Development Research Unit
SARB	South African Reserve Bank
SARS	South African Revenue Service
SDGs	Sustainable Development Goals
SMMEs	Small, Medium and Macro Enterprises
SONA	State of the Nation Address
SSA	Sub-Saharan Africa
SSA	Sub-Saharan Africa
TVET	Technical and Vocational Education and Training
UBPL	Upper-Bound Poverty Line
UK	United Kingdom
UN	United Nations
UNCTD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US	United States
VAT	Value-Added Tax
WC	Western Cape
WEF	World Economic Forum
WHO	World Health Organization
WTO	World Trade Organization
YES	Youth Employment Service

Chapter One: Introduction

A budget is the most critical economic instrument of government. It reflects a country's socio-economic policy priorities and translates them into expenditures, emphasising the constraints and trade-offs in policy choices. Moreover, government budgets play an essential role in the planning and control of the economic activities of a nation. In this regard, provincial governments are required to conduct comprehensive socio-economic reviews and outlooks annually to inform budget choices.

Therefore, guided by this requirement, the *2023/2024 KwaZulu-Natal (KZN) socio-economic and outlook (SERO)* focuses on analysing changes in demographic status, development and economic indicators and the labour market dynamics. SERO's primary intention is to continue providing a platform for policymakers to make informed decisions and focus on areas that need strengthening to improve service delivery and living standards for the people of KZN.

Chapter Two shows that the KZN's percentage share of the total national population has been gradually declining over the past decade. It dropped from 20.3 per cent in 2011 to 19 per cent in 2022. One of the key factors affecting KZN's population is the interprovincial migration patterns, and the Province is projected to report a net outflow of 96 626 people between 2021 and 2026. The steady decline in the provincial share has detrimental effects on KZN's budget allocation in the form of the Provincial Equitable Share (PES) allocation formula.

About 31.2 per cent of the total KZN population (11.5 million) comprises children between 00 and 14 years of age, and about 34.9 per cent of youth between the ages of 15 and 34 are economically active. Collectively, children and youth account for an estimated 66.1 per cent of the total provincial population. This implies that the Province's limited financial resources must be redirected to the needs of these age cohorts, especially for education, health and programmes aimed at uplifting the aspirations of the youth. This is precisely why about 76 per cent of the provincial budget is allocated towards health and education.

Chapter Three focuses on the development indicators. The development indicators covered include poverty, human development index, and grant beneficiaries. In 2021, approximately 40.9 per cent of the KZN population still lived below the food poverty line (FPL) compared to the national average of 32.5. per cent. In a country such as SA, where inequality levels are high combined with low levels of labour market participation, social grants have played a pivotal role in supporting households to attain some minimum standard of living. With a total of 4.089 million (22 per cent), KZN had the highest number of social grant beneficiaries nationally (18.572 million) in 2022.

Regarding health, the Chapter discusses the causes of death and the burden of diseases such as Tuberculosis (TB), human immunodeficiency virus (HIV), hypertension and diabetes, and healthcare financing. Other social delivery issues include crime and access to basic services such as electricity, sanitation, and piped water. An estimated 16.1 per cent of the total national population belonged to a medical aid scheme in 2022, and this estimation was 10.5 per cent in KZN. As a result, health is under severe pressure like other government services. This indicates that the majority of the KZN population relies on public health services. Therefore, access to these services and the quality thereof must remain a priority for the provincial government.

The Province has experienced tremendous improvements in access to basic services as the share of the population with access to electricity increased to 94.9 per cent in 2021 compared to 79.1 per cent in 2011. On the other hand, the percentage of households with access to piped water at or above the RDP level increased to 81.4 per cent in 2021 compared to 73.5 per cent in 2011. This indicates that the Province is committed to providing basic services that enable people to develop capabilities to take advantage of opportunities as outlined in the NDP.

However, the level of crime has increased as property crime increased by 3 per cent. In KZN, the major contributor to increased crime was the July 2021 rioting, while Gender Based Violence (GBV) offences declined by 23.4 per cent. The decline in GBV offences signifies that the mobilisation of GBV campaigns effectively brings awareness and fights such crimes. This indicates that the country is slowly moving towards building safer communities, as outlined in the NDP.

Moreover, young people are also exposed to the spread of sexually transmitted diseases, and substance and drug abuse, among others, is another challenge. Therefore, KZN Government needs to aggressively intensify intervention awareness campaign programmes such as *you only live once (YOLO), I'm fine without drugs*, as well as camps and dialogue. In addition, KZN is among the provinces with the highest teenage pregnancy and poverty rates. Therefore, integrated efforts to fight the scourge of poverty are critical.

Chapter Four presents the global, national and provincial economic outlook at the global, national and provincial levels. The global economic growth decelerated to 3.4 per cent in 2022 after a revised robust uptick of 6.2 per cent in 2021. The world economy is expected to decelerate further to 2.9 per cent and 3.1 per cent in 2023 and 2024, respectively.

The Chapter proceeds by providing the national economic performance, which maintained its sluggish and steady recovery trajectory and reported a growth rate of 2.6 per cent in 2022. However, the country's economic performance is expected to decelerate to 0.9 per cent in 2023 and 1.5 per cent in 2024. This subdued economic outlook is attributed to the uncertain global economic conditions amid geopolitical developments. In addition, the unreliable electricity supply, including severe periods of power outages, also weighs heavily on the national economic outlook. As a result, the government has declared electricity as a state of disaster and provided a series of interventions to deal with the crippling and unprecedented energy crisis.

The Chapter also provides an analysis of KZN's economy, which is estimated to have moderated significantly to 2.2 per cent in 2022. As a result, the provincial gross domestic product growth (GDP-R) rate is projected at 0.6 per cent in 2023 and 1.6 per cent in 2024. The projected deterioration in economic prospects reflects the effects of flooding in April and May 2022, extensive load-shedding and global challenges. The Chapter further focuses on international trade and tourism in SA and KZN. The distribution of export value by Province depicts that KZN contributed R155 billion or 8.6 per cent to the total national value of exports (R1.810 trillion) in 2021. This is the third largest contribution after GP (R1 290 billion or 71.3 per cent) and the WC (R168 billion or 9.3 per cent).

In this regard, the Province should continue implementing structural reforms outlined in the economic recovery plan to ignite economic growth. Therefore, efforts must be intensified to implement the plan to ensure inclusive economic growth supported by radical economic transformation (RET). As outlined in the plan, the focus should be on agriculture, telecommunications and digital economy renewable energy, tourism, oceans economy and township economy.

In addition, the full implementation of RET and Operation Vula (OV) and its six commodities is also critical. The industry development includes agro-processing, automotive and pharmaceuticals. In addition, given its comparative and competitive advantage of being the most visited Province in SA, KZN needs to intensify its efforts to promote and market KZN as a tourist destination for both domestic and international travellers. The government must continue working with the private sector to invest in infrastructure development aggressively. Most importantly, it is critical for the Province to develop and maintain a tourism database.

Chapter Five presents the national and provincial labour market dynamics. The Chapter begins by outlining an overview of the characteristics of South Africa before unpacking each labour market indicator, such as labour force; employment; unemployment; and labour force participation and absorption rate. Then, similar indicators are reviewed in the context of KZN. The country's employment level is recovering at a slow pace as it remains below pre-pandemic levels. Meanwhile, unemployment has accelerated consistently to historically high levels with little or no significant decline.

Though KZN was affected by the disastrous flooding that occurred in April and May 2022, disrupting various, employment in the Province remained resilient, with 2.539 million employed out of 3.655 million in the labour force in the third quarter of 2022. However, over the same period, the number of people unemployed was 1.117 million, translating to an official unemployment rate of 30.6 per cent and the expanded rate of 46.4 per cent. Similar to the national trend, unemployment in KZN is pronounced among the youth population.

Given that unemployment is pronounced among the youth population, the provincial government continues implementing programmes to empower the youth. In doing so, skills development is at the forefront, whereby new entrants are allowed to gain entry-level experience through internships, mentorships and learnership programmes. The government also strives to promote Small, Medium and Micro enterprises owned by the youth through the KZN Youth Empowerment Fund programme that was officially launched in 2019. In addition, the Province also benefits through national employment initiatives such as The Presidential Youth Employment Initiative (PYEI).

Chapter Two: Demographic Profile

2.1 Introduction

The world is in an era of unprecedented population growth. The unprecedented global population rate that has occurred since the 1950s results from two trends. Firstly, the gradual increase in the average longevity due to widespread improvement in public health, nutrition, personal hygiene and medicine, among others. Secondly, the high persistence levels of fertility by births per woman in many countries such as Niger (6.8), Somalia (6.0) and Mali (5.8) (World Bank, 2021). The population increase may pose challenges and opportunities for development efforts in various countries. While one country may struggle to ensure universal access to services in the context of rapid population growth, another may see the realisation of a demographic dividend.

Whether demographic changes can be harnessed for the success and sustainability of development strategies is determined by designing and implementing effective population policies that are rights-based, evidence-informed and gender-responsive. Effective population policies should consider scientific research, which is constantly shifting and organised according to the basic themes of human development, reduction in poverty and inequalities and intergenerational transfers. For instance, the population has been influenced by the emergence of the coronavirus (COVID-19) pandemic, which caught most countries in the world unprepared.

In response to the COVID-19 shock, most countries across the world implemented measures to contain the virus. These measures included border closures and air travel to limit people mobility both domestically and internationally. In some instances, domestic travels were also restricted to minimise the transmission of the virus. For instance, in South Africa (SA) travels across provinces were restricted especially at the early stages of COVID-19. The COVID-19 restrictions also led to the closure or downsizing of some businesses, which left millions of people without jobs. The lockdown meant many people could not engage in their daily survival strategies. In order to ease the impact of the lockdown measures on the economic well-being of individuals and families, different governments introduced relief measures. For instance, SA introduced the Unemployment Insurance Fund (UIF) to help citizens cope with the effects of this pandemic. However, some individuals could not benefit from this fund due to not meeting the criteria or their employer not submitting the required documents or lodging the claims. Furthermore, some breadwinners in the families working in the informal sector could not access relief measures. With reduced or no income, it means families could not afford basic necessities, including food.

Due to COVID-19 restrictions, many companies adopted the strategy of working remotely. However, some people were less equipped to use Information Communication Technology (ICT), which became the primary mode of communication. The global economy was also affected due to supply chain disruptions, unprecedented labour market shock, and a significant decline in employment and global trade and tourism. It is not only that people with varying demographic and socio-economic characteristics were differently susceptible to the COVID-19 pandemic; the ability to cope, respond, recover and adapt to the pandemic differed across population sub-groups as well as institutional and geographical contexts.

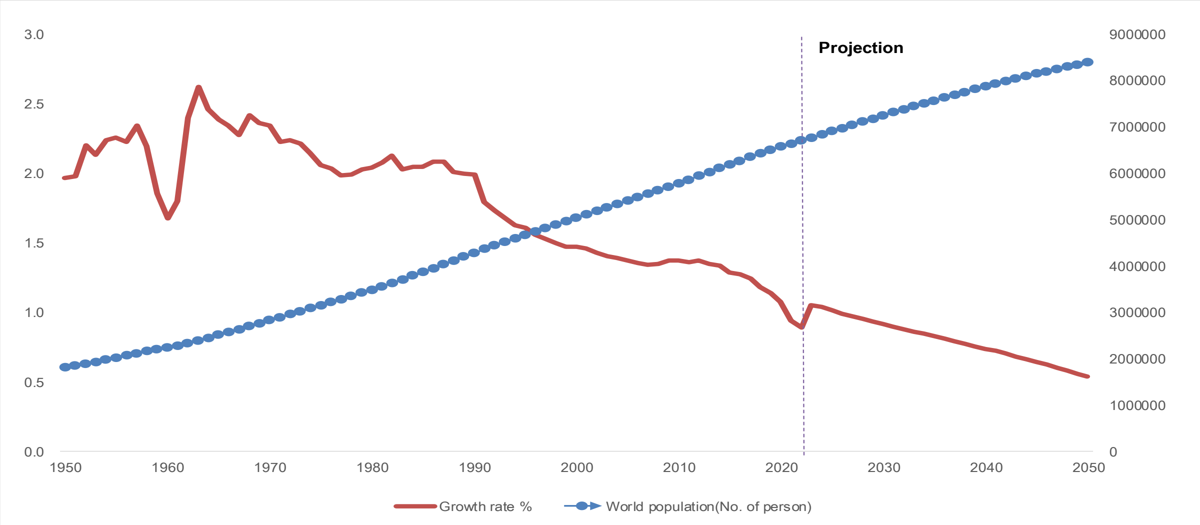
Against this backdrop, a country needs to recognise and adequately plan for demographic changes, which is an essential prerequisite for sustainable development. Therefore, this Chapter analyses global, national and provincial population dynamics. It commences with the global and national population sizes, followed by the national population growth rate. This Chapter proceeds to discuss the provincial population dynamics, ranging from population size, population distribution by age and gender, and population distribution by race. It further analyses the fertility rate, mortality rate, life expectancy and concludes with migration. All these factors determine the provincial population structure. Finally, this Chapter makes policy recommendations to influence the resource allocation in order to ensure efficiency and effectiveness while promoting the Province towards achieving Sustainable Development Goals (SDGs).

2.2 Global population growth

According to the United Nations (2022), over the past six decades since the 1960s, the world population has continued to grow at a decreasing rate. However, for the period 1962 to 1965, it expanded the fastest at an average of 2.1 per cent per year (Figure 2.1). Since then, the pace of population growth has slowed by more than half due to reduced fertility levels in some countries. Although there has been a persistently high level of fertility in many countries, some countries such as South Korea (0.9), China (1.1) and Singapore (1.1) realised a decline in fertility rate. A continuing decline in fertility is assumed for countries where women have, on average, more than two births over a lifetime. The transition to historically low levels of fertility has been closely related to several critical aspects of human development, such as reductions in child mortality, increased levels of education, expanded access to family planning services, increased female labour force participation, and the changing conditions and motivations for raising children as life becomes more urban. In 2020, and for the first time since 1950, the global population growth rate fell below 1 per cent per annum and is projected to continue to slow down in the next few decades and through the end of this century.

The global population is projected to grow to about 8.5 billion in 2030, adding an estimated 1.18 billion in the following two decades. There is a high probability that the size of the global population will lie between 9.4 and 10.0 billion in 2050 and is expected to reach 12.4 billion in 2100. The world's most populous regions in 2022 were Eastern and South-Eastern Asia with 2.3 billion people, representing 29 per cent of the global population, and Central and Southern Asia with 2.1 billion (26 per cent of the global population). China and India accounted for the largest number of people in these regions, with more than 1.4 billion each in 2022 (United Nations, 2022).

Figure 2.1: Global population size and annual growth rate: estimates, 1950-2022, and medium scenario with 95 per cent prediction intervals, 2022-2050



Source: United Nations Department of Economic and Social Affairs, Population Division,2022

The Population Reference Bureau (2022) indicates that the world population has increased from 7.8 billion in 2021 to approximately 7.9 billion in 2022. Table 2.1 depicts that America and Europe continue to have the lowest population among the regions, constituting 12.9 per cent and 9.3 per cent, respectively. Moreover, the African region constitutes 17.8 per cent of the world population. Having Africa and Asia being the most populated regions worldwide, approximately 59.4 per cent of the world's population lives in Asia, with India and China comprising 35.8 per cent of the world population. About 84.1 per cent of the population resides in less developed countries.

Development in less developed countries is hindered or challenged by a growing concentration of population growth, thus exacerbating the challenge of eradicating poverty which is the Sustainable Development Goal (SDG) number one. Further, this implies that poverty can deprive individuals of opportunities and choices, limiting their ability to control fertility. Moreover, this puts pressure on already strained resources and challenges policies to reduce poverty and inequalities (United Nations, 2022).

The impact of COVID-19 resulted in drastic changes in all components of population dynamics, including migration, mortality and fertility. The COVID-19 pandemic could potentially influence the number of births per woman through various channels, such as postponement of childbearing in the face of the uncertainty regarding the COVID-19 pandemic and its economic impacts, disruptions in marriage patterns and family formation, and disruptions in the availability and access to sexual and reproductive healthcare services, including family planning among others. The studies by the United Nations (2021) in low and middle-income countries have shown little evidence of a change in the number of unintended pregnancies and births due to the demand and stable availability of contraceptives. However, in high-income countries, the COVID-19 pandemic acted as a temporary interruption rather than a permanent change in long-term trends. Therefore, the successive waves of the pandemic may have produced temporary reductions in the numbers of pregnancies and births without affecting long-term trends in countries with low fertility.

Table 2.1: World population and selected countries in 2022 and 2050

	Mid-2022				Population in Mid-2050 (million)	Excess deaths due to COVID-19 pandemic, 2020-2021 annual average	Population fully vaccinated against COVID-19 (%)
	Population (million)	% Share of world population	% Population under 15 years of age	% Population over 65 years of age		Excess deaths as % of total deaths	
World	**7963**	**100**	**26**	**10**		**12**	**62**
More Developed	1270	15.9	16	19	1296	11	70
Less Developed	6694	84.1	27	8	8393	11	60
Less Developed (Excl. China)	5257	66.0	39	4	7126	7	nil
Africa	**1419**	**17.8**	**40**	**4**	**2529**	**8**	**20**
Sub-Saharan Africa	1168	14.7	42	3	2181	7	17
Nigeria	218.5	2.7	50	3	401.3	5	8
South Africa	**69.0**	**0.9**	**28**	**6**	**82.5**	**18**	**32**
Northern Africa	251	3.2	33	6	348	13	31
America	**1028**	**12.9**	**22**	**12**	**1174**	**18**	**70**
Northern America	372	4.7	18	17	412	12	69
Latin America and the Caribbean	656	8.2	24	9	762	22	70
Asia	**4730**	**59.4**	**24**	**9**	**5192**	**10**	**71**
China	1436.6	18.0	18	14	1266.5	nil	89
Japan	124.9	1.6	12	29	109.9	-1	81
India	1 417.20	17.8	26	7	1638.7	20	66
Europe	**742**	**9.3**	**16**	**19**	**724**	**13**	**68**
European Union	445	5.6	15	21	439	9	74
United Kingdom	67.6	0.8	18	19	71.8	11	74
Russia	144.3	1.8	18	16	136.8	18	51
Oceania	**44**	**0.6**	**23**	**13**	**66**	**-3**	**64**
Australia	26	0.3	19	17	40.6	-4	85

Source: Population Reference Bureau, 2022

2.3 South African population

South African population is well known for its diversity, with each Province having a population with different races, cultural identities, religions and eleven official languages. Despite changes brought forward by the effects of COVID-19, the South African population continues to grow consistently, rising from 52 million in 2011 to 60.6 million in 2022 (Table 2.2). Similarly, KwaZulu-Natal's (KZN's) population size continues to increase over the years, however, its share of the national total population has been gradually declining. The provincial population size increased from about 10.6 million in 2011 to 11.5 million in 2022, whilst its proportion of the national population dropped from 20.3 per cent in 2011 to 19 per cent in 2022.

Table 2.2: South African population by the Province in 2006, 2011 and 2022

	2006		2011		2022	
	Population	% Share of national population	Population	% Share of national population	Population	% Share of national population
South Africa	**48 143 223**	**100**	**52 002 949**	**100**	**60 604 992**	**100**
Eastern Cape	6 463 495	13.4	6 693 446	12.9	6 676 691	11.0
Free State	2 720 351	5.7	2 784 540	5.4	2 921 611	4.8
Gauteng	10 463 451	21.7	12 016 895	23.1	16 098 571	26.6
KwaZulu Natal	**10 082 592**	**20.9**	**10 557 851**	**20.3**	**11 538 325**	**19.0**
Limpopo	5 255 117	10.9	5 483 449	10.5	5 941 439	9.8
Mpumalanga	3 737 000	7.8	4 018 292	7.7	4 720 497	7.8
North West	3 252 781	6.8	3 550 805	6.8	4 186 984	6.9
Northern Cape	1 033 475	2.1	1 124 765	2.2	1 308 734	2.2
Western Cape	5 134 962	10.7	5 772 907	11.1	7 212 142	11.9

Source: Stats SA, 2022

KZN continues to be the second largest populous Province following Gauteng (GP) which has approximately 16.1 million people which is 26.6 per cent of the total national population in 2022. The increase in the population size in GP from 10.5 million in 2006 and 16.1 million in 2022 is primarily due to many people migrating to GP for better employment opportunities. KZN and the EC continue to decline in the percentage of the total national population, whilst GP and Western Cape (WC) are gradually increasing. With such continuous migration, this implies that more people migrate to WC and GP for economic opportunities (Stats SA, 2022).

2.4 Population growth rate

Table 2.3 illustrates the national population growth rate per age category from 2012 to 2022. The national population grew at an annual rate of 1.55 in 2012 and peaked at 1.57 in 2014. However, the growth rate dropped to 1.52 in 2015 and never recovered in subsequent years, as it plunged to 1.06 per cent in 2022. On the other hand, the child population growth rate (0-14 years) has been declining since 2018, from 0.94 per cent to 0.19 per cent in 2022. The impact of COVID-19 resulted in a further decline in the children population, reflecting the overall decline in fertility. The lockdown measures prevented contact, as a result, delaying or even limiting possible pregnancy (Stats SA, 2022).

Table 2.3: National annual population growth rate (percentages), 2012 to 2022

Period	Children (0 to 14 years	Youth (15 to 34 years)	Elderly (60 + years)	Total
2012-2013	1.42	-1.37	2.93	1.55
2013-2014	1.35	-1.39	3.04	1.57
2014-2015	1.30	-1.37	3.01	1.52
2015-2016	1.10	-1.2	2.99	1.47
2016-2017	1.14	-1.22	2.95	1.45
2017-2018	1.19	-1.05	2.94	1.46
2018-2019	0.94	-0.23	2.91	1.48
2019-2020	0.69	0.23	2.88	1.39
2020-2021	0.45	0.55	1.47	1.03
2021-2022	0.19	1.38	2.11	1.06

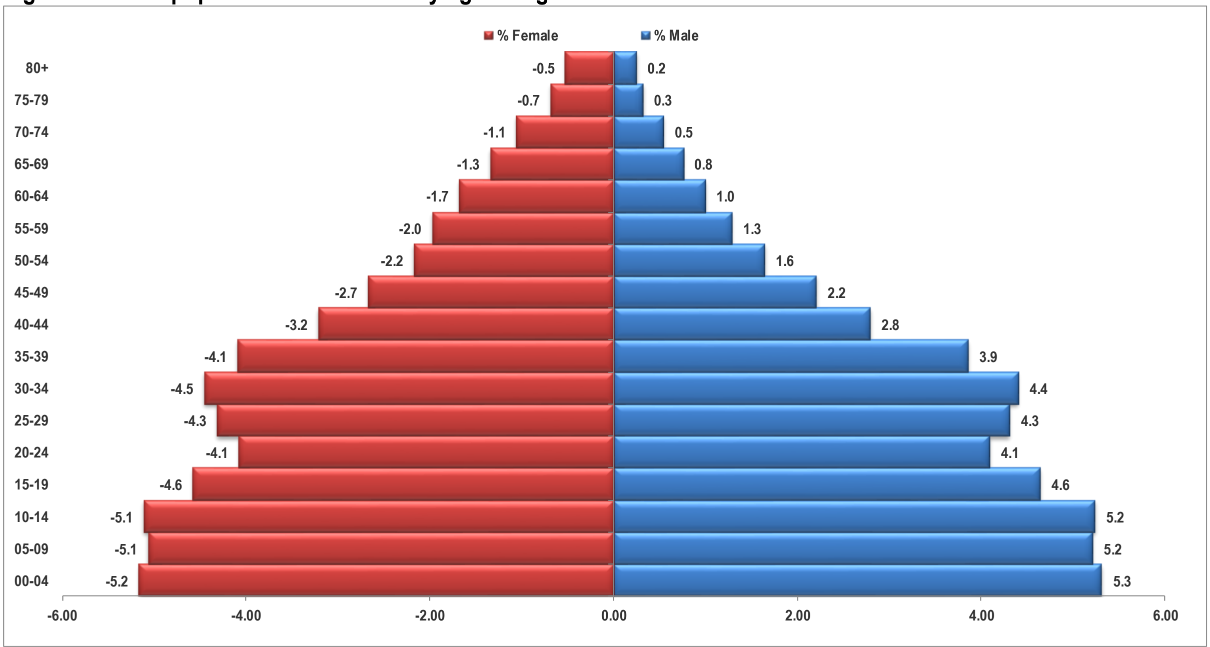
Source: Stats SA, 2022

The determination of the country to achieve Sustainable Development Goals (SDGs), particularly those related to health, education and gender, is likely to hasten the transition towards lower fertility and slower population growth. This determination is better depicted by a population growth of 1.06 per cent recorded in 2021 and 2022 (United Nations, 2022). Further, a decline in the population growth rates for the youth could be attributed to influences such as irresponsible behaviours and harmful activities, including crime, drugs, and other similar activities, especially males who usually involved themselves in activities that threaten their lives (Khuzwayo *et al*., 2020).

2.4.1 Population distribution by age and gender in KZN

The impact of COVID-19 pandemic on the age structure is reflected in the growth rates by selected ages. Figure 2.2 shows the KZN population distribution by age and gender in 2022. SA Department of Health used population distribution by age to prioritise the elderly population aged 60 and over to moderate the devastation of high mortality during the COVID-19 pandemic. However, by March 2022, KZN reported that approximately 36.9 per cent of the adult population was vaccinated, the lowest compared to other provinces. Nevertheless, the Province continued to improve as the year progressed, as the country has been on a drive to have as many people vaccinated as possible to reduce severe illness and death (United Nations, 2022).

Figure 2.2: KZN population distribution by age and gender in 2022



Source: Stats SA, 2022

Approximately 31.2 per cent of KZN's population are children aged between 00 and 14 years and 34.9 per cent is youth population between the ages of 15 to 34. Collectively, children and youth account for an estimated 66.1 per cent of the total provincial population. The total dependent population[1] is estimated at 4 219 231, while the economically active population is 7 319 094. A dependency ratio must be maintained lower than the global average, as it poses a threat to competitiveness internationally, thus leading to a decline in the number of productive workers and a more significant tax burden.

The implication of these estimates shows a high dependency ratio[2] of 57.6 per cent. A high dependency ratio indicates that the economically active population and the overall economy face a greater burden to support and

[1] The dependent population is the number of people aged 15 and younger and 65 and older.

[2] Dependency Ratio = [(Number of people under 15 years) + (Number of people aged 65 and over) ÷ (Number of people between 15 and 64)] × 100 = (4 219 231 ÷ 7 319 094) × 100 = 57.6 per cent.

provide the social services needed by children and older persons who are often economically dependent. Such a high ratio exerts pressure on government finances which could lead to higher tax rates for a declining working-age population. As a result, the government may be forced to increase indirect or wealth taxes to improve revenue (Figure 2.2).

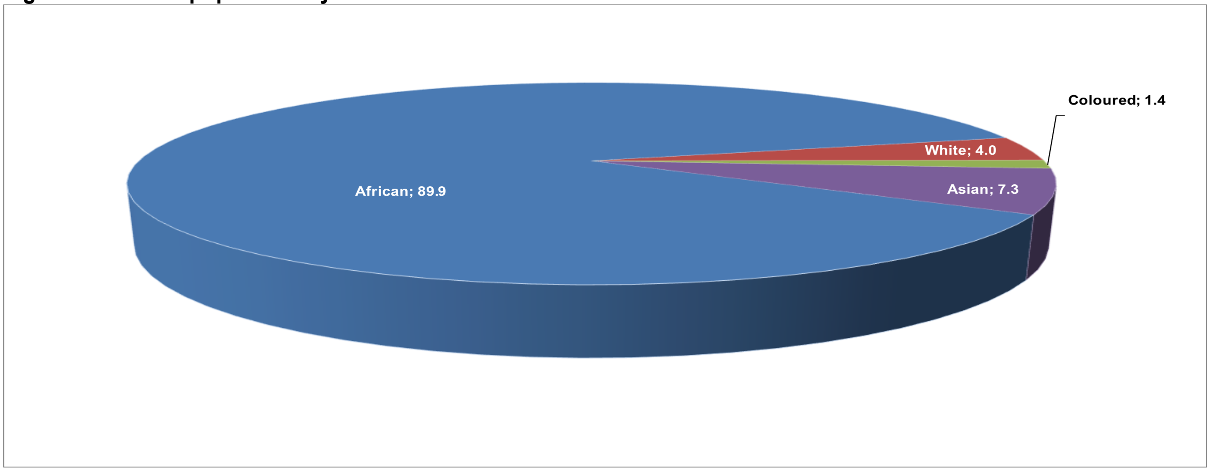
Out of the total 11.5 million population in KZN, the female population amounts to approximately 6 million, 52.1 per cent, while the male population amounts to 5.5 million (47.9 per cent). From birth to 24 years, males dominate the provincial population size at 50.5 per cent. However, from 25 years and above females start to dominate. The higher mortality seen in males, especially at ages above 30, leads to a growing excess in the number of females in each subsequent age group, with the eventual results being a substantially greater number of women than men in old age. Some of the reasons males have higher mortality than females emanate from their risky behaviours, which include excessive drinking of alcohol and other substance abuse, negligent use of guns, and they are dominance in hazardous occupations.

The high number of women in the age group above 24 is confirmed by Zarulli et al. (2017), who found that women in almost all modern populations live longer than men. This study investigated the survival of both gender in seven populations under extreme conditions from famines, epidemics and slavery. Their findings reveal that in all populations, women had lower mortality across almost all ages, except for one slave population; they live longer on average than men.

2.4.2 Population by race

Figure 2.3 shows KZN's population distribution by race in 2022. The overall population is made up of different racial groups, which is primarily dominated by Africans, constituting 89.9 per cent of the total KZN population. Another gradually increasing population group is Asian at 7.3 per cent, followed by Whites and Coloureds at 4.0 per cent and 1.4 per cent, respectively.

Figure 2.3: KZN's population by race in 2022



Source: IHS Markit, 2022

2.5 Urbanisation

Rural-urban migration is a response to factors that affect the desirability of urban over rural life. These factors include, among others, perceived job opportunities in the cities to improve income, education quality and health services available in the cities, as well as adverse income shocks in the rural areas. The gains from migrating to the cities need to be weighed against the costs associated with the decision to migrate. These costs are incurred both at the origin (rural) and the destination area (urban). They include, among others, transportation and subsistence costs during job and residence search, the psychological distress of leaving family members behind and maintaining relationships from far away. Other costs include the difficulties of assimilation in destination areas with cultural, ethnic, religious and linguistic backgrounds that differ from their own as well as the opportunity costs of foregone activities in the rural areas of origin (Selod and Shilpi, 2021).

The driving force behind rural-urban migration is that rural areas are disadvantaged in terms of their access to basic services and opportunities for quality education and employment. Most of the industries are located in urban areas, making the cities host more productive non-agricultural activities requiring educated and skilled workers. Therefore, most unskilled individuals remain unemployed even after migrating to the cities, which they perceive will bring better lives and improve income.

2.6 Fertility, mortality, life expectancy and migration

One of the key factors of the population influencing demographic dividend is demographic transition, which is a shift from high fertility and mortality to low fertility and mortality. Any change in fertility and mortality rates influences the dependency ratio, thus impacting a demographic dividend[3]. The demographic dividend comes as the productivity level of the working population increases, which boosts per capita income (Nkhumeleni, 2021).

Table 2.4 depicts the fertility, mortality and life expectancy changes in South Africa (SA) and by Province from 2006 to 2021. The Table shows a gradual decline in the average total fertility rate (TFR)[4] from 2.93 children per woman between 2006 and 2011 to 2.49 children per woman between 2016 and 2021. The decline in the fertility rate in SA is better explained by Stats SA's (2020) report on unwanted fertility. Unwanted birth means the birth, as recalled by the women, where no additional birth was planned or wanted at the time of conception. In addition, if the stated preference had prevailed, the birth would have never occurred (Demeny, 2003). According to Stats SA (2020), the increase in unwanted births from 1998 to 2016 was noticeable by age, year of birth of women, the

[3] The demographic dividend is the accelerated economic growth that may result from a decline in a country's birth and death rates and the subsequent change in the age structure of the population

[4] Total fertility rate is the average number of children that would be born alive to a woman (or a group of women) during her lifetime if she were to pass through all her childbearing years conforming to the age-specific fertility rates of a given year

highest level of education and household wealth. The increase in unwanted births is marginal when all women 15-49 from 1998 and 2016 surveys were compared.

Table 2.4: Fertility, mortality and life expectancy in SA and by Province, 2006 to 2021

	SA	EC	FS	GP	KZN	LP	MP	NC	NW	WC
Average total fertility rate										
2006-2011	2.93	3.22	2.84	2.36	2.98	3.37	2.88	3.08	3.20	2.42
2011-2016	2.62	2.97	2.48	2.10	2.71	3.16	2.41	2.83	2.78	2.16
2016-2021	2.49	2.91	2.33	1.89	2.59	3.09	2.29	2.67	2.57	2.04
Delivery in 10 to 19 years in facility rate (%)										
2018/19 DHIS	12.9	16.4	11.9	6.7	17.3	13.4	14.8	18.4	13.3	11.1
2019/20 DHIS	13.2	16.7	12.7	7.5	16.3	14.1	14.9	18.4	13.1	11.1
2020/21 DHIS	14.3	17.1	13.1	8.9	16.5	13.8	15.5	19.3	14.0	10.8
Inpatient early neonatal death rate (deaths per 1 000 live births)										
2018/19 DHIS	9.8	10.3	13.5	9.8	9.0	11.7	10.2	10.0	8.9	7.2
2019/20 DHIS	9.6	10.0	11.9	9.3	8.7	12.5	9.6	13.1	9.5	6.5
2020/21 DHIS	9.7	10.4	11.9	9.6	9.4	10.6	10.3	11.5	10.8	6.5
Death in facility under 5 years rate (%)										
2016/17 DHIS	4.4	4.3	5.5	6.7	4.5	5.9	6.1	4.3	6.3	1.3
2017/18 DHIS	4.7	5.7	6.2	6.9	4.5	5.7	7.0	4.2	7.8	1.5
2018/19 DHIS	4.8	5.1	5.9	6.1	5.5	5.9	7.4	4.5	8.0	1.4
2019/20 DHIS	5.0	4.8	5.4	6.4	5.9	6.7	7.6	5.7	7.3	1.5
Under 5 pneumonia case fatality rate (%)										
2018/19 DHIS	1.9	3.2	1.7	2.8	2.3	3.3	2.7	2.3	2.2	0.2
2019/20 DHIS	1.6	3.4	1.8	1.8	2.0	2.7	2.3	1.7	1.2	0.2
2020/21 DHIS	2.1	3.3	3.1	2.3	2.3	4.2	5.3	2.1	3.2	0.2
Under 5 severe acute malnutrition case fatality rate (%)										
2018/19 DHIS	7.1	8.9	6.2	6.8	7.8	6.3	9.1	4.3	9.3	1.6
2019/20 DHIS	7.8	9.9	6.0	6.4	7.6	7.9	10.6	4.7	11.8	1.5
2020/21 DHIS	7.3	8.6	3.2	7.7	10.5	8.0	16.0	5.0	4.9	2.2
Infant exclusively breastfed at Dtap-IPV-Hib-HBV 3rd dose rate (%)										
2018/19 DHIS	83.0	67.1	78.6	84.2	77.9	97.5	90.4	96.9	77.9	92.9
2019/20 DHIS	84.5	69.8	83.0	90.3	82.3	93.3	90.9	100.5	62.3	96.1
2020/21 DHIS	82.7	67.2	79.8	90.2	78.6	79.0	95.7	93.7	72.9	98.3
Institutional maternal mortality ratio (deaths per 100 000 live births)										
2018/19 DHIS	105.9	106.1	168.3	122.8	88.4	111.6	92.4	71.3	137.4	66.8
2019/20 DHIS	88.0	108.2	116.2	102.9	76.9	97.8	67.1	109.9	88.0	43.6
2020/21 DHIS	120.9	146.2	178.8	118.7	123.9	120.1	108.3	80.6	124.6	83.9
Life expectancy at birth (Stats SA)										
2011-2016 Female	64.3	64.0	58.8	67.0	62.0	65.8	65.0	62.8	62.9	70.0
2011-2016 Male	58.3	57.9	53.7	62.3	55.8	59.2	58.6	56.1	56.5	64.4
2016-2021 Female	65.4	64.9	60.6	68.1	63.1	66.6	65.8	63.6	64.5	71.1
2016-2021 Male	59.7	58.9	55.5	63.2	56.7	61.2	60.7	57.1	58.1	65.5

Source: Health Systems Trust (HST) and Stats SA, 2022

Unwanted births were 17.3 per cent in 1998 and 20.4 per cent in 2016, translating to a rise of 3.1 percentage points. Older women from older cohorts observed high unwanted births than younger women born in later years. From 13.2 per cent in 1998, unwanted births increased significantly to 54.3 per cent in 2016 amongst women born between 1965 and 1969, an increase of 41.1 percentage points. In both 1998 and 2016 percentage of unwanted births decreased with increasing education. In 2016 unwanted births to mothers with tertiary education (11.4 per cent) were four times less compared to mothers with no education (46.3 per cent). Unwanted births decreased gradually with increasing household wealth in 2016. The lowest percentage of unwanted births (13.1 per cent) was found in the richest wealth quintile, whilst such births were 25.8 per cent in the poorest wealth quintile.

The findings on unwanted fertility support the monitoring of Goal 3 of the Sustainable Development Goals (SDG)[5]. Amongst others, indicators related to the goal include a reduction in global maternal mortality ratio, under-5 mortality rate, neonatal mortality rate, adolescent birth rate and increasing the proportion of women of reproductive age who have their need for family planning satisfied with modern methods (Stats SA, 2020). The change in these indicators has a direct impact on the demographic trends in the country.

2.6.1 Fertility[6]

The total fertility rate (TFR) is a key driver behind the rapid ageing of the population worldwide. Population ageing can induce social problems such as severe financial challenges and the lack of skilled and productive labour, amongst others. Therefore, it is crucial to analyse and understand the TFR trends and explore their influencing factors. As a result, while analysing the factors of demographic transition and declining TFR, Galor (2012) included rising income per capita, reduced infant and child mortality, increasing requirement for human capital, a decline in the gender gap and the demands of old age security. His study emphasised that there is a weak correlation between economic development and TFR, while investment in education was a dominating force in the decline in TFR.

Lai and Tey (2014) analysed socio-economic variables' gross and net effects on fertility to identify factors contributing to fertility differentials in the Philippines. The effects of contraceptive use on fertility differentials are examined by comparing the fertility level and contraceptive prevalence rate (CPR) for the different population sub-groups. Their finding reveals that more efforts are required to redirect family planning programs to target disadvantaged groups so they can plan their families according to financial status. Though countries have different dynamics, this finding can be considered as part of the policy direction on fertility issues in SA. Notably, achieving the SDGs, particularly those related to education, health and gender, is challenged by the sustained high fertility and rapid growth in the birth rate. Moreover, as indicated by the United Nations (2022), sub-Saharan African countries, as well as in parts of Asia, Latin America, and the Caribbean, have been realising an increasing share of the working-class population due to reductions in fertility.

According to the Population Reference Bureau (PRB) (2022), high-income countries like Germany and the United States (US) mostly realised slight declines in births in 2020 that rebounded or stabilised in 2021. However, low- and middle-income countries such as Costa Rica and Turkey continued to see births decline, following

[5] Goal 3 seeks to ensure healthy lives and promote well-being for various age groups.

pre-pandemic trends. These data suggest the pandemic's impact on fertility has generally been limited and temporary.

According to Stats SA (2022), the average TFR in KZN decreased from 2.98 children per woman between 2006 and 2011 to 2.59 children per woman between 2016 and 2021. This estimate is above the national average of 2.49 children per woman and is the third-highest after LP (3.09), EC (2.91) and NC (2.67). Gauteng (GP) (1.89 children) and the WC (2.04 children) had the lowest projections. Since 2009, the overall fertility rate in SA has declined from an average of 2.93 children to 2.49 children in 2022. The lower fertility rate can induce higher labour force participation rates, particularly for women. Further, a reduced child dependency rate may lead to increased investment in the health and education of each child, thereby increasing children's productivity when they enter the labour force (Karra et al. (2017). This will also assist in lessening the burden on government fiscus due to declining government support for children through grants.

2.6.2 Mortality[7]

Mortality statistics are fundamental to public health decision-making. However, the level of mortality varies by time and location, and its measurement is affected by well-known biases that have been exacerbated during the COVID-19 pandemic. According to Lancet (2022), although COVID-19 deaths between January 2020 and December 2021 totalled 5.94 million worldwide, estimates reveal that 18.2 million people died globally because of the COVID-19 pandemic, as measured by excess mortality over the period.

Notably, the number of excess deaths due to COVID-19 was the largest in South Asia, North Africa, the Middle East, and Eastern Europe. At the country level, the highest numbers of cumulative excess deaths due to COVID-19 were estimated in India (4.07 million), the US (1.13 million), Russia (1.07 million), Mexico (798 000) and Brazil (792 000). This data suggests that the full impact of the pandemic has been much greater than what is indicated by the reported deaths due to COVID-19 alone. Therefore, strengthening death registration systems is crucial to global public health strategy for improved monitoring of the COVID-19 pandemic and future pandemics (Lancet, 2022).

Notably, the UN (2022) report depicts that the levels of mortality are declining, thus resulting in population growth, as reflected in increased life expectancy at birth. Globally life expectancy reached 72.8 years in 2019, an increase of almost nine years since 1990. Further reductions in mortality are projected to result in average longevity of around 77.2 years globally in 2050. Additionally, a decrease in mortality from non-communicable diseases, such as cardiovascular disease, chronic respiratory disease, cancer, diabetes and other age-related chronic conditions, is expected to contribute to life extension continuously.

[7] The mortality rate represents the average number of deaths in a particular area over a specified period.

In 2050, a 65-year-old person is expected to live, on average, an additional 19.8 years globally. However, mortality rates have declined due to factors such as the distribution of disease control medicines, public health programmes for keeping the environment clean, improved medical facilities, the spread of education and improvement in literacy among women, controlled famine through the increased food supply and improvement in life expectancy. Therefore, reduced mortality leads to increased population and is consequently critical for policy and planning.

Similar to other countries globally, the COVID-19 pandemic resulted in a negative shift in the mortality rate in SA. The South African Medical Research Council (SAMRC) estimated that only a third of excess deaths that occurred between March 2020 and June 2021 had been reported by the National Department of Health (NDoH) (Moultrie et al., 2021). Unfortunately, data by the NDoH is limited to direct COVID-19 cases and deaths occurring in public and private hospitals in SA. Therefore, it is evident that deaths counted in private and public hospitals during a pandemic do not accurately reflect the country's mortality rates due to COVID-19.

The Medical Research Council (MRC) shows that by July 2022, there have been over 300 000 excess deaths from natural causes in SA since the COVID-19 pandemic started. Almost 85 per cent of excess deaths can be attributed to the COVID-19 pandemic (Moultrie et al., 2021). Given the various constraints in measuring the number of COVID-19 direct and indirect deaths, all-cause mortality is used to quantify the burden of the pandemic (Stats SA, 2022).

2.6.3 Life expectancy

In its 2022 report, Centers for Disease Control and Prevention (2022) concludes that the increases or decreases in life expectancy represent the sum of positive and negative contributions of cause-specific death rates. Therefore, a decrease in life expectancy is influenced by the rise in cause-specific mortality, while declines in mortality contribute to increases in life expectancy. In addition, the United Nations (2022) shows that life expectancy at birth for women in 2019 exceeded that for men by 5.4 years globally, with male and female life expectancies standing at 68.4 and 73.8, respectively.

The report further illustrates how life expectancy has differed across regions and countries due to pandemic effects. For example, life expectancy at birth fell by almost three years between 2019 and 2021 in Central and Southern Asia, Latin America, and the Caribbean regions. In stark contrast, it increased by 1.2 years in the combined population of New Zealand and Australia. This increase was due to lower mortality risks during the pandemic for some causes of death. Moreover, the pandemic has been responsible for a significant reduction in life expectancy in some countries. For instance, in Botswana, Mexico, Oman, Lebanon and Russian Federation, estimates of life expectancy at birth declined by more than four years between 2019 and 2021 (United Nations, 2022).

Stats SA (2022) depicts that life expectancy at birth is a significant indicator and should not be discredited by potentially misleading interpretations. The key benefit of this indicator is gained when comparisons are made over time and across countries with different population sizes and structures. Moreover, the indicator is sensitive to the ages at which deaths occur. Related to the HIV pandemic, the resultant life expectancy at birth during the COVID-19 pandemic is affected by the selection of COVID-19 deaths. For instance, older people and those with comorbidities face higher mortality. The country reported a 34 per cent rise in adult deaths in 2021, significantly affecting life expectancy at birth. However, the 5 per cent reduction in deaths for 2020 has improved the Life expectancy at birth in 2021.

According to Stats SA (2022), KZN is projected to have a lower life expectancy of 57.8 for males and 64.2 for females than the national average of 60 for males and 65.6, respectively. The 2022 projections for KZN are lower than those of 2019 for both males and females, indicating a decline in the provincial populace's living conditions over the past year. Low life expectancy implications include losing a productive workforce, loss of tax revenue and a high dependency ratio. The implications for planning and provision of services are influenced by the predictions that the population will age at a particular level, thus requiring certain kinds of services.

2.6.4 Migration

Global trends show that some countries have begun considering international migration as a major component of population change. According to the World Migration Report (2022), Europe and Asia hosted around 87 and 86 million international migrants in 2020, respectively comprising 61 per cent of the global international migrant stock. These regions were followed by North America, with almost 59 million international migrants in 2022 or 21 per cent of the global migrant stock. Africa was at 9 per cent, while Latin America, the Caribbean, and Oceania were at 5 per cent and 3 per cent, respectively.

Between 2000 and 2020, high-income countries' contribution to international migration to population growth was a net inflow of 80.5 million exceeding the births over deaths of 66.2 million. In such cases, it is assumed that migration will be the major driver of population growth in high-income countries over the next few decades. Whereas for low-income and lower-middle-income countries, the increase in population will continue to be driven by an excess of birth over deaths. Furthermore, approximately 40 countries experienced a net inflow of more than 200 000 migrants each, whereby each of 17 countries recorded a net inflow exceeding 1 million people over the period between 2010 and 2021. The top countries receiving immigrants include Jordan, Turkey and Lebanon (UN, 2022).

However, due to COVID-19 pandemic restrictions, many international migrants could not move to either their home or host countries. The border closures stranded thousands of migrants, including seasonal workers, temporary residence holders, international students and migrants travelling for medical treatment, beneficiaries of assisted voluntary return and reintegration, seafarers and others. About 3 million people were stranded outside their home countries, primarily regular travellers such as students, tourists and migrant workers.

Most were in the Middle East and North Africa (about 1.3 million), followed by Asia and the Pacific (about 977 000). The challenges arising from the immobility of migrants were the costs and logistics involved in returning home under the emergency restriction. Other factors included the possibility of government support, which exposed people to risks of extreme poverty, xenophobia and stigmatisation. Furthermore, as mentioned above, these vulnerabilities increased health risks for those living in overcrowded shelters and those unable to access COVID-19 vaccination programmes (UN, 2022).

Table 2.5: Migration trends in KZN, 2016 to 2021, and 2021 to 2026

	2016-2021			2021-2026		
	Out-migrants	**In-migrants**	**Net-migration**	**Out-migrants**	**In-migrants**	**Net-migration**
Eastern Cape	511 757	192 412	-319 345	519 225	186 500	-332 725
Free State	163 237	134 719	-28 518	166 739	136 291	-30 448
Gauteng	573 354	1 559 881	986 527	615 201	1 443 978	828 777
KwaZulu-Natal	**371 614**	**288 533**	**-83 081**	**379 542**	**282 916**	**-96 626**
Limpopo	468 149	280 793	-187 356	443 192	243 267	-199 925
Mpumalanga	217 531	282 740	65 210	232 830	278 544	45 714
Northern Cape	76 632	88 320	11 688	81 065	90 675	9 610
North West	204 618	320 161	115 544	219 509	316 965	97 456
Western Cape	177 658	469 984	292 326	189 802	460 489	270 687

Source: Stats SA, 2022

As for SA, the 2021 Census created an opportunity for updated information to determine out-migration rates for each Province. Table 2.5 provide provincial migration trends for five years, from 2016 to 2021 (which includes COVID-19 pandemic impacts) and another 5-year period of 2021 to 2026 (which highlights future projections). Notably, each Province receiving international migration reflected a reduction in post-COVID-19 travelling restrictions and movements. The estimates show that Gauteng and the Western Cape provinces absorb the highest number of in-migrants for all periods, recording 1 559 881 and 469 984 people for 2016-2021, as well as 1 443 978 and 460 489 people for 2021-2026, respectively.

In contrast, KZN recorded a net outflow of 83 081 people in 2016-2021, which is projected to rise to a net outflow of 96 626 people in 2021-2026. Net out-migration has also been projected in the EC, FS and LP. On the other hand, the NC, MP and WC are projected to have a net inflow over the period under consideration. It has been noted that migration is one of the main factors contributing to the decline of KZN's portion of the equitable share and share of the national population (Stats SA, 2022).

2.7 Conclusion and recommendations

Several major population dynamics must be addressed as part of a country's development programmes and strategies. Some of these issues constitute serious obstacles to redressing inequalities and improving the population's quality of life. They, therefore, need to be resolved within the framework of an explicit, comprehensive and multi-sectoral population policy. This approach is an integral component of national strategies for reducing past inequities based on race and gender while substantially enhancing the quality of life of the entire population.

However, rapid population growth remains a concern for many countries in less developed regions worldwide. In contrast, countries in more developed regions confront a different set of changeless due to slower population growth, such as population ageing and decline. Consequently, there is a marked distinction in the policies to influence the rate of population growth by the level of development. With populations ageing more rapidly than ever, policymakers are confronted with several interrelated issues, including a decline in the working-age population, increased healthcare costs, unsustainable pension commitments, and changing demand drivers within the economy. The reduction in the working-age population could lead to a supply shortage of qualified workers, making it a challenge for businesses to fill in-demand roles.

Therefore, an economy that cannot fill in-demand occupations faces adverse consequences, including declining productivity, higher labour costs, delayed business expansions and reduced international competitiveness. In some instances, a supply shortage may push wages, causing wage inflation and creating a vicious cycle of wage spiral. In order to compensate for such a negative situation, many countries look to immigration by employing foreign nationals with the required skills to keep their labour forces well adequately supplied and improve their economies. However, it also becomes a challenge to test and recognise the credentials of those immigrants to ensure their authenticity. Therefore, in compliance with the Immigration Act 13 of 2002 and 2014, as amended and the Employment Services Act 4 of 2014 and other legislative frameworks which regulate the employment of foreigners is critical. This intervention should be applied in conjunction with approved maximum quotas on the total number of documented foreign nationals with work visas that can be employed in major economic sectors.

This Chapter also showed that children (00-14 years) and youth (15-34 years) account for an estimated 66.1 per cent of the total KZN population. Therefore, prioritising quality and inclusive education and healthcare from early childhood to school-going age is critical in ensuring that these age groups contribute to the mainstream economy in the long term. However, this could not be achieved without adequate budget allocation to ensure adequate nutrition, educational resources and fully resourced healthcare centres such as clinics and hospitals. Furthermore, in order to ensure return on investment, continuity after completing the National Senior Certificate should be prioritised by opening access to higher education, especially for educational programmes that are scarce and are needed in the economy.

Rural populations, especially in less developed regions, continue to be disadvantaged in their access to basic services and opportunities for education and gainful employment. Rural areas and the agrarian economy also face high rates of unemployment, inequality and stagnant growth. This is in line with the National Development Plan (NDP) 2030 finding that one-third of South Africa's (SA's) population lives in the former homelands, which are mainly rural and comprises of a large proportion of the economically marginalised. Together with poverty, lack of education and employment opportunities are among the major push factors for migration from rural to urban areas, exacerbating spatial inequalities within cities and towns.

As outlined in the next Chapter of this publication, high inequality is one of the challenges facing SA. It leads to contestation over resources, increasing policy uncertainty and deterring investment. This assertion is evident in SA, especially in provinces such as the EC, KZN and LP. Therefore, effective rural development policies are essential for improving the well-being of rural populations and reducing such disparities. The promotion of decent work in the rural economy is critical to eradicating poverty and ensuring that the nutritional needs of a growing population are met. Sustainable rural development and agrarian reform are essential to the country's economic, social and environmental viability. Such policies include developing rural infrastructure, facilitating access to markets for businesses, providing quality education, healthcare and other essential services, and creating opportunities for gainful employment on and off the farm.

Furthermore, the challenge of rural-urban disparities in economic opportunities leads to increased urbanisation. It is indicated in the Provincial Growth and Development Strategy (PGDS) 2035 that a large proportion of KZN's poor and marginalised citizens are in urban townships and informal settlements. This socio-demographic reality is a background to a number of human and community development challenges faced by the Province, especially in planning and coordinating interventions that aim to achieve spatial equity in access to public services.

However, if urbanisation is well planned, it has the potential to improve people’s access to education, health care, housing, and other services and to expand their opportunities for economic productivity. On the other hand, rapid urbanisation can also represent a challenge to sustainable urban planning, including the management of slums and the provision of basic urban services. To reap the benefits of economies of scale, greater efficiency and minimising the environmental and other adverse impacts of urban growth, governments need to adopt strategies to plan for future urban growth. Effective policies and programmes are necessary to develop an appropriate urban infrastructure and provide access to essential services, including secured access to water and sanitation, health care, schooling, land tenure and adequate housing, especially for the urban poor. Policies are also needed to improve solid waste management systems and to increase energy efficiency, transport system, housing and other sectors.

The impact of urbanisation on fertility is another critical indicator that has critical policy implications for a country. Most studies conclude that rural-urban migration favoured fertility decline. For instance, George et al. (2013) analysed the systematic differences between rural-urban migration and the level of fertility. They found that rural-urban migrants adapt their fertility behaviour upon settling in urban areas to resemble that of urban residents. Fertility declines around the world have resulted in unprecedented low levels of fertility at the global level. Childbearing patterns differ greatly among countries and regions. Countries with high or intermediate levels of fertility tend to have policies to lower fertility. Key measures to reduce fertility include raising the minimum legal age at marriage, providing access to reproductive health services, including low-cost, safe and effective contraception, integrating family planning and safe motherhood programmes into primary health care systems and improving female education and employment opportunities.

The intervention to empower women is also critical as they comprise a large proportion of the poor, particularly in rural areas. Therefore, measures to advance women's equality still need to be promoted at all levels. Furthermore, as indicated in the Medium Term Strategic Framework, 2019 to 2024, the role of women as leaders in all sectors of society should be actively supported with concrete measures put in place and the results evaluated over time.

The intervention should also include children and youth, as they constitute almost two-thirds of the South African and KZN population. They are the population at risk of high pregnancy rates, the spread of sexually transmitted diseases, and substance and drug abuse, among others. Therefore, awareness campaign programmes such as you only live once (YOLO)[8], ChommY[9], Ke Moja (I'm fine without drugs), as well as camps and dialogue, are critical to protecting children and mostly teenagers. These interventions need to be reinforced aggressively in order to reduce the number of children affected. In addition, the South African Demographic and Health Survey (SADHS) (2016) found that teenage childbearing is most common among young women in the lowest wealth quintiles and least common in the middle to highest wealth quintiles. This confirms that areas in SA and KZN with the highest teenage pregnancy rates also have the highest poverty rates. In these areas, the transaction relationships[10] and age disparity relationships[11] are common. Therefore, integrated efforts to fight the scourge of poverty are critical.

Inter-provincial migration is another factor adversely impacting equitable share allocation. For instance, most young professionals migrate from KZN to other provinces, especially GP, for better economic opportunities. These people are at their productive stages and can add value to the economy of KZN if retained. However, due to GP contributing significantly to the economy of SA, it is expected that the Province will have better economic opportunities across the country. Some of these individuals return to KZN when they retire. As a result, KZN is affected in the equitable share allocation as it has been declining over the years. It is, therefore, critical for KZN to use its comparative advantage to attract both foreign direct investments (FDIs) and domestic investment in order to retain productive citizens.

Due to globalisation and the free movement of people, international migration has grown in complexity, scope and impact, affecting governments worldwide. Moreover, the number of international migrant persons living in a country other than where they were born has continued to grow rapidly over the past two decades. While the international community has long recognised the critical relationship between international migration and development,

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[8] YOLO targets young people between the ages of 15 and 24 under the tagline: "It's my life, it's my choice…I choose to behave responsibly". This programme aims at building young people's self-esteem, confidence, self-efficacy and resiliency to deal with adverse situations

[9] ChommY targets children under the tagline: "Invest in my Future…Protect me Today", and it aims to generate knowledge, develop skills and empower children to make informed choices to reduce HIV infections, substance abuse and to prevent teenage pregnancies through the use of indigenous games. The word ChommY, a colloquial term for "friend", aims to build positive friendships among 10 – 14-year-olds and encourage young boys and girls to motivate one another to minimise being involved in risky behaviours.

[10] A transactional relationship is a relationship which is based on reciprocity and needs

[11] Age disparity relationship is a relationship whereby young women are involved in sexual activity with men way older than themselves.

integrating migrants and migration into the 2030 Agenda for Sustainable Development represents a significant step forward. Specifically, target 10.7 of the SDGs calls on countries to facilitate orderly, safe, regular and responsible migration and mobility of people, including through implementing planned and well-managed migration policies. However, the government needs to put strict measures in order to control the influx of undocumented foreign nationals.

Chapter Three: Development Indicators

3.1 Introduction

Adam Smith, a famous global economist, proclaimed that a nation's true wealth is a function of and dependent on its citizens. In turn, citizens make choices regarding their economic, social, political, and cultural existence. Whilst these choices are adopted by individuals, there is a marked correlation between persons regarding choice prioritisation. Resultantly, the three most prevalent goals are the desire to live, to build on one's knowledge and to be able to realise an acceptable living standard.

As correctly stated by the World Bank (2022), South Africa (SA) has taken considerable strides to improve the well-being of its citizens since the advent of democracy in 1994. The report maintains that the percentage of the population living below the upper-middle-income-country poverty line fell significantly from 68 per cent to 56 per cent between 2005 and 2010. However, this has since slightly trended upwards, to 57 per cent in 2015, and is projected to have reached 60 per cent in 2020.

However, structural challenges and weak growth have undermined progress in reducing poverty, heightened by the COVID-19 pandemic. Furthermore, progress in improving household welfare is severely constrained by rising unemployment, which reached an unprecedented 35.3 per cent in the fourth quarter of 2021. Though it declined to 32.9 per cent in the third quarter of 2022, it is still high according to the World Bank standards (Stats SA, 2022). Moreover, the youth remain vulnerable to unemployment. About 50.5 per cent of youth aged between 15 and 34 years were unemployed in the third quarter of 2022, compared to 55.2 per cent a year ago.

Another challenge is that SA remains a dual economy[12] with one of the highest and most persistent inequality rates in the world, Gini coefficient[13] of 0.67 in 2018 (World Bank, 2022). In SA, high inequality is perpetuated by a legacy of exclusion and the nature of economic growth, which is not pro-poor and does not generate sufficient jobs (World Bank, 2022). Moreover, wealth inequality is even higher due to lack of intergenerational-mobility, as inequalities are passed down from generation to generation with little change over time. Though these predicaments persist, the government has developed policies and strategies to deal with poverty and inequality through social grants, internships, and other interventions to ensure fair land redistribution.

12 Dual economy- A dual economy is the existence of two separate economic sectors within one country, divided by different levels of development, technology, and different patterns of demand.

13 Gini Coefficient is a measure of income inequality, where 0 represents a perfectly equal income distribution, and a coefficient of 1 represents a perfectly unequal distribution.

Following the above background, this Chapter focuses on development indicators such as poverty, household income and inequality, human development, grant beneficiaries, education, health, access to basic services and crime.

3.2 Poverty

Chapter four of this report shows that the inflationary effects of the Russian and Ukraine war and the COVID-19 pandemic have adversely affected the global economy. The inflationary effects emanating from the war between Ukraine and Russia has caused a rise in cost of living, decline in purchasing power and this has created additional strain to the already poor households as they spend a large share of their resources on food relative to non-food items. The global pandemic led to social and economic disruptions that left millions of people without work and at a high risk of falling into extreme poverty. In 2020, the World Bank predicted that an additional 75 million to 95 million people could be in extreme poverty by 2022. The report further maintains that given the aforementioned dynamics, the goal of ending poverty by 2030 is well beyond reach.

The United Nations (2022) states that prior to the COVID-19 pandemic, the share of the world's population living in extreme poverty fell from 10.1 per cent in 2015 to 9.3 per cent in 2017. A high drop implies that people living on less than $1.90 per day dropped from 741 million to 689 million. Notably, the new extreme poverty line of $2.15 per person per day replaced the $1.90 poverty line reported in 2017. The rise in the poverty line indicates an increase in the cost of basic living, clothing and shelter.

Climate change is also an ongoing threat contributing to the increase in poverty. Weather-related disasters have increased rapidly over the decades (World Bank, 2022b). These natural disasters have threatened countries that primarily rely on agriculture as a source of trade and income generation. It diminishes food production and distribution while raising poverty levels and food insecurity. As a result, the Intergovernmental Panel on Climate Change (IPCC) (2022) estimates that climate change will drive 132 million more people into extreme poverty in the next decade. Climate change is a grave threat to Sub-Saharan Africa and South Asia, primarily as most of the global poor are concentrated in these regions. The impacts of climate change can also include higher food prices, deteriorating health conditions, and exposure to disasters, such as floods, affecting the poor and the general population.

Results from Statista (2022) surveys conducted in 2021 and 2022 show that poverty is still a concern to many South Africans. The survey found that around 40 per cent of South Africans are concerned about social injustices and poverty. This concern is primarily because many households have fallen back or remained in poverty through inadequate access to clean water, proper healthcare facilities and household infrastructure. Children are no exception from the poverty trap as Giannini et al. (2022) reported that six out of ten children, or 62.1 per cent, are multi-dimensionally poor[14]. This finding is consistent with an income poverty line that is based on the upper-bound poverty line, which finds that 67 per cent of children are located in income-poor families.

Most multi-dimensionally poor children live in rural areas, particularly across traditionally poor provinces such as the Eastern Cape (EC), KwaZulu-Natal (KZN) and Limpopo (LP). In addition, most households in these provinces are headed by usually a black African woman, and few adults are employed. UNICEF (2020) states that 42 per cent of children are multi-dimensionally poor as well as income poor, with this overlap pronounced among children in rural areas. Nearly two-thirds of deprived children in rural areas are also income-poor, whereas, in urban areas, they account for only 23 per cent of children.

Despite this undesirable situation, the South African government continues to prioritise the well-being of children. The country's critical spending on child services and programmes, such as basic education, social grants, and health, continued to receive support. Data from UNICEF (2022) also shows that while child poverty rates were consistently higher than those for the adult population, between 2006 and 2011, the child income poverty rate declined from 77.5 per cent in 2006 to 63.7 per cent in 2011. However, between 2011 and 2015, income poverty for children increased to almost 67 per cent. Therefore, the government must pay more attention to child poverty, in line with SDG 1[15]

The World Bank (2022) report indicates that the key driving factor for multidimensional poverty among all age groups is the poor state of social infrastructure. This challenge includes poor school facilities, long distances to the nearest health centres and inadequate waste disposal services at a community level. To this end, the government should continue to invest in social infrastructure in the rural areas where health and school facilities require significant upgrading and focus on the continuation of financing of the social services sector.

In order to track the country's poverty levels, Stats SA uses three measures, these being the food poverty line (FPL), the lower-bound poverty line (LBPL), and the upper-bound poverty line (UBPL) for statistical reporting. In addition, the national poverty lines were constructed using the cost-of-basic-needs approach, linking welfare to goods and services. These poverty lines contain both food and non-food components of household consumption expenditure (Stats SA, 2022).

As defined by Stats SA (2022), the food poverty line[16] shows the level of consumption below which individuals cannot purchase sufficient food to provide them with an adequate diet. Those living below this line are consuming insufficient calories for their nourishment. The LBPL[17] denotes food and non-food items required by households.

[14] Multidimensional poverty encompasses the various deprivations experienced by poor people in their daily lives – such as poor health, lack of education, inadequate living standards, disempowerment, poor quality of work, the threat of violence, and living in environmentally hazardous areas, among others.

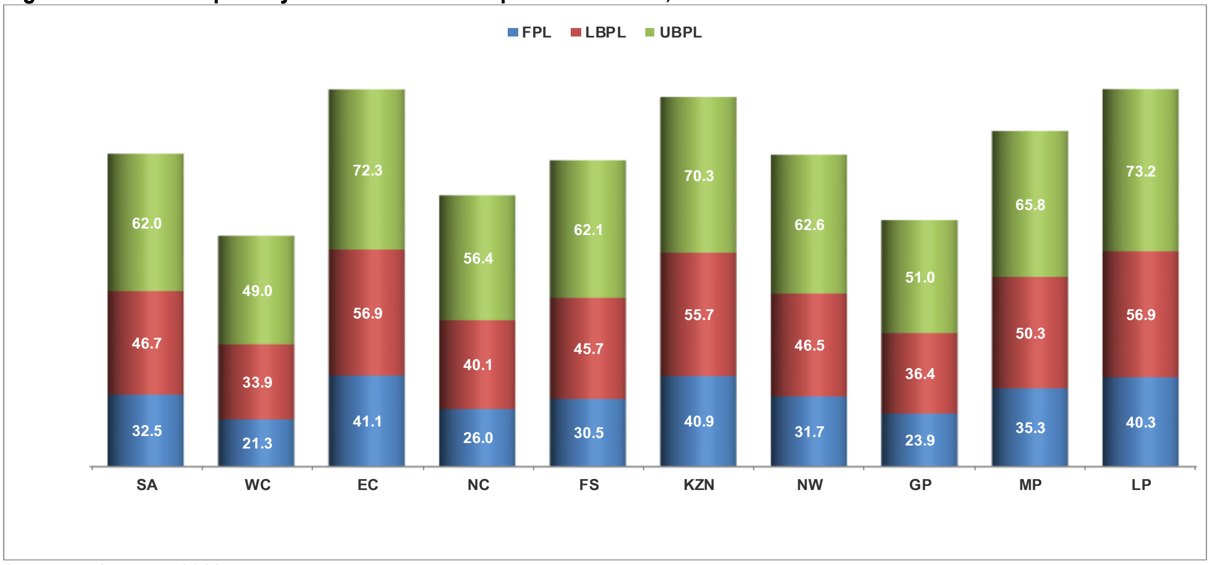
[15] Eradicating extreme poverty for everyone by 2030 is a vital goal of the 2030 Agenda for Sustainable Development.

[16] Food poverty line of R624 (in April 2021 prices) per person per month. It refers to the amount of money an individual needs to afford the minimum required daily energy intake. This index is also called the "extreme" poverty line.

[17] Lower-bound poverty line – R890 (in April 2021 prices) per person per month. It refers to the food poverty line plus the average amount derived from non-food items of households whose total expenditure is equal to the food poverty line.

However, those living below this line must sacrifice some food to get these non-food items such as transport and airtime. Finally, individuals living below the UBPL[18] are those who can consume both food and non-food items but cannot meet other necessities such as shelter, education, security and healthcare.

Figure 3.1: Share of poverty lines across all the provinces in SA, 2021



Source: IHS Markit, 2022

Figure 3.1 shows the share of people living below the food poverty line, the lower-bound poverty, and upper-bound poverty lines in 2021. The WC (21.3 per cent) had the lowest share of people living below the FPL when compared to KZN with 40.9 per cent, followed by GP (23.9 per cent), NC (26.0 per cent), and FS (30.5 per cent).

Regarding the share of people living below the LBPL, KZN had the third-highest proportion of people living within this bracket (55.7 per cent), after LP and EC, both at (56.9 per cent). Further, the share of persons living below the UBPL in KZN stood at 70.3 per cent, the third-highest in the country, during the same year. Currently, the government provides several social grants (Old-age grant, Disability grant, Grant-in-aid, Care dependency, Foster Care, and Child support grant), all of which aim to reduce poverty.

3.3 Household income and inequality

One of the National Development Plan's (NDP's) targets is to reduce income inequality, measured using the Gini coefficient[19] from 0.70 to 0.60 by 2030. This is further supported by Goal 10 of the SDGs, aiming to reduce inequalities between countries. Income inequality has increased in nearly all world regions in recent decades but at different speeds. SA is reported to be the most unequal country in the world, ranking first among 164 countries in the World Bank's global poverty database (World Bank, 2022a). The report further reveals that lack of access

[18] Upper-bound poverty line – R1 335 (in April 2021 prices) per person per month. It refers to the food poverty line plus the average amount derived from non-food items of households whose food expenditure is equal to the food poverty line.

[19] The Gini Coefficient is a measure of income inequality, where 0 represents a perfectly equal distribution of income, and a coefficient of 1 represents a perfectly unequal distribution (Todaro, 2011)

to key productive assets such as skills and land slows progress towards a more equitable income distribution. Therefore, it is imperative to promote policy measures that foster equality of opportunities which will assist in addressing the inequality dilemma.

Table 3.1: Income distribution by proportion of households in KZN, 2021

Income category	Income level (R'000)	African	White	Coloured	Asian	Grand total
Lower income	0 - 54	33.7%	1.9%	11.3%	2.4%	28.4%
Low emerging middle income	54 - 96	25.3%	2.1%	14.2%	6.8%	21.9%
Emerging middle class	96 - 360	31.3%	26.6%	43.7%	45.0%	32.4%
Realised middle class	360 - 600	5.5%	22.5%	14.9%	19.9%	8.1%
Upper middle class	600 - 1 200	3.1%	27.5%	10.9%	16.4%	6.1%
Affluent	1 200 +	1%	19%	5%	9.5%	3.3%
Grand total		100%	100%	100%	100.0%	100.0%

Source: IHS Markit, 2022

In KZN, 33.7 per cent of Africans were categorised as lower-income earners compared to their white counterparts at 1.9 per cent in 2021 (Table 3.1). This proportion was the primary motivation for government to implement various policies (work, school, etc.) that prioritise previously disadvantaged groups, particularly Africans, allowing them to participate in the economy. On the other hand, 25.3 per cent, 31.3 per cent, 5.5 per cent, 3.1 per cent and 1 per cent were categorised as low emerging, emerging middle class, realised middle class, upper-middle-class, and affluent income earners, respectively.

In stark contrast, about 2.1 per cent of whites' households were classified as low emerging income earners at, whilst 26.6 per cent, 22.5 per cent, 27.5 per cent, and 19 per cent were classified between emerging middle class to affluent income earners. These disparities show that though there are policy interventions aiming to reduce the inequality gap, the white population enjoyed dominance over the realised middle-class, upper-middle-class and affluent income categories. This observation implies that significant income disparities still exist among the four population groups in the country, with Africans remaining the least favoured by the current conditions.

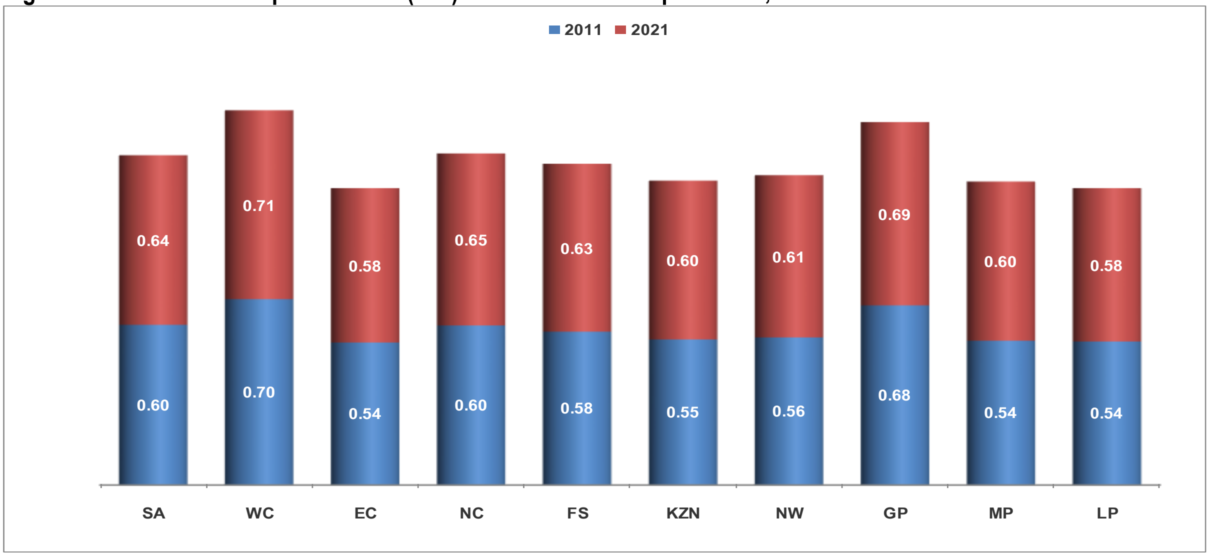
KZN households categorised as being lower-income earners (between R0 and 54 000 per annum) declined by 6.8 percentage points from 35.2 per cent recorded in 2020 to 28.4 per cent in 2021. Over the same year, approximately 21.9 per cent were categorised as low-emerging middle-income earners (between R54 000 and R96 000 per annum). An estimated 32.4 per cent were emerging middle-class, earning between R96 000 and R360 000 per annum. Approximately 8.1 per cent of households in the Province were categorised as realised middle-class earners (R360 000 - R600 000), 6.1 per cent were upper-middle-class (R600 000 - R1 200 000), and a minimal 3.3 per cent of KZN households were considered as affluent, earning over R1.2 million per annum (Table 3.1).

3.4 Human development

The Human Development Index (HDI) is an aggregated indicator designed by the United Nations Development Programme (Human Development Report, 2022). The index was developed as an ultimate criterion for assessing the development of a country and not economic growth alone. Therefore, it provides valuable and accurate information to policymakers to make sound and informed decisions. The HDI is calculated on three key measures: health, education, and income. The aim is to reflect, using specific criteria, the multidimensional nature of development. This calculation is done by introducing elements that, for various reasons, are considered to be of utmost importance in creating human capabilities, opportunities, and choices, such as mean years of schooling (expected years of education), life expectancy at birth and gross national income per capita. The Human Development Report (2016) categorises an HDI of 0.8 and above as high development status, 0.5 to 0.8 as medium development and low human development as anything less than 0.5.

The ongoing uncertainties from the persistent COVID-19 pandemic have driven reversals in human development in almost every country. The War between Ukraine and Russia has also added to the human suffering amid a shifting geopolitical order and strained multilateral system (United Nations Development Program (UNDP), 2022). These uncertainties especially COVID-19, are likely to have detrimental to human development worldwide in the long term, mainly in low-income or underdeveloped countries. The report further states that developed economies are in a better position to deal with these uncertainties and can stabilise their human development compared to low and developing countries. Climate and ecological disasters are also posing a threat to human development in many countries. SA is no exception, especially following the KwaZulu-Natal (KZN) April 2021 floods, which damaged many people's homes and economic infrastructure, distorting the region's development.

Figure 3.2: Human Development Index (HDI) across SA and the provinces, 2011 and 2021



Source: IHS Markit, 2022

Figure 3.2 depicts human development index for SA and provinces between 2011 and 2021. In 2021, HDI improved slightly in SA from 0.60 in 2011 to 0.64 in 2021, which the UNDP (2020) considers as medium human development. However, this performance is encouraging when compared to the rest of Sub-Saharan Africa, which had an average HDI of 0.55 in 2021 (Statista, 2022b). As depicted in figure 3.2, HDI in KZN increased by 0.5 index points from 0.55 in 2011 to 0.60 in 2021. Although there was a moderate improvement, the Province's HDI was below the national average of 0.64.

3.5 Grant beneficiaries

In a country such as SA, where inequality levels are high combined with low levels of labour market participation, social grants have played a pivotal role in supporting households to attain a minimum standard of living. Social grants have also assisted in achieving human developmental goals, including improved provision of education necessities and reduced poverty levels in the country. The General Household Survey (GHS) by Stats SA (2022) shows that the percentage of social grant beneficiaries has increased steadily from 12.8 per cent in 2003 to approximately 31 per cent in 2019 and reached 35.7 per cent in 2021. Moreover, government introduced Special COVID-19 Social Relief of Distress (SDR) grant in 2020 in an attempt to offset the impact of the pandemic. The beneficiaries of the SDR grant receives an amount of R350 on a monthly basis and the amount is expected to increase for cushioning the beneficiaries against the inflationary pressures. Nationally, 5.8 per cent (351 4800) of the beneficiaries received this grant in 2021 compared to 5.3 per cent (307 4000) in 2020.

In KZN, an estimated 54.6 per cent of households relied on social grants in 2021 (Stats SA, 2022). High proportion of households that depend on grant is concerning as it shows that more than half of the households, particularly in KZN, depends on the government to meet basic needs. Over the same year, in KZN, beneficiaries of the special social relief grant were at 5.6 per cent of the National social relief grant in 2021 when compare to 4.6 per cent recorded in 2020. Therefore, in an effort to address this situation, the government should continue formulating interventions that would create employment opportunities while exploring other revenue enhancement strategies.

Table 3.2 shows the number and percentage of SA grant beneficiaries by Province at the end of December 2021. KZN had the highest number of social grant beneficiaries nationally, with a total of 4 089 490 recipients (22 per cent). The Province also had the highest share in all categories of social grants, except for the Foster Child Grant and War Veterans' grant. There were about 733 580 beneficiaries of Old Age Grant, which is 19.8 per cent of total old age grant beneficiaries in the country. KZN issued the highest proportion of disability grant at 21.3 per cent when compared to the 16.6 per cent recorded in the Eastern Cape. KZN also issued the highest proportion of the Grant in aid, Care Dependency Grant, Foster Child Grant and Child Support Grant when compared to the nine provinces at (80 655 or 29.6 per cent), (38 938 or 26.3 per cent), (48 680 or 14.2 per cent), and (2 963 453 or 23 per cent), respectively.

Table 3.2: Number and proportion of grant beneficiaries as of the end of December 2021

	Old Age		War Veterans'		Disability		Grant-in-aid		Care Dependency		Foster Child		Child Support		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Eastern Cape	591 828	15.9	6	22.2	175 532	16.6	34 932	12.8	23 157	15.6	58 096	17.0	1 968 732	15.2	2 852 283	15.4
Free State	213 009	5.7	-	-	77 472	7.3	11 254	4.1	8 894	6.0	17 584	5.1	713 804	5.5	1 042 017	5.6
Gauteng	690 890	18.6	7	25.9	121 944	11.6	11 045	4.1	21 291	14.4	33 998	9.9	2 006 813	15.5	2 885 988	15.5
KwaZulu-Natal	**733 580**	**19.8**	4	14.8	**224 180**	**21.3**	**80 655**	**29.6**	**38 938**	**26.3**	**48 680**	**14.2**	**2 963 453**	**23.0**	**4 089 490**	**22.0**
Limpopo	488 994	13.2	1	3.7	97 855	9.3	55 504	20.4	16 822	11.3	30 017	8.8	1 977 341	15.3	2 666 534	14.4
Mpumalanga	267 853	7.2	-	-	78 029	7.4	23 802	8.7	11 566	7.8	17 268	5.0	1 179 869	9.1	1 578 387	8.5
Nothern Cape	92 834	2.5	1	3.7	50 001	4.7	20 132	7.4	5 795	3.9	8 359	2.4	329 492	2.6	506 614	2.7
North- West	277 808	7.5	1	3.7	63 118	6.0	17 543	6.4	9 721	6.6	20 379	6.0	906 778	7.0	1 295 348	7.0
Western Cape	380 484	10.3	7	25.9	154 725	14.7	24 106	8.8	16 447	11.1	29 636	8.7	1 050 129	8.1	1 655 534	8.9
South Africa	**3 711 169**	**100.0**	**27**	**100.0**	**1 054 288**	**100.0**	**272 637**	**100.0**	**148 295**	**100.0**	**342 318**	**100.0**	**12 910 451**	**100.0**	**#######**	**100.0**

Source: South African Social Security Agency (SASSA), 2022

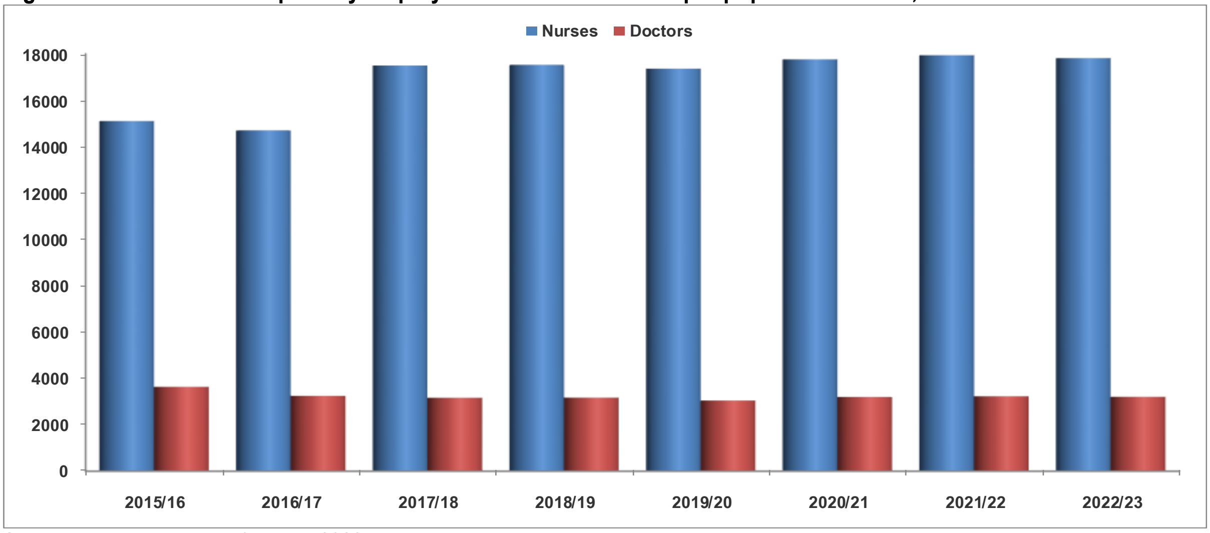
3.6 Health

Access to quality healthcare services is a basic human right enshrined in the constitution of SA; hence public healthcare is legally available to everyone in the country. In this regard, effective and affordable health services are imperative in ensuring quality health care, access to adequate water, sanitation, and hygiene services, waste management and environmental cleaning practices. According to the General Household Survey by Stats SA (2022), about 71.9 per cent of households in SA relied on public health services. In KZN, a staggering 81.9 per cent of households rely of public health services. As a result, like other government services, health is under severe pressure, especially with epidemics such as COVID-19, which puts extreme pressure on already stretched, limited resources. This unfortunate situation bears a significant challenge in fulfilling the 2019 World Health Organisation (WHO) resolution of ensuring that all people have access to adequate and affordable healthcare services.

3.6.1 Medical practitioners

Similar to most countries across the globe, SA faces a considerable dilemma of healthcare professional shortages. The South African Medical Association (SAMA, 2022) reveals that many highly qualified medical doctors seek greener pastures abroad, leaving SA with fewer human resources to serve the people. Hall & Erasmus (2003) found that the shortage of qualified health practitioners is mainly due to limited resources and poor working conditions in the public sector. However, the South African Nursing Council (2020) also showed that the country has a nursing staff contingent of about 280 000 nurses, equal to one nurse per 213 people, confirming the shortage of nurses. In addition, the KwaZulu-Natal Department of Health (2021) revealed that KZN is experiencing a shortage of key health professionals in the increasing size of the population. The 2022/23 Annual performance plan shows that the number of professional nurses per the population of 100 000 is 152.5. This proportion represents 17 816 professional nurses and medical practitioners per 100 000 people, servicing a population of 11 583 million. The total population in KZN is serviced by an average of 3 234 medical doctors. This number represents approximately 27.4 per cent of the required proportion of required health professionals. Nevertheless, the proportion of 152.5 compares favourably with the World Health Organisation (WHO) standard of around 200 per 100 000 people.

Figure 3.3: The number of publicly employed doctors and nurses per population in KZN, 2015/16 – 2022/23



Source: KZN Department of Health, 2022

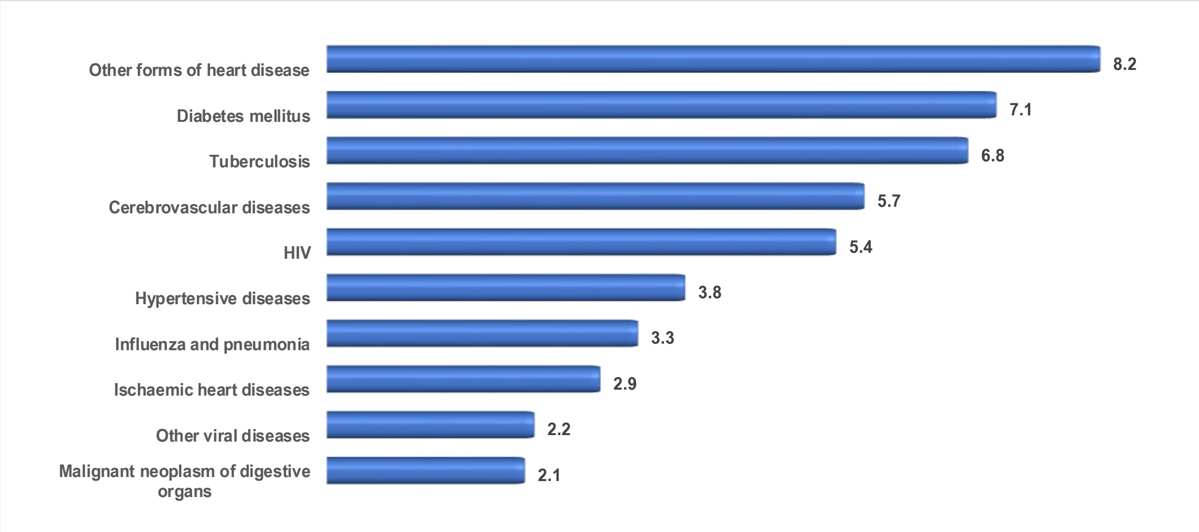
In this regard, Figure 3.3 shows that from 2015/16 to 2022/23, the number of skilled doctors employed in the public service was very low, with under 4 000 staff, compared to the nurses, with a staff of around 18 000. Therefore, the country should prioritise strategies, incentives and policies that will appeal more to qualified doctors and nurses to have the appetite to provide their services.

3.6.2 Causes of death and the burden of disease

According to The World Health Organisation, WHO (2022), the leading causes of death across the globe in 2022 were mainly from non-communicable diseases, accounting for 74 per cent of all deaths. Over the same period, deaths in developing countries were also due to non-communicable diseases. However, COVID-19 has registered more deaths when compared to communicable and non-communicable diseases. The WHO (2020) indicated that the COVID-19 pandemic reported 98 per cent deaths in European and 10 per cent recorded in the African continent in 2020. The WHO (2021) estimated that the death toll associated with the COVID-19 pandemic between January 2020 and December 2021 was approximately 14.9 million. The report further states that over the same period, deaths were also indirectly linked to COVID-19. These deaths were attributed mainly to other health conditions for which people could not access prevention and treatment, particularly as the pandemic overburdened health systems with health workers being reassigned towards COVID-19 services.

In SA, the elderly and people with comorbidities were more susceptible to COVID-19. However, the COVID-19 vaccination program in the inception period prioritised the elderly people, people living with comorbidities and healthcare workers which saved many lives and resulted in a reduced mortality rate (Statistics South Africa, 2022). Figure 3.4 shows the ten leading natural causes of death in KZN in 2018. According to Stats SA (2021), other forms of heart disease was the leading underlying natural cause of death in KZN in 2018 at 8.2 per cent, followed by Diabetes mellitus (7.1 per cent), TB (6.8 per cent), cerebrovascular diseases (5.7 per cent), and HIV at 5.4 per cent.

Figure 3.4: Ten leading underlying natural causes of death in KZN (%), 2018



Source: Stats SA, 2022

Tuberculosis

SA is one of the 30 high-burden tuberculosis (TB) countries that collectively contribute to 87 per cent of the estimated incident cases worldwide, accounting for 3 per cent of cases globally (NICD, 2021). The high rates of TB have been fuelled since the early 1990s by the HIV epidemic that negatively impacted TB control in the country. However, this trend has been reversed since the aggressive scale-up of antiretroviral treatment. This pattern is evident via the substantial drop in diseases from 12.7 per cent in 2006 to 6 per cent in 2018.

Diabetes mellitus

The Table further showed a significant rise in Diabetes mellitus from 3.2 per cent (19 549 persons) in 2006 to 5.9 per cent (26 879 people) in 2018. This rise is attributed to several factors, including the ageing population, economic transition, and urbanisation associated with nutrition transition and obesity (Pheiffer. C et al., 2018).

Influenza and pneumonia

Similar to TB, there has been a substantial drop in the prevalence of influenza and pneumonia from 8.7 per cent in 2006 to 3.9 per cent in 2018. One of the main reasons for the decline is the observation that more HIV-positive individuals are taking antiretroviral treatment, thus reducing the propensity to catch other diseases.

HIV/AIDS

The HIV/AIDS pandemic is a two-decade-long public health challenge that has greatly affected the demographic dynamics in the country and across the globe. Statista (2022) showed that HIV/AIDS was the fifth-ranked disease, causing 21 439 casualties in 2017. The estimated overall HIV prevalence rate is approximately 13.9 per cent among the South African population (Mid-year population estimates Stats SA, 2022). In KZN, among adults aged 15-49 years, an estimated 19.5 per cent of the population is HIV positive, with about 1 300 adolescent girls and young women (aged 10-19) getting infected with HIV in the country every week.

However, Conan et al., 2022, reveal that between 2013 and 2018, HIV status awareness progressed from 75.2 per cent to 89.9 per cent. Furthermore, over the same period, antiretroviral therapy coverage increased from 70.4 per cent to 93.8 per cent, respectively (Conan et al., 2022). The authors further state that Viral suppression improved significantly from 2013 to 2018 in all age and gender groups of people living with HIV. This assertion, therefore, means that people infected with HIV may live longer and continue contributing to the economy.

3.6.3 Mental Health

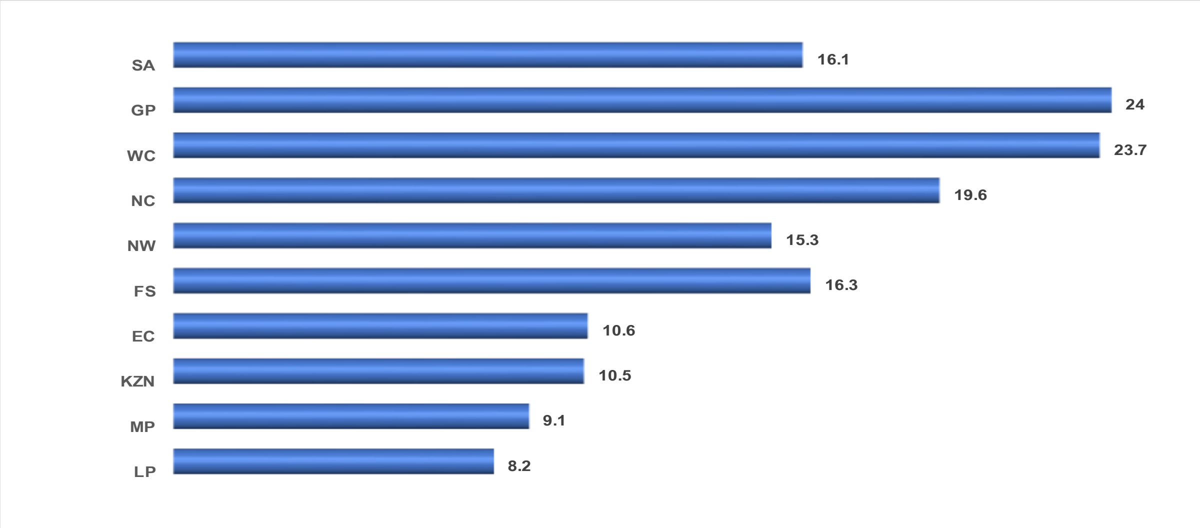
COVID-19 containment measures, coupled with the economic recession, had a detrimental effect on mental health for many South Africans. It has led to mental health presentations such as post-traumatic stress disorder, mood disorders, anxiety disorders, phobias, and obsessive-compulsive disorders (Nguse & Wassenaar, 2021). The Human Research Counsel Alexander et al. (2020) reported that 33 per cent of South Africans were depressed, 45 per cent were fearful, and 29 per cent experienced loneliness during the first lockdown period. Though mental care services were permitted during the lockdown periods, some mental health care users could not access services due to limitations and risks presented by physical contact and in-person consultation (Nguse & Wassenaar, 2021). Khanyile (2021) argued that the KZN Health Department has dealt with 10 000 new mental disorders since the beginning of the COVID-19 pandemic. Therefore, mental health must be prioritised as it is essential for developing a productive society equipped to foster economic growth.

3.6.4 Healthcare financing

In SA, a high percentage of healthcare services are provided through the public sector, while the private sector tends to cater for middle and high-income people (USAID, 2014). This system leads to SA having a two-tiered healthcare system divided along socio-economic lines, which results in inequitable healthcare access. Consequently, and primarily in respect of persons unable to afford private health care, conditions worsen, and premature deaths continue to occur.

Figure 3.5 depicts that on a national scale, only 16.1 per cent of citizens belonged to a medical aid scheme in 2021. A lack of affordability primarily drives this phenomenon, as the provinces with the highest prevalence of poverty (refer to Chapter 3, section 3.2) had the lowest proportion of citizens with medical aid coverage. Specifically, LP (8.2 per cent), Mpumalanga (9.1 per cent), KZN (10.5 per cent), and the Free State (16.3 per cent). In comparison, the WC and GP had the highest percentages of persons on medical aid schemes, at 23.7 per cent and 24 per cent, respectively.

Figure 3.5: Percentage of individuals who are members of medical aid schemes per Province, 2021



Source: Stats SA, 2022

3.6.5 National Health Insurance

The National Health Insurance (NHI) was established to revolutionise the country's healthcare landscape and create opportunities for public-private collaboration and innovation. The NHI aims to ensure that everyone has access to appropriate, efficient and quality healthcare services as mandated by Section 27 of the Constitution of South Africa's Bill of Rights (Parliament, 2022). The funding for NHI will be from general taxes, contributions of persons earning a certain amount and monthly contributions made by the employees to the fund (Parliament., 2022). The publication further states that NHI will not replace Medical Aid Schemes; members will be free to continue their medical schemes if they wish to. However, when the NHI is fully implemented, the role of medical schemes will change as they will provide cover for services not reimbursable by the NHI Fund. The NHI will be implemented in phases, and the legislative process is expected to be completed by the end of 2022 (PWC, 2022).

In support of the implementation of the NHI at the provincial level, the National Government has allocated conditional grants to provide financial support. This allocation is for the development of projects directed at improving health delivery in line with the requirement of the introduction of the NHI. In 2022/23, the total NHI grant received by KZN from National Treasury was at R84 726 million, up from R50 415 million recorded in 2021/22, representing a 68 per cent increase. This intervention, therefore, aspires to achieve national access to health care of an equal standard for all, regardless of socio-economic status.

3.7 Crime

Over the past few years, SA has seen rising levels of crime. The issue of crime is experienced by almost all citizens, irrespective of their economic status or where they live. There is no single explanation for why crime levels are increasing consistently. For example, the connection between the country's violent past and contemporary criminal behaviour, the impact of the proliferation of firearms, the growth in organised crime, changes in the demographic composition of the country, and the consequences of a poorly performing criminal justice system (Schönteich & Louw, 2001). Crime is also a potential and significant threat to the populace's quality of life and can also bear economic ramifications in the form of a loss of skilled workers in the labour market, loss of potential investment revenue, and a resultant decline in educational and employment opportunities.

The SDGs, notably Target 16.4, unequivocally placed organised crime on the development agenda. However, this target is not the only one to explicitly mention organised crime. For example, target 5.2 proposes to '*eliminate all forms of violence against all women and girls in public and private spheres, including trafficking and sexual and other types of exploitation*. Meanwhile, Target 8.7 pledges to '*take immediate and effective measures to eradicate forced labour, [and] end modern slavery and human trafficking*. Finally, Target 16.2 desires to end trafficking in children specifically. In addition, Environmental crime is also addressed. For example, target 14.4 aims to end illegal, unreported and unregulated fishing, and Target 15.7 vows to '*take urgent action to end poaching and trafficking of protected species*.

The Global Initiative against Transnational Organised Crime study of 2015 recognised that organised crime could directly and significantly impact the ability to achieve 23 of the 169 SDG targets. However, although the SDGs may recognise organised crime as a cross-cutting threat to development, more is needed to fully capture the harm that organised crime poses to SDG achievement. The SDG agenda acknowledges the *'indivisibility'* of the framework. It pertinently observes that the goals and targets are integrated and indivisible. These goals are further divided into three dimensions of sustainable development: *economic, social and environmental*. These dimensions mean that the SDGs' achievement requires progress across the broad spectrum of the agenda and that failure to achieve targets in one goal area may preclude others' achievement.

The SDGs have immense transformative potential, but both directly and indirectly, organised crime has proven to be a cross-cutting threat to achieving core and essential development objectives. Organised crime directly threatens specific goals, such as reducing poverty, promoting economic growth, and maintaining global biodiversity and sustainable environments. It further affects building safe and inclusive societies, promoting public health and people's well-being, and even orderly migration management. Moreover, whereas the SDGs are indivisible, organised crime is divisive and destructive.

Table 3.3: Crime levels and growth rates in KZN, 2019 to 2022

Crime Category	April 2019 to March 2020	April 2020 to March 2021	April 2021 to March 2022	Comparison 2020/21 with 2021/22	
				Case Difference	% change
CONTACT CRIMES (CRIMES AGAINST THE PERSON)					
Murder	3 466	5 760	6 424	664	11.5
Sexual Offences	7 296	12 702	11 855	(847)	(6.7)
Attempted murder	3 487	5 145	5 576	431	8.4
Assault with the intent to inflict grievous bodily harm	22 064	37 530	34 635	(2 895)	(7.7)
Common assault	25 995	39 406	38 627	(779)	(2.0)
Common robbery	6 469	10 701	10 565	(136)	(1.3)
Robbery with aggravating circumstances	21 599	33 876	35 233	1 357	4.0
Total Contact Crimes (Crimes Against the Person)	**90 376**	**145 120**	**142 915**	**(2 205)**	**- 1.52**
TOTAL SEXUAL OFFENCES					
Rape	5 805	10 006	9 516	(490)	(4.9)
Sexual Assault	1 070	1 900	1 707	(193)	(10.2)
Attempted Sexual Offences	271	514	416	(98)	(19.1)
Contact Sexual Offences	150	282	216	(66)	(23.4)
Total Sexual Offences	**7 296**	**12 702**	**11 855**	**(847)**	**- 6.67**
SOME SUBCATEGORIES OF AGGRAVATED ROBBERY					
Carjacking	2 677	5 146	5 866	720	14.0
Robbery at residential premises	4 006	5 346	5 370	24	0.4
Robbery at non-residential premises	3 341	5 255	5 281	26	0.5
Robbery of cash in transit	19	46	60	14	30.4
Bank robbery	-	1	-	(1)	(1.0)
Truck hijacking	198	411	508	97	23.6
Total Aggravated Robbery	**10 241**	**16 205**	**17 085**	**880**	**5.4**
CONTACT-RELATED CRIMES					
Arson	633	978	886	(92)	(9.4)
Malicious damage to property	18 558	26 326	26 375	49	0.2
Total Contact-Related Crimes	**19 191**	**27 304**	**27 261**	**(43)**	**(0.2)**
PROPERTY RELATED CRIMES					
Burglary at non-residential premises	18 840	14 627	14 677	50	0.3
Burglary at residential premises	37 128	39 477	39 638	161	0.4
Theft of motor vehicle and motorcycle	5 564	9 433	9 335	(98)	(1.0)
Theft out of or from motor vehicle	17 533	21 310	21 213	(97)	(0.5)
Stock-theft	7 345	6 757	6 456	(301)	(4.5)
Total Property-Related Crimes	**86 410**	**91 604**	**91 319**	**(285)**	**- 0.3**
OTHER SERIOUS CRIMES					
All theft not mentioned elsewhere	45 455	60 056	65 636	5 580	9.3
Commercial crime	15 431	24 030	25 250	1 220	5.1
Shoplifting	9 632	11 281	11 132	-149	(1.3)
Total Other Serious Crimes	**70 518**	**95 367**	**102 018**	6 651	7.0
Total 17 Community Reported Serious Crimes	**266 495**	**359 395**	**363 513**	4 118	**1.1**
CRIME DETECTED AS A RESULT OF POLICE ACTION					
Illegal possession of firearms and ammunition	2 747	3 147	3 597	450	14.3
Drug-related crime	18 767	31 648	35 786	4 138	13.1
Driving under the influence of alcohol or drugs	3 168	10 964	12 942	1 978	18.0
Sexual Offences detected as a result of police action	411	1 428	1 897	469	32.8
Total Crime Detected As A Result Of Police Action	**25 093**	**47 187**	**54 222**	**7 035**	**14.9**

Source: South African Police Service, 2022

As outlined in the NDP, the high level of crime in SA has slowed economic and social development. This policy document acknowledges a link between high crime levels and poverty, although not many people turn to crime. There is a vision in place for citizens to feel safe anywhere in the country by 2030. This vision can be achieved by adjusting the quality of police services, engaging community members to fight against crime, and improving the justice system, amongst other measures.

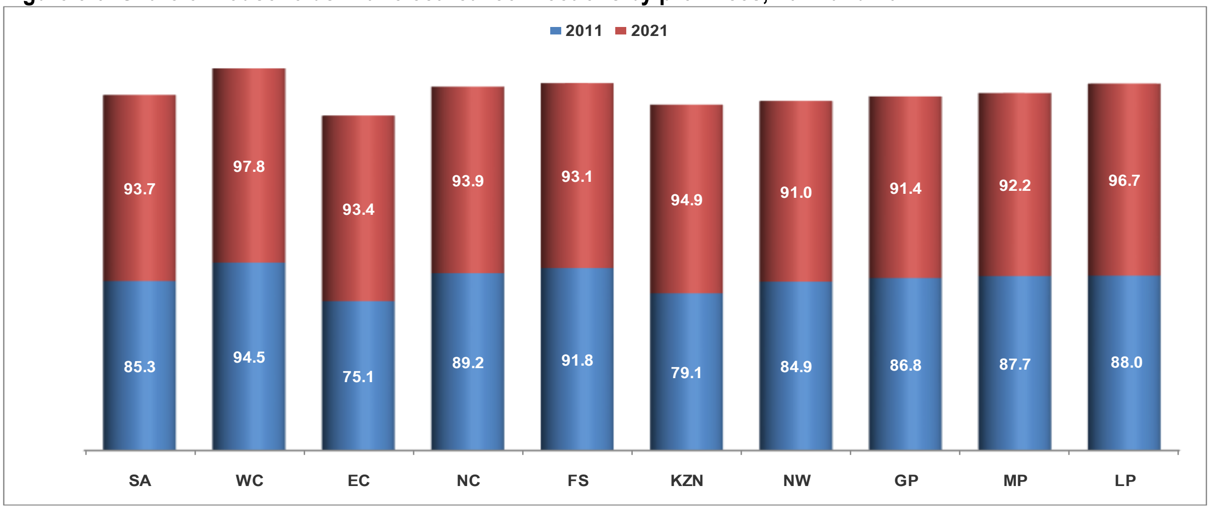
Table 3.3 shows that during the 2021/22 financial year, contact crimes such as common assault and robbery with aggravating circumstances were the most prevalent crime categories at 38 627 and 35 233 respectively. The second highest prevalent crimes came from *other serious* categories at 102 018. Although there were crime categories with increased prevalence rates, there was also a decrease in the number of crime categories. For example, there was a significant decline in sexual offence cases, in particular contact sexual offences, which declined by 23.4 per cent, followed by attempted sexual offences by 19.1 per cent. This encouraging drop implies that the mobilisation of Gender Based Violence (GBV) campaigns may indirectly bring awareness and fight such crimes.

3.8 Access to basic services

3.8.1 Access to electricity

The share of households with electricity in SA increased from 85.3 per cent in 2011 to 93.7 per cent in 2021. KZN's share of electrical connections increased markedly from 79.1 per cent in 2011 to 94.9 per cent in 2021. In 2021, all provinces had electrical connections above 90 per cent (Figure 3.6). Contrary to the increased access to electricity, load shedding has negatively affected both households and the economy. It also affects the most vulnerable members of the society, including school children, those in the farming sector, the tourism industry, public hospitals, small business enterprises, and other essential sectors. The constant breakdowns of the power stations and the need to preserve emergency generation leading to increased stages of load shedding have also had a major constraint on heavy industrial users and the country's growth.

Figure 3.6: Share of households with electrical connections by provinces, 2011 and 2021



Source: IHS Markit, 2022

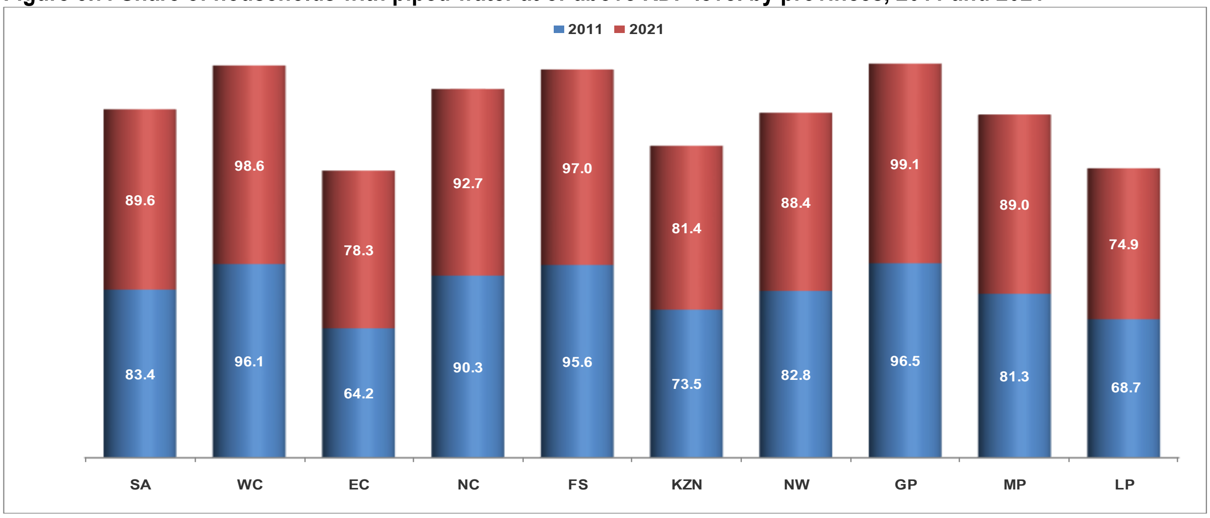
Therefore, the South African government through the SONA 2023, declared the energy crisis as the national state of disaster. This was done with an aim of providing practical measures to support businesses especially in the food production, storage and retail supply chain through providing them with generators, solar panels and uninterrupted power supply. The government also stated that where technically possible critical infrastructure such as hospitals and water treatment plants may be exempted from power outages. Moreover, the regulatory requirements that hinder the acceleration of energy project will be limited, while maintaining rigorous environmental protections, procurement principles and technical standard.

3.8.2 Access to water and sanitation

The COVID-19 pandemic has made it clear that investments in providing clean water, sanitation, and hygiene services must be key priorities in the future. However, progress in providing basic water is threatened by climate change and rising poverty levels. Some government measures to maintain a hygienic environment are pillars of infection control. Clean water, sanitisers and soap, and wearing face masks are essential to curb the transmission of COVID-19. Nevertheless, the sector may need additional support, given the importance of water and sanitation services.

The Global Burden of Disease study undertaken by the Institute for Health Metrics and Evaluation (IHME) (2018) indicates that 15 per cent of all deaths in children below five years of age in low- and middle-income countries are directly attributable to diarrhoeal disease. Nearly 90 per cent of the diarrhoeal disease burden is caused by unsafe sanitation, water, and hygiene. The EC had one of the lowest proportions of households with access to piped water in the country, at 64.2 per cent in 2011 and 78.3 per cent in 2021, whilst KZN has the third-lowest access to piped water at 73.5 per cent in 2011 and 81. 4 per cent in 2021, after Limpopo at 68.7 per cent in 2011 and 74.9 per cent recorded in 2021.

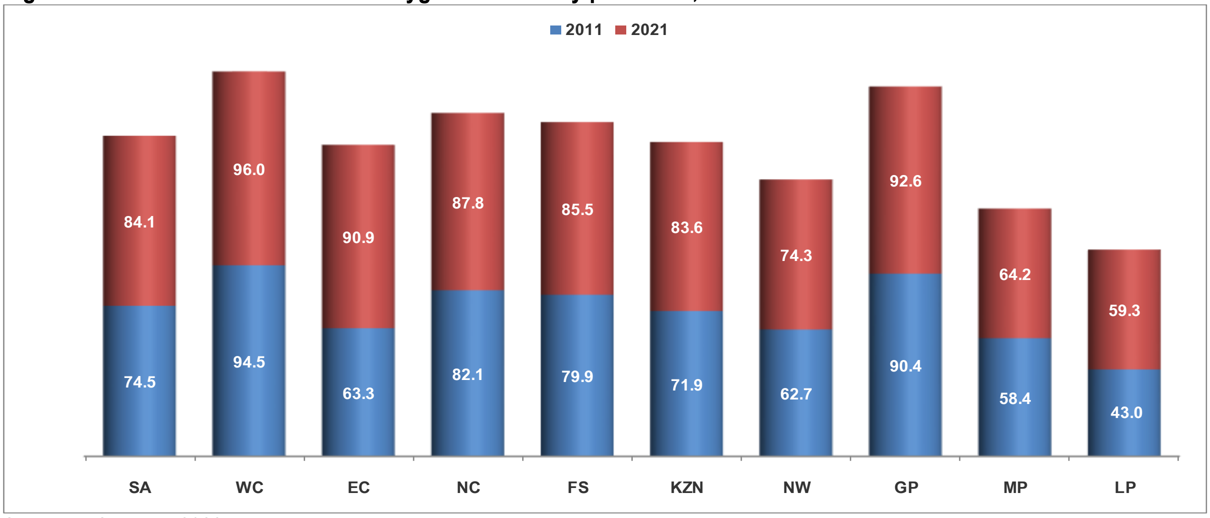
Figure 3.7: Share of households with piped water at or above RDP level by provinces, 2011 and 2021



Source: IHS Markit, 2022

Regarding the share of households with hygienic toilets, KZN showed a significant improvement from 71.9 per cent in 2011 to 83.6 per cent in 2021. However, this is still slightly below the national average of 84 per cent in 2021 (Figure 3.8).

Figure 3.8: Share of households with hygienic toilets by provinces, 2011 and 2021



Source: IHS Markit, 2022

3.9 Conclusion and recommendations

The ongoing uncertainties from the persistent COVID -19 pandemic have driven reversals in human development in almost every country. Moreover, the War between Ukraine and Russia has also added to the human suffering amid a shifting geopolitical order and the strained multilateral system. These unfortunate events have been detrimental to human development worldwide, mainly in low-income or underdeveloped countries.

Furthermore, climate and ecological disasters are also posing a threat to human development in many countries. SA is no exception, especially following the KwaZulu-Natal (KZN) April 2021 floods, which damaged many people's homes and social and economic infrastructure, distorting the region's development. Therefore, to achieve the goal of moving SA, in particular, KZN's HDI closer to 1 as per the PGDP goals, investing in economic infrastructure such as Spatial Economic Zones (SEZ) is critical. In addition, revising policies and removing red tape that hinders the progress of the functioning of SEZ are crucial as they will result in profitable economic returns for the province and the country while improving human development.

Poverty is still a considerable concern to many South Africans as many households have fallen back or remained in poverty through inadequate access to clean water, proper healthcare facilities and household infrastructure. In this regard, KZN recorded a relatively higher percentage of people living below the food poverty line at 40.9 per cent after EC at 41.1 per cent. However, the province experienced a decline of 6.8 per cent in the households categorised as being lower-income earners in 2021. Furthermore, though there was a moderate improvement in the HDI of 0.60 in the same year, it is still below the national average of 0.62. Therefore, the government should continue to invest in social and economic infrastructure projects, especially in rural areas where health and school facilities require significant upgrading and focus on the continuation of financing of the social services sector.

In KZN, 54.6 per cent of households relied on social grants (GHS, 2022), In the 2023 SONA, government committed to increasing the social relief grant to cushion the poor against the rising inflationary pressures. However, this percentage is concerning as it shows that more people are depending on government for meeting basic needs and the dependency problem exists, therefore government should continue formulating strategies that will create employment opportunities that will minimise the dependency problem while assisting in revenue generation through tax collection. This will assist government to refrain from relying on borrowings to service basic needs of people such as provision of grants to those who need them.

Furthermore, more than 81 per cent of households rely on public health care in KZN. However, the healthcare sector is under immense pressure due to scarce resources. The province has a shortage of key health professionals in the rapidly increasing population. The KZN 2022/23 Annual performance plan (APP) for the Department of Health shows that the number of professional nurses per the population of 100 000 is 152.5. This proportion represents 17 816 professional nurses and medical practitioners per 100 000 people, and the total population in KZN is serviced by an average of 3 234 medical officers or doctors.

Therefore, in order to work towards the Provincial Growth and Development Plan (PDGP) Goal 3 *of supporting the constant improvement in the health and holistic growth and development of individuals and communities in KZN*, the country should prioritise strategies, incentives and policies that will be more appealing to qualified doctors and nurses for them to have the appetite to provide their services in the country. Furthermore, the pandemic bore a strain on the already constrained health care and led to new health issues, such as increased mental health problems in society. Therefore, the government must also prioritise mental health as it is essential for developing a productive culture that fosters economic growth. Hence, the full implementation of NHI will assist in financing the health system, ensuring that people access quality, affordable and equitable health care, regardless of socio-economic status, as outlined in the National Development Plan (NDP).

The province has experienced tremendous improvements in service delivery as the share of electricity increased to 94.9 per cent in 2021 compared to 79.1 per cent in 2011. On the other hand, access in the share of households with piped water at or above the RDP level increased to 81.4 per cent in 2021 compared to 73.5 per cent in 2011. This shows that the province is in line with the NDP plan of providing basic services that enable people to develop capabilities to take advantage of opportunities in the country. However, the level of crime has increased as property crime increased by 3 per cent. In KZN, the major contributor to increased crime was the July 2021 rioting, while Gender Based Violence (GBV) offences declined by 23.4 per cent. The decline in GBV offences signifies that the mobilisation of GBV campaigns effectively brings awareness and fights such crimes. This indicates that the country is slowly moving towards building safer communities, as outlined in the NDP. Moreover, the government has committed to committed to recruit and train 10 000 police academy graduates, temporarily ban of copper export and facilitated the placement of Multi-Disciplinary Economic Infrastructure Task Teams that are operational in 20 identified crime hotspots. All the above mentioned measures are government's effort of ensuring a safe nation.

In dealing with the energy crisis that the country is faced with, the South African government through the SONA 2023, declared the energy crisis as the national state of disaster. This was done with an aim of providing practical measures to support businesses especially in the food production, storage and retail supply chain through providing them with generators, solar panels and uninterrupted power supply. The government also stated that where technically possible critical infrastructure such as hospitals and water treatment plants may be exempted from power outages. Moreover, the regulatory requirements that hinder the acceleration of energy project will be limited, while maintaining rigorous environmental protections, procurement principles and technical standard.

Chapter Four: Economic Review and Outlook

4.1 Introduction

The global economic prospects deteriorated significantly in 2022 amid a series of destabilising shocks. While the world economy was still on the recovery path, following more than two years of pandemic, a geopolitical tension erupted between Russia and Ukraine early in 2022. The invasion of Ukraine by Russia has had spillovers to the global economy through commodity markets, supply chains, inflation and financial conditions. The war led to a surge in prices across a broader set of energy related commodities. For instance, the international Brent crude oil prices spiked to around US$130 per barrel in early March 2022. In energy-importing economies, higher prices reduce real disposable incomes, raise production costs, and tighten financial conditions. The invasion of Ukraine also led to a significant increase in agricultural commodity prices, which exacerbates food insecurity and extreme poverty in many emerging market and developing economies (EMDEs). Inflation surged to historical highs, thereby prompting rapid monetary policy tightening. Consequently, the global economy decelerated sharply from 6.1 per cent in 2021 to an estimated 3.4 per cent in 2022 and is expected to drop further to 2.9 per cent in 2023.

Moreover, international trade has strengthened substantially over the past decades as most countries increasingly joined the World Trade Organization (WTO). The world trade gained momentum in the second half of 2022 and expected to remain subdued in 2023 as multiple disturbances weigh on the global economy. On the other hand, the WTO depicted that global merchandise trade volume is estimated to have grown by 3.5 per cent in 2022, which is slightly higher than the 3 per cent forecast in April. Furthermore, the import demanded is likely to soften as growth slows in major economies. In Europe, high energy stemming from Russia and Ukraine war will diminish household spending and increase manufacturing costs. In the United States (US), putting tight measures on monetary policy will spike interest-sensitive spending areas such as motor vehicles, housing and fixed investment. While China continues to face COVID-19 outbreaks and production disruptions paired with weak external demand. Lastly, growing import bills for food, fertilizers and fuels could lead to food insecurity and debt distress in developing countries.

In SA, the unfavourable global conditions have been accompanied by the numerous domestic structural constraints such as the disastrous flooding in KwaZulu-Natal (KZN) and the Eastern Cape (EC) in April and May 2022; extensive electricity load-shedding; persistently rising inflation and monetary policy tightening among others. The country also experienced foot and mouth diseases which disrupted transportation of animals and thus the agricultural sector. In particular, the intensified implementation of load-shedding shot up and reached an all-time high of 1 949 hours, an average of 14.8 calendar days per month in the third quarter of 2022. Given a robust GDP outturn in the third quarter, however, the national economy slowed to 2.5 per cent in 2022, marginally higher than projected earlier. The enduring effects of extensive load-shedding is anticipated to weigh on growth substantially in 2023, with real output projected to drop to 0.3 per cent.

The KZN's economy has not been spurred from the aforementioned structural constraints that have adversely affected both global and national economies. The unprecedented flooding caused extensive damage to social and economic infrastructure. In terms of economic infrastructure, the floods destructed severely major roads in the eThekwini Metro, water infrastructure, and the port of Durban. Thus, the provincial economy contracted by 1.1 per cent in the second quarter. As the energy challenges persist, the KZN's economy is expected to moderate to 2.2 per cent in 2022. This chapter provides an economic review and outlook of the Province of KZN. The chapter begins with an economic review and outlook from global, national and provincial levels. This is followed by a brief discussion of the sectorial analysis, including capital formation and tourism. The chapter proceeds by providing a summary of international trade at both national and provincial levels. Finally, it concludes by providing policy recommendations to stimulate economic performance in the country, emphasising KZN.

4.2 Global economic review and outlook

4.2.1 Global economic performance and outlook

The global economic recovery path was abruptly disrupted by the geopolitical tension that ensued between Russia and Ukraine early in 2022. The conflict between these countries caused a humanitarian crisis in Eastern Europe. Russia's invasion of Ukraine weighed on global growth through its effects on commodity markets, supply chains, inflation, and financial conditions. Global prices soared significantly whilst energy markets experienced intense volatility. Agricultural commodity prices also increased, thereby worsening food insecurity and extreme poverty in many emerging markets and developing economies (EMDEs). Notably, global growth has been depressed by the deterioration in economic activity across the three major economies, the United States (US), the Euro Area (EA) and China. In addition, the current decline in activity across these economies intensified other challenges faced by EMDEs. Therefore, global economic growth decelerated to an estimated 3.4 per cent in 2022, following a robust increase of 6.2 per cent in 2021 (Table 4.1).

As outlined by the International Monetary Fund (IMF, 2023), the diminishing global growth reflects diverse constraints including persistently elevated inflation, monetary policy tightening, worsening financial conditions, prolonged Russia-Ukraine war, and weakening confidence. One of the major threats to the world economy is global inflation, which accelerated sharply owing to improving global demand, supply disruptions, and rising food and energy prices. Moreover, inflation proved to be more persistent and is expected to remain above pre-pandemic averages as well as central bank targets in many countries for a protracted period.

In response to high inflation, central banks including Advanced Economies tightened monetary policy stances at a faster pace, resulting in more stringent global financial conditions. As a result, global financial conditions have worsened amid diminishing risk appetite due to deteriorating global growth and faster-than-expected monetary policy tightening. Given the constraints highlighted above, the global economy is projected to moderate further to 2.9 per cent in 2023. Further adverse shocks such as those mentioned above could push the global economy into a recession. However, the world economy is expected to rise to 3.1 per cent in 2024 due to the expected gradual recovery from the effects of the Russia-Ukraine war and falling inflation.

Table 4.1: World economic estimates and projections (percentages), 2019 to 2024

	GDP Estimates (Per cent				GDP Forecast (Per cent)	
	2019	**2020**	**2021**	**2022 e**	**2023 f**	**2024 f**
World	**2.8**	**-3.1**	**6.2**	**3.4**	**2.9**	**3.1**
Advanced economies	**1.6**	**-4.5**	**5.4**	**2.7**	**1.2**	**1.4**
United States	2.2	-3.4	5.9	2.0	1.4	1.0
Euro area	1.3	-6.4	5.3	3.5	0.7	1.6
Japan	0.0	-4.5	2.1	1.4	1.8	0.9
United Kingdom	1.4	-9.4	7.6	4.1	–0.6	0.9
Emerging market and developing economies	**3.7**	**-2.0**	**6.7**	**3.9**	**4.0**	**4.2**
Russia	2.0	-2.7	4.7	–2.2	0.3	2.1
China	6.0	2.3	8.4	3.0	5.2	4.5
India	4.0	-7.3	8.7	6.8	6.1	6.8
Brazil	1.4	-3.9	5.0	3.1	1.2	1.5
Sub-Saharan Africa	**3.2**	**-1.7**	**4.7**	**3.8**	**3.8**	**4.1**
Nigeria	2.2	-1.8	3.6	3.0	3.2	2.9
South Africa	0.2	-6.4	4.9	2.6	1.2	1.3

Source: International Monetary Fund, 2023

Note: e represents estimates, and f is the forecast

Risks to the global economic outlook

The global outlook is susceptible to various downside risks that could lower growth further and perpetuate inflationary risks. The Chinese economy is among the three major economic superpowers currently experiencing a deceleration in activity. The Chinese economic recovery could be undermined by two factors. Firstly, the recent shift toward re-opening economic activities has been faster than expected, and there is significant uncertainty about the trajectory of the pandemic. The re-opening of economic activity could result in considerable health consequences given that there are still-low population immunity levels and insufficient hospital capacity, especially outside the major urban areas in China. Secondly, the real estate crisis could escalate further, thereby causing widespread defaults by developers and resulting in financial sector instability. If these risks materialise, they could spill over into the global economy primarily through lower demand and potentially renewed supply chain bottlenecks.

As indicated in the preceding section, the predicted moderate improved global outlook for 2024 is based on the assumption that the Russia-Ukraine war would subside and open a space for a gradual recovery. However, the global outlook could deteriorate further should the war escalates. An intensification of the war in Ukraine could have significant economic repercussions through commodity and financial markets, the global supply chain, and trade. In addition, the acceleration of the Russia-Ukraine war could impose significant risk for Europe and lower-income countries. Europe is facing lower-than-anticipated gas prices, storing enough gas to make shortages unlikely this winter. However, refilling storage with much-diminished Russian flows will be challenging whilst China's energy demand picks up, causing price spikes.

The risk of persistent inflation remains high, especially if the Russia-Ukraine war result in higher-than-expected oil, gas, and food prices or if the Chinese economy rebounds faster. This could cause inflation to remain persistently above target, thereby pushing central banks to raise interest rates more quickly and to higher levels than currently expected and keep them elevated for longer to re-anchor expectations and return inflation to target.

The war in Ukraine and the related international sanctions aimed at pressuring Russia to end hostilities are splitting the world economy into blocs and reinforcing earlier geopolitical tensions, such as those associated with the US-China trade dispute. This geopolitical fragmentation could intensify, with more restrictions on cross-border movements of capital, workers, and international payments, thereby hampering multilateral cooperation on providing global public goods. Moreover, the costs of such fragmentation are exceptionally high in the short term, as replacing disrupted cross-border flows takes time.

4.2.2 Economic performance and outlook in advanced economies

Economic activity in *Advanced Economies* (AE) decelerated from a robust growth of 5.4 per cent in 2021 to an estimated 2.7 per cent in 2022. The deterioration in economic prospects across the AE group reflects various shocks that had weighed on economic activity, especially in the second half of the year. The most apparent adverse effects were mainly driven by Russia's invasion of Ukraine which disrupted gas supply to the Euro Area (EA) thereby pushing up energy prices and inflation, blocking industrial production and causing uncertainty. Consequently, household purchasing power had been greatly eroded by persistently rising inflation which ultimately tarnished consumer confidence. In addition, the monetary policy tightening in response to high inflation dented consumer demand. Real output in AE is expected to drop further to 1.2 per cent in 2023 due to the ongoing monetary policy tightening circle in an attempt to anchor inflationary pressures and the prolonged energy market disruptions in the EA. However, economic growth in AE is projected to strengthen marginally to 1.4 per cent in 2024, reflecting easing policy constraints and energy markets stabilise.

The *United States* (US) is among the largest economies that experienced considerable moderation in economic activity and thus a downward revision in economic outlook. In response to the historically high inflation rate emanating from soaring food and energy prices, the US implemented the most rapid monetary policy tightening in many years. As a result, consumer demand and spending especially on residential investment was constrained by diminishing real disposable income coupled with higher interest rates. Thus, real output growth in the US moderated sharply from 5.4 per cent in 2021 to an estimated 2.7 per cent in 2022, reflecting the effects of a substantial fiscal consolidation and monetary policy headwinds. Moreover, economic growth is projected to drop further to 1.4 per cent and 1 per cent in 2023 and 2024, respectively. The projected slowdown reflects the anticipated effects of a prolonged monetary policy tightening on activity as the enormous interest rate hikes in 2022 are gradually transmitted into the economy.

Similarly, economic activity in the *EA* deteriorated somewhat from 5.3 per cent in 2021 to 3.5 per cent in 2022 as rising energy prices and supply bottlenecks compounded by tighter financial conditions took a toll on growth prospects. Energy prices accelerated considerably amid gas supply bottlenecks caused by Russia's invasion of Ukraine, which ultimately resulted in record-high inflation rates. Nevertheless, economic outlook for the EA improved somewhat, with growth projected at 0.7 per cent in 2023 slightly higher predicted earlier. However, gross domestic product (GDP) in the EA block is expected to pick up to 1.6 per cent in 2024. The upward revision for 2023 reflects the effects of faster rate hikes by the European Central Bank (ECB) and eroding real incomes, lower wholesale energy prices, and additional announcements of fiscal purchasing power support in the form of energy price controls and cash transfers.

Following a moderate recovery of 2.1 per cent in 2021, real output in *Japan* decelerated to 1.4 per cent in 2022 due to constrained household purchasing power and subsequent diminishing consumption owing to elevated energy prices and supply disruptions. These headwinds were further exacerbated by deteriorating terms of trade and weakening global demand. However, economic activity in Japan is anticipated to expand marginally to 1.8 per cent in 2023, supported by continued monetary and fiscal policy instruments. In addition, high corporate profits from a depreciated yen and earlier delays in implementing previous projects will support business investment. However, in 2024, growth is projected to decline to 0.9 per cent as the effects of past stimulus dissipate.

Economic growth in the United Kingdom (UK) dropped to an estimated 4.1 per cent in 2022, down from 7.4 per cent in 2021. The slowdown in activity in 2022 is attributable to high inflation, which reduced purchasing power, whilst tighter monetary policy dampened consumer spending and business investment. As a result, real output is projected to contract slightly by 0.6 per cent in 2023 before reverting to 0.9 per cent in 2024. The forecast contraction in 2023 reflects tighter fiscal and monetary policies, financial conditions, and still-high energy retail prices weighing on household budgets.

4.2.3 Economic performance and outlook in Emerging Markets and Developing economies

Emerging markets and developing economies (EMDEs) experienced a substantial moderation in economic activity due to spillovers of Russia's invasion of Ukraine, tighter global financial conditions, surging inflation and weaker consumer spending, as well as weakening external demand. In addition, soaring prices eroded real incomes, particularly for vulnerable households, and weighed on consumption. Therefore, real output slowed significantly from 6.7 per cent in 2021 to 3.9 per cent in 2022 as many EMDEs experienced a sharp decline in activity in the second half of the year.

Economic growth in EMDEs is expected to rise modestly to 4 per cent in 2023 and 4.2 per cent in 2024. The modest forecast reflects weaker external demand and tighter financing conditions. Further, external demand is likely to be depressed by the anticipated weaker growth in the US and EA, especially for countries with tighter economic linkages to these major economies. Moreover, the overlapping adverse shocks of recent years are expected to keep output considerably below pre-pandemic trends in 2023. In addition, inflation is expected to remain above central bank targets in most EMDEs, including large economies. Therefore, high prices for food, energy, and other inputs are expected to remain a burden for households and businesses. Moreover, investment is anticipated to be restrained by higher borrowing costs, weak sentiment, expectations of slow growth, and elevated policy and geopolitical uncertainty.

The *Chinese* economy moderated significantly from 8.4 per cent in 2021 to 3 per cent in 2022, thereby falling below the global average for the first time in more than 40 years. The sharp deceleration in activity reflects the effects of COVID-19 outbreaks, lockdowns in multiple localities, and the worsening property market crisis. Despite a faster-than-anticipated shift toward re-opening economic activities, uncertainty remains high regarding the path of the pandemic and how households, businesses, and policymakers in China will respond. Regarding the property market crisis, property sales, housing starts, and new-home prices have continued to decline, and numerous major property developers have defaulted or are at risk of default amid a significant decline in housing prices and the pace of new construction. A slowdown in China would further depress to global economic activities, with adverse spillovers to global trade, commodity markets, and financial markets. The policy measures in the form of infrastructure-focused fiscal support, policy rate and reserve requirement ratio cuts, and regulatory easing measures, including cash subsidies and lower down payment requirements, had a minimal impact in offsetting the aforementioned challenges. Nevertheless, economic growth in China is expected to expand to 5.2 per cent in 2023, as the lifting of pandemic restrictions releases pent-up consumer spending. This growth rate is expected to moderate to 4.5 per cent in 2024.

Following a robust recovery from the pandemic-induced contraction of 4.7 per cent in 2021, real output in *Russia* declined sharply by an estimated 2.2 per cent in 2022. Economic activity has been depressed by diminishing consumer spending due to falling real wages, reduced investment caused by international sanctions resulting from the invasion of Ukraine, and voluntary withdrawals by foreign businesses. Economic growth in Russia is projected to bottom out at 0.3 per cent in 2023, reflecting the anticipated complete implementation of EU oil embargos and reduced natural gas exports by Russia's shutoff of deliveries to the EU via the Nord Stream 1 pipeline[20].

However, growth is expected to climb to 2.1 per cent in 2024 due to modest consumption growth and a marginal recovery in exports as Russia re-orientates its trading relationships. In addition, the invasion of Ukraine and its repercussions will likely reduce Russia's potential growth rate over the long term. In *India*, economic activity

[20] Nord Stream 1 pipeline is the undersea pipeline that stretches 1 200km under the Baltic Sea from the Russian coast near St Petersburg to north-eastern Germany.

moderated from 8.7 per cent reported in 2021 to an estimated 6.8 per cent in 2022. High consumer inflation prompted monetary policy tightening while goods trade deficit continued to expand significantly. Nevertheless, economic growth in India is projected to average 6.8 per cent in 2023. In addition, governments increased infrastructure spending, and various business facilitation measures might crowd in private investment and support manufacturing capacity expansion.

Economic growth in Brazil dropped somewhat to 3.1 per cent in 2022, following an expansion of 5 per cent in 2021. The Brazilian economy is expected to deteriorate further to 1.2 per cent in 2023, reflecting the anticipated impact of tighter financial conditions on investment, constrained business confidence and investment due to an uncertain fiscal policy outlook. In addition, exports are likely to grow more slowly than in recent years due to slowing demand growth for non-energy commodities. On the other hand, consumer spending is expected to be supported by increased fiscal transfers and tax cuts legislated in 2022 to offset soaring food and fuel prices in 2023. As a result, real output is projected to increase slightly to 1.5 per cent in 2024 as the decline in investment is expected to subside while consumption accelerates somewhat, and improving global demand supports export growth.

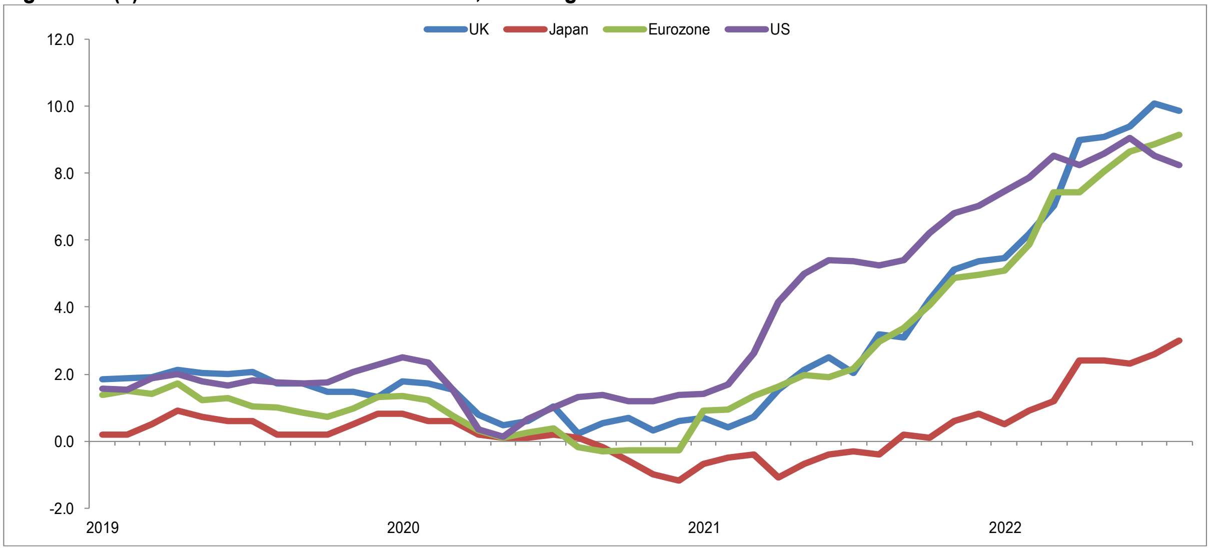
In *Sub-Saharan Africa* (SSA), economic activity decelerated to an estimated 3.8 per cent in 2022, from 4.7 per cent in 2021. The deterioration in real output reflects various circumstances and the uneven impact of terms-of-trade and cost-of-living developments across the region. Activity slowed across many countries in the region due to the weakening global economy combined with tightening financial conditions and rising inflation, tarnishing already fragile recoveries and intensified domestic vulnerabilities.

The region also experienced challenges with food affordability and diminishing domestic demand, especially in countries lacking policy space to protect the poor, due to the rising cost of living intensified by the effects of the Russia-Ukraine war. Thus, rising food prices have negatively affected food security, poverty alleviation, social cohesion, and growth in many countries. Therefore, economic growth in this region is expected to remain moderate at 3.8 per cent in 2023 before picking up to 4.1 per cent in 2024. Moreover, the region is anticipated to continue experiencing weakening domestic demand due to monetary policy tightening to address elevated inflation and public debt. In addition, external demand is expected to remain constrained, particularly among exporters of industrial commodities, amid the weakening growth in advanced economies and China.

4.2.4 Global inflation outlook

The headline consumer price inflation accelerated significantly throughout 2022 in most economies. It exceeded the targeted bands in almost all countries that have adopted inflation targeting. Rising inflation reflected a combination of demand and supply factors. On the demand side, the acceleration of growth during the initial rebound from the 2020 global recession, as well as the lagged effects of earlier macroeconomic support, contributed to persistent price pressures. On the supply side, shortages of key commodities, exacerbated by Russia's invasion of Ukraine, contributed substantially to higher energy and food prices.

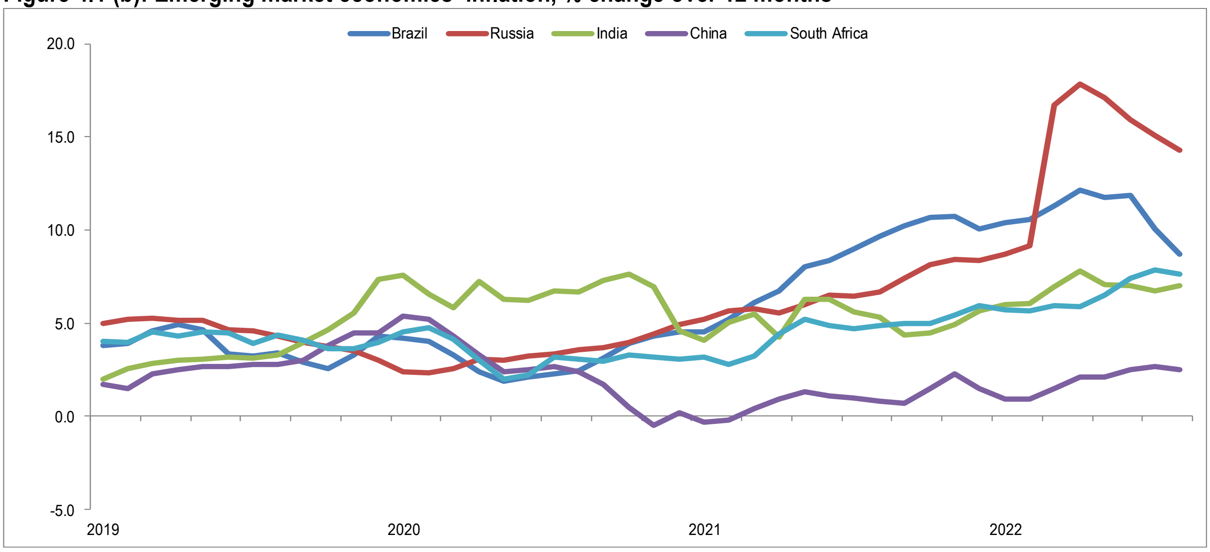
Figure 4.1 (a): Advanced economies' inflation, % change over 12 months



Source: South African Reserve Bank, 2022

The annual inflation rate in the US picked at 9.1 per cent in June 2022 and slowed for a sixth straight month to 6.5 per cent in December of 2022. The Euro Area also experienced rising inflation, which reached 10.4 per cent in December 2022. The UK inflation rate was 10.5 per cent in December 2022, after reaching a high of 11.1 per cent in October 2022 (Figure 4.1a). Inflation climbed substantially in Russia amid the persistent war in Ukraine and subsequent sanctions enforced by other countries (Figure 4.1b). However, the inflationary pressures started to subside toward the end of 2022, reflecting weakening demand and easing commodity prices. In SSA, inflation increased sharply across the region, with Angola and Nigeria reporting headline inflation of 21.6 per cent and 18.9 per cent respectively. The persistent rise in inflation was caused by soaring global prices of staple foods and energy, and depreciating currencies.

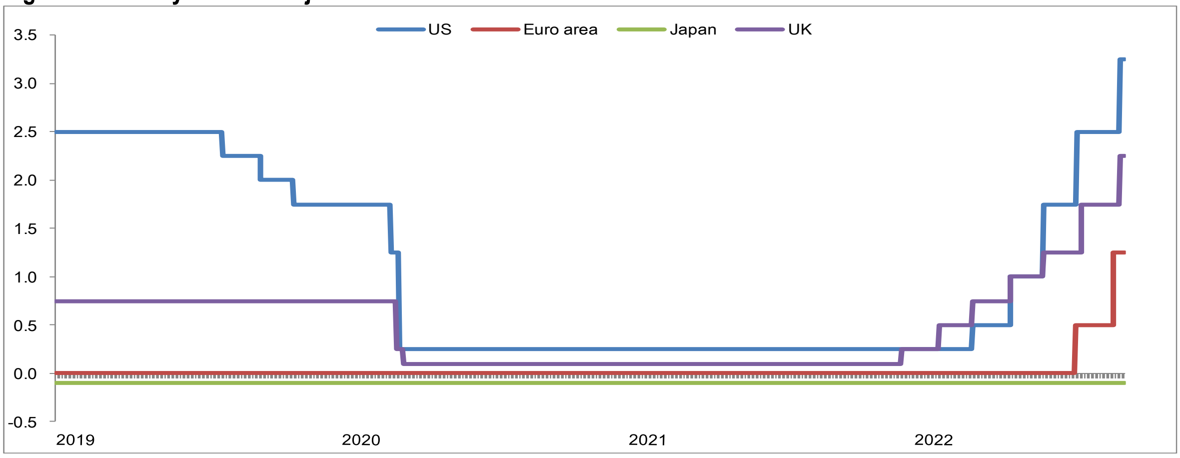
Figure 4.1 (b): Emerging market economies' inflation, % change over 12 months



Source: South African Reserve Bank, 2022

The IMF (2023) expects most economies to have lower headline inflation in 2023 compared to 2022. In this regard, global inflation is projected to slow marginally to 6.6 per cent in 2023 and drop further to 4.3 per cent in 2024, down from 8.8 per cent in 2022. Notably, global inflation is anticipated to remain above the pre-pandemic levels of about 3.5 per cent over the short term. The projected deceleration in inflation partly reflects declining international fuel and nonfuel commodity prices due to weaker global demand. It also reflects the cooling effects of monetary policy tightening on underlying (core) inflation, which is expected to decline from 6.9 per cent in the fourth quarter of 2022 to 4.5 per cent by the fourth quarter of 2023.

Figure 4.2: Policy rates in major advanced economies



Source: South African Reserve Bank, 2022

The headline inflation in Advanced Economies is projected to be at an average of 4.6 per cent in 2023 and 2.6 per cent in 2024, down from 7.3 per cent in 2022. In EMDEs, Inflation is expected to decline from 9.9 per cent in 2022 to 8.1 per cent and 5.5 per cent in 2023 and 2024, respectively. Soaring inflation triggered an aggressive response by central banks across Advanced and emerging economies, with policy rates hiked in large magnitudes. For instance, in the US, Inflation rose to historic highs, prompting the most rapid tightening of monetary policy in more than 40 years. As a result, the Federal Reserve (Fed) raised the Fed funds rate by a cumulative 300 basis points since March 2022, at times moving in 75 basis points steps, and has begun quantitative tightening. Meanwhile, the European Central Bank (ECB) has hiked rates by a cumulative 125 basis points since July 2022. The Bank of England (BoE) also followed suit and hiked policy rates aggressively.

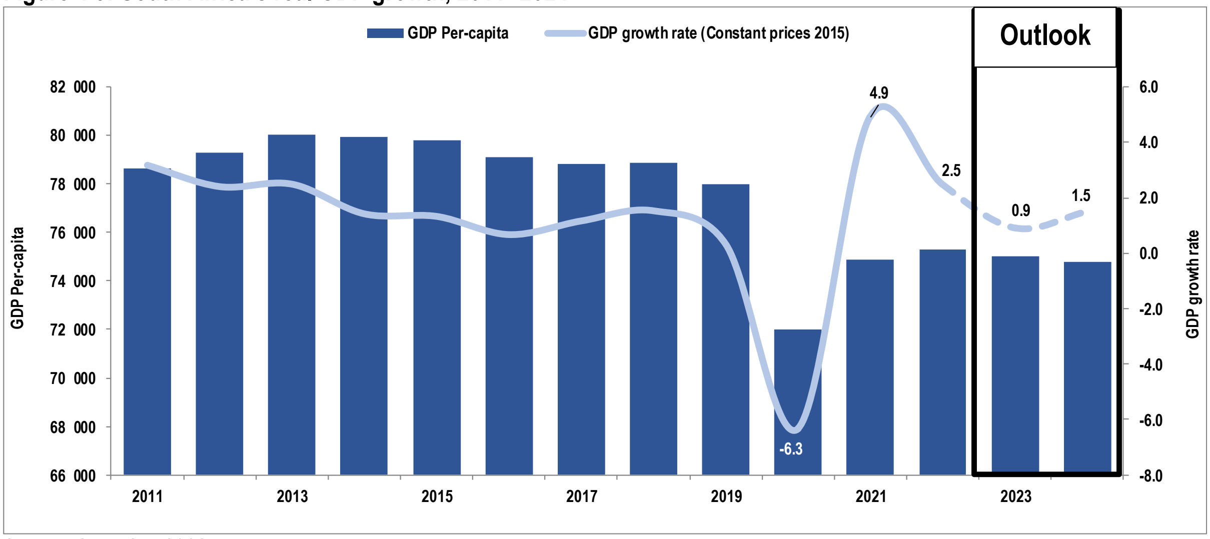
4.3 South African economic review and outlook

4.3.1 South African economic performance

Real gross domestic product (GDP) in SA expanded considerably by 4.9 per cent in 2021, following a substantial COVID-19 pandemic-induced recession of 6.4 per cent in 2020. Similarly, real GDP per capita recovered strongly to above R74 million in 2021 but remained below the pre-pandemic levels. The national economy maintained its sluggish and steady recovery trajectory in 2022 as the real GDP edged closer to its pre-pandemic levels. Despite a higher-than-expected growth of 1.7 per cent in the first quarter of 2022, real GDP contracted by 0.7 per cent in the second quarter (Stats SA, 2022).

The decrease in real GDP in the second quarter was attributed to the uncertain global economic conditions amid geopolitical developments related to the invasion of Ukraine by the Russian Federation, which had spill-over effects on other regions through commodity markets. These unfavourable global conditions coincided with the devastating negative impact of flooding in KZN, which destructed various activities, including the ports of Durban. In addition, the country's unreliable electricity supply also weighed on economic activity, especially in energy-intensive sectors. As a result, the contraction somewhat derailed economic gains as the real GDP level in the second quarter of 2022 was 0.3 per cent lower than the average level in 2019, before the beginning of the COVID-19 pandemic.

Figure 4.3: South Africa's real GDP growth, 2011- 2024



Source: Stats SA, 2022

Encouragingly, economic activity reverted strongly from the contraction and expanded by 1.6 per cent in the third quarter of 2022, as the real gross value added (GVA) by the primary, secondary and tertiary sectors increased (Figure A4.1). As a result, the average level of real output in the first three quarters of 2022 was 2.3 per cent higher than in the corresponding period of 2021. The expansion in the third quarter of 2022 was driven mainly by the *agricultural, forestry and fisheries industry*, followed by *transport, storage and communication services* and the *construction* industries.

The agriculture, forestry and fishing industry increased by 19.2 per cent in the third quarter, contributing 0.5 percentage points to the quarter-on-quarter (q-o-q) GDP growth. Increased economic activities were reported for field crops and horticulture products. *Transport, storage and communication services* reported a robust growth of 13.2 per cent, contributing 0.3 of a percentage point to the national output. The finance industry expanded by 1.9 per cent and contributed 0.5 percentage points to GDP growth.

The on-going load-shedding, which became more extensive in December 2022, has severely impacted the national economic activities, resulting in a lacklustre GDP growth in the final quarter of the year. The composite leading business cycle indicator further confirms this assertion[21] as it decreased by 0.9 per cent in October 2022. Six of the ten available component time series declined, and three increased, while one component remained unchanged. The largest negative contributors were decelerations in the six-month smoothed growth rate of both job advertisement space and new passenger vehicle sales. Conversely, the largest positive contributors were an increase in the number of approved residential building plans and the volume of orders in manufacturing.

On the other hand, the seasonally adjusted Absa Purchasing Managers' Index (PMI)[22] rose for a third month to reach 53.1 index points in December 2022, slightly up from 52.6 in November. Notably, the PMI remains slightly above 50, which is the neutral level. While a PMI above 50 signal improvement, the underlying picture is more mixed. Most concerning was the business activity index, which deteriorated further in December 2022 which is indicative of weak underlying momentum in the manufacturing and service sectors. This deterioration could be the effect of persistent load-shedding, which capped the recovery in activity and demand.

South African economic outlook

Internal structural economic constraints continue to hamper much-needed national economic growth. The unreliable electricity supply, high levels of market concentration, inefficiencies in network industries and a high cost of doing business are some of the structural factors affecting the country's economy. Other domestic factors that weighed on economic activity include the impact of rising cost of living and weakening of the terms of trade due to falling global metal prices. In addition to these internal structural constraints, the national economy is also susceptible to global developments, which remain considerably uncertain due to geopolitical risks as the Russia-Ukraine war persists, global supply bottlenecks, and deteriorating economic activity in China amid COVID-19 mobility restrictions and property market crisis. According to the South African Reserve Bank (SARB), the national economy expanded by an estimated 2.5 per cent in 2022. The South African economy is expected to deteriorate significantly to 0.9 per cent in 2023, before picking up marginally to 1.5 per cent in 2024. The predicted slowdown in real output reflects the impact of extensive load-shedding which is expected to severely affect growth in 2023. In addition, Weak activity in major trading partners (China, the Euro Area, the United Kingdom, and the United States as highlighted above), tight global financial conditions, political and policy uncertainty are expected to constrain growth and widen external vulnerabilities.

[21] The business cycle indicators (BCI) are a composite of leading used to forecast changes in the direction of a country's overall economy. For example, see the SARB (2022): *Composite business cycle indicators for SA*, released on 24 January 2023.

[22] PMI is an indicator of economic health for the manufacturing and service sectors. It provides company decision-makers, analysts, and purchasing managers with information about current business conditions.

4.3.2 Structural economic reforms

Despite these economic challenges, the government continues to gradually implement reforms that are expected to support investment and job creation. As outlined by the National Treasury (2022)[23]Progress has been made on the following critical reforms:

Transport

The reforms in the transport sector include a corporatized Transnet National Ports Authority (Transnet), which is crucial for improved competitiveness of South Africa's ports. The government is currently in pursuit of granting third-party access to the freight rail network. Private-sector partnerships are being developed for the Durban Pier 2 and Ngqura container terminals. The White Paper on the National Rail Policy was gazetted in May 2022, focusing on measures to raise competitiveness, lower logistics costs and encourage investment.

Telecommunications

The auction of broadband high-value spectrum has been completed. Draft by-laws for the deployment of electronic communications and facilities at the municipal level have been published for public comment, an essential step towards facilitating the provision of electronic communications infrastructure at the local level.

Visa reforms

These reforms include reviewing the policy framework and processes for work visas. The eVisa system has been implemented in 14 countries, including key trading partners such as China, India, Kenya and Nigeria. In addition, a revised critical skills list has been published to help address the country's skills deficit.

4.3.3 Credit ratings

The largest global rating agencies, namely, Moody's Investors Service, Standard and Poor (S&P) and Fitch Ratings, all rate SA's creditworthiness at speculative[24]. In November 2022, S&P affirmed the country's long-term foreign and local currency debt ratings at 'BB-' and 'BB'. The agency maintains the country's positive outlook, thereby acknowledging that the government's economic and fiscal reforms could improve the country's medium-term growth and debt trajectory. S&P also emphasises SA's low external debt position, flexible currency, and deep domestic capital markets as fundamental credit strengths that should cushion against external rising

[23] National Treasury (2022): Medium Term Budget Policy Statement 2022. Republic of South Africa. Retrieved from: https://www.treasury.gov.za/documents/mtbps/2022/mtbps/FullMTBPS.pdf. 25 January 2023.

[24] The speculative grade is the rating scale that indicates a high probability of defaulting debt; hence, bonds rated in this category have an increased risk.

financing risks. The urgency also notes that higher-than-expected tax revenue reported earlier in 2022, relative to the agency's expectations, will help to reduce the fiscal deficit as a proportion of GDP.

Similar to S&P, Fitch affirmed SA's long-term foreign and local currency debt ratings at 'BB-' and maintained a stable outlook in November 2022. The affirmation considers the reported higher-than-expected revenue performance and the government's vigorous efforts to control expenditure which, if continued successfully, could bring about debt stabilisation. However, the agency assumes a substantial part of recent higher revenues to be temporary and sees current public sector wage demands pointing to increased upward pressure on spending. The agency also concludes that the government's fiscal strategy reduces risks to the economy and public finances over the medium term. The higher-than-anticipated revenues will be used to reduce the gross borrowing requirement, support spending priorities and reduce risks to the fiscal outlook.

Accordingly, Moody's affirms SA's long-term foreign and local currency debt ratings at 'Ba2' and revises the outlook to stable from negative in April 2022. The key driver behind the decision to change the outlook to stable is the improved fiscal outlook that raises the likelihood of the government's debt burden stabilising over the medium term. It further concludes that over the last two fiscal years, the government has demonstrated its ability to reprioritise its spending while staying committed to fiscal consolidation. Moody's expects this government commitment to remain the case going forward.

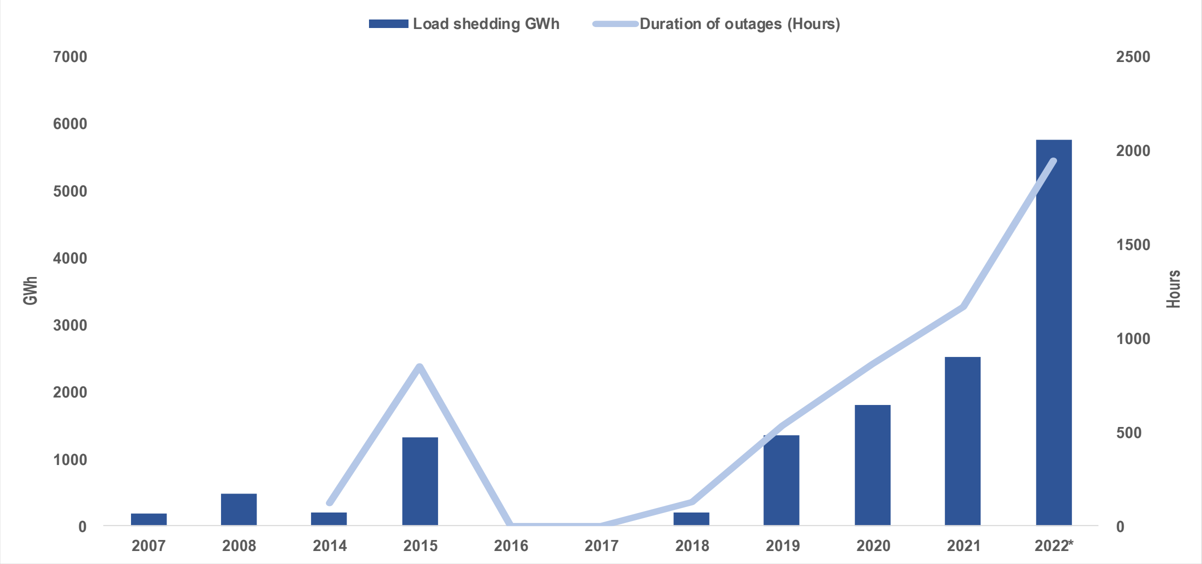
4.3.4 Load shedding

The unplanned power cuts have increased consistently since 2017, with more frequent load-shedding in recent years. As demonstrated in Figure 4.4, electricity load-shedding increased from an average of 3 calendar days per month in 2015. This number reached an average of 10.4 calendar days per month in 2022. However, the intensified implementation of load-shedding shot up and reached an all-time high of 1 949 hours, an average of 14.8 calendar days per month in the final quarter of 2022. This included a severe period of power outages when 187 hours of stages 5 and 6 load-shedding were implemented. Eskom, the South African power utility, estimates that the electricity supply shortfall rose to between 4 000 and 6 000 megawatts (MW) in 2022, limiting its ability to service electricity demand and undertake required maintenance adequately. Unfortunately, load-shedding imposes immense economic costs.

In response to the electricity supply during the national economic crisis, the President announced emergency measures in July 2022. The pronouncement prioritised improving the performance of existing power stations and adding new generation capacity to the grid as quickly as possible. The successful enactment efforts spearheaded by the National Energy Crisis Committee could add about 14 gigawatts of electricity capacity over the next two years. The emergency measures include the following:

- Boosting Eskom's performance by addressing sabotage, theft and fraud; improving the quality and security of coal; procuring new power from existing independent power producers; and increasing imports from the Southern African Power Pool.
- Removing the embedded generation licensing threshold and developing special legislation to ease regulatory hurdles for all energy projects to boost private-sector investment in new generation capacity.
- Expanding and accelerating the procurement of new generation capacity from renewables, gas and battery storage.
- Facilitating investments in rooftop solar by developing a feed-in tariff for small-scale embedded generation projects and investigating the expansion of tax incentives for commercial installations.

Figure 4.4 Load-shedding since 2007



Source: CSIR, 2022

In the State of the Nation Address (SONA) 2023, the President highlighted progress that has been made in implementing the plan pronounced in July. This include the following:

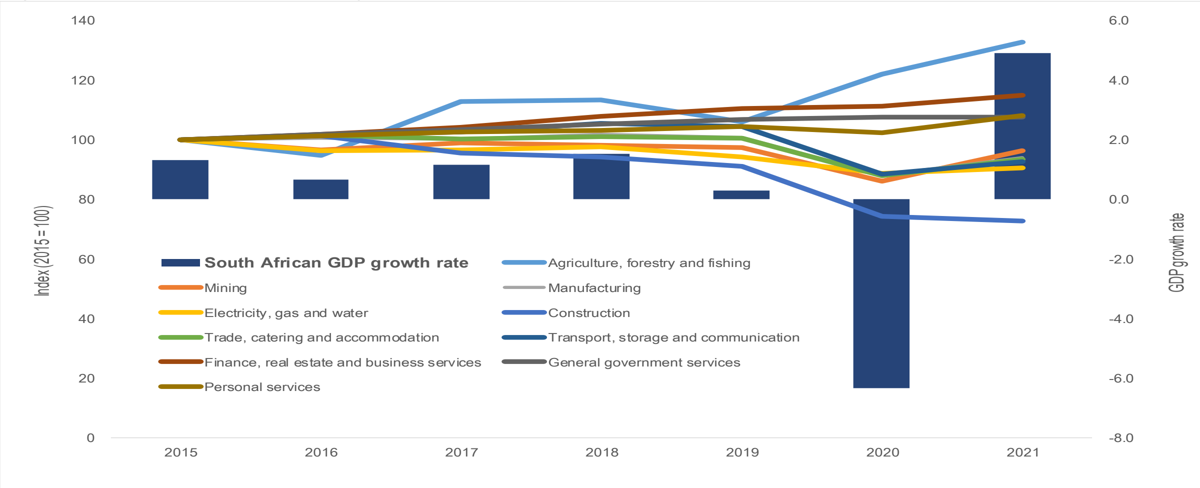
- Improving the performance of Eskom's existing power stations so that coal-fired power stations produce adequate amount of electricity
- Construction of a temporary solution to bring back three units at Kusile power station following a collapse of chimney stack and repairing the permanent structure.
- In terms of allowing private developers to generate electricity, more than 100 projects are already in place which are expected to provide over 9000 MW of new capacity.
- A number of companies that have participated in the renewable energy programme will start construction and deliver a total of 2 800 MW of new capacity

The President also declared a national state of disaster to address the energy crisis and its impact. The state of disaster will assist in providing practical measures to support businesses in food production, storage and retail supply chain, including for rollout of generators, solar panels and uninterrupted power supply. Critical infrastructure such as hospitals and water treatment plants will be exempt from load-shedding. Lastly, the state of disaster will accelerate the energy projects and limit regulatory requirements while maintaining environmental protections, procurement principles and technical standards.

4.3.5 Sector performance

Figure 4.5 shows growth rates in industry value added for SA. As depicted in this Figure, the South African economy was already experiencing protracted periods of consistently deteriorating economic activity prior to the global COVID-19 pandemic. For instance, the national real GDP growth averaged 1 per cent over a five-year period between 2015 and 2019. Except for *agricultural* and *construction* industries, most economic sectors maintained virtually a stable trend around 100 index point[25], with no significant change during this period. The *agricultural industry* expanded between 2017 and 2018 relative to the base year before a moderate decline in 2019. In contrast, output in the *construction* industry deteriorated consistently throughout this period. The advent of COVID-19 disrupted activity in almost all sectors except the *agricultural industry*. Performance in this industry climbed significantly by 22 index points relative to the base year.

Figure 4.5: Growth rates in industry value added for SA, 2015 - 2022



Source: Stats SA, 2022

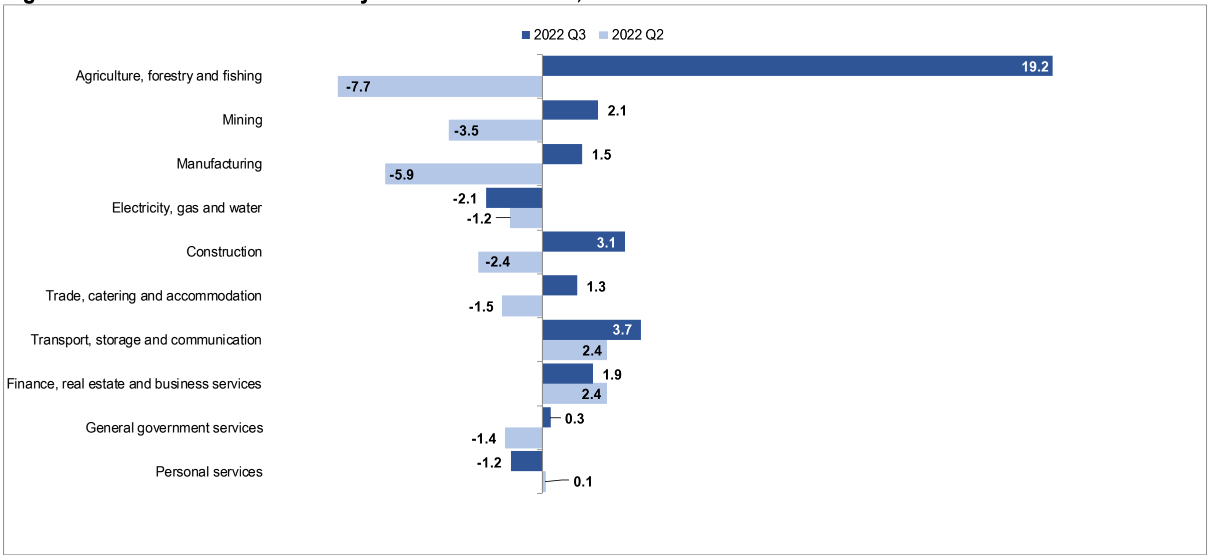
On the other hand, six industries dropped sharply below the 100 index point, with the largest decrease of 74 index points reported in *construction*. Activities in the agricultural industry expanded further by about 132 index points in 2021 as the South African economy reverted strongly from a substantial contraction. Although still below the base period, other industries also reported a broad-based recovery. Contrarily, *construction* diminished further to 72 index points.

The robust expansion of economic activities in the third quarter of 2022 emanated from the increase in the real

[25] The index is calculated as the weighted arithmetic mean with a base point (100) in the base period preceding the comparison period

gross value added (GVA) by the primary, secondary and tertiary sectors. Except for *electricity, gas, and water; and personal services,* output increased across all industries during the third quarter. The largest increase was reported in the *agricultural, forestry and fisheries* sector, followed by *transport, storage and communication services; construction and mining* industries. Following a revised contraction of 11.1 per cent in the second quarter, economic activity in the *agricultural sector* expanded substantially by 19.2 per cent in the third quarter, contributing 0.5 percentage points to GDP growth. The substantial increase in agricultural output during the third quarter reflects higher production of field crops and horticultural products. Despite a broad-based expansion, the real agricultural output in the first three quarters of 2022 remained 4.9 per cent lower than in the same period of 2021. The agricultural output has been weighed down by numerous constraints, such as persistent foot and mouth disease, sharply rising input costs and supply chain disruptions related to geopolitical risks.

Figure 4.6: Growth rates in industry value added for SA, 2022: Q2 and Q3



Source: Stats SA, 2022

The second largest increase in economic activities was recorded in the *transport, storage and communication services* industry, which expanded further by 3.7 per cent in the third quarter of 2022 after accelerating by 2.4 per cent in the preceding quarter. Subsequently, *transport* reported the third largest contribution of 0.3 percentage points to real GDP growth. The rise in output could be attributed to increased activity in *road transportation, transport support and communication services*. However, *rail transportation* activity declined further as theft, vandalism, and inadequate maintenance continued to reduce the efficiency of SA's rail network. Encouragingly, the average level of real output in *transport* in the first three quarters of 2022 was 8.9 per cent, significantly higher than in the corresponding period of 2021.

The real output in construction expanded by 3.1 per cent in the third quarter of 2022 and contributed 0.1 percentage points to real GDP after contracting in five consecutive quarters. The reported expansion in construction output was supported by higher *civil construction, residential and non-residential building activity*, among others. Disturbingly, the level of real output in the third quarter of 2022 was still 4.7 per cent lower than in the same period of 2021.

The real GVA by *mining* recovered moderately by 2.1 per cent in the third quarter of 2022 from four successive quarterly contractions. The marked output increase reflects increased production in seven of the twelve sub-industries, with the largest contribution emanating from *gold, diamonds, coal and manganese ore*. Gold production increased, reflecting the resumption of mining activities following prolonged industrial action at one of South Africa's largest gold mines. Meanwhile, coal production benefitted from elevated prices amid higher global demand due to soaring natural gas prices. In contrast, the production of platinum group metals (PGMs), iron ore and copper decreased. The lower production volumes of iron ore reflected the binding constraint of electricity load-shedding and insufficient rail capacity for exports, while material shortages to rebuild a smelter and maintenance closures adversely affected the production of PGMs. As a result, the level of real mining output in the first three quarters of 2022 was 6.9 per cent lower than in the corresponding period of 2021.

The electricity, gas and water industry was among the sectors that experienced economic contraction, such as personal services. Real economic activity in the industry supplying electricity, gas and water regressed further by 2.1 per cent in the third quarter of 2022, following a contraction of 1.2 per cent in the second quarter. The volume of both electricity produced and consumed decreased sharply, following the most severe quarterly electricity load-shedding on record during the quarter. In addition, water consumption also fell in the third quarter.

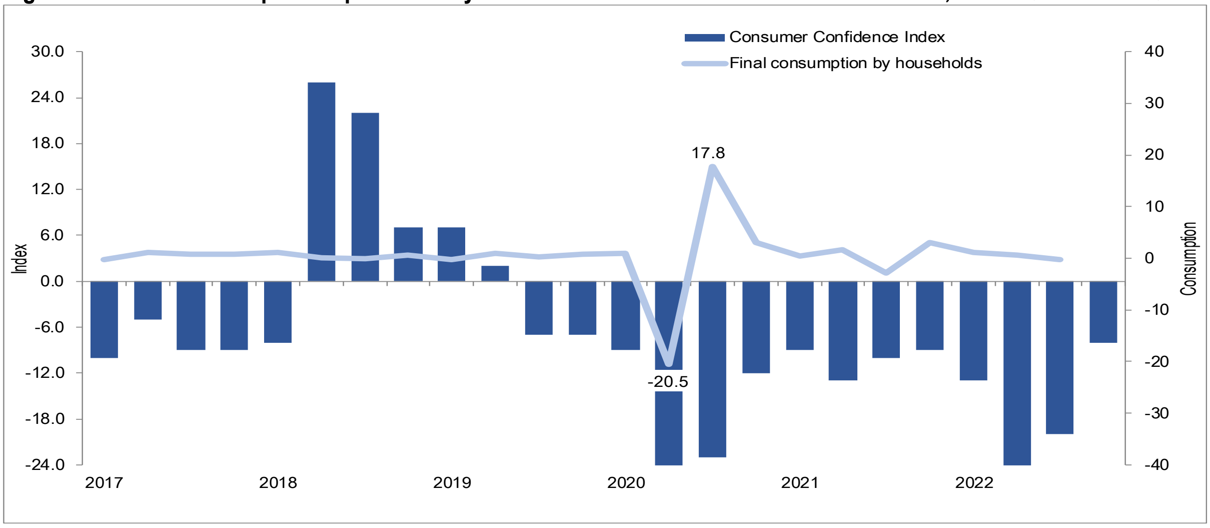
4.3.6 Final household consumption expenditure

Consumption expenditure by households

Real final consumption expenditure by households recovered strongly and recorded an expansion of 5.6 per cent in 2021, following a substantial contraction of 6.5 per cent in 2020 owing to the global pandemic. The robust recovery in household consumption expenditure was driven mainly by higher spending on all goods and services, with the largest increase reported on durable and semi-durable goods at 11.5 per cent and 8.8 per cent, respectively. Notwithstanding a marginal rise of 1.2 per cent in the first quarter of 2022, real household consumption expenditure deteriorated to 0.6 per cent in the second quarter before recording a slight contraction of 0.3 per cent in the third quarter. The decrease in household consumption expenditure was consistent with the shrinkage in households' real disposable income, although credit extension to households increased slightly. However, the average level of real household spending was 3.1 per cent higher in the third quarter of 2022 compared with the corresponding period in 2021.

The reported fall in real consumption expenditure during the third quarter reflects a contraction in real outlays by households on semi-durable, non-durable and services. The largest decline in real household spending in the third quarter of 2022 was reported for semi-durable goods at 1.1 per cent, following a contraction of 0.9 per cent in the previous quarter. The drop in the third quarter reflects a further decline in real household spending on clothing and footwear, the largest semi-durable category. Further, real spending on household textiles, furnishings and glassware dropped marginally. In contrast, household spending on motorcar tyres, parts and accessories expanded somewhat during the same period.

Figure 4.7: Final consumption expenditure by households and consumer confidence index, 2017: Q2 to 2022: Q4



Source: Stats SA, 2022 and BER, 2022

Real household spending on non-durable goods reported two successive quarters of contraction, with a decrease of 0.9 per cent and 0.8 per cent in the second and third quarters of 2022, respectively. The marked decline in household spending in the third quarter emanated from a fall in real purchases of *food, beverages and tobacco*; *household consumer goods*; and medical and pharmaceutical products. In contrast, real outlays *on household fuel, power and water*, and *petroleum products* reverted to an upward trend. Notably, domestic fuel prices continued to impact spending patterns by households. Petrol prices soared by 257 cents per litre to R26.74 per litre, whilst diesel prices climbed by 231 cents per litre to R25.40 per litre in July 2022 before decreasing somewhat in August and September.

Real household spending on services contracted slightly by 0.1 per cent in the third quarter of 2022, following three-quarters of expansion, with an increase of 2.1 per cent in the second quarter. The slight contraction in real household expenditure on services in the third quarter reflected a decrease in household services including domestic servants, whilst expenditure on medical as well as transport and communication services increased at a slow pace. On the other hand, consumer spending on rent, recreational, entertainment and educational services increased. Real household expenditure on durable goods reverted from a contraction of 1.3 per cent in the second quarter and expanded by 0.8 per cent in the third quarter of 2022. The reported improvement in household spending on durable goods reflects a strong growth in the real purchases of personal transport equipment.

Despite rising interest rates, the increased real outlays on personal transport equipment followed better stock availability and improved business confidence among new vehicle dealers. In contrast, real household spending on computers and related equipment, recreational and entertainment goods and other durable goods contracted significantly, whilst spending on furniture and household appliances dropped at a slower pace in the third quarter.

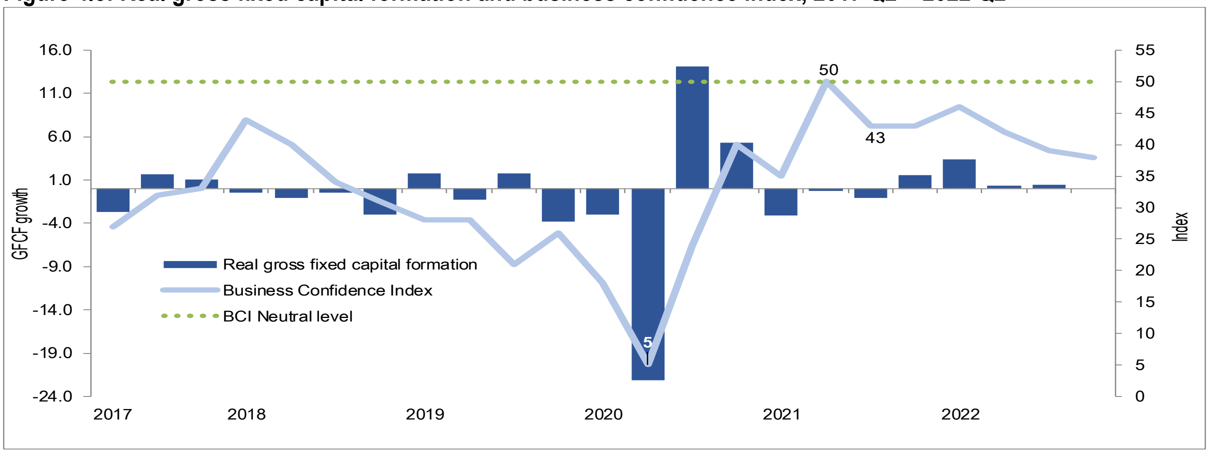
Consumer Confidence Index

The First National Bank/Bureau of Economic Research (FNB/BER) Consumer Confidence Index[26] (CCI) continue to trend in the negative territory that has been prolonged since the third quarter of 2019. In the fourth quarter of 2022, the CCI recovered further to -8 index points after it had improved to -20 index points in the third quarter. The marginal rebound in CCI reflects an improved willingness to spend among consumers, but consumers' ability to spend would also need to improve in order to translate into a significant increase in consumption. Although the index remains in weak terrain relative to its long-term average, it has regained all the ground lost during the first half of 2022.

4.3.7 Gross fixed capital formation

The total real gross fixed capital formation (GFCF) expanded further by 0.3 per cent in the third quarter of 2022, following an increase of 0.4 per cent in the previous quarter. The expansion in real GFCF during the third quarter was driven mainly by the *residential buildings* subsector, which increased by 11 per cent, contributing 1.4 percentage points to the total GFCF. The *transport* subsector also improved by 11 per cent and contributed 1.1 percentage points to the overall GFCF. Conversely, *machinery and equipment decreased* marginally, subtracting about 3.1 percentage points from the total real GFCF during the same period. Despite a probable deteriorating trend, the real GFCF was 4.4 per cent greater in the first three quarters of 2022 than in the corresponding period of 2021.

Figure 4.8: Real gross fixed capital formation and business confidence index, 2017 Q2 – 2022 Q2



Source: Stats SA, 2022 and BER, 2022

[26] FNB/BER (2022): *FNB/BER Consumer confidence index,* issued by FNB, 14 December 2021. Available online: https://www.ber.ac.za/BER%20Documents/FNB/BER-Consumer-Confidence-Index/?doctypeid=1054, Accessed on 05 January 2022

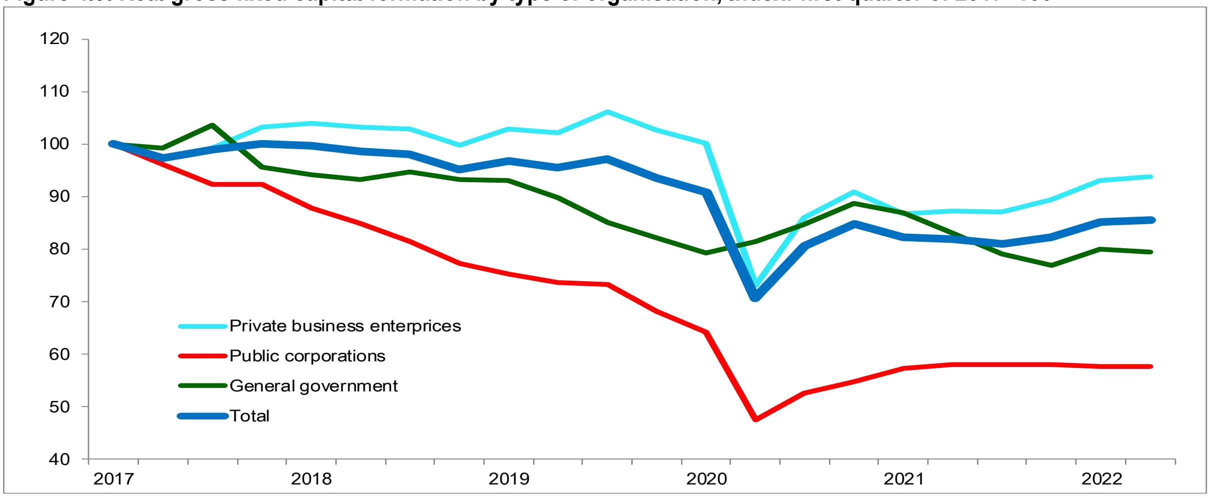
Real GFCF by type of organisation

Regarding real GFCF by type of organisation, private business enterprises recorded a contraction of 1 per cent in the third quarter of 2022, which resulted in a 0.7 percentage points reduction in the overall real GFCF after three consecutive quarterly expansions. The contraction in real GFCF by private business enterprises in the third quarter was primarily driven by a drop-in machinery and equipment investments. In contrast, capital spending on transport equipment and residential buildings increased during the same period. Consequently, the private sector's share of the total nominal GFCF receded to 71.6 per cent in the third quarter of 2022. Encouragingly, real GFCF by public corporations expanded strongly by 3.2 per cent in the second quarter of 2022, following an increase of 0.7 per cent in the previous quarter. The robust uptick in real GFCF by public corporations reflects an increase in capital spending on machinery and equipment and transport equipment.

Real gross fixed capital formation by the general government recovered strongly from a contraction of 0.8 per cent in the second quarter and recorded an expansion of 3.9 per cent in the third quarter of 2022 due to a rise in provincial governments' capital spending. As a result, the general government contributed 0.7 percentage points to growth in total real GFCF in the third quarter of 2022. The general government's share of total nominal gross fixed capital formation to 17.8 per cent during the same period.

Real inventory holdings accumulated further by R62.9 billion on an annualised basis (at 2015 prices) in the third quarter after increasing by R31.4 billion in the second quarter. This represented a third consecutive quarterly accumulation in inventories, driven mainly by the build-up of inventories in the trade, mining and transport sectors. By contrast, the electricity, manufacturing and agricultural sectors reduced their inventory holdings in the third quarter of 2022.

Figure 4.9. Real gross fixed capital formation by type of organisation, Index: first quarter of 2017=100



Source: South African Reserve Bank, 2022

Business Confidence Index

The RMB/BER Business Confidence Index (BCI) moderated further to 38 indices in the fourth quarter of 2022, following a decline from 42 to 39 in the third quarter. The reported resilient BCI reflects the positive impact of a rebound in confidence for building contractors, which offset the first significant falls in wholesale and retail confidence since the COVID-19 pandemic broke out. It is within this context that the impact of escalating load-shedding could not easily tarnish business confidence in the fourth quarter. The fact that the RMB/BER BCI essentially remained unchanged indicates the presence of some underlying resilience as well as countervailing forces within the business sector.

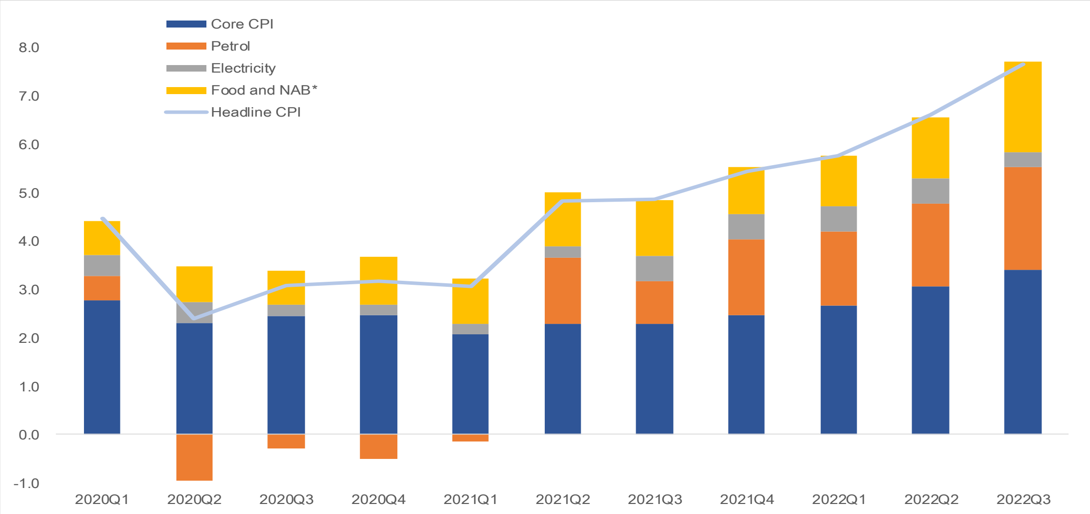
4.3.8 Inflation and interest rate

The headline inflation rate breached the upper band of the inflation South African Reserve Bank's (SARB's) targeting range of 3 to 6 per cent in May 2022 and remained above this targeted band in all subsequent months throughout the year. The inflation rate accelerated to a high of 7.8 per cent in July 2022, the highest in 13 years, before moderating slightly after that but remained significantly beyond the target. The annual consumer price inflation was 7.2 per cent in December 2022, down from 7.4 per cent in the previous month. Subsequently, headline consumer inflation averaged at 6.9 per cent in 2022, the highest rate since 2016. The persistent rise in the headline inflation rate reflects the higher consumer goods inflation, which remains above the upper band of the target range at 10.1 per cent in December 2022. The services inflation was also slightly higher as it remained closer to 4.5 per cent, which is the target range's midpoint.

The annual headline consumer inflation in December 2022 was driven largely by *food and non-alcoholic beverages; transport; housing and utilities; and miscellaneous goods and services*. The cost of food and non-alcohol beverages accelerated by 12.4 per cent year-on-year (y-o-y), contributing 2.1 percentage points to the overall annual consumer price index (CPI). The rise in the cost of food and non-alcoholic beverages was driven mainly by food inflation which accelerated by 12.7 per cent, with the largest increase in *oil & fats* (22.4 per cent); *bread & cereals* (20.4 per cent); and *processed food* (15.7 per cent). Non-alcoholic beverages increased by 9.7 per cent year-on-year (y-o-y), and *hot beverages* accelerated by 14.6 per cent. Transport reported the highest increase of 13.9 per cent y-o-y, contributing 2 percentage points to the overall annual CPI. The largest contributor to higher transport costs was *private transport operation*s at 19.9 per cent, driven mainly by fuel at 22.8 per cent.

Housing utilities increased by 4.1 per cent y-o-y, contributing a percentage point to the overall annual CPI. The main contributors to the growth in the costs of housing and utilities were *electricity & other fuels at* 8.3 per cent; *maintenance and repair* at 5.7 per cent as well as *water & other services* at 5.5 per cent. Lastly, miscellaneous goods and services increased by 4.9 per cent y-o-y, contributing 0.7 percentage points to the overall annual CPI. The costs of *miscellaneous goods and services* reflect a rise in *personal care and insurance* at 9.2 per cent and 4.7 per cent y-o-y, respectively.

Figure 4.10: Headline inflation and its components, % change over four quarters



Source: South African Reserve Bank, 2022

The annual producer price inflation (PPI) (final manufacturing) continues to increase at a rapid pace. The PPI indicates changes in producer prices of locally produced commodities, including exports[27]. In November 2022, the annual headline PPI moderated somewhat by a percentage point to 15 per cent, down from 16 per cent in October. The most significant contributor to the annual PPI in November was *coke, food products*, *beverages and tobacco products; paper and printed products; and metals, machinery, equipment and computing equipment petroleum.* Coke, petroleum, chemical, rubber and plastic products increased by 28.6 per cent y-o-y and contributed 7.4 percentage points to the PPI. This was followed by *food products, beverages and tobacco products*, which increased by 10.7 per cent and contributed about 2.7 percentage points. Paper and printed products increased by 18.4 per cent y-o-y and contributed 1.5 percentage points. Meanwhile, *metals, machinery, equipment and computing equipment* contributed 1.4 percentage points following a 9.4 per cent growth y-o-y.

Notably, the inflationary risks remain high as the geopolitical tension between Russia and Ukraine continues to adversely impact global prices. However, the SARB (2023) expects consumer price inflation to revert within the target band in 2023 but somewhat above the mid-point of 4.5 per cent. The central bank further expects headline inflation to average 5.9 per cent in 2023 and 5.3 per cent in 2024. These projections are largely influenced by the upside risks of the anticipated continuous uncertainty surrounding the oil market and their possible impact on global prices. Given the upside risk of Inflation, the oil price is forecast to average US$92 per barrel in 2023.

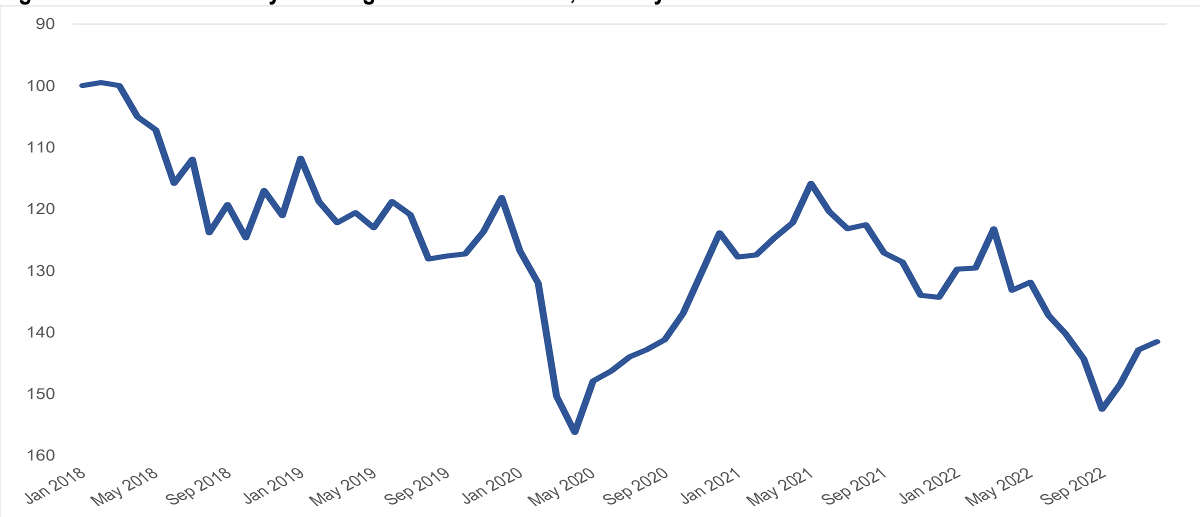
On the other hand, the heightened inflationary risks associated with electricity and other administered prices are anticipated to persist, especially over the medium term. Overall, the higher than expected inflation has pushed major central banks, SARB included, to accelerate the normalisation of policy rates. In this regard, the Monetary

[27] The PPI is defined as "A measure of the change in the prices of goods either as they leave their place of production or as they enter the production process."

Policy Committee (MPC) has raised the repurchase rate (repo rate)[28] by an accumulative 300 basis points, resulting in the prime lending rate increasing from 7.75 per cent in November 2021 to 10.75 per cent in January 2023.

The normalisation of policy rates has tightened global financial conditions and raised the risk profiles of economies needing foreign capital. This also prompted capital outflows from emerging markets to *"safe-haven"* assets, leading to a broad strengthening of the US dollar against a wide range of currencies. Hence, between January 2022 and September 2022, the rand depreciated by 11.9 per cent against the US dollar.

Figure 4.11: Rand currency index against the US Dollar, January 2018 – December 2022



Source: National Treasury, 2022

4.4 KwaZulu-Natal economic review and outlook

4.4.1 Economic performance in KwaZulu-Natal

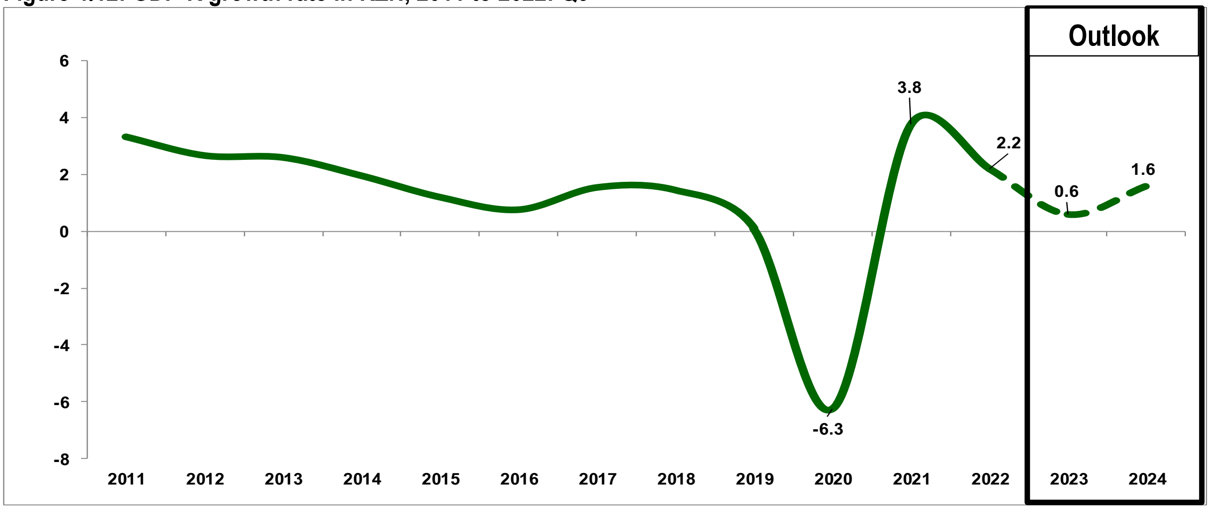
The economy of KwaZulu-Natal (KZN) strengthened significantly from a substantial recession caused by the global pandemic. Economic activity in KZN expanded by 3.8 per cent in 2021, following a contraction of 6.3 per cent in 2020. The provincial economy recovered strongly in 2021 despite a significant shock associated with the unprecedented social unrest in July. The social protest was characterised by rampant looting, wanton destruction, and burning of property and infrastructure. Despite a strong start in 2022, real regional gross domestic product (GDP-R) has been volatile amid heightened uncertainty emanating from both national and global factors. Real GDP-R expanded by 1.9 per cent in the first quarter but contracted marginally by 1.1 per cent in the second quarter of 2022.

Economic contraction in the second quarter could be attributed to global uncertainties brought about by a geopolitical conflict between Russia and Ukraine, which greatly triggered volatility in financial and commodity

[28] Repo is the rate at which the central bank of a country (SARB) lends money to commercial banks. The repo rate is used by monetary authorities to control Inflation.

markets. In addition, local economic shocks such as extensive electricity load-shedding and disastrous flooding weighed down activity in the province. The catastrophic flooding caused extensive damage to public infrastructure, including schools, health facilities, police stations and magistrates' courts. Moreover, economic activity was affected through the destruction of infrastructure, such as major roads in the eThekwini Metro, water infrastructure, and the port of Durban. Nevertheless, real GDP-R bounced back with a robust uptick of 2.1 per cent in the third quarter of 2022, supported by improvements in *agricultural, transport and construction* industries (Figure A4.2).

Figure 4.12: GDP-R growth rate in KZN, 2011 to 2022: Q3



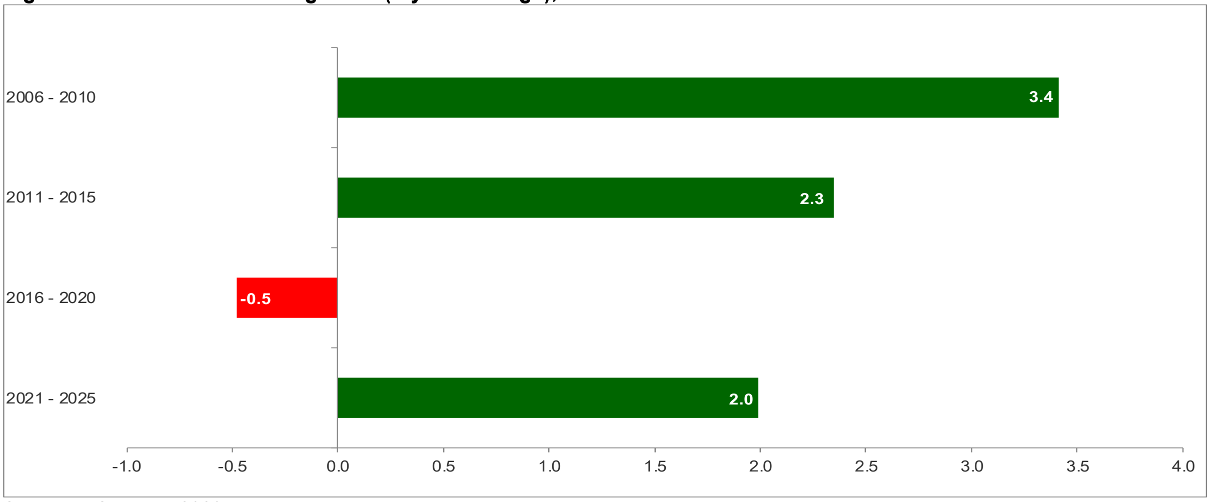
Source: IHS Markit, 2023

KZN Five-year average growth

KZN's economic performance has been diminishing gradually over the period under review, particularly in the post-global financial crisis era (GFC) in 2009. As a result, real GDP-R growth could not reach the level realised in several years prior to the financial crisis. Nevertheless, the average annual GDP-R growth expanded by 3.4 per cent between 2006 and 2010. The robust average annual growth over this period was supported by a broad-based expansion of 5.7 per cent and 6.1 per cent in 2006 and 2007, respectively. Notably, the highest growth rate of 6.1 per cent recorded in 2007 remains a peak for the KZN's economy. The provincial economy began to lose momentum in the years that followed the global financial crisis.

This economic performance is evident from figure 4.13, showing that real GDP-R averaged 2.3 per cent between 2011 and 2015. In this period, economic performance was partly disrupted by severe drought in many parts of the province, especially in 2015. Economic activity continued to deteriorate in subsequent years before the global pandemic hit. Consequently, the average annual real GDP-R contracted by 0.5 per cent over the five years between 2016 and 2020. This period includes severe drought in 2016 across the country and the COVID-19 pandemic that caused a substantial contraction as it hit the global economy in 2020. Real GDP-R is expected to report an average annual growth of 2 per cent over the five years between 2021 and 2025.

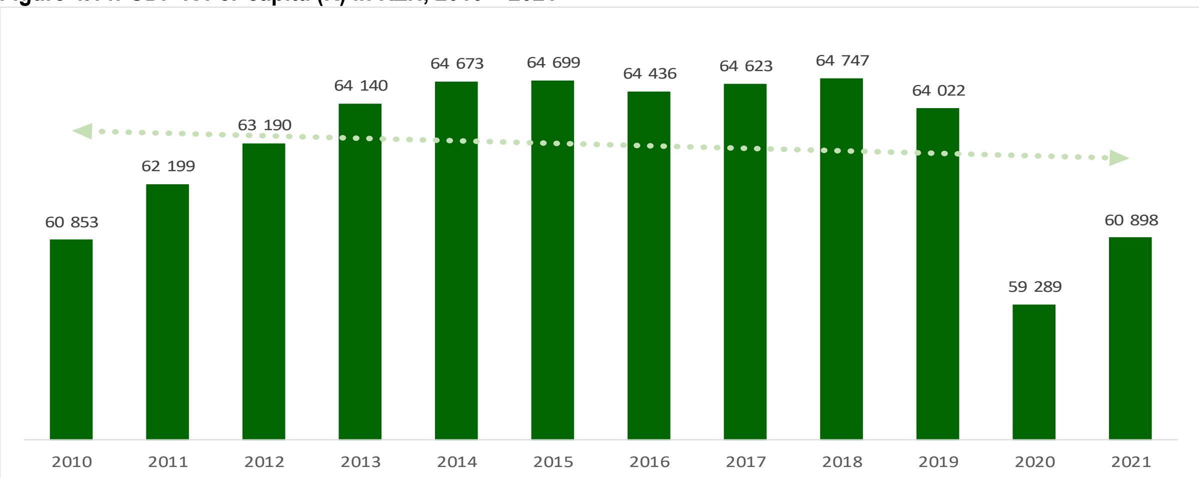
Figure 4.13: KZN real GDP-R growth (5-year average), 2006 to 2025



Source: IHS Markit, 2023

KZN's real GDP-R per-capita[29] was increasing at a faster pace between 2010 (R60 853) and 2013 (R64 140). It stabilised at a growth rate below 1 per cent in subsequent years. Real GDP-R per-capita helps to compare the wealth between different countries and regions. The slow growth in GDP per capita between 2014 and 2019 could be attributed to an insignificant increase in GDP-R and the population size. The average annual growth for GDP-R was 1 per cent, whilst the population expanded by 1.2 per cent during the same period. The provincial GDP-R per capita dropped significantly and reached a low level of R59 289 in 2020, about 2.6 per cent lower than in 2010, due to the impact of COVID-19 on the economy. Given that the GDP-R per-capita is computed by dividing the provincial GDP-R by population, the notable decline in GDP-R per-capita in 2020 could be attributed a decrease in provincial GDP-R. Encouragingly, the provincial GDP per capita began to recover in 2021 but remains significantly lower than its pre-pandemic levels.

Figure 4.14: GDP-R Per-capita (R) in KZN, 2010 – 2021



Source: IHS Markit, 2023

[29] GDP per capita is a valuable indicator for measuring the overall living standard and economic prosperity and describing how regional populations experience economic benefits. The GDP per capita is computed by dividing the provincial GDP by population.

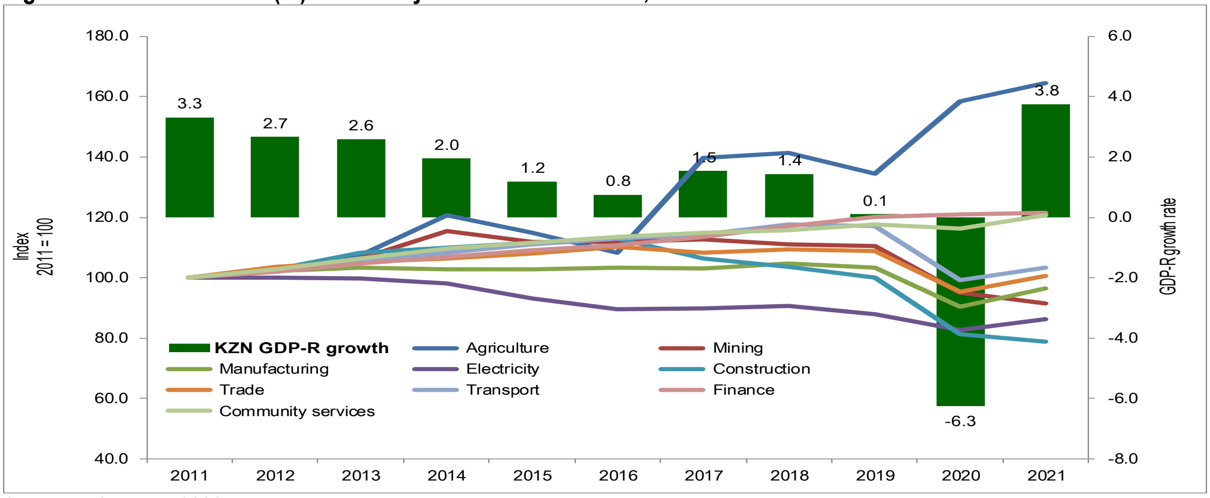
Economic outlook for KZN

The provincial economy is not immune from structural constraints affecting economic prosperity in the country. For instance, the prolonged rolling blackouts in the country significantly affect energy-intensive economic sectors such as mining and manufacturing. The province is also susceptible to such constraints, especially in the manufacturing industry. KZN's economy is also exposed to global developments, such as the persistent geopolitical conflict in Ukraine and global supply constraints, among others. Following the global and national dynamics, the provincial economy is estimated to have moderated significantly to 2.2 per cent in 2022. The provincial GDP-R growth rate is projected at 0.2 per cent in 2023 and 1.6 per cent in 2024. As highlighted above, the projected deterioration in economic prospects reflects the effect of flooding, extensive load-shedding and global challenges. The downward revision of the national economic outlook was also influenced by the expected effects of both domestic and global challenges, including electricity load-shedding, inadequate rail capacity, flooding in KZN, weaker domestic and global demand, geopolitical risks and supply chain disruptions.

4.4.2 Sector performance analysis

The provincial economy was already deteriorating consistently over a long period before the onset of COVID-19 in 2020. The protracted period of slow growth was evident from a modest increase in economic activity in various sectors. As evident in Figure 4.15, the *electricity industry* consistently reported a weaker performance, as the real output was below 100 index points throughout the period under review. The industry dropped significantly in 2020, relative to the base year, owing to the economic effects of the pandemic. However, economic activity recovered strongly and reached its normal level in 2021. In contrast, the *agricultural industry* recorded a considerable increase in real output over many years. The real output dropped marginally in 2015 and 2016 but remained virtually in tandem with the base year.

Figure 4.15: Growth rates (%) in industry value added for KZN, 2011 – 2021



Source: IHS Markit, 2022

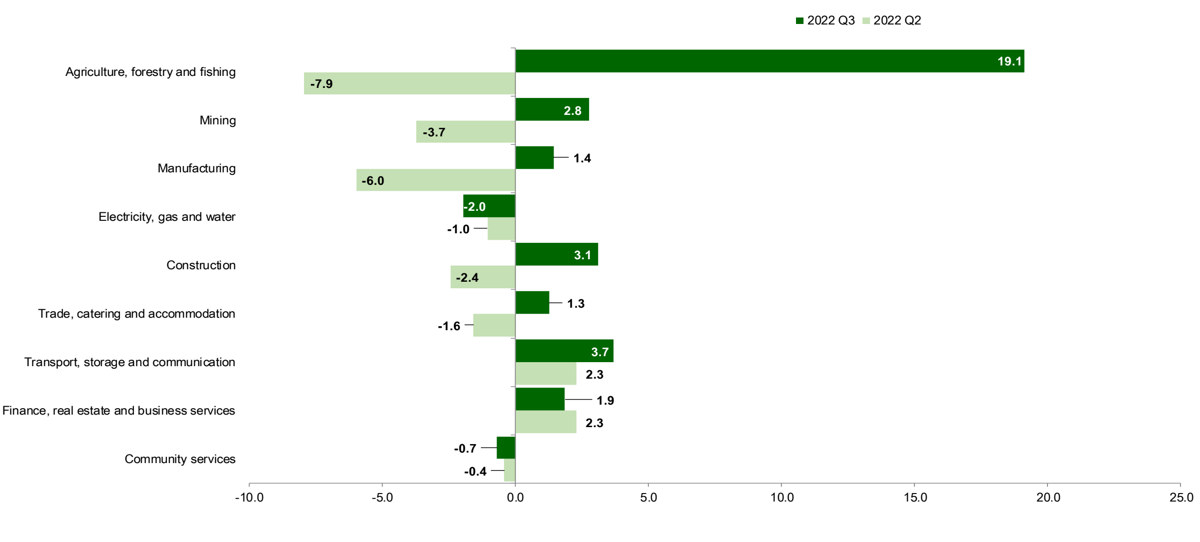
Encouragingly, the agricultural industry recovered faster than expected and has been increasing notably in subsequent years. It was the only sector that withstood the effects of COVID-19 and continued to rise relative to the base year. Real output in other sectors dwindled significantly in 2020 relative to the base year due to the pandemic-induced economic shock. Except for the construction industry, all sectors bounced back strongly in 2021, although the output level was still below its pre-pandemic levels. However, the construction industry lagged behind in terms of recovery relative to other sectors.

As the provincial economy picked up significantly in the third quarter of 2022, real output expanded in seven of nine sectors with the largest increase in the *agricultural, forestry and fisheries; transport, storage and communication services; and construction* sectors. Following a contraction of 7.9 per cent in the second quarter amid foot and mouth diseases, economic activity in the agricultural industry increased substantially by 19.1 per cent in the third quarter of 2022, contributing a percentage point to the overall real GDP-R (Figure 4.15). The expansion in agricultural output in the third quarter is attributable to increased *production of field crops and horticultural products*. But, disturbingly, the average real agricultural output level in the first three quarters of 2022 was still 5.8 per cent lower than in the same period of 2021. The subdued economic activity in agriculture, especially in the previous quarters, emanated from numerous constraints such as persistent foot and mouth disease, sharply rising input costs and supply chain disruptions related to geopolitical risks.

Economic activity in the *transport, storage and communication services* sector increased further by 3.7 per cent in the third quarter of 2022. As a result, it contributed 0.4 percentage points to real GDP-R, following an expansion of 2.3 per cent in the second quarter. The resilient expansion in real output reflected higher economic activity in *road transportation, transport support and communication services*. In contrast, activity in rail transportation continued to decrease as theft, vandalism, and inadequate maintenance continued to reduce the efficiency of South Africa's rail network. Nevertheless, the average level of real output within the transport sector during the first three quarters of 2022 was 8.2 per cent higher compared to the corresponding period of 2021. Following five consecutive quarterly contractions, real output in the construction sector increased by 3.1 per cent in the third quarter of 2022 and contributed 0.1 percentage points to real GDP-R. The reported expansion in construction output reflected increased civil construction, residential and non-residential building activity, among others. However, despite a marginal increase, the average real output within the construction sector in the first three quarters of 2022 was still 5.3 per cent lower than in the same period of 2021.

The industry supplying *electricity, gas and water* regressed further by 2 per cent in the third quarter of 2022, following a decrease of 1 per cent in the second quarter. The volume of both electricity produced and consumed fell sharply, following the most severe quarterly electricity load-shedding on record in quarter three. In addition, water consumption also decreased in the third quarter. Consequently, the average real output within the electricity sector in the first three quarters of 2022 was still 1.3 per cent lower than in the corresponding period in 2021. Another sector that reported economic contraction is community services, which fell further by 0.7 per cent in the third quarter of 2022 after it declined by 0.4 per cent in the second quarter. However, the average real output in the first three quarters of 2022 was still 2.7 per cent higher than the same period in 2021.

Figure 4.16: Growth rates (%) in industry value added for KZN, 2022: Q2 and Q3

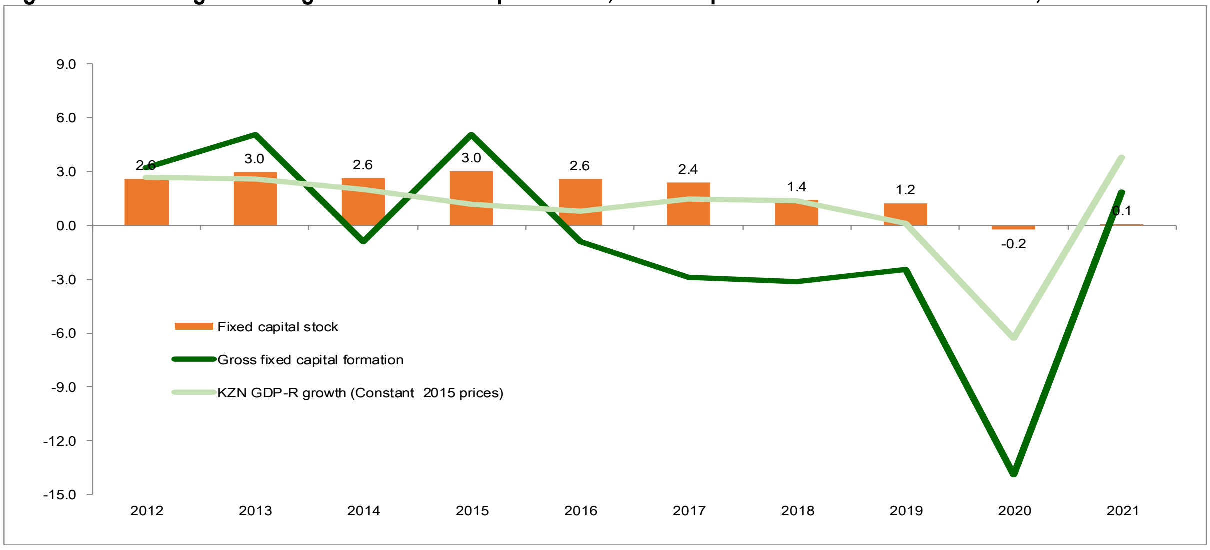


Source: IHS Markit, 2023

4.4.3 Fixed investment

Fixed investment is an essential indicator of potential long-term productivity. It includes accumulating physical assets such as machinery, land, buildings, installations, and vehicles. All things held equal, an expansion in fixed capital allocated per worker will increase the productivity per worker. Fixed investment is measured by Gross Fixed Capital Formation (GFCF). Net Fixed Capital Formation (NFCF) is derived when GFCF accounts for economic depreciation and determines the change in Fixed Capital Stock (FCS) annually. Growth in FCS signifies an increase in production capacity and a positive economic outlook.

Figure 4.17: Average annual growth in Fixed Capital Stock, Fixed Capital Formation and real GDP-R, 2012 – 2021



Source: Quantec, 2022

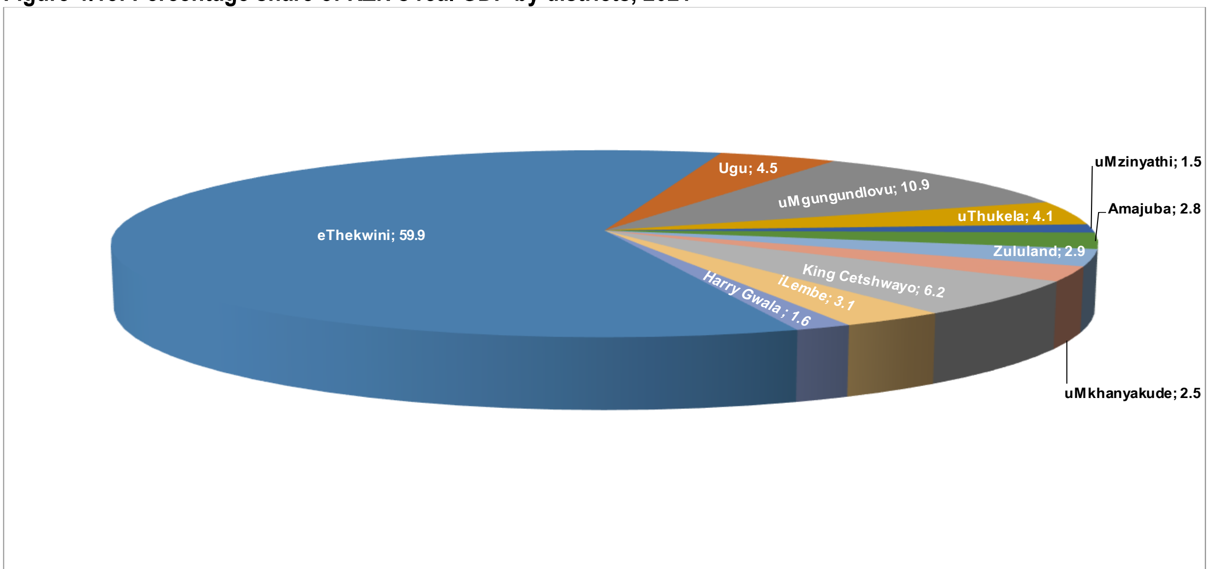
Figure 4.17 shows that real GFCF has been deteriorating consistently since 2016, prior to the global COVCOCID-19 pandemic in 2020. The largest contraction in provincial real GFCF before COVID-19 was recorded at 3.2 per cent in 2018. This was followed by a substantial drop of 13.9 per cent in 2020 due to adverse economic disruption caused by the pandemic. In absolute values, real GFCF dropped sharply by about R17.01 million from R122.47 million in 2019 to around R105.46 million in 2020.

Encouragingly, real GFCF bounced back strongly; it expanded by 1.9 per cent and reached R107.45 million in 2021 as the provincial economy was recovering from a pandemic-induced recession. On the other hand, the value of Fixed Capital Stock has been volatile, with a diminishing year-on-year growth rate. For instance, the value of FCS increased from around R1.369 billion in 2015 to about R1.47 billion in 2019. Notably, the year-on-year growth deteriorated from 3 per cent in 2015 to 1.2 per cent in 2019. This deterioration was followed by a slight decline of 0.2 per cent in 2020, reflecting the negative effect of the global pandemic.

4.4.4 Municipal economic contribution

As expected, about 59.9 per cent of the KZN's real GDP-R in 2021 was generated in the eThekwini Metro, the key economic hub of the province. The significant contribution by eThekwini could be attributed to various economic activities in the Metro as it is home to the most prominent and busiest harbour port. The Durban port is the largest and most active shipping terminal in sub-Saharan Africa, handling up to 31.4 million tons of cargo per year. Notably, most districts with urban settings significantly contribute to the provincial economy. In this regard, uMgungundlovu and King Cetshwayo were the most critical contributors after the Metro, with 10.9 per cent and 6.2 per cent, respectively. On the other hand, Districts that are characterised by rural settings, such as uMzinyathi (1.5 per cent), Harry Gwala (1.6 per cent), and uMkhanyakude (2.5 per cent), contribute the least toward the GDP-R due to limited economic activities.

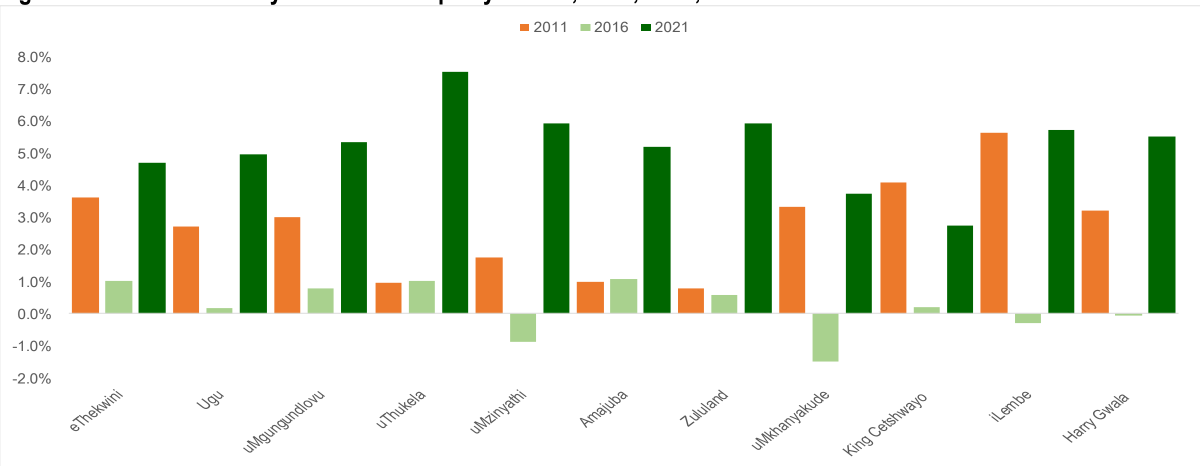
Figure 4.18: Percentage share of KZN's real GDP by districts, 2021



Source: IHS Markit, 2023

Economic activities recovered strongly in 2021 across all KZN Districts following substantial recessions caused by the global pandemic in 2020. In 2020, all KZN Districts reported considerable contractions, with the largest decrease in King Cetshwayo (-7.3 per cent), eThekwini Metro (-7.0 per cent), and Ugu (-6.3 per cent). While all Districts reported economic expansion in 2021, King Cetshwayo (2.8 per cent) and uMkhanyakude (3.7 per cent) Districts had the lowest GDP-R growth relative to other regions. On the other hand, uThukela District reported the most substantial increase in real GDP at 7.5 per cent, driven mainly by the agriculture (12.5 per cent), trade (9.4 per cent) and manufacturing (8.0 per cent) sectors. This significant growth was followed by uMzinyathi, Zululand and iLembe with real GDP-R growth rates of 5.9 per cent, 5.9 per cent and 5.7 per cent, respectively (Figure 4.19).

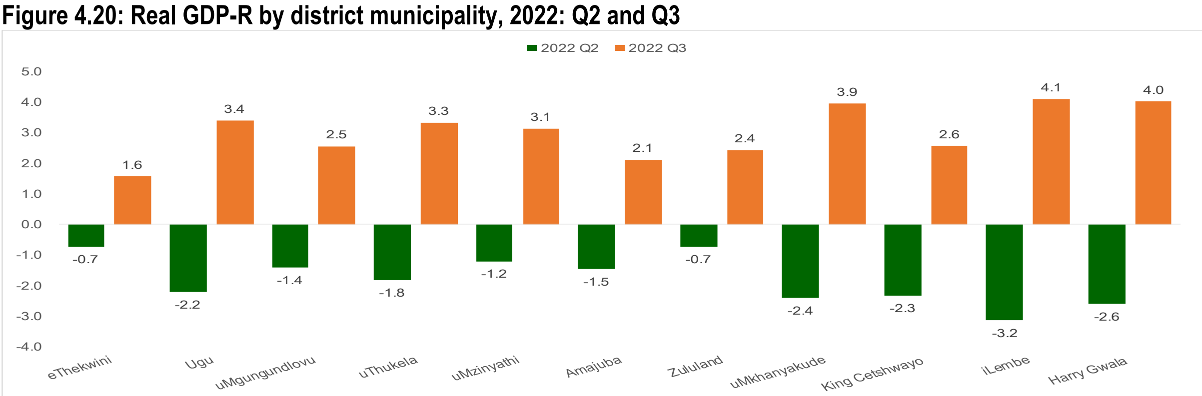
Figure 4.19: Real GDP-R by district municipality in KZN, 2011; 2016; 2021



Source: IHS Markit, 2023

Despite a positive start in 2022, real GDP-R has been volatile as it dropped sharply across all regions in the second quarter of 2022. The largest contraction was reported in iLembe (3.2 per cent) as the agriculture (-11.3 per cent) and manufacturing (-5.8 per cent) sectors experienced notable economic contraction. Encouragingly, economic activity expanded significantly across all KZN Districts in the third quarter of 2022, with the largest increase reported in iLembe (4.1 per cent) and Harry Gwala (4 per cent). Real output growth for both Districts was supported mainly by increased economic activity in the *agricultural, transport* and *construction* sectors (Figure 4.20).

Figure 4.20: Real GDP-R by district municipality, 2022: Q2 and Q3



Source: IHS Markit, 2023

4.5 International trade

Favourable international trade is a powerful engine of growth and development, as it presents economic opportunities that help lift people out of poverty. Global trade across countries should be aimed at benefiting from the uneven distribution of scarce resources. How international trade evolves over the coming decade is a key determinant in achieving Sustainable Development Goals (SDGs) globally. For instance, the COVID-19 pandemic has helped countries globally to remember that an open and predictable trading environment is vital to preventing disruptions in food supply chains and ensuring cross-border flows of the medical supplies needed to encourage healthy lives. The continuous supply of food and medicines will ensure that the motive of ending hunger, food security, improved nutrition and promoting sustainable agricultural output is attained as indicated by one of the SDGs (United Nations, 2022).

International trade has strengthened substantially over the past decades as most countries increasingly joined the World Trade Organization (WTO). This organisation promotes trade liberalisation and free trade[30]. Trade liberalisation increases economic growth by an estimated average of 1 to 1.5 percentage points, resulting in 10 per cent to 20 per cent higher income after a decade. Trade has increased income by 24 per cent globally since 1990. As a result, since 1990, over one billion people have moved out of poverty because of economic growth underpinned by better trade practices (World Bank, 2021).

World trade gained momentum in the second half of 2022 and is expected to remain subdued in 2023 as multiple disturbances weigh on the global economy. On the other hand, the WTO depicted that global merchandise trade volume is estimated to have grown by 3.5 per cent in 2022, which is slightly higher than the 3 per cent forecast in April. Furthermore, the import demand is likely to soften as growth slows in major economies for various reasons. In Europe, high energy stemming from Russia and Ukraine war will diminish household spending and increase manufacturing costs. In the US, putting tight measures on monetary policy will spike interest-sensitive spending areas such as motor vehicles, housing and fixed investment. At the same time, China continues to face COVID-19 outbreaks and production disruptions paired with weak external demand. Lastly, growing import bills for food, fertilisers and fuels could lead to food insecurity and debt distress in developing countries (WTO, 2022).

African countries have shown strong international trade growth through many initiatives. For instance, African Growth and Opportunity Act (AGOA)[31] which was first implemented in 2000, has helped expand and diversify African exports to the US while fostering an improved business environment in many African countries through the application of eligibility requirements. According to the South African Institute of International Affairs (SAIIA) (2017), exports from sub-Saharan African countries (SSA) countries to the US increased substantially from $22 billion in

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[30] Trade liberalisation involves removing trade barriers or restrictions to ensure a free flow of goods between countries.

[31] AGOA provides duty-free treatment to goods of designated sub-Saharan African countries (SSAs). The program dates from 2000 and aims to promote economic growth through good governance and free markets. It covers non-textile as well as textile goods and was most recently re-authorised through 30 September 2025

2000 to $82 billion in 2008. Despite a moderate decline in trade following the global recession in 2008/9, exports totalled $72 billion in 2011 before declining again due to a drop in oil exports from the continent. By 2015 exports had decreased radically, totalling $19 billion in 2015, eroding a strong positive trade balance for African countries. In 2015, the US Congress passed legislation modernising and extending the program to 2025. However, there was a view that US-Africa trade relations must be designed in a structure that would not threaten or undermine the African continental free trade area's goal of increasing intra-Africa trade in the long term.

SA is one of the countries which has benefited from this program ever since its inception. The country has been able to leverage AGOA to grow its exports to the US in sectors other than natural resources, notably the automotive, chemicals and agriculture sectors. Between 2000 and 2014, SA doubled the value of exports to the US, totalling $8.27 billion in 2014. In addition, AGOA has boosted South African agricultural exports such as wine and citrus. Notably, citrus which is highly produced in the Western Cape Province, is one of the agriculture sector's most labour-intensive sub-sectors

In light of the importance of trade as outlined above, this section focuses on international trade, thereby highlighting the impact of COVID-19 to trade, imports, exports, and exports as a percentage of GDP-R and percentage share of the South African exports by provinces. The analysis predominantly concentrates on KZN, the second-largest contributor to the country's economy in terms of GDP, mainly as the province is home to Durban and Richard's Bay, the country's busiest and largest ports. The discussion further reflects the national policy issues related to international trade.

4.5.1 International trade in advanced and emerging economies

According to the World Trade Organisation (WTO) (2010), the world trade volumes fell on three occasions since 1995 to 2009 (-0.2 per cent in 2001, -2 per cent in 1982 and -7 per cent in 1975). However, none of these declines approached the size of the 2009 plunge in world trade. The slump in trade in 2009 by -12.9 per cent was larger than most econometric models would have predicted given the size of the drop in GDP. Economists suggested a number of explanations for the global trade to collapse. These include the imposition of some of the trade protectionist measures and reduced access to credit to finance trade transactions. However, the consensus was centred on a sharp contraction in global demand as the primary source emanating from the sub-prime mortgage crisis in the US which became apparent in 2007 and intensified towards the end of 2008.

However, in 2010 the world trade recorded its largest ever annual increase as merchandise exports surge 14.5 per cent. The factors that contributed to the unusually large drop in world trade in 2009 may have also assisted to boost the size of the rebound in 2010. These included the spread of global supply chains. The rebound in 2010 was strong enough for world exports to recover their peak level in 2008, but it was not enough to bring about a return to the previous growth path (WTO, 2010). Countries with stronger fiscal positions entering the crisis suffered smaller losses, suggesting that greater room for policy manoeuvre may have helped defend against harm.

Extraordinary fiscal and quasi-fiscal[32] actions to support the financial sector after the crisis appear to have helped lessen output losses over the medium term. Economies that moved quickly to assess the health of their banking systems and recapitalize banks appeared to have suffered smaller output losses subsequently.

After almost 10 years of the global financial crisis, the world economy was affected by the COVID-19 shock since 2019. The COVID-19 pandemic has hindered international commodity markets very asymmetrically. For instance, the magnitude of the drop in trade in agriculture was smaller than in the overall merchandise trade. As a result, most countries, especially in Africa, South Asia and Latin America, realised food prices spikes. However, agricultural commodity prices remained broadly steady in 2021. The IMF (2022) estimated that agricultural price indexes remained relatively stable in 2021, especially when the global markets for major food staples were efficiently supplied.

The energy markets, on the other hand, had been adversely affected. The global funder expects these effects to be experienced for several years. These estimations resulted from the collapsing consumer and industry demand, and the sharp fall in energy prices, especially in April 2020, which ultimately led to a significant drop in demand and lack of storage capacity sending crude oil futures into negative territory. However, this unprecedented market disruption was followed by a steady recovery in oil prices in the second half of the year, driven primarily by improvements in global prospects.

Despite the devastating effects of COVID-19, world regions depict significant recovery. Table 4.5 illustrates the recovery in trade flow across the globe. The volume of global trade in goods improved significantly from a contraction of 5.3 per cent in 2020 to a robust 9.8 per cent in 2021. Japan led the recovery in advanced economies at 11.8 per cent, following a dip of -7.7 per cent in 2020. The US followed with a rise of 18.8 per cent from a contraction of 0.9 per cent in 2020 to 7.9 per cent in 2021. The Eurozone also expanded by 15.5 per cent from a plunge of -6.7 per cent in 2020 before recovering by 8.8 per cent in 2021.

Despite the continued lockdowns in China, the country reported positive growth rates in the value of exports and imports at 19.5 per cent and 8.3 per cent, respectively, in 2021. Although China was the first country to report cases of COVID-19, it successfully managed to monitor the flow of vaccination roll-outs. Subsequently, China has seen its output surpassing pre-pandemic levels whilst COVID-19 infections remain low. Africa and the Middle East are slowly recovering from the negative impact of COVID-19, thereby recording a slight increase in exports and imports of 1.3 per cent and 2.2 per cent, respectively.

[32] Quasi-fiscal activities are any activities undertaken by State-owned banks and enterprises, and sometimes by private sector companies at the direction of the government, where the prices charged are less than usual or less than the market rate. Quasi-fiscal activities are usually undertaken at a loss or below the usual rate of profit. Thus they could, in principle, be replaced by specific taxes, subsidies, or other direct expenditures that would have the same net effect on the price at which these services are offered, but bring them onto the budget books.

Table 4.2: World and selected groups and countries: change in the volume of global trade in goods from 2019 to 2021

Group/ country	% change in volume of exports			% change in volume of imports		
	2019	2020	2021a	2019	2020	2021a
World	**-0.3**	**-5.3**	**9.8**	**-0.3**	**-5.1**	**10.6**
Advanced economies	**-0.2**	**-6.7**	**8.8**	**-0.2**	**-5.4**	**9.6**
Japan	-1.6	-7.7	11.8	0.8	-6	4.3
United States	-0.3	-10.9	7.9	-0.5	-4.1	11.7
Eurozone	-0.2	-6.7	8.8	-2.2	0.3	11.4
Emerging economies	**-0.4**	**-2.6**	**11.7**	**-0.8**	**-4.3**	**12.9**
China	0.6	0.1	19.5	-0.2	3.9	8.3
Asia (excl. China)	-1.5	-3.9	16.1	-2.9	-11.3	20.6
Latin America and the Caribbean	0.6	-3.2	5.8	-1.5	-11.2	21.9
Africa and Middle East	-3.9	-7	1.3	-0.1	-3.1	2.2

Source: UNCTAD secretariat calculations based on CPB World Trade Monitor, August 2022

The United Nations Conference on Trade and Development (UNCTAD) (2022), indicates that the COVID-19 pandemic led to a sudden stop in the global economy thus resulting in a massive disruption in the world's supply chain, trade logistics and key international prices. The first stage of the shock was evidently deflationary, particularly for urban services, with a collective decline in supply and demand. Notably, as the economy began to adapt to health-mandated lockdown restrictions, the demand for goods recovered, creating supply and logistics bottlenecks worldwide, leading to price swings. However, global trade has shown some resilience in the first half of 2022, regardless of the continued lockdowns in China (particularly affecting Shanghai), as well as the outbreak of war in Ukraine and succeeding sanctions imposed against the Russian Federation. Before these new aforementioned economic challenges emerged, world trade was expected to recover from the COVID-19 disturbances that hampered the movement of goods globally. These latter disturbances occurred as freight rates began to decrease after the third quarter of 2021 while the disruptions in international supply chains and other logistics eased.

These global shocks directly affect SA's terms of trade, mainly as the country is part of the worldwide economy. Similarly, the country is not decoupled from economic disturbances, which directly impacts the value chain, global supply chain, food supply and commodities prices. The linkage of these global shocks is through the balance of payments with the rest of the world. If the country’s balance of payments weakness is due to adverse long-run trends in the performance of exports and imports (current account), the real output and employment in the affected economic sectors will also be negatively affected thus impacting negatively on the country’s economic growth and development.

4.5.2 Current account of the balance of payments

Table 4.6 illustrates SA's current account from the third quarter of 2019 to the third quarter of 2022. The trade balance switched from a deficit of R31.8 billion in the second quarter of 2019 to a surplus of R44 billion in the third quarter of 2019. This was the second deficit since the second quarter of 2016. SA's trade surplus continued to improve massively by 131.8 per cent from R44 billion to R102 billion in the fourth quarter of 2019, which was the largest since the second quarter of 2011. This improvement emanated from a decline in the value of food imports and an increase in the net gold exports. The trade balance continued to increase further in the first quarter of 2020 amid COVID-19, mainly as restrictions were introduced towards the end of the first quarter of the year. The adverse effects of COVID-19 were visible in SA's imports and exports in the second quarter of 2020, with the trade balance decreasing significantly from R202 billion in the first quarter to R92 billion in the second quarter of 2020. However, the decline was short-lived as SA's export volumes bounced back to R450.2 billion in the third quarter.

This massive improvement resulted from easing COVID-19 lockdown restrictions and the related rebound in economic activity. The SA's net gold and merchandise export value also surged to an all-time high in the third quarter of 2020, along with a muted increase in imports. However, the national trade surplus narrowed from a record high of R585 billion in the second quarter of 2021 to a still high surplus of R437 billion in the third quarter of the same year. The significant narrowing in trade surplus was primarily due to a decline in the value of the country's merchandise exports in the third quarter of 2021, while that of merchandise imports remained unchanged. The decline continued further in the fourth quarter of 2021 to R324 billion due to the increasing value of merchandise imports more than net gold and merchandise exports.

The country's trade surplus continued to narrow to R252 billion in the second quarter of 2022 from R273 billion in the preceding quarter. It declined further to R233 billion in the third quarter of the same year. The increase in the value of imports reflected higher prices and volumes, while the value of exports reflected only higher prices. Notably, the trade surplus declined, with a significant shortfall in services, income and current transfer account. The downward trend by trade surplus was primarily due to a switch in the balance of the current account from a surplus of R107 billion (1.6 per cent of GDP) in the second quarter to a deficit of R18.1 billion (0.3 per cent of GDP) in the third quarter of 2022. A current account deficit at this high was last realised in the second of 2020 (SARB, 2022).

It must be noted that a positive current account balance indicates that the country is a net lender to the rest of the world and also increases the country's net foreign assets by the surplus amount. Conversely, a negative current account balance indicates that a country is a net borrower from the rest of the world. The improvement in the current account balance implies that a country has a surplus foreign exchange, which it has on the exchange rate of the domestic currency. It also implies that the domestic sectors are competitive globally because more goods are traded internationally, as has happened in Japan since the mid-1960s (Shirakawa, 2011). It is, therefore, critical to improve investment in the domestic production of goods for the country and the province of KZN. Efforts to assist potential industrialists should be reinforced aggressively.

The contractions in the exports of machinery and electrical equipment, vehicles and transport equipment, as well as textiles and articles, resulted in a slow increase in the value of exported manufactured goods in the second quarter of 2022. The disruption caused by floods in KZN in April 2022 had an impact by weighing down the exports of vehicles and transport equipment. Another factor is the ongoing shortage of semiconductors[33] which affected domestic production. The COVID-19 lockdown restrictions caused many industries globally to shut down, including semiconductors. The majority of people were working remotely, and there was a high demand for all kinds of devices. As a result, the demand for semiconductors increased while production decreased. This created a backlog in the supply of semiconductors and resulted in a shortage in the market. The shortages of semiconductors resulted in disruptions to auto production for major auto manufacturers. However, the exports of chemical products realised a marked increase and other manufactured goods. Chemical products of iron and hydroxides reflect the increase in exports to Mozambique. At the same time, agricultural exports reflected a decrease in the second quarter of 2022.

Both agricultural and manufacturing exports increased as the value of merchandise exports increased by 2.5 per cent in the third quarter of 2022, while the value of the mining exports remained unchanged. The rapid rise in the value of chemical wood pulp exports boosted the exports of paper and paper products. Increases in machinery and electrical equipment exports were also recorded, while exports of vehicle and transport equipment and chemical products declined. The two preceding quarters recorded a rise in the value of mining exports, which was followed by a marginal increase in the third quarter of 2022. This reflected a substantial contraction in the value of exports of platinum group metals (PGMs) as both physical quantities, and the price declined. The lower volumes reflected reduced production during the quarter as a result of, among other factors, more severe electricity load-shedding, especially in September, and a planned shutdown for the rebuilding of the smelter at a production facility. The higher value of mineral products was sustained by exports of chromium ore, coal and concentrates, as well as manganese ore. SA's share of coal exports destined for Europe surged from 29 per cent of total coal exports in the second quarter of 2022 to 42.7 per cent in the third quarter during the switch from expensive natural gas to coal, and as Russian coal supplies were substituted with SA coal, among others (SARB,2022).

Table 4.3: Balance on the current account, 2019: Q3, 2020: Q3, 2021: Q3 and 2022: Q1-3 (Rands in Billion)

	2019	2020	2021	2022		
	Q3	Q3	Q3	Q1	Q2	Q3
Merchandise exports	1258.3	1357.7	1653.1	1 908.3	1 964.1	2 013.6
Net Gold exports	69.8	129.0	105.0	76.3	95.0	83.0
Merchandise imports	1284.0	-1036.5	-1321.5	-1 612.1	-1 807.3	-1 863.7
Trade balance	**44.0**	**450.2**	**436.6**	**372.5**	**251.8**	**233.0**
Net service,income and current transfer payment	-232.1	-162.4	-222.2	-215.7	-358.4	-251.1
Balance on current account	**-188.1**	**287.8**	**214.4**	**156.7**	**-106.5**	**-18.1**
As percentage of GDP						
Trade balance	**0.9**	**8.1**	**7.1**	**5.8**	**3.8**	**3.5**
Balance on current account	**-3.7**	**5.1**	**3.5**	**2.4**	**-1.6**	**-0.3**

Source: SARB, 2019, 2020, 2021 2022

[33] Almost every electronic device uses a chip or semiconductor to make it run. Semiconductors are little pieces of silicon that together form integrated circuits. These circuits allow devices to process information. So whether it's a car, phone, or even Bluetooth speakers, they all need chips.

4.5.3 Countries trading with South Africa

SA exports to African countries exceeds the imports. Between January to December 2022, the country exported goods worth R494.6 billion to African countries, while imports were R166 billion. However, there is duty-free trade between SA and the other four countries comprising the customs union, which includes Botswana, Lesotho, Namibia, and Eswatini (BLNS countries). Notably, the 30.37 million square kilometres land area of the African continent is large enough to fit in the US, China, India, Japan, Mexico, and many European nations, combined. Moreover, the continent is endowed with abundant natural resources, which is critical in improving intra-African Trade. In this regard, efforts must be intensified to speed up the implementation of the African Continental Free Trade Area (AfCFTA) to assist in improving trade among African countries.

Table 4.4: South Africa's exports and import value and proportion by world regions from January to December 2022 (Including BLNS)

World Regions	Exports (Rands)	% Exports	Imports (Rands)	% Imports
Africa	494.6 Billion	24.6	166.0 Billion	9.1
America	209.7 Billion	10.4	191.8 Billion	10.5
Asia	637.6 Billion	31.7	976.6 Billion	53.7
Europe	556.6 Billion	27.6	452.9 Billion	24.9
Oceania	15.9 Billion	0.8	23.8 Billion	1.3
Other (Unclassified)	87.9 Billion	4.4	9.2 Billion	0.5
Ship/Aircraft	11.3 Billion	0.6	-	-
Total	**2 013.6 Billion**		**1 820.3 Billion**	

Source: SARS, 2023

Asia is the largest South African trading partner. In this regard, exports and imports between SA and Asia amounted to R637.6 billion (31.7 per cent of total exports) and R976.6 billion (53.7 per cent) from January 2022 to December 2022, respectively. Hence China, as one of the countries in Asia, is at the top of the list of countries that trade with SA. In October 2022 alone, SA exported R11.4 billion and imported R18.9 billion from China, resulting in a negative trade balance of R7.5 billion. However, in December 2022, exports by SA to China improved by 38.6 per cent to R15.8 billion, while imports almost doubled from October to December 2022. This observation signifies that SA's trade with China is not balanced.

The top exports from SA to China are iron, manganese ore, chromium ore, platinum and ferroalloy. On the other hand, SA imports, among others, telephones, computers, electric batteries, large construction vehicles and electric transformers from China. During October, SA's exports were mainly from Durban (R3.3 billion), Saldanha (R2.6 billion), Port Elizabeth (R1.4 billion), Richards Bay (R1.1 billion) and OR Tambo International Airport (R1 billion). Conversely, import destinations were mainly Durban, OR Tambo International Airport, Cape Town, Johannesburg and Port Elizabeth (OEC, 2022).

Table 4.5: Top 5 countries SA export to and imports from, January December 2022

Number	Top 5 countries SA exported to	Percentage of exports	Amount (Rands in billion)	Top 5 countries SA imported from	Percentage of imports	Amount (Rands in billion)
1	China	9.7	15.8	China	23.9	37.7
2	United States	10.2	16.7	India	7	11.0
3	Germany	7.5	12.2	Germany	7.1	11.2
4	Japan	7.2	11.8	United States	8.5	13.4
5	United Kingdom	5.6	9.1	United Arab Emirates	6.3	9.9

Source: SARS, 2023

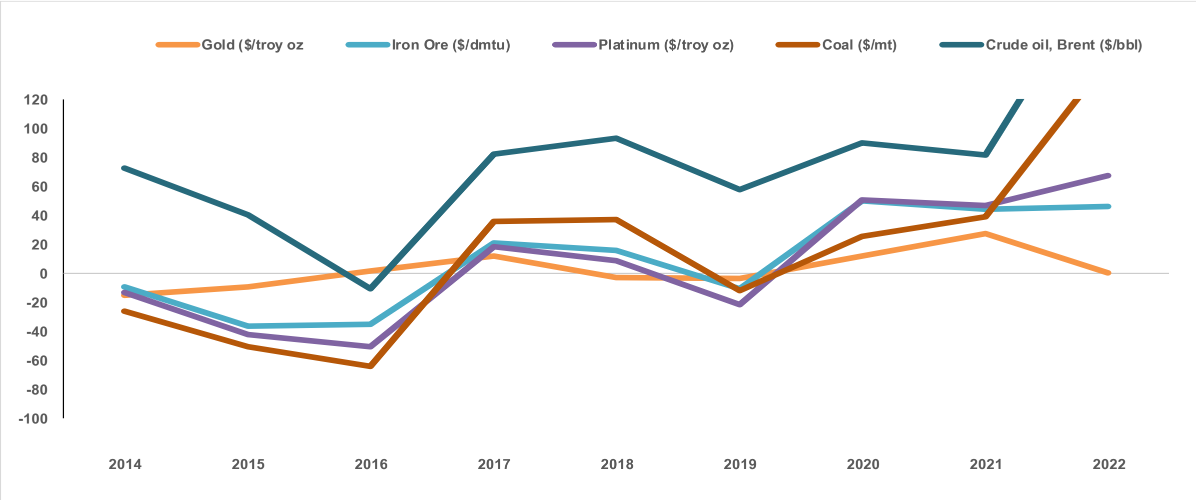
The US is the second largest destination for SA's export of commodities, followed by Germany, Japan and the UK. SA exported approximately R209.7 billion of goods to the US, while import was worth around R191.8 billion between January 2022 and December 2022. As indicated earlier, SA is of the African countries that benefit from AGOA. The total value of goods exported to Europe between January and December 2022 was approximately R556.6 billion. Over the same period, almost two-thirds of exports to Europe were destined for Germany (29.4 per cent), followed by the UK (18.4 per cent) and the Netherlands (17.7 per cent) (SARS, 2022). The export commodities SA exported to Germany were vehicles, aircrafts and vessels, precious metals, mineral products, and machinery. The same commodities are the major exports to the UK and Netherlands, including vegetables, precious iron and steel, as well as prepared foodstuffs and chemicals.

4.5.4 International commodity prices

The world has been experiencing several economic shifts over the past three years. On the other hand, most of the commodity prices have retreated from their peaks as the outcome of the post-pandemic demand surge and the war in Ukraine continues as global growth slows and uncertainties about a worldwide recession intensify. These disturbances led to considerable swings in the prices of copper and aluminium. The recorded price rebound after the pandemic lows in April 2020 was primarily driven by the economic recovery. However, the commodity price rebounds in April 2020 were followed by a renewed slowdown in March 2022. These declines resulted from the unwinding of supply constraints and concerns about the imminent global recession, which (especially for copper) contributed to the price plunge (World Bank, 2022).

The World Bank (2022) further reports on the coal markets' developments, exhibiting a continuous rise in the coal price, which peaked at $330 per tonne in the third quarter of 2022. This unprecedented upswing trend in coal prices was primarily induced by high natural gas prices, which led to many countries switching from using natural gas to coal in power generation. The rise in global coal consumption also prompted China to increase coal production by 11 per cent in the first eight months of 2022 compared to the same period in 2021. On the other hand, India's coal production expanded by 21 per cent in the first nine months of 2022 compared to the previous year. Notably, both China and India benefited from increased coal production, resulting in a rise in their exports. However, countries like Australia have their exports falling due to weather conditions.

Figure 4.21: Real percentage change in selected commodity prices, 2014 to 2022 (US dollar indices: 2010 = 100)



Source: World Bank, 2022 and Own calculations

The International Energy Agency (IEA) (2022) shows that SA produces over 250 million tons of coal annually. Over 90 per cent of the coal consumed on the entire African continent is produced in SA. However, the country's coal production dropped by almost 8 per cent to 229 million tonnes in 2021. The EIA estimated production to continue on a downward trajectory due to weak domestic consumption and poor railway performance by operator Transnet Freight Rail, large-scale cable theft, unavailability of locomotive and spare parts, vandalism and infrastructure bottlenecks.

The derailments of wagons that frequently block rail lines for several days also contribute to reducing coal production. For instance, in June 2022, rail lines were down for four days, and from January to September, Transnet rail deliveries to Richards Coal Terminal (RBCT) were more than 30 per cent below the historical average. This challenge was further worsened by state-owned power utility Eskom which continued to implement frequent unplanned outages of coal-fired power plants. Unfortunately, the power outages led to some of the mining companies with no alternative but to shut down their operations for care and maintenance, despite record-high prices in overseas markets. However, high international coal prices have incentivised other Southern African countries, such as Mozambique, Botswana, Tanzania and Zimbabwe, to increase their coal production.

According to the SARB (2022), the average US dollar price of gold on the London market decreased by 7.7 per cent from $1 873 per fine ounce in the second quarter of 2022 to $1 729 per fine ounce in the third quarter. The gold price changes reflected a stronger US dollar and higher interest rates over the period. However, during the same period in 2021, gold price was also showing a decline. The average US dollar price of gold on the London market dropped by 1.4 per cent from US$1 815 per fine ounce in the second quarter of 2021 to US$1 790 per fine ounce in the third quarter. The price of gold was weighed down by, among other factors, lower investment demand amid rising US bond yields as well as a stronger US dollar. According to the World Gold Council, demand for gold fell by 12.7 per cent from 951 tons in the second quarter of 2021 to 831 tons in the third quarter, as holdings of gold-backed exchange-traded funds (ETFs) experienced net outflows of about 27 tons in the third quarter (SARB, 2021).

However, in 2020 the price of gold showed an upward trend. As per the SARB (2020), the average US dollar price of gold on the London market increased to an all-time high in August 2020, supported by sustained demand. However, the gold price decreased somewhat in September as the US dollar strengthened and demand weakened. A similar trend was also realised in 2019, with the gold price increasing by 12.6 per cent from $1 310 per fine ounce in the second quarter of 2019 to $1 474 per fine ounce in the third quarter. The increase was boosted by global demand for safe-haven assets as the US Federal Reserve (Fed) lowered interest rates during the third quarter of 2020. In addition, strong demand for gold by emerging market central banks, such as the central banks of China, Russia and Turkey, also contributed to the higher gold price.

Similar to other precious metals or goods in general, the price of platinum is determined by supply and demand. However, the price of platinum is much more volatile than gold and even silver. According to data by the World Bank (2022), platinum's price spiked from $962 per ounce in January to $1 166 per ounce in March 2022 on concerns about supply out of Russia, the world's second-largest producer of the metal after SA. The price then retreated as supply was not affected by disruptions, and demand from the world's largest consumer, China, declined during extended COVID-19 lockdowns. According to data compiled by the Dutch bank and ABN Amro (2022), Russia accounts for 11 per cent of global platinum mining output, producing 19 000kg of the total 180 000kg, making it the world's second-largest producer. Russia's Nornickel is also the world's largest palladium producer, accounting for more than 40 per cent of the global supply.

The World Bank (2022) also shows that the price of platinum struggled to make any significant gains in 2021, remaining below $ 1 200 per ounce for the larger part of the year. By the end of 2021, platinum had shed 9.2 per cent of its price. The metal's inability to sustain gains was partially due to residual COVID-19-related disturbances and supply chain disruptions, primarily because of the automotive semiconductor shortage during the first half of 2021. In addition, a drop in investment demand stemming from platinum exchange-traded fund (ETF) outflows and increasing refined supply weighed on price growth in the latter half of 2021.

Like all other commodities, SA's production of platinum group metals (PGMs)[34] was volatile in 2020 as miners tried to navigate the uncertainty and economic damage caused by the COVID-19 pandemic. Supplies were adversely affected by mine disruptions and processing plant stoppages for several months. According to Stats SA (2020), despite a drop of 15.5 per cent in PGMs production in 2020, PGMs sales increased by 40 per cent due to higher prices. Over the same year, platinum prices increased by 2.4 per cent in US dollars terms and 15.9 per cent in

[34] PGMs consist of six metals: platinum, palladium, rhodium, ruthenium, osmium and iridium.

rand terms. Overall, there was a sharp decline in global supply (17 per cent), with a moderate fall in demand (7 per cent) for platinum in 2020 (World Platinum Investment Council, 2021).

In a strong pricing environment for PGMs in 2019, the average platinum price declined while other PGM prices strengthened significantly (Anglo American Platinum Limited, 2019). Data from the world bank shows that the average platinum price was $863 per ounce in 2019, down by 2 per cent year-on-year. However, it remained stable throughout 2019, with some fluctuations while remaining within a range of $780 and $920 per ounce in the first half of 2019. Contrarily, the price picked up in the second half of the year as investor demand recovered, triggering sharp inflows into platinum ETFs.

Notably, platinum traded 40 per cent lower compared to gold price. However, the gap between the prices of the two commodities was reduced to 30 per cent in April and May, driven mainly by recovering investor demand for platinum and a rise in net long speculative positions in the New York Mercantile Exchange (NYMEX). The key fundamentals behind trading lower against gold included a drop in platinum consumption by the automotive industry due to a shrinking share of diesel cars in key markets, primarily in Western Europe. Other factors included the lack of anticipated recovery in demand from Chinese jewellers due to a threatened trade war between China and the US and, lastly, primary producers not being sensitive to lower prices (Nornickel, 2019).

The IEA (2023) reveals that on the final trading day of 2022, the spot price of Brent crude oil, a global benchmark priced in Northwest Europe, closed at $85 per barrel, which was $7 higher than the price on 3 January 2022 ($78 per barrel). The Brent crude price rose significantly in the first half of 2022 but declined relatively in the second half of the year. The Brent crude oil spot price averaged $100 per barrel in 2022, compared to $71 per barrel in 2021. Notably, Russia's full-scale invasion of Ukraine in February contributed significantly to crude oil price increases in the first half of 2022.

On 08 March 2022, the combination of Russia's invasion of Ukraine with low global crude oil inventories lifted it to the highest inflation-adjusted price since 2014. Moreover, rising vaccination rates, reopening economies, and lifting mass lockdowns resulted in oil demand outpacing supply in 2021. As a result, oil prices were pushed from as low as $50 a barrel at the beginning of 2021 to an annual high of $86 a barrel at the end of October (EIA, 2021). However, the price retreated to $78 a barrel from late October to the end of 2021.

The EIA (2021) found that responses to the COVID-19 pandemic led to steep global petroleum demand declines and a volatile crude oil market in the first half of 2020. The second half of the year was characterised by relatively stable prices as demand began to recover. As petroleum demand fell and US crude oil inventories increased, West Texas Intermediate (WTI) crude oil traded at negative prices on 20 April, the first time the price dropped to less than zero since trading began in 1983.

The price of Brent crude oil averaged $64 per barrel in 2019, which was $7 a barrel lower than its 2018 average. Brent prices reached an annual daily low of $55 a barrel in early January, rising to a daily high of $75 per barrel in late April. Although the 2019 range of daily prices remained relatively narrow, Brent oil experienced its largest single-day price increase since 2008. On 06 September 2019, the first full day of trading after an attack on key energy installations in Saudi Arabia, Brent oil price increased by $9 per barrel. However, the price increases were relatively short-lived, and prices returned to pre-attack levels by the end of the month because of Saudi Arabia's ability to bring production back online within weeks of the attack and global concerns about demand growth (EIA, 2020).

The SARB (2022) demonstrates how the movements in international commodity prices lead to instability in exports and imports of intermediate goods compared to other traded goods and services. For instance, the value of consumption goods imports as a share of the total remained relatively stable at about 25 per cent between 2010 and 2019. Yet, on the other hand, the consumption goods imports rose sharply in mid-2020 due to the increased value of imported mineral products, particularly petrol and diesel, which are unstable in nature. This expansion was largely due to the increased reliance on Eskom's diesel-powered open-cycle gas turbines to meet electricity demand and the closure of most of South Africa's refineries.

4.5.5 South Africa and KwaZulu-Natal exports

The global economy remained firmly in the grips of a recession in the first quarter of 2009 due to the global financial crisis, as activity continued to decline at broadly the same pace that had been registered in the fourth quarter of 2009. Driven by further sharp contractions in real output of the advanced economies in the wake of the financial crisis, the decline in production and international trade volumes reverberated in all parts of the world. The deterioration in the real output of SA’s most important trading-partner countries adversely affected export volumes during the first quarter of 2009. In addition, the domestic demand for imported goods also declined, albeit not by as much as the contraction in merchandise exports. As a result, SA’s deficit on the trade account of the balance of payments widened once more to a level similar to that recorded in the first quarter of 2008, when exports were restrained by a shortage of electricity. This deterioration was only partly offset by an improvement in SA’s terms of trade and lower net dividend payments to non- resident investors, which were related to the slowdown in domestic production and declining company profits. Overall, the deficit on the current account of the balance of payments widened to 7.0 per cent of GDP in the first quarter of 2009. However, trade started to improve in 2010 when the effect of global financial crisis subsided (SARB, 2009).

Table 4.6 shows national and KZN values and proportions of exports in 2011 and 2021. The total estimation of South African exports increased extensively by 127.9 per cent over the past decade, from R794.3 billion in 2011 to R1.810 trillion in 2021. The significant rise in exports is also reflected in the report by the South African Revenue Service (SARS, 2023), showing that SA recorded a trade surplus of R5.43 billion in December 2022. However, exports fell by R8.72 billion (-5.1 per cent) between November and December 2022. The value of export reported an 11.1 per cent improvement from R1 812.7 billion in 2021 to R2 013.6 billion in 2022.

The value of both SA's exports and imports of goods increased to all-time highs in the third quarter of 2022. However, the trade surplus narrowed further from R252 billion in the second quarter to R233 billion in the third quarter of 2022. The value of merchandise imports increased at a faster pace compared to merchandise exports and net gold exports. The value of merchandise exports increased further by 2.5 per cent in the third quarter of 2022 as the exports of mining products surged (SARB,2022).

Table 4.6: South African exports by province, 2011 and 2021

	2011			2021		
	Exports (R1000)	% Share of South African exports	Exports as % of GDP	Exports (R1000)	% Share of South African exports	Exports as % of GDP
South Africa	794 370 000	**100.0**	23.9%	1 810 179 453	**100.0**	29.1%
Eastern Cape	36 327 798	4.6	14.2%	65 471 214	3.6	13.8%
Free State	4 407 893	0.6	2.6%	8 408 523	0.5	2.7%
Gauteng	535 006 238	67.3	45.2%	1 290 035 540	71.3	59.0%
KwaZulu Natal	**95 120 873**	**12.0**	**17.9%**	**155 641 339**	**8.6**	**16.2%**
Limpopo	14 448 266	1.8	6.3%	32 068 104	1.8	6.8%
Mpumalanga	13 098 646	1.6	5.6%	64 199 550	3.5	14.2%
North West	20 172 373	2.5	10.7%	10 793 422	0.6	2.8%
Northern Cape	5 674 872	0.7	8.5%	15 474 661	0.9	11.9%
Western Cape	70 113 041	8.8	15.0%	168 087 100	9.3	19.6%

Source: IHS Markit, 2022

The distribution of export value by province depicts that KZN contributed R155 billion or 8.6 per cent to the total national value of exports (R1.810 trillion) in 2021. This is the third largest contribution after GP (R1 290 billion or 71.3 per cent) and the WC (R168 billion or 9.3 per cent). However, KZN continues to contribute below expectations, as it has recorded a moderate drop of 1.7 percentage points as a percentage of the national GDP, from 17.9 per cent in 2011 to 16.2 per cent in 2021.

4.5.6 South Africa and KwaZulu-Natal imports

The aggregated values of national imports in 2011 and 2021 are illustrated in Table 4.8, which shows the top three largest importers in SA, where KZN is one of them after GP and the WC, with a value of R169 billion in 2021, up from R87.462 billion in 2011. Therefore, the province contributed 11.7 per cent and 12.7 per cent to the national value of imports in 2011 and 2021, respectively. WC continues to be the second largest importer, with R143.717 billion in 2011(19.2 per cent of national imports) and R226.810 billion in 2021 (17.1 per cent of national imports). Similarly, GP continues to be the first largest importer for both periods, with R467.642 billion in 2011 and R835.898 billion in 2021, translating to 62.6per cent in 2011 and 62.9 per cent in 2021, respectively. The significant contribution by the GP is expected, given greater economic activity compared to other provinces. The NC and LP remain the least contributors to the national imports, with a mere 0.1 per cent and 0.2 per cent respectively.

Table 4.7: South African imports by province, 2011 and 2021

	2011		2021	
	Imports (R1000)	% Share of South African imports	Imports (R1000)	% Share of South African imports
South Africa	747 120 999	**100.0**	1 328 526 000	**100.0**
Eastern Cape	36 214 954	4.8	61 897 920	4.7
Free State	2 207 617	0.3	8 367 133	0.6
Gauteng	467 642 273	62.6	835 898 901	62.9
KwaZulu Natal	87 462 540	**11.7**	169 360 338	**12.7**
Limpopo	1 421 387	0.2	2 383 400	0.2
Mpumalanga	3 212 836	0.4	14 356 754	1.1
North West	4 513 505	0.6	7 749 526	0.6
Northern Cape	729 096	0.1	1 701 521	0.1
Western Cape	143 716 791	19.2	226 810 506	17.1

Source: IHS Markit, 2022

SARS (2023) report shows that imports had been realising growth despite the pandemic's impact and other factors. In 2022, imports from January to December were worth about R1 820.3 billion, and this value is 31.8 per cent more than the R1 380.9 billion recorded during the same period in 2021. For 2022, the cumulative trade balance surplus of R193.3 billion has been recorded. Moreover, imports recorded in December 2022 of R157.8 billion were 25.1 per cent more than the R126.1 billion imports recorded during the same period in 2021. There was a preliminary trade balance surplus revised downwards in November 2022 by R0.68 billion as a result of the ongoing Vouchers of Correction[35] (VOC), where the revision was from the preliminary trade balance surplus of R7.9 billion to the revised trade balance surplus of R7.3 billion.

4.6 Travel and tourism

Travel and Tourism have been recognised as an important sector contributing significantly to the global economy. According to the World Travel and Tourism Council (WTTC) (2022), the sector enables socio-economic development, job creation and poverty reduction. Moreover, the sector provides unique opportunities to women, minorities, and young people. The benefits of Travel & Tourism spread far beyond its direct impacts in terms of GDP and employment, with indirect gains extending through the entire travel ecosystem as well as the supply chain linkages to other sectors.

In SA, the National Development Plan (NDP, 2013) recognises Travel and Tourism as one of the priority areas in the country, mainly because it is one of the highly labour-intensive sectors that could accelerate the achievement of job creation opportunities. The sector is further identified as having enormous potential to stimulate the development of small businesses to create opportunities for inclusive growth that has the potential to benefit all

[35] Voucher of correction (VOC): a document used in South African shipping to amend any details or particulars that need to be changed in the Bill of Entry (SAD500) that has already been filed for a particular shipment with customs.

South Africans. Therefore, travel and Tourism is among the key sectors with immense contribution to economic growth and development.

4.6.1 World travel and tourism

The onset of the COVID-19 pandemic resulted in tourism businesses being among the first to be closed in order to contain the virus. While the effect of the COVID-19 pandemic has been felt across the entire *Travel & Tourism* ecosystem, 2021 saw the beginning of the recovery for the sector. Prior to the pandemic, *Travel & Tourism* (direct, indirect, and induced impacts) was one of the world's largest sectors, accounting for 25 per cent of all new jobs created in the world, 10.3 per cent of all jobs (333 million), and 10.3 per cent of global GDP ($9.6 trillion). Meanwhile, international visitor spending amounted to $1.8 trillion, accounting for 6.8 per cent of total exports in 2019 (WTTC, 2022).

The effect of COVID-19 emphasised the tremendous importance and positive contribution of *Travel & Tourism*. However, more than 62 million jobs were lost in the sector globally in 2022. The shedding of jobs of this magnitude constituted 18.6 per cent decrease across the entire sector. The effect was more severe on Small and Medium Sized Enterprises (SMEs), which comprise around 80 per cent of all global businesses in the sector. On the other hand, the sector suffered losses of almost $4.9 trillion, with its global contribution to GDP falling sharply by 50.4 per cent year-on-year, compared to a 3.3 per cent decline in the global economy in 2020.

Though recovery for global *Travel and Tourism* started to pick up in 2021, it was slower than expected, partly due to the impact of the Omicron variant, stringent and inconsistent border restrictions and the lack of coordination among governments to tackle the pandemic. Nevertheless, the sector's contribution to GDP increased by $1 trillion, reflecting a 21.7 per cent rise, and thus reaching $5.8 trillion in 2021. Its global economy share also rose from 5.3 per cent in 2020 to 6.1 per cent in 2021. The sector also reported a recovery of 18.2 million jobs, representing a 6.7 per cent increase. Despite these difficulties, *Travel & Tourism* is projected to grow by an average annual rate of 5.8 per cent between 2022 and 2032. As a result, its contribution to the GDP could return to 2019 levels by the end of 2023. Moreover, the sector is expected to create nearly 126 million new jobs within the next ten years (WTTC, 2022).

4.6.2 Travel and tourism in South Africa

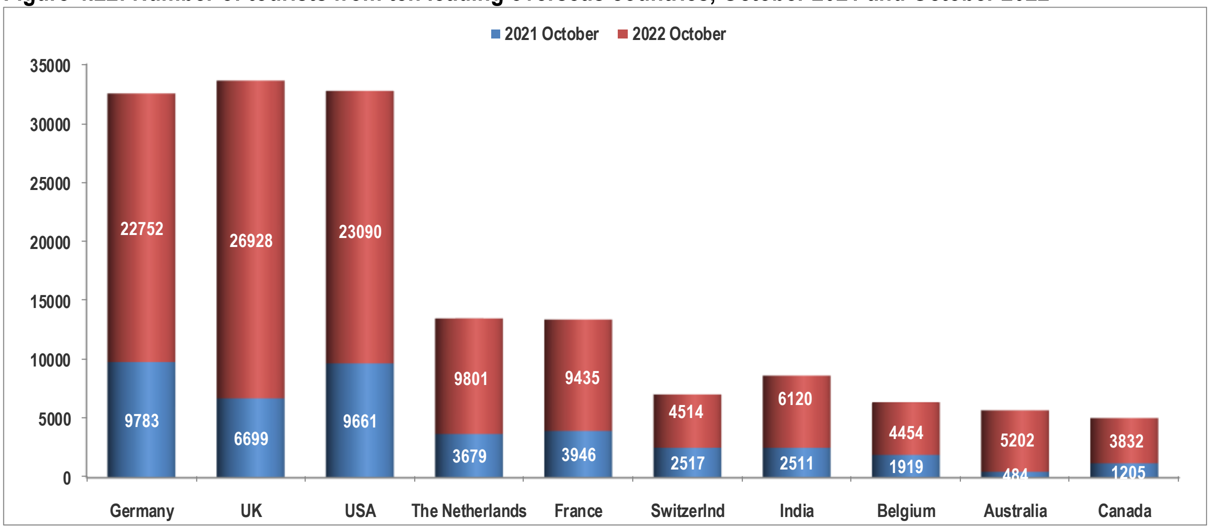
Travel & Tourism is one of the vital sectors contributing to the South African economy. According to Stats SA (2021), Travel & Tourism directly contributed R363.2 billion, translating to 6.9 per cent of the national GDP in 2019. However, the sector was severely affected by the effects of the COVID-19 pandemic in 2020. As a result, the Department of Tourism (2022) and Statista (2022) indicate that contribution by Travel & Tourism fell to 3.1 per cent, and the number of jobs dropped sharply by approximately 32.4 per cent to an estimated 987 400 in 2020.

Nevertheless, the sector reported a moderate recovery and contributed nearly 3.2 per cent to the country's GDP in 2021.

In addressing the predicaments brought by the pandemic to the economy, particularly the tourism industry, SA is implementing the recovery plan, which established an electronic visa system for attracting immigration, implementing a trusted employer scheme to make the visa process easier for large investors and streamlining application requirements. The e-visa system will also boost the tourism industry by making the application and verification system easier, allowing easier access to visitors. This is anticipated to have a positive outcome on tourism and the economy of the country at large.

Figure 4.22 shows the number of tourists visiting SA from the ten leading developed communities from October 2021 to October 2022. In October 2021, the number of visitors was lower when compared to October 2022. This illustrates the substantial increase in tourist numbers resulting from the partial relaxation of restrictions of the COVID-19 pandemic. As is evident from the figure, the most significant number of tourists visiting SA came from Germany at 22 752 in 2022, followed by the UK at 26 928 and the US at 23 090 tourists in the same year.

Figure 4.22: Number of tourists from ten leading overseas countries, October 2021 and October 2022

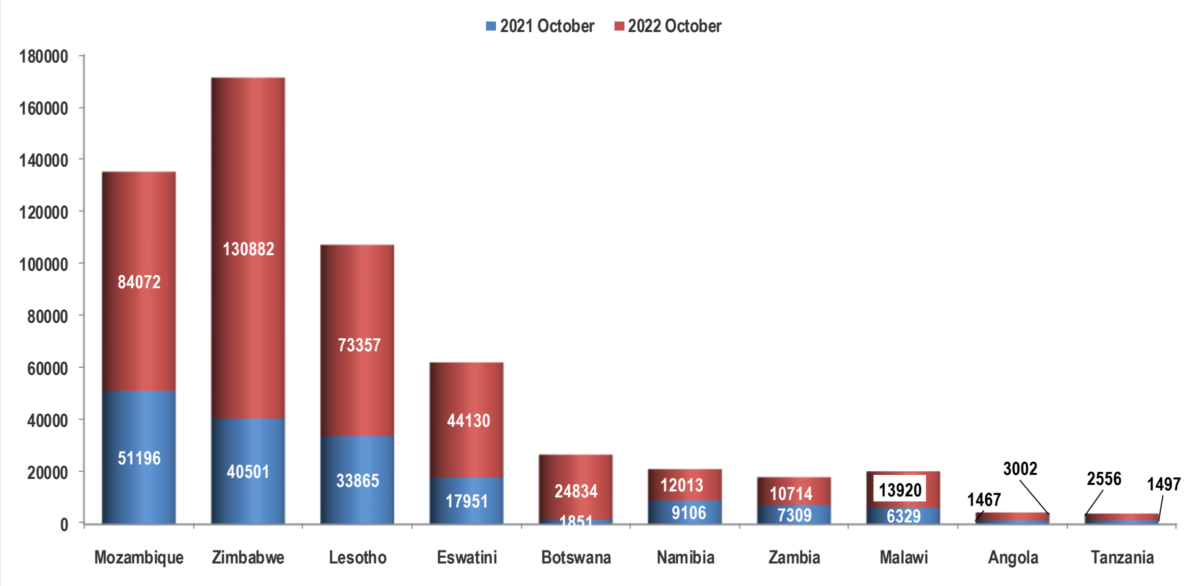


Source: Stats SA, 2022

Figure 4.23 shows the number of tourists visiting SA from the ten leading Southern African Development Community (SADC[36]) countries in October 2021 and October 2022. As with the number of foreign tourists, a substantial increase is evident in the number of travellers visiting the country over the same period. As shown in the figure, Zimbabwe had the highest number of tourists visiting SA in October 2022 at 130 882, followed by Mozambique at 84 072 in the same year.

[36] SADC countries include Angola, Botswana, the Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania, Zambia, and Zimbabwe.

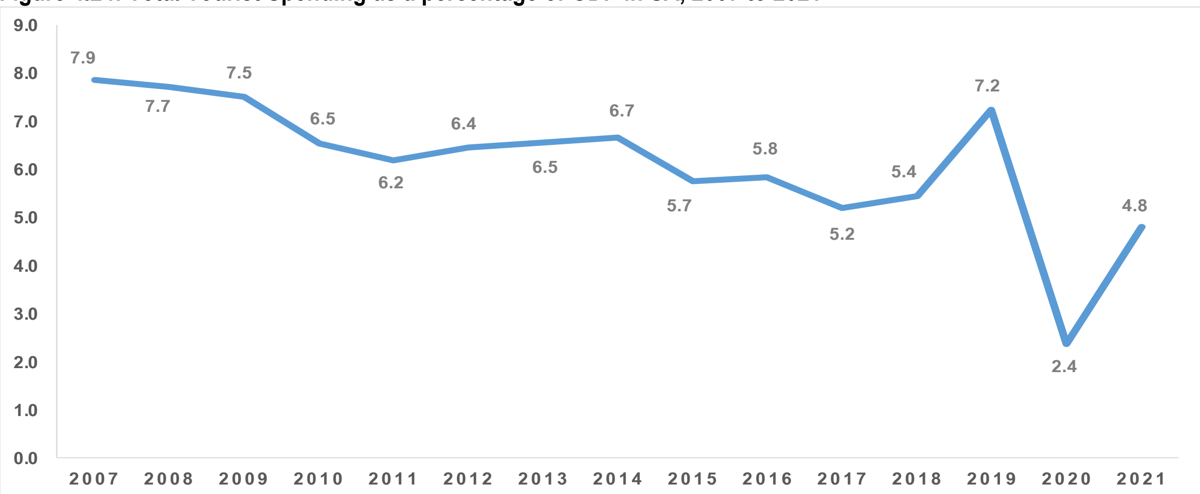
Figure 4.23: Number of tourists from the ten leading SADC countries, October 2021 and October 2022



Source: Stats SA, 2022

Figure 4.24 shows the total tourist spending as a percentage of GDP in SA from 2007 to 2021. The country recorded a relative deceleration in *Travel and Tourism* spending as a percentage of GDP from 7.9 per cent in 2007 to 6.2 per cent in 2011. This moderate drop was mainly due to the 2008/2009 global financial crisis, which impacted both international and national tourist arrivals and revenue. However, from 2011 to 2014, there were improvements in tourist arrivals hence the marginal rise in tourist spending as a percentage of GDP, from 6.2 per cent in 2011 to 6.7 per cent recorded in 2014.

Figure 4.24: Total Tourist Spending as a percentage of GDP in SA, 2007 to 2021



Source: IHS Markit, 2022

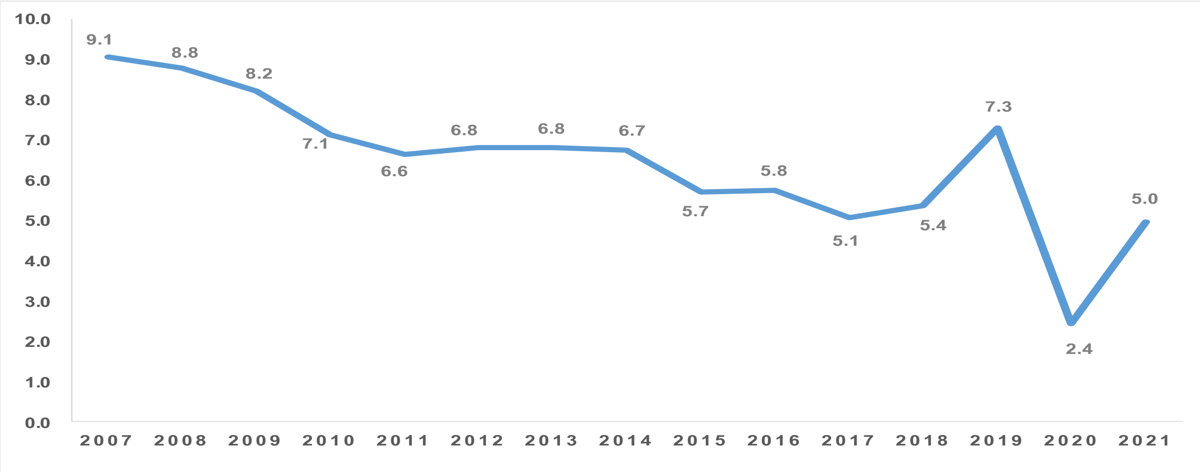
The Tourism Performance Report (2019) shows that the total number of international tourist arrivals improved significantly and reached 10.2 million in 2019. Subsequently, the sector reported a robust contribution of 7.2 per cent of tourism as a percentage of GDP when compared to the 5.4 per cent recorded in 2018. Notably, in 2020, the world was engulfed by the COVID-19 pandemic, which halted many economic activities and resulted in a sharp fall of 2.4 per cent in tourist spending in 2020 compared to the preceding year. However, the COVID-19 containment measures were relaxed in 2021, and the economic activity gradually improved and gained momentum leading to a moderate recovery; thus, tourist spending as a percentage of GDP increased to 4.8 per cent.

4.6.3 Travel and tourism in KZN

KZN is one of the most diverse provinces in SA. The Province boasts with the two World Heritage Sites, the Greater St Lucia Wetland Park and the majestic uKhahlamba-Drakensberg Park, with spectacular scenery. KZN is also home to Hluhluwe-iMfolozi Park, the oldest game park in Africa, as well as pampering private game reserves, where lucky visitors might spot the Big Five (leopard, lion, elephant, buffalo, and rhino). Other places of interest are the Drakensberg mountains, iSimangaliso Wetland Park and Sodwana Bay National Park, among others.

According to Tourism KZN (TIKZN, 2020), prior to the onset of COVID-19, Travel and Tourism was estimated to contribute an annual average of about 10 per cent to the GDP-R in KZN. In addition, hotels, restaurants, air transport, and transport-supporting sub-industries contributed an average of around 4.3 per cent of the total employment in the Province.

Figure 4:25 Total Tourist Spending as a percentage of GDP in KZN, 2007 to 2021



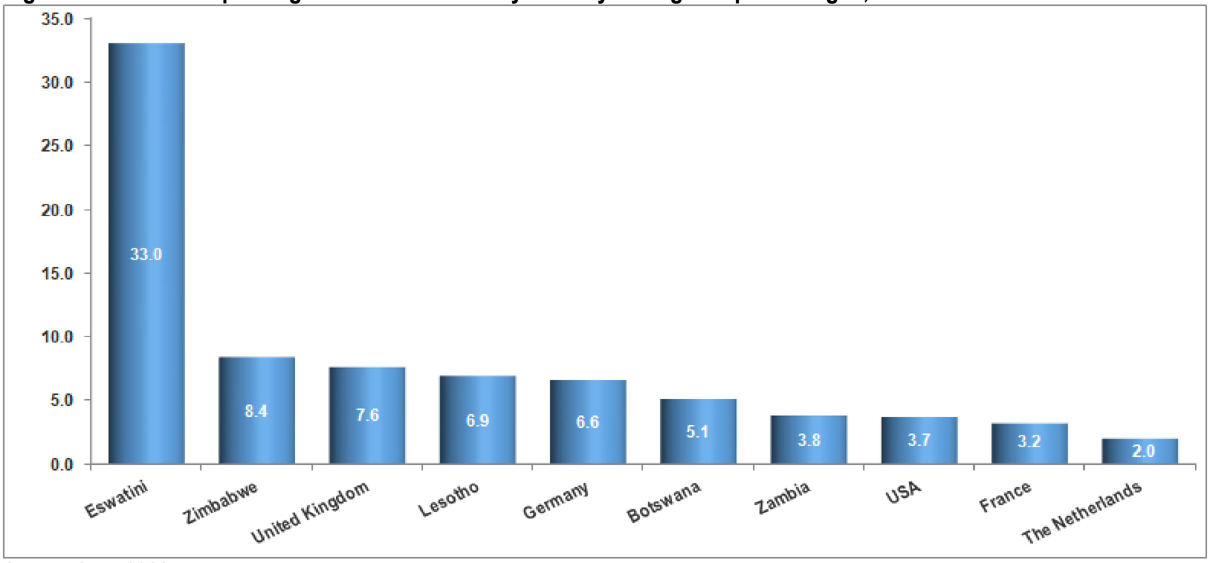
Source: IHS Markit, 2022

Figure 4.25 shows the total tourist spending as a percentage of R-GDP in KZN from 2007 to 2021. The Tourism KwaZulu-Natal (TKZN, 2019) indicates that the Province realised a substantial spike of 6.2 million trips undertaken by domestic tourists to KZN in 2019. This increase was about 112 per cent compared to the number of trips reported in 2018, making KZN and the WC the country's most visited provinces by domestic tourists. The overwhelming increase in this number is supported by a 7.3 per cent rise in tourism spending in 2019 compared to the 5.4 per cent recorded in the preceding year. However, the sector was severely affected by the COVID-19 pandemic, which resulted in a sharp decline of 2.4 per cent in tourist spending as a percentage of R-GDP in 2020. Nevertheless, similar to the global and national trends, Travel and Tourism recovery in KZN started to gain momentum from the effects of the pandemic and reported a significant 5 per cent increase in tourist spending as a percentage of R-GDP in 2021.

4.6.4 Tourists visiting KZN by country of origin

Figure 4.26 shows the number of tourists from the top ten countries worldwide who visited KZN in 2020. Half of the ten are from outside Africa: Germany, the US, France, the Netherlands, and the UK (SAT, 2021). The highest proportion of visiting tourists from outside SA came from Eswatini at 33 per cent (71 340 people), Zimbabwe at 8.4 per cent (18 114 persons), the UK at 7.6 per cent (16 442 people), Lesotho at 6.9 per cent (14 952 visitors), Germany at 6.6 per cent (14 202 persons), Botswana at 5.1 per cent (11 087 visitors), Zambia at 3.8 per cent (8 135 people), the USA at 3.7 per cent (7 962 visitors), France at 3.2 per cent (6 819 persons), and the Netherlands at 2 per cent (4 368 people).

Figure 4.26: KZN's top foreign tourism markets by country of origin in percentages, 2020



Source: SAT, 2022

Therefore, to obtain maximum benefit from the *Travel and Tourism* sector, the Province needs to intensify its efforts of working with other stakeholders to promote and market KZN as a destination of choice for business and leisure travellers in SA. The Province also needs to focus on infrastructure development or tourism investments, thereby providing incentives for investment resort developments, Gastronomic tourism, Airport Iconic attraction, passenger terminal, regional access, Durban Cruise and others. Most importantly, it is critical for the Province to develop and maintain a tourism database.

4.7 Conclusion and recommendations

This Chapter provided a comprehensive review of economic climate from a global perspective and cascaded them down to national and provincial levels, particularly the KZN's context. The primary objective is to identify significant global and national developments that might be great opportunities or risks to the KZN's economic prospects. As an open economy, the transmission mechanisms through which some global developments could impact the SA and KZN's economy involve its trading partners. This implies that improved economic activity in any of SA's major trading partners increases the opportunity for higher external demand for local goods and services. The opposite applies to deteriorating economic performance among major trading partners.

Global growth decelerated significantly in 2022 amid numerous destabilising shocks. The invasion of Ukraine by the Russian Federation had spillovers to the global economy through its effects on commodity markets, supply chains, inflation, and financial conditions. Also, global growth has been depressed by deteriorating activity across the three major economies, the United States (US), the Euro Area (EA) and China. On the other hand, inflation accelerated sharply owing to improving global demand, supply disruptions, and rising food and energy prices. In response to high inflation, central banks, including Advanced Economies, tightened monetary policy stances at a faster pace, resulting in more stringent global financial conditions.

Economic activity in SA expanded considerably by 4.9 per cent in 2021, following a substantial pandemic-induced recession of 6.4 per cent in 2020. However, internal structural economic constraints continue to hamper much-needed national economic growth. The unreliable electricity supply, high levels of market concentration, inefficiencies in network industries and a high cost of doing business are some of the structural factors affecting the country's economy.

Moreover, the intensified implementation of load-shedding shot up and reached an all-time high of 1 949 hours, an average of 14.8 calendar days per month in the final quarter of 2022. This included a prolonged period of power outages when 187 hours of stages 5 and 6 load-shedding were implemented. Consequently, the SARB expects real output to deteriorate significantly to 0.3 per cent in 2023 as extensive load-shedding is anticipated to affect economic activity severely. The expectation by the SARB is more conservative compared to 0.9 per cent by the National Treasury.

In addition, weak activity in major trading partners (China, the EA, the United Kingdom, and the US), tight global financial conditions, and political and policy uncertainty are expected to constrain growth and widen external vulnerabilities. Inflation has surged to high levels, prompting fast-paced monetary policy tightening. In this regard, the Monetary Policy Committee (MPC) has raised the repurchase rate (repo rate) by an accumulative 300 basis points, resulting in the prime lending rate increasing from 7.75 per cent in November 2021 to 10.75 per cent in January 2023. This hawkish stance by the SARB implies a rising cost of living, which could undermine progress in reducing the challenge of poverty and income inequality.

The world trade recorded its largest-ever annual increase as merchandise exports surged 14.5 per cent in 2010. The effect of the 2008/09 global financial crisis, which contributed to the substantial drop in world trade in 2009, subsided and boosted the size of the rebound in 2010. The rebound in 2010 was strong enough for world exports to recover their peak level in 2008, but it was insufficient to return to the previous growth path.

Notably, the world economy was affected by the COVID-19 shock in 2020, after almost ten years of the global financial crisis in 2009. The COVID-19 pandemic has hindered international commodity markets very asymmetrically. For instance, the magnitude of the drop in trade in agriculture was smaller than in the overall merchandise trade. As a result, most countries, especially in Africa, South Asia and Latin America, realised food prices spikes. However, agricultural commodity prices remained broadly steady in 2021. The energy markets, on the other hand, had been adversely affected. These changes resulted from the collapsing consumer and industry demand and the sharp fall in energy prices, especially in April 2020. This ultimately led to a significant drop in demand and a lack of storage capacity sending crude oil futures into negative territory. However, this unprecedented market disruption was followed by a steady recovery in oil prices in the second half of the year, driven primarily by improvements in global prospects.

Despite the devastating effects of COVID-19, world regions depict significant recovery. The volume of global trade in goods improved significantly from a contraction of 5.3 per cent in 2020 to a robust 9.8 per cent in 2021. Though China continued with lockdowns, the country reported positive growth rates in the value of exports and imports at 19.5 per cent and 8.3 per cent in 2020 and 2021, respectively. The global shocks directly affect SA's terms of trade, mainly as the country is part of the worldwide economy.

Similarly, the country is not decoupled from economic disturbances, directly impacting the value chain, global supply chain, food supply and commodities prices. The linkage of these global shocks is through the balance of payments with the rest of the world. The value of both SA's exports and imports of goods increased to all-time highs of R2.097 trillion and R1.864 trillion in the third quarter of 2022, respectively. However, the trade surplus narrowed further from R252 billion in the second quarter to R233 billion in the third quarter of 2022. This is because the value of merchandise imports increased faster than merchandise exports and net gold exports. Notably, merchandise exports increased further by 2.5 per cent in the third quarter of 2022 as the exports of mining products surged.

The distribution of export value by province depicts that KZN contributed R155 billion or 8.6 per cent to the total national value of exports (R1.810 trillion) in 2021. This is the third largest contribution after GP (R1 290 billion or 71.3 per cent) and the WC (R168 billion or 9.3 per cent). However, despite a strong start in 2022, real regional gross domestic product (GDP-R) has been volatile amid heightened uncertainty emanating from both nationally and globally. As highlighted above, the global environment has been highly destabilised by geopolitical conflicts between Russia and Ukraine, which triggered volatility in financial and commodity markets. In addition, local economic shocks such as extensive electricity load-shedding and disastrous flooding weighed down economic activity in KZN.

The catastrophic flooding caused extensive damage to public infrastructure, including schools, health facilities, police stations and magistrates' courts. Economic activity was affected through the destruction of economic infrastructure, such as major roads in the eThekwini Metro, water infrastructure, and the port of Durban. Following the global and national dynamics, the provincial economy is estimated to have moderated significantly to 1.5 per cent in 2022 and is expected to decline further to 1.3 per cent in 2023.

In this regard, the province should continue implementing structural reforms outlined in the economic recovery plan to ignite economic growth. Therefore, efforts must be intensified to implement the plan to ensure inclusive economic growth supported by radical economic transformation (RET). As outlined in the plan, the focus should be on agriculture, telecommunications and digital economy renewable energy, tourism, oceans economy and township economy. In addition, the full implementation of RET and Operation Vula (OV) and its six commodities is also critical. The industry development includes agro-processing, automotive and pharmaceuticals.

Travel and Tourism plays an essential role in an economy in terms of contribution to GDP, job creation and poverty alleviation. It contains many positive spill-overs that lead to better living standards for people through employment creation. In this regard, the sector has been recognised as one of the key sectors contributing to growth globally. In SA, *Travel and Tourism* is an important driver of growth and development and is recognised as the priority areas in the NDP. However, COVID-19 pandemic had detrimental effects on tourism due to restrictions and measures that were implemented to curb the spread of the virus.

KZN is among the most attractive provinces in the country. The Province has a comparative and competitive advantage of being among the most visited provinces by domestic tourists. Most international tourists coming to KZN are predominantly from Eswatini, Zimbabwe, the UK, Lesotho, Germany, Botswana, Zambia, the US, France and the Netherlands. Prior to the onset of COVID-19, *Travel and Tourism* was estimated to contribute an average of about 10 per cent to the GDP-R in KZN. However, though the sector is steadily recovering from the effects of COVID-19, it remains depressed and is yet to reach its potential.

Therefore, to obtain maximum benefits from this sector, the Province needs to intensify its efforts to promote and market KZN as the destination of choice for both domestic and international travellers. In this regard, the government needs to continue working with the private sector to aggressively invest in infrastructure development, thereby providing incentives for investment resort developments, Gastronomic tourism, Airport Iconic attraction, passenger terminal, regional access, Durban Cruise and others. Most importantly, it is critical for the Province to develop and maintain a tourism database.

Chapter Five: Labour Markets

5.1 Introduction

The International Labour Organisation (ILO) indicates that the enduring adverse effects of COVID-19 on labour markets continue to manifest. During the second half of 2021, the modest and uneven global labour market recovery lost momentum. Since the onset of the recovery, employment growth trends in low- and middle-income countries have remained significantly below those observed in developed economies.

While the South African economy strengthened markedly from a substantial contraction induced by the global pandemic, the structural constraints continue to weigh on economic activity. The structural constraints could hamper much-needed growth and employment creation. As evidenced in the preceding Chapter, the most apparent structural constraint emanates from the unreliable energy supply, which affects economic activity in energy-intensive sectors such as mining and manufacturing. Notably, the country's employment level is recovering at a slow pace as it remains below pre-pandemic levels. On the other hand, unemployment has accelerated consistently to historically high levels with little or no significant decline. Encouragingly, the number of people employed was 10.4 per cent higher in the third quarter of 2022 compared to the same period a year ago. The number of unemployed people moderated marginally, thereby inducing the official unemployment rate to drop further to 32.9 per cent in the third quarter of 2022.

Similarly, KwaZulu-Natal (KZN) experiences a modest recovery in employment whilst the scourge of unemployment persists. Provincial employment level increased markedly by 10.4 per cent year-on-year in the third quarter of 2022. The official unemployment rate also decreased moderately to 30.6 per cent in the same quarter. Given that unemployment is pronounced among the youth population, the provincial government continues to implement programmes such as the KZN Youth Empowerment Fund (KZNYEF) that seek to promote youth-owned businesses. The Province also benefits through national employment initiatives such as The Presidential Youth Employment Initiative (PYEI).

Given the backdrop highlighted above, this Chapter provides a review of the labour market dynamics of SA and KZN. The Chapter begins by outlining an overview of the South African labour force characteristics before unpacking each labour market indicators such as labour force; employment; unemployment; and labour force participation and absorption rate. Similar topics are also covered under the KZN's labour market dynamics, including labour productivity and remuneration. Finally, the Chapter concludes with a summary of the salient issues discussed and provides recommendations thereof.

5.2 Overview of the South African Labour Market

The South African economy recovered at a faster pace than anticipated, with numerous sectors estimated to have reached pre-pandemic levels. However, the labour market continues to pick up at a much slower pace and remains below the pre-pandemic levels in terms of employment across numerous sectors. Table 5.1 reflects key labour force characteristics for South Africa (SA) from 2011 to the third quarter of 2022. The South African labour force reported an upward trend during the period under review, with a robust growth over the ten-year review compared to the last five-year period between 2016 and 2021. The labour force reported a marginal rise by a cumulative average annual growth of 2.2 per cent over the ten-year period between 2011 and 2021.

However, the average annual growth was relatively low at 0.9 per cent over the last five-year period. The lower average annual growth over the five years reflects the negative impact of a sluggish economic performance and structural factors on the labour market, particularly the employment level, which constitutes the largest proportion of the labour force. Nevertheless, the labour force dropped slightly by 0.3 per cent in the third quarter of 2022, following a noticeable rise of 3.4 per cent in the second quarter. The labour force reported a substantial increase of 7.1 per cent in the third quarter of 2022 compared to the same period in 2021.

The country's employment level remained modest during the period under review, with an estimated average annual growth of less than a per cent over the past decade and a contraction of 1.7 per cent over the last five-year period. The sharp decline in average employment over the previous five-year review reflects the negative implications of a prolonged lacklustre economic performance, which contributed to low capacity to create desired employment opportunities. In addition, the onset of COVID-19 pandemic exacerbated economic and employment woes as it caused substantial contractions in activity across various sectors coupled with massive job shedding in 2020. While economic activity regained momentum at a faster pace than anticipated and moved closer to reaching the pre-pandemic levels, employment remains significantly below the pre-pandemic levels as many jobs were permanently lost during the pandemic. Encouragingly, employment level continued to rise in 2022, with an estimated increase of 1.3 per cent in the third quarter, following a noticeable increase of 4.3 per cent in the previous quarter. As a result, employment accelerated markedly by 10.4 per cent in the third quarter of 2022 compared to the same period in 2021.

The country realised a considerable rise in unemployment levels over the past couple of years. The Table shows that unemployed persons rose by a cumulative average annual growth of 5.6 per cent over the ten-year period between 2011 and 2021. Thus, about 7.47 million people were unemployed in 2021 compared to about 4.58 million reported ten years ago. It is evident from the Table that unemployment climbed at a faster pace during the last five-year period between 2016 and 2021, with an estimated average annual growth rate of 7.1 per cent. The scourge of unemployment worsened amid the global pandemic, which caused numerous job losses as numerous businesses were severely affected. The unemployment level remained high in 2022 despite a marginal decline of

3.4 per cent in the third quarter. However, unemployment expanded slightly by 1.1 per cent in the third quarter of 2022 compared to the same period in 2021.

Table 5.1: Key labour force characteristics, 2011 – 2022 Q3

	Labour force characteristics									
	2011	2016	2021	Cumulative average annual growth rate 2011 - 2021	Cumulative average annual growth rate 2016 - 2021	Jul-Sep 2021	Apr-Jun 2022	Jul-Sep 2022	Qtr-to-qtr change	Year-on-year change
	Thousands					Thousands			Per cent	
Population 15–64 yrs	33 879	36 515	39 372	1.7%	1.9%	39 745	40 177	40 322	0.4	1.5
Labour force	18 262	21 456	22 228	2.2%	0.9%	21 925	23 556	23 491	-0.3	7.1
Employed	13 682	15 785	14 760	0.8%	-1.7%	14 282	15 562	15 765	1.3	10.4
Unemployed	4 579	5 671	7 469	5.6%	7.1%	7 643	7 994	7 725	-3.4	1.1
Not economically active	15 617	15 059	17 143	1.0%	3.3%	17 820	16 621	16 831	1.3	-5.5
Discouraged work-seekers	2 412	2 370	3 350	3.7%	9.0%	3 862	3 568	3 514	-1.5	-9.0
Rates (%)				**Change: 2011 - 2021**	**2016 - 2021**					
Unemployment rate	25.1%	26.4%	33.6%	8.5%	7.2%	34.9%	33.9%	32.9%	-1.0	-2.0
Labour absorption rate	40.4%	43.2%	37.5%	-2.9%	-5.7%	35.9%	38.7%	39.1%	0.4	3.2
Labour force participation rate	53.9%	58.8%	56.5%	2.6%	-2.3%	55.2%	58.6%	58.3%	0.3	3.1

Source: IHS Markit, 2022 and Stats SA, 2022

The official unemployment rate accelerated markedly by 8.5 percentage points over the past decade and reached an estimated 33.6 per cent in 2021. The five-year period between 2016 and 2021 was characterised by a steep rise in the unemployment rate, with an estimated average annual growth of 7.2 percentage points. The unemployment rate dropped by a percentage point in the third quarter of 2022, following a decrease of 0.6 percentage points in the preceding quarter. The unemployment rate retreated marginally by 2.0 percentage points compared to the same period in 2021.

A significant number of working-age people are not economically active, which has risen steadily over the period under review. About 17.14 million people were not economically active in 2021, which reflects an average annual growth of 1 per cent over the ten-year period. Further, the not-economic active population increased marginally by an average annual growth of 3.3 per cent over the last five years between 2016 and 2021. The not economically active population remained modest in 2022, with a slight increase of 1.3 per cent in the third quarter, following a notable decline of 3.7 per cent in the preceding quarter. Encouragingly, the not economically active population moderated significantly by 5.5 per cent in the third quarter of 2022 compared to the same period in 2021.

Subsequently, a growing number of people voluntarily gave up searching for jobs, particularly as it has increasingly become difficult to find employment in the country. This situation has led to an increase in the number of discouraged work-seekers, which reported a cumulative average annual growth rate of 3.7 per cent over the last decade. A notable cumulative average annual growth was recorded over the previous five years, where the number of discouraged work-seekers climbed from 2.37 million in 2016 to about 3.35 million in 2021. While the number of discouraged work-seekers remained high in the first half of 2022, it dropped by 1.5 per cent in the third quarter.

5.2.1 Labour force in SA

The general definition of labour force encompasses both employed and those officially unemployed, whereby the latter involves the working population actively searching for job opportunities. Therefore, the labour force form basis for computing other important labour market indicators such as the rate of unemployment and labour force participation in terms of employment or actively seeking. In this regard, Table 5.2 depicts the composition of the South African labour force. As highlighted above, the South African labour force expanded marginally over the period under review. As outlined in the mainstream macroeconomic theory, a growing labour force contributes to the potential production capacity of an economy.

Notably, the labour force among Africans expanded by an average annual growth of 2.9 per cent during the ten-year review and 1.5 per cent over the five years between 2016 and 2021. Similarly, Asians reported a moderate increase of 1 per cent and 0.4 per cent over the ten-year and five-year periods, respectively. However, both African (-0.9 per cent) and Asians (-1.4 per cent) population reported marginal contraction in the third quarter of 2022. The labour force among Whites contracted by 1.2 per cent and 1.6 per cent over the ten-year and five-year periods, respectively. In contrast, Whites and Coloureds reported an expansion of 1.7 per cent and 3.8 per cent in the third quarter of 2022, respectively.

Table 5.2: Composition of the South African labour force (Narrow definition), 2011 – 2022 Q3

	2011		2016		2021		Cumulative average annual growth		Apr-Jun 2022	Jul-Sep 2022	Qrt-on-qrt change
	Thousand	% Share	Thousand	% Share	Thousand	% Share	2011 - 2021	2016 - 2021	Thousand		Per cent
Total Labour Force	18 262	100.0%	21 456	100.0%	22 228	100.0%	2.2%	0.9%	23 556	23 491	-0.3%
By Race											
African	13 523	74.0%	16 568	77.2%	17 561	79.0%	2.9%	1.5%	18 948	18 779	-0.9%
White	2 261	12.4%	2 164	10.1%	2 030	9.1%	-1.2%	-1.6%	1 858	1 889	1.7%
Coloured	1 899	10.4%	2 096	9.8%	2 000	9.0%	0.6%	-1.2%	2 108	2 188	3.8%
Asian	579	3.2%	627	2.9%	636	2.9%	1.0%	0.4%	643	634	-1.4%
By Gender											
Male	9 995	54.7%	11 727	54.7%	12 201	54.9%	2.2%	1.0%	12 827	12 801	-0.2%
Female	8 266	45.3%	9 729	45.3%	10 027	45.1%	2.2%	0.8%	10 729	10 690	-0.4%
By Age											
Youth (15 - 34)	9 183	50.3%	10 401	48.5%	9 593	43.2%	0.5%	-2.0%	10253	10 096	-1.5%
Older age (35 - 64)	9 079	49.7%	11 055	51.5%	12 635	56.8%	3.7%	3.4%	13303	13 394	0.7%

Source: IHS Markit, 2022 & Stats SA, 2022

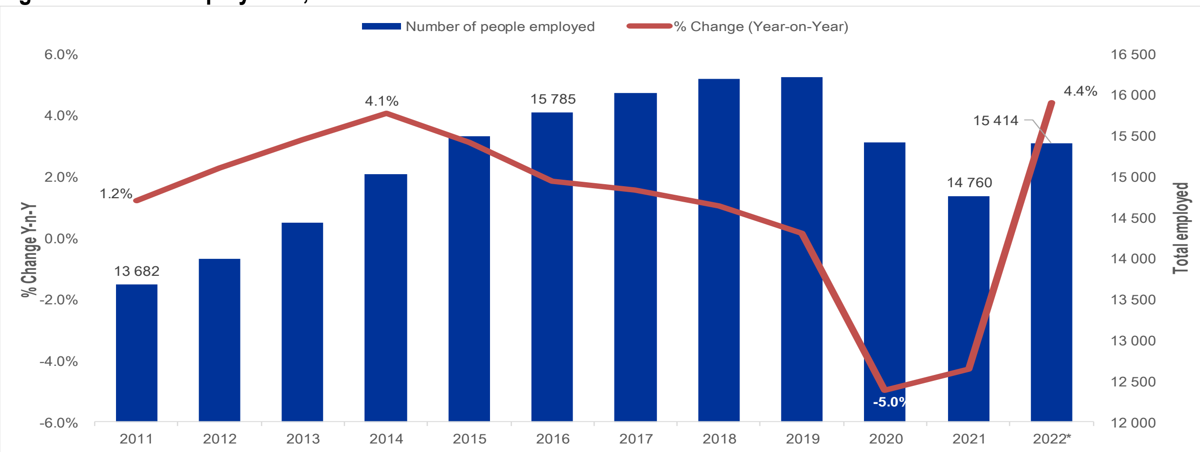
The Table shows that males constitute the country's largest share of the labour force compared to their female counterparts. Nevertheless, the labour force expanded by 2.2 per cent for both genders over the ten-year period while increasing by 1 per cent for males and 0.8 per cent for females over the past five-year period. The labour force contracted for both gender in the third quarter of 2022. The labour force among young people between 15 and 34 expanded slightly by a cumulative average annual growth of 0.5 per cent over the past decade. This observation contrasts with a considerable rise in average annual growth of 3.7 per cent in the labour force among elderly people. The youth labour force contracted by 2 per cent, while the older age labour force expanded by 3.4

per cent over the past five years between 2016 and 2021. The youth labour force dropped by 1.5 per cent, and older people increased by 0.7 per cent in the third quarter of 2022.

5.2.2 Employment in SA

Employment level has been growing slowly amid a lacklustre economic growth over the period preceding the global financial crisis of 2009. Unfortunately, the COVID-19 pandemic exacerbated the economic woes and tentative employment levels. In this regard, Figure 1.1 depicts SA's total employment and year-on-year percentage change from 2011 to 2022. The employment level accelerated steadily from 13.68 million in 2011 to 15.78 million in 2016. During this period, the year-on-year percentage change was relatively high in most years. For instance, employment expanded by 4.1 per cent year-on-year in 2014 before decelerating marginally to 3.1 per cent and 1.9 per cent in 2015 and 2016, respectively. However, the employment trend slightly flattened in the subsequent years prior to the COVID-19 pandemic, particularly in 2018 and 2019. This trend was followed by a sharp contraction of 5 per cent in 2020, thereby reaching 15.42 million in 2020 amid the global pandemic. Subsequently, the number of people employed dropped further to 14.76 million in 2021.

Figure 5.1: Total employment, 2011 – 2022



Source: IHS Markit, 2022 & Stats SA, 2022

The substantial decrease in employment in 2020 and 2021 reflects the negative impact of the COVID-19 pandemic, which induced unprecedented retrenchments as some businesses suffered significant losses. As a result, companies continued to retrench workers, despite government efforts to mitigate the pandemic's enduring after-effects, particularly on employment. The intervention by the government included the allocation of R40 billion to support wages via the Temporary Employer/Employee Relief Scheme (TERS) and an additional R100 billion for job creation. While economic activity showed a robust rebound at the beginning of 2021 as vaccination campaigns took off and supported the effort to manage the virus effectively, employment remained unappealingly modest and has yet to reach the pre-pandemic levels.

Nevertheless, the employment level reported moderate improvement in the first three quarters of 2022 as it expanded by 4.4 per cent, quarter-on-quarter(q-o-q), to reach an average of 15.41 million. However, despite this moderate improvement, the employment level remains below the pre-pandemic levels, where it was reported at 16.37 million in the third quarter of 2019.

5.2.2.1 Employment by sectors in SA

Table 5.3 summarises the distribution of employment by industries from 2011 to quarter three of 2022. The Table shows that employment level in SA is dominated by industries within the tertiary sector, particularly *community and social services, trade and finance and other business services*. This is followed by industries from the secondary and primary sectors. In terms of employment contribution, community and social services was the largest employer with about 3.23 million (21.9 per cent share) people employed in 2021, followed by trade with 3.19 million (21.6 per cent share). This trend continued in the first three quarters of 2022, whereby community and social services reported about 3.85 million total people employed, while trade employed 3.24 million people in the third quarter.

Table 5.3: South African employment by industry, 2011 to 2022 Q3

	2011		2016		2021		Cumulative average annual growth		Apr-Jun 2022	Jul-Sep 2022	Qtr-to-qtr change
Industry	Thousand	% Share	Thousand	% Share	Thousand	% Share	2011 - 2021	2016 - 2021	Thousand		Per cent
Agriculture	678	5.0%	847	5.4%	824	5.6%	2.2%	-0.7%	874	873	-0.1
Mining	514	3.8%	458	2.9%	459	3.1%	-1.2%	0.1%	407	407	-0.2
Manufacturing	1 593	11.6%	1 611	10.2%	1 410	9.6%	-1.3%	-3.3%	1 507	1 630	8.2
Utilities	79	0.6%	88	0.6%	75	0.5%	-0.6%	-3.9%	104	116	12.2
Construction	948	6.9%	1 203	7.6%	1 043	7.1%	1.1%	-3.5%	1 177	1 223	3.9
Trade	3 018	22.1%	3 410	21.6%	3 187	21.6%	0.6%	-1.7%	3 163	3 245	2.6
Transport	733	5.4%	811	5.1%	796	5.4%	0.9%	-0.5%	906	939	3.6
Finance and other business services	2 183	16.0%	2 666	16.9%	2 581	17.5%	1.9%	-0.8%	2 460	2 380	-3.2
Community and social services	2 775	20.3%	3 403	21.6%	3 229	21.9%	1.7%	-1.3%	3 821	3 849	0.7
Private households	1 161	8.5%	1 287	8.2%	1 155	7.8%	-0.1%	-2.7%	1 124	1 088	-3.2
Total	**13 682**	**100.0%**	**15 785**	**100.0%**	**14 760**	**100.0%**	**0.8%**	**-1.7%**	**15 562**	**15 765**	**1.3**

Source: IHS Markit, 2022 & Stats SA, 2022

Regarding average annual growth, the agricultural industry reported the highest increase of 2.2 per cent over the ten-year period. This expansion was followed by finance and other business services as well as community and social services, with an average annual growth of 1.9 per cent and 1.7 per cent, respectively. Disturbingly, the manufacturing sector reported a moderate contraction of 1.3 per cent and has been consistently declining during the same period. Notably, the employment level decreased marginally for almost all industries over the past five-year period between 2016 and 2021. The utilities, construction and manufacturing sectors reported the largest contractions at 3.9 per cent, 3.5 per cent and 3.3 per cent, respectively. The employment level continues to recover from the decrease caused by the global pandemic. The utilities industry reported the largest increase of 12.2 per cent in the third quarter of 2022, followed by the manufacturing and construction industries by 8.2 per cent and 3.9 per cent, respectively. Conversely, the finance and other business services and private households reported employment losses by about 3.2 per cent. Employment in all sectors remains marginally below the pre-pandemic levels, particularly in the third quarter of 2019.

Table 5.4 shows that, over the past decade, between 2011 and 2021, employment losses were reported among three racial groups, Whites (-1.6 per cent), Coloureds (-0.1 per cent), and Asians (-0.1 per cent). With 1.5 per cent, Africans (1.5 per cent) were the only group that reported employment gains. Overall, all racial groups experienced marginal employment losses over the five years between 2016 and 2021, with the largest decreases among Coloureds and Whites at 2.6 per cent and 2.2 per cent, respectively. However, in the third quarter of 2022, there were employment gains across all racial groups, with the largest gains reported by Coloureds (5.1 per cent) and Whites (2.5 per cent).

Table 5.4: Composition of South African employment, 2011 – 2022 Q3

	2011		2016		2021		Cumulative average annual growth		Apr-Jun 2022	Jul-Sep 2022	Qrt-on-qrt change
	Thousand	% Share	Thousand	% Share	Thousand	% Share	2011 - 2021	2016 - 2021	Thousand		Per cent
Total Employment	13 682	100.0%	15 785	100.0%	14 760	100.0%	0.8%	-1.7%	15 562	15 765	1.3%
By Race											
African	9 548	69.8%	11 595	73.5%	10 932	74.1%	1.5%	-1.5%	11 789	11 867	0.7%
White	2 140	15.6%	2 023	12.8%	1 854	12.6%	-1.6%	-2.2%	1 699	1 742	2.5%
Coloured	1 471	10.8%	1 615	10.2%	1 454	9.9%	-0.1%	-2.6%	1 531	1 609	5.1%
Asian	523	3.8%	551	3.5%	520	3.5%	-0.1%	-1.4%	543	547	0.7%
By Gender											
Male	7 732	56.5%	8 864	56.2%	8 322	56.4%	0.8%	-1.6%	8 642	8 831	2.2%
Female	5 950	43.5%	6 921	43.8%	6 437	43.6%	0.9%	-1.8%	6 920	6 934	0.2%
By Age											
Youth (15 - 34)	5 938	43.4%	6 594	41.8%	5 105	34.6%	-1.7%	-6.2%	5 480	5 505	0.5%
Older age (35 - 64)	7 744	56.6%	9 191	58.2%	9 655	65.4%	2.5%	1.2%	10 081	10 261	1.8%

Source: IHS Markit, 2022 & Stats SA, 2022

Regarding employment by gender, both males (0.8 per cent) and females (0.9 per cent) reported slight employment gains over the past decade. However, females reported the largest job losses by an average annual growth of 1.8 per cent, whereas males recorded a decrease of 1.6 per cent over the past five years. Notably, males constitute the largest share of people employed during the period under review. Both genders reported employment gains in the third quarter of 2022, with the largest expansion for males at 2.2 per cent. The youth population experienced job shedding of 1.7 per cent over the ten-year period, whereas the older age cohort reported marginal gains of 2.5 per cent. Employment losses among the youth population were enormous at 6.2 per cent over the past five-year period compared to employment gains of 1.2 per cent for the older age cohort. Employment expanded for both age cohorts in the third quarter of 2022.

5.2.2.2 Informal employment in SA

Stats SA (2022) states that the informal sector has two components. The first category refers to employees working in establishments with fewer than five employees, who do not deduct income tax from their salaries or wages for this informal sector. The second group is about employers, own-account workers and persons helping unpaid in their household business who are not registered for either income tax or value-added tax (VAT). Table 5.5 depicts informal employment in SA from 2011 to quarter three of 2022. The informal sector contributes about 18 per cent to total employment in SA. The informal sector employment has been growing at a slow pace over the period under review. For instance, informal employment increased by a cumulative average annual growth rate of 1.8 per cent over the past decade between 2011 and 2021. The cumulative average annual rate dropped to zero growth over the five years between 2016 and 2021. The total number of people employed in the informal sector expanded by 0.2 per cent in the third quarter of 2022.

Table 5.5: Informal employment in South Africa, 2011 – 2022 Q3

	2011		2016		2021		Cumulative average annual growth		Apr-Jun 2022	Jul-Sep 2022	Qrt-on-qrt change
	Thousand	% Share	Thousand	% Share	Thousand	% Share	2011 - 2021	2016 - 2021	Thousand		Per cent
Total Informal Sector	2 239	100.0%	2 628	100.0%	2 627	100.0%	1.8%	0.0%	2 965	2 971	0.2%
Manufacturing	218	9.7%	209	8.0%	189	7.2%	-1.6%	-2.5%	202	221	9.4%
Construction	321	14.3%	454	17.3%	430	16.4%	3.3%	-1.3%	452	456	0.9%
Trade	1 050	46.9%	1 067	40.6%	1 057	40.2%	0.1%	-0.2%	1 175	1 167	-0.7%
Transport	203	9.1%	243	9.2%	303	11.5%	4.6%	5.7%	298	316	6.0%
Finance	146	6.5%	215	8.2%	253	9.6%	6.3%	4.2%	327	273	-16.5%
Community services	300	13.4%	441	16.8%	395	15.0%	3.1%	-2.7%	482	514	6.6%

Source: IHS Markit, 2022 & Stats SA, 2022

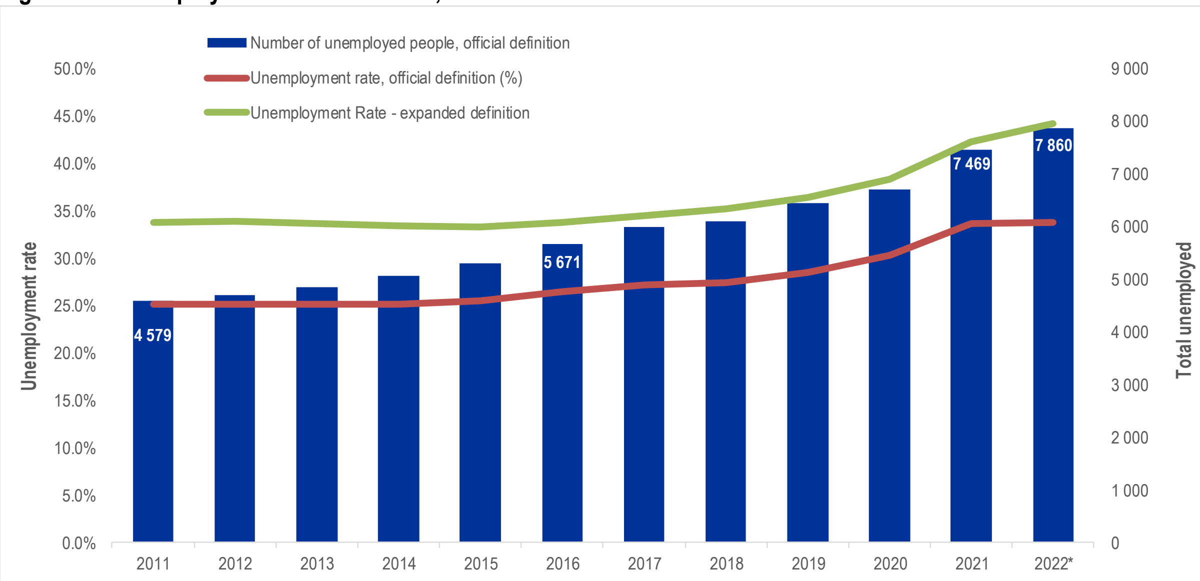
The trade industry has the largest informal employment relative to other industries. This is followed by the construction and community services industries. For instance, the trade industry reported about 1.06 million people informally employed in 2021, followed by the construction industry with 430 000. Except for manufacturing, all industries reported increases in informal sector employment over the ten-year period. However, the largest employment gains were recorded in the finance industry at 6.3 per cent, followed by transport and construction at 4.6 per cent and 3.3 per cent, respectively.

Conversely, the informal sector employment within manufacturing contracted by 1.6 per cent during the same period. As a result, most sectors reported employment losses over the past five-year period, with the largest decreases within the community services and manufacturing at 2.7 per cent and 2.5 per cent, respectively. On the other hand, the informal sector employment expanded by 5.7 per cent and 4.2 per cent in the transport and finance industries. In the third quarter of 2022, informal sector employment increased notably by 9.4 per cent in the manufacturing industry, followed by community services with 6.6 per cent. In contrast, the finance industry reported enormous employment losses of 16.5 per cent.

5.2.3 Unemployment in SA

The scourge of high unemployment level in the country persists and has worsened in the aftermath of the COVID-19 pandemic. Moreover, the rising unemployment rate could perpetuate other social challenges, such as poverty and inequality, ultimately causing high criminal activity levels. Figure 5.2 shows the total number of people unemployed, official, and expanded unemployment rates from 2011 to 2022. It is evident from the figure that unemployment in SA has increased significantly over the past ten-year period between 2011 and 2021. For instance, the number of unemployed people, based on a narrow definition, has almost doubled to about 7.47 million in 2021 compared to approximately 4.58 million in 2011. The official unemployment rate, soared significantly by 8.5 percentage points to 33.6 per cent in 2021. Similarly, the expanded unemployment rate[37] was accelerating at a faster pace during the same period. The figure shows that expanded unemployment rate increased markedly by 8.5 percentage points to 42.3 per cent in 2021. The rising expanded unemployment reflects that a significant number of the population do not take active steps to search for employment. The population gives up searching for employment due to low chances of getting absorbed in the labour market, especially as the country grapples with prolonged periods of lacklustre economic growth.

Figure 5.2: Unemployment in South Africa, 2011 – 2022



Source: IHS Markit, 2022 & Stats SA, 2022

The level of unemployment remained high in 2022, as it averaged 7.68 million over three quarters. Consequently, the official unemployment rate was 33.8 per cent, whilst the expanded unemployment rate was 44.2 per cent on average over the same period. The expanded unemployment rate is significantly higher than the official unemployment, which reflects that a greater number of the population have given up looking for employment. Evidence suggests that the extent of joblessness is underestimated, excluding discouraged work-seekers from official unemployment. This was further supported by Lloyd and Leibbrandt (2013) from the Southern Africa Labour and Development Research Unit (SALDRU), who found that people who are not looking for employment *"are involuntarily unemployed and should be seen and counted as being unemployed"*.

[37] The expanded unemployment rate does not distinguish between active and discouraged jobseekers but counts all people without jobs as unemployed.

It should be noted that the global pandemic came at a difficult time for SA as the unemployment rate was already accelerating consistently over time. Among structural factors that contribute to a continuous rise in unemployment could be skills mismatch, rigid labour market regulations, lacklustre economic growth, low educational attainment and the shortage of skills. Therefore, unemployment continues to be the national crisis that perpetuates the other two major socio-economic challenges: poverty and inequality. As a result, SA's levels of unemployment continue to be counted among the highest in the world, particularly when compared to other emerging market economies (EMEs) such as Brazil, Russia, and China.

The level of unemployment has risen across all racial groups over the past decade, with the largest increases for the Asian and African populations at 8.4 per cent and 5.8 per cent, respectively. The same racial groups, Asian (11.2 per cent) and African (7.5 per cent), reported the largest increase in unemployment over the past five-year period. However, the number of people unemployed dropped sharply for three racial groups in the third quarter of 2022, with the largest decreases among Asian and Whites at 12.1 per cent and 6.9 per cent, respectively. Coloureds were an exception, with a slight increase of 0.3 per cent during the same period.

Table 5.6: Composition of unemployment in South Africa, 2011 – 2022 Q3

	2011		2016		2021		Cumulative average annual growth		Apr-Jun 2022	Jul-Sep 2022	Qrt-on-qrt change
	Thousand	% Share	Thousand	% Share	Thousand	% Share	2011 - 2021	2016 - 2021	Thousand		Per cent
Total unemployed	4 579	100.0%	5 671	100.0%	7 469	100.0%	5.6%	7.1%	7 994	7 725	-3.4%
By Race											
African	3 975	86.8%	4 973	87.7%	6 629	88.8%	5.8%	7.5%	7159	6 912	-3.5%
White	120	2.6%	141	2.5%	176	2.4%	4.3%	5.7%	159	148	-6.9%
Coloured	428	9.3%	481	8.5%	547	7.3%	2.8%	3.3%	577	579	0.3%
Asian	56	1.2%	76	1.3%	116	1.6%	8.4%	11.2%	99	87	-12.1%
By Gender											
Male	2 264	49.4%	2 863	50.5%	3 879	51.9%	6.2%	7.9%	4 185	3 969	-5.2%
Female	2 315	50.6%	2 808	49.5%	3 590	48.1%	5.0%	6.3%	3809	3 756	-1.4%
By Age											
Youth (15 - 34)	3 244	70.8%	3 807	67.1%	4 488	60.1%	3.7%	4.2%	4773	4 591	-3.8%
Older age (35 - 64)	1 335	29.2%	1 864	32.9%	2 980	39.9%	9.3%	12.4%	3222	3 135	-2.7%

Source: IHS Markit, 2022 & Stats SA, 2022

The number of unemployed people among males increased notably by an average annual rate of 6.2 per cent over the past decade, whilst females reported an increase of 5 per cent. Similarly, the unemployment level expanded by 7.9 per cent among males compared to 6.3 per cent for females over the five-year period between 2016 and 2021. However, unemployment moderated for both genders in the third quarter of 2022, with the largest decrease among males at 5.2 per cent. The official unemployment rate, however, was higher among females at 35.1 per cent compared to males at 31.0 per cent during the third quarter of 2022. The concentration of unemployment among females is further indicated by the low labour absorption rate (LAR)[38] and labour force participation rate

[38]The LAR is defined as the percentage of the working-age population that is currently employed. It provides an alternative indication of the unemployment rate regarding the labour market's lack of job opportunities.

(LFPR)[39] at 34.1 per cent and 52.6 per cent, respectively. On the other hand, the LAR for men was estimated at 44.2 per cent, whilst the LFPR was 64.0 per cent (Stats SA, 2022).

Regarding unemployment distribution by age, evidence shows that young people face a high unemployment rate compared to the older age cohort. This trend has been persisting over the past decade, between 2011 and 2021. For example, about 4.45 million youth were out of employment in 2021 compared to 2.98 million of the elder age cohort. However, the older age cohort realised the largest rise in unemployment over the ten-year period, with an average annual rate of 9.3 per cent. The same trend was observed pertinent over the five-year period, with an average annual growth of 12.4 per cent. While both age cohorts reported a decrease in unemployment level during the third quarter of 2022, the youth population recorded the largest at 3.8 per cent. Moreover, an estimated 4.59 million youth were unemployed during the same period compared to 3.13 million for the older age cohort. High unemployment among young people is attributable to various factors, including low educational attainment, lack of skills, slow economic performance, skills mismatch, high wage requirements, and rigid employment policies.

The Presidential Youth Employment Intervention

Given the persistent rise in youth unemployment in the country, the Presidential Youth Employment Intervention (PYEI) was established as part of the efforts to address this challenge. The PYEI aims to move young people successfully from learning to earning. In this regard, the PYEI collaborates with the strengths of various government institutions and social partners to deliver more opportunities for young people. The PYEI also coordinate, accelerate and enhance existing programmes coordinated by the Presidency to drive structural reforms and enable job creation. These include, but are not limited to, the Presidential Employment Stimulus (PES), which provides funding for numerous PYEI components and continues to create employment opportunities for youth.

On the other hand, the PYEI's National Pathway Management Network supports the implementation of PES programmes. The PES plays a crucial role in strengthening livelihoods as the labour market recovers from the effects of the Covid-19 pandemic. Further, Operation Vulindlela addresses the structural barriers that hinder businesses from creating more jobs for young people. Key government departments lead implementation, and the private sector, academia, development partners and civil society support the different components. The National Treasury allocates funding for PYEI activities, which includes dedicated funding for innovative approaches and key PYEI elements. In addition, the PYEI improves the alignment of sustainably funded activities across departments (such as those for skills development) to achieve more with existing resources.

According to DBE, the PYEI implemented as the Basic Education Employment Initiative (BEEI) across all nine provinces has succeeded in the reduction of youth unemployment in the country. In the context of the Basic Education Sector, the initiative has assisted in ensuring that teachers were supported in the classrooms by way of

[39] The LFPR shows the extent to which the working-age population is economically active. It comprises people who actively participate in the economy, either employed or unemployed and excludes those non-economically active.

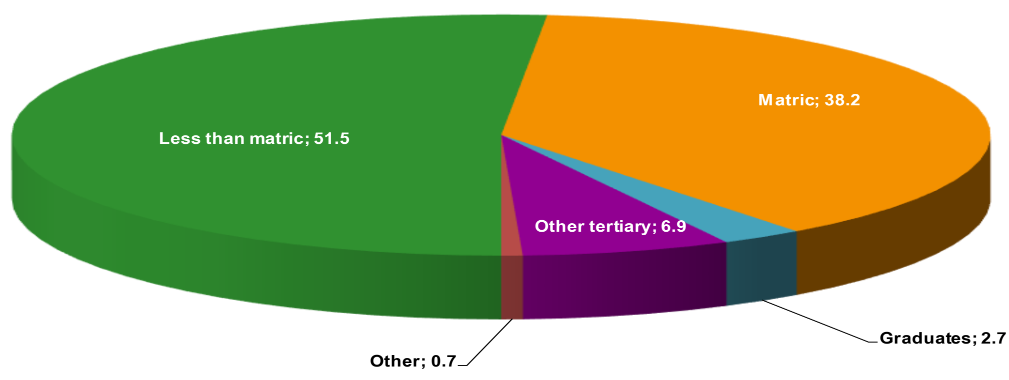
maintaining discipline and preparing classes for lessons. Phase 1 of this initiative created more than 320 000 opportunities for the youth population in about 23 000 public schools. The youth placed in the initiative were appointed as Education Assistants (EAs) and General School Assistants (GSAs) and they provided support before school starts, during school time and after school.

Unemployment by education level

Figure 5.3 depicts the proportion of the unemployed by level of education during the third quarter of 2022. Low educational attainment is cited as contributing to rising unemployment in the country. This is evident from the figure, indicating that people with less than matric education levels (51.5 per cent) comprise the largest share of the unemployed, followed by those with matric only at 38.2 per cent. However, unemployment was relatively low among graduates at 2.7 per cent.

Given the correlation between educational attainment and chances to be absorbed in the labour market, more attention should be directed at reducing the dropout rate and improving access to Technical and Vocational Education and Training (TVET) colleges. This would ensure that young people who left schooling without completing their secondary level get access to TVET colleges and pursue careers in various vocational skills required in the labour market. Regarding education, an increasing number of young people leave school without completing the secondary level, thereby reducing the chances of being employed. This also contributes to the country's skills deficit, especially among young people, which makes them unemployable in almost all sectors of the economy. There is also a mismatch between the workforce's skills and those required in the job market.

Figure 5.3: Proportion of the unemployed by education level, 2022: Q3



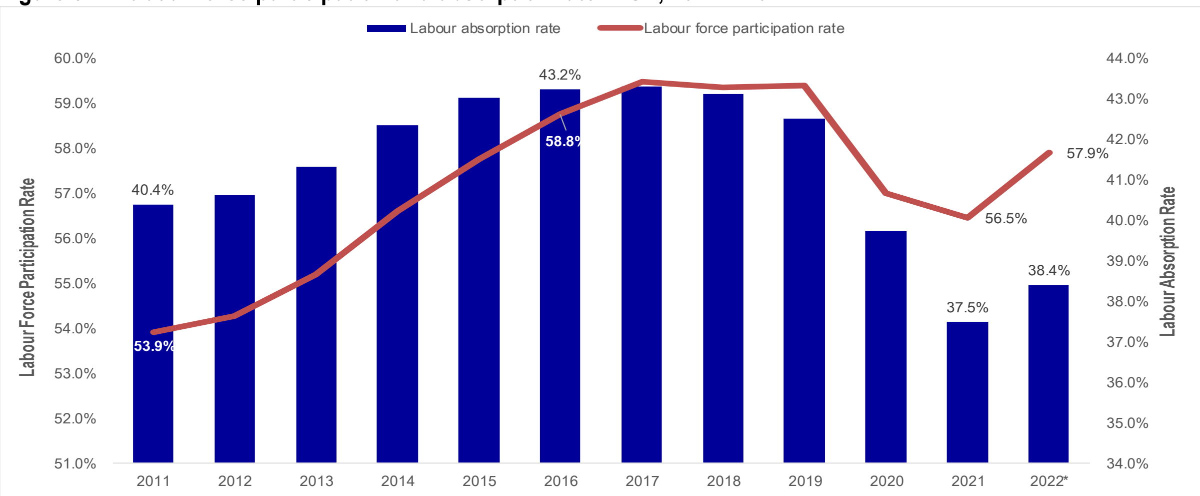
Source: Stats SA, 2022

5.2.4 Labour force participation and the labour absorption rate in SA

Figure 5.4 illustrates labour force participation (LFPR)[40] and absorption rates (LAR)[41] in SA from 2011 to 2022. As outlined in the preceding sections of this Chapter, the scourge of the rising unemployment rate in the country is further retaliated by the LFPR and LAR. The figure shows that LFPR maintained an upward trend from around 53.9 per cent in 2011 to 59.5 per cent in 2017. In the subsequent years, the LFPR remained almost unchanged before a substantial drop to about 57 per cent in 2020 and further down to 56.5 in 2021 owing to the COVID-19 pandemic. Encouragingly, the LFPR shows signs of improvement in the three quarters of 2022 at an average of 57.9 per cent.

Similarly, the LAR reported a steep upward trend from around 40.4 per cent in 2011 and reached a peak at 43.3 per cent in 2017. This was followed by a sharp downward trend to a low of 37.5 per cent in 2021 amid the adverse effects of the COVID-19 pandemic. However, it started to pick up modestly in 2022 at an average of 38.4 per cent over three quarters.

Figure 5.4: Labour force participation and absorption rate in SA, 2011 – 2022



Source: IHS Markit, 2022 and Stats SA, 2022,

5.3 Labour Market of KwaZulu-Natal

Employment level in KZN continues to grow modestly owing to structural factors that have hampered the much-needed economic growth. This trend has prevailed for an extended period, especially in the aftermath of the global financial crisis of 2009 and has been exacerbated by the COVID-19 pandemic. Table 5.7 summarises key labour force characteristics in KZN from 2011 to the third quarter of 2022. The labour force in the Province increased by an average annual growth of 1.9 per cent over the ten-year period between 2011 and 2021. Therefore, about 3.57 million people were actively looking for or employed in 2021 compared to 3.01 million ten years ago. The labour force expanded by an average annual growth of 1.1 per cent over the past five years between 2016

[40] The LFPR measures the extent to which the working population is actively searching and absorbed in any form of employment.

[41] LAR reflects the share of the labour force that is absorbed in the economy.

and 2021. However, the provincial labour force moderated somewhat by 0.9 per cent in the third quarter of 2022. Notably, the labour force in the third quarter of 2022 was about 13.5 per cent greater than during the same period in 2021. The improving labour force indicates a growing number of people actively looking for employment and those already absorbed in the labour market.

As indicated above, employment level in KZN expanded slightly by an average annual growth of 0.5 per cent over the ten-year period between 2011 and 2021. Unfortunately, the onset of COVID-19 eroded employment gains that had accumulated over the years since 2016. Thus, employment contracted by an average annual rate of 1.5 per cent over the five years between 2016 and 2021. The disastrous flooding that occurred in April and May 2022, disrupted various economic activities, thereby increasing the possibility of employment losses. Nevertheless, the total provincial employment remained resilient and increased by 2.3 per cent in the third quarter. Further, employment improved notably by 10.5 per cent compared to the same period in 2021. Nevertheless, the provincial employment level remains marginally below the pre-pandemic levels, where the number of people employed was reported at 2.67 million in the third quarter of 2019.

Table 5.7: KwaZulu-Natal Key labour force characteristics, 2011 – 2022: Q3

	Labour force characteristics									
	2011	2016	2021	Cumulative average annual growth rate 2011 - 2021	Cumulative average annual growth rate 2016 - 2021	Jul-Sep 2021	Apr-Jun 2022	Jul-Sep 2022	Qtr-to-qtr change	Year-ony-ear change
	Thousands					Thousands			Per cent	
Population 15–64 yrs	6 675	7 057	7 529	1.3%	1.6%	7 343	7 424	7 451	0.4	1.5
Labour force	3 007	3 423	3 574	1.9%	1.1%	3 221	3 688	3 655	-0.9	13.5
Employed	2 367	2 621	2 470	0.5%	-1.5%	2 297	2 481	2 539	2.3	10.5
Unemployed	623	788	1 092	6.4%	8.5%	924	1 207	1 117	-7.5	20.9
Not economically active	3 668	3 633	3 955	0.8%	2.1%	4 122	3 735	3 795	1.6	-7.9
Discouraged work-seekers	602	669	921	4.8%	8.3%	968	1 070	954	-10.8	-1.4
Rates (%)				**Change: 2011 - 2021**	**2016 - 2021**					
Unemployment rate	20.7%	23.0%	30.6%	9.8%	7.5%	28.7%	32.7%	30.6%	-2.1%	1.9%
Labour absorption rate	35.7%	37.3%	33.0%	-2.8%	-4.4%	31.3%	33.4%	34.1%	0.7%	2.8%
Labour force participation rate	45.1%	48.5%	47.5%	2.4%	-1.0%	43.9%	49.7%	49.1%	-0.6%	5.2%

Source: IHS Markit, 2022 and Stats SA, 2022

While employment remained subdued, unemployment continued to increase notably over the last decade. The Table shows that unemployed persons accelerated by an average annual growth of 6.4 per cent between 2011 and 2021. Further, unemployment increased at a higher rate over the last five-year period, with an estimated average annual growth of 8.5 per cent. The number of unemployed people moderated significantly by 7.5 per cent in the third quarter of 2022 but remained 20.9 per cent higher than in the same period in 2021. Consequently, the official unemployment rate increased markedly by 9.8 percentage points from 20.7 per cent in 2011 to 30.6 per cent in 2021. The unemployment rate remained high over the three quarters of 2022 despite a decrease of 2.1 percentage points to 30.6 in the third quarter.

The Province has realised a marginal increase in the population classified as not economically active during the period under review. The Table shows that the number of not-economically active population increased by an average annual growth of 0.8 per cent over the last ten years. However, the not economically active population expanded moderately by 2.1 per cent over the five-year period between 2016 and 2021. The not-economically active population increased by 1.6 per cent in the third quarter of 2022 but remained 7.9 per cent lower than in the same period in 2021. The number of discouraged work-seekers increased by a cumulative average annual rate of 4.8 per cent over the past decade. This was notably higher over the past five-year period, where the number of discouraged work-seekers expanded by a cumulative average annual rate of 8.3 per cent. The number of discouraged work-seekers dropped by 10.8 per cent in the third quarter of 2022.

5.3.1 Labour force in KZN

Table 5.8 depicts the composition of KZN's labour force between 2011 and 2021. The provincial labour is dominated by Africans with above 80 per cent share of the total labour force, followed by Indians with marginally less than 10 per cent share. The African population in the labour force realised a moderate expansion by a cumulative average annual rate of 2.6 per cent over the past decade. However, the increase was lower over the five years at about 1.5 per cent. In contrast, the labour force among other racial groups, Whites (-1.5 per cent); Coloureds (0.0 per cent); and Indians (-0.8 per cent), deteriorated moderately over the ten-period. Similarly, the labour force contracted among these racial groups, Whites (-1.1 per cent); Coloureds (-0.9 per cent); and Indians (-1.4 per cent), over the five years from 2016 to 2021.

Table 5.8: Composition of KZN's labour force, 2011 - 2021

	2011		2016		2021		Cumulative average annual growth	
	Thousand	% Share	Thousand	% Share	Thousand	% Share	2011 - 2021	2016 - 2021
Total Labour Force	3 007	100.0%	3 423	100.0%	3 574	100.0%	1.9%	1.1%
By Race								
African	2 398	79.7%	2 838	82.9%	3 017	84.4%	2.6%	1.5%
White	230	7.6%	209	6.1%	200	5.6%	-1.5%	-1.1%
Coloured	54	1.8%	56	1.6%	54	1.5%	0.0%	-0.9%
Asian	325	10.8%	320	9.3%	302	8.4%	-0.8%	-1.4%
By Gender								
Male	1 622	53.9%	1 871	54.7%	1 976	55.3%	2.2%	1.4%
Female	1 386	46.1%	1 552	45.3%	1 598	44.7%	1.6%	0.7%
By Age								
Youth (15 - 34)	1 648	54.8%	1 828	53.4%	1 667	46.6%	0.1%	-2.3%
Older age (35 - 64)	1 360	45.2%	1 595	46.6%	1 907	53.4%	3.8%	4.6%

Source: IHS Markit, 2022

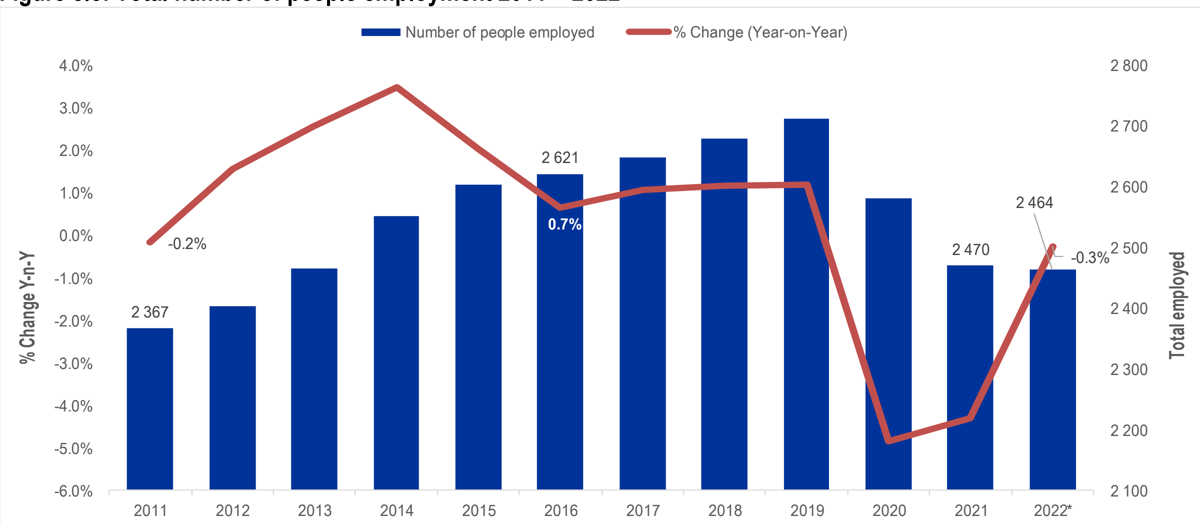
Similar to the national trend, males constitute a larger share of the labour force relative to females. But, notably, the difference is relatively small and does not vary significantly as males revolve around a proportion around 50 to 55 per cent, whereas females revolve around 45 per cent over time. Moreover, the male labour force increased faster over the ten years at 2.2 per cent compared to 1.6 per cent for females. This trend was also pertinent to the five years, whereby the male labour force expanded moderately by 1.4 per cent whilst the female labour force grew modestly by 0.7 per cent.

The provincial labour force was predominantly youthful, with about 54.8 per cent in 2011 and 53.4 per cent in 2016. However, in 2021 the labour force was dominated by the older age group with about 53.4 per cent share. The labour force among the youth grew modestly by a cumulative average annual rate of 0.1 per cent over the past decade and contracted marginally by 2.3 per cent over the five years. This expansion is in stark contrast with the older age group, which reported an increase of 3.8 per cent and 4.6 per cent over the ten and five-year periods under review, respectively.

5.3.2 Employment in KZN

Figure 5.5 displays the number of people employed and the percentage change between 2011 and 2022. Similar to the national trend, employment level in KZN has been growing only modestly over the period under review. However, the figure shows that employment accelerated at a marginally faster pace between 2011 and 2016. During this period, the number of people employed increased from about 2.37 million in 2011 to around 2.62 million in 2016. This is supported by a percentage change which took a steep rise and peaked at 3.5 per cent in 2014. In the period preceding 2016, the number of employed people remained elevated, however, at a slower pace than in the earlier period. For instance, the largest percentage change during this period was 1.2 per cent recorded in 2018 and 2019. Moreover, the onset of COVID-19 worsened the already stagnant employment growth, such that the number of people employed dropped sharply from 2.71 million in 2019 to 2.58 million in 2020 before declining further to 2.47 million in 2021.

Figure 5.5: Total number of people employment 2011 – 2022



Source: IHS Markit, 2022 and Stats SA, 2022

The ten-year period, between 2011 and 2021 marks the first decade of the first Provincial Growth and Development Strategy (PGDS), which was adopted in 2011.[42] Among the strategic goals contained in the PGDS is inclusive economic growth which is fundamental for job creation. The indicators for this goal include a change in

[42] The PGDS is reviewed every five years, with the first review undertaken in 2016 and the consultative process for a 2021 review commenced last year.

employment, whereby it was projected that the total employment in all sectors would have reached 2.64 million by 2020 based on a low growth of 1 per cent. The COVID-19 pandemic eroded a significant amount of employment gains that were already accumulated over the years, thereby taking the Province back in terms of its target employment level. Although it remains below the pre-pandemic levels, provincial employment continues in the recovery phase at a slow pace. The total number of people employed averaged 2.46 million during the third quarter of 2022.

5.3.2.1 Employment by sectors in KZN

The provincial employment level is concentrated mainly in the tertiary sector, particularly the trade, community and social services, finance, and other business services. The trade industry contributed about 23.0 per cent to total provincial employment in 2021, followed by community and social services at 22.8 per cent and finance & other business services at 14.7 per cent. With regard to average annual growth, the agricultural industry reported the largest increase of 1.9 per cent. This is followed by the community and social services industry as well as trade industry by 1.6 per cent and 1.0 per cent, respectively. In contrast, employment in the utilities and manufacturing industries contracted by 4.4 per cent and 2.3 per cent, respectively, over the ten-year period. The number of people employed contracted across most sectors over the last five-year period between 2016 and 2021. The largest decreases were reported in the utilities industry at 9.6 per cent, followed by the manufacturing and private households at 4.0 per cent and 2.5 per cent, respectively.

Table 5.9: KZN employment by industries, 2011 – 2022 Q3

	2011		2016		2021		Cumulative average annual growth		Apr-Jun 2022	Jul-Sep 2022	Qtr-to-qtr change
Industry	Thousand	% Share	Thousand	% Share	Thousand	% Share	2011 - 2021	2016 - 2021	Thousand		Per cent
Agriculture	108	4.6%	135	5.2%	128	5.2%	1.9%	-1.3%	91	119	29.6
Mining	10	0.4%	12	0.5%	12	0.5%	2.0%	0.0%	2	5	154.4
Manufacturing	332	14.0%	317	12.1%	269	10.9%	-2.3%	-4.0%	294	309	5.2
Utilities	9	0.4%	9	0.3%	6	0.2%	-4.4%	-9.6%	13	19	45.7
Construction	195	8.2%	211	8.1%	195	7.9%	0.0%	-2.0%	225	243	7.8
Trade	520	22.0%	572	21.8%	569	23.0%	1.0%	-0.1%	473	477	0.8
Transport	160	6.8%	154	5.9%	151	6.1%	-0.6%	-0.5%	191	182	-5.1
Finance and other business services	332	14.0%	354	13.5%	363	14.7%	1.0%	0.6%	333	301	-9.6
Community and social services	487	20.6%	620	23.7%	563	22.8%	1.6%	-2.4%	646	666	3.2
Private households	213	9.0%	236	9.0%	213	8.6%	0.0%	-2.5%	210	216	3.1
Total	**2 367**	**100.0%**	**2 621**	**100.0%**	**2 470**	**100.0%**	**0.5%**	**-1.5%**	**2 144**	**2539**	**2.3**

Source: IHS Markit, 2022 & Stats SA, 2022

Notably, the agricultural industry also reported a decline in average annual growth, which could imply a downside in relation to the provincial strategic goal of increasing employment within this very sector. On the other hand, the finance and business services industry reported an increase in employment by 0.6 per cent during the same period. Encouragingly, employment gains were reported across numerous sectors in the third quarter of 2022, with the largest gains in the agricultural (28 000), community and social services (20 000), and construction (18 000) industries. In contrast, the finance and other business services and transport industries reported employment losses of 32 000 and 9 000, respectively. Employment levels in some sectors, such as construction, community and social services, utilities and mining, have surpassed the pre-pandemic levels. On the other hand, other sectors reported employment levels significantly below the pre-pandemic levels.

Employment in the agricultural sector remains notably below the pre-pandemic level. It is partly due to this challenge that the Province should continue to implement policies and strategies that seek to promote agricultural sector development. As demonstrated in the PGDS, there is tremendous potential for agricultural expansion in the Province. If the agricultural resources are optimally managed, the production yield could increase dramatically and unlock the full agricultural production potential. Moreover, the Province has vast hectares of land and generally good rainfall. Therefore, primary agriculture, as well as agro-processing, must be pursued. In this regard, the Province can take advantage of the Agro-Processing Support Scheme (APSS) mentioned above to promote the Province's agro-processing sector.

The manufacturing industry also reported employment below the pre-pandemic levels. Given the importance of manufacturing, it is critical for the Province to continue to invest more efforts towards reviving the manufacturing industry through the incentive schemes developed by the Department of Trade, Industry and Competition (dtic), some of which are mentioned above. In doing so, this industry's employment contribution would increase because it would expand its plants, which requires more labour. This could also play a fundamental role in increasing exportable products and widening the export base whilst creating more job opportunities. Further, skills development focusing on different manufacturing industry components should continue to be a priority for the government to ensure that many people get absorbed in the industry and deal with the Province's skills shortage.

Table 5.10: Composition of KZN's employment, 2011 – 2021

	2011		2016		2021		Cumulative average annual growth	
	Thousand	% Share	Thousand	% Share	Thousand	% Share	2011 - 2021	2016 - 2021
Total Employment	2 367	100.0%	2 621	100.0%	2 470	100.0%	0.5%	-1.5%
By Race								
African	1 816	76.7%	2 095	79.9%	1 992	80.6%	1.0%	-1.3%
White	224	9.5%	202	7.7%	190	7.7%	-1.8%	-1.5%
Coloured	47	2.0%	50	1.9%	45	1.8%	-0.5%	-2.6%
Asian	298	12.6%	287	11.0%	255	10.3%	-1.7%	-2.9%
By Gender								
Male	1 303	55.0%	1 447	55.2%	1 381	55.9%	0.6%	-1.2%
Female	1 081	45.7%	1 188	45.3%	1 101	44.6%	0.2%	-1.9%
By Age								
Youth (15 - 34)	1 165	49.2%	1 239	47.3%	954	38.6%	-2.2%	-6.3%
Older age (35 - 64)	1 219	51.5%	1 396	53.3%	1 528	61.9%	2.5%	2.3%

Source: IHS Markit, 2022

Similar to the national trend, provincial employment is dominated by Africans, with about 1.99 million people employed in 2021, followed by Asians with 255 000. In terms of average annual growth, employment expanded by 1 per cent among Africans over the past decade. However, over the same period, employment levels dropped moderately across other racial groups, Whites (-1.8 per cent); Coloureds (-0.5 per cent); and Indian/Asians (-1.7

per cent). In addition, employment levels plummeted among all racial groups over the last five-year period between 2016 and 2021, with the largest decreases reported for Asians (-2.9 per cent) followed by Coloureds (-2.6 per cent).

Although the difference is marginal, provincial employment is relatively dominated by males over the entire period under review. For instance, males constitute about 55.9 per cent of people employed in the Province in 2021 compared to 44.6 per cent for females. In addition, employment levels increased slightly for both gender (0.6 per cent for males, 0.2 per cent for females) over the past decade. However, both gender reported employment decreases over the past five-year period, with the largest decline among females at 1.9 per cent.

Notably, provincial employment is unevenly distributed toward the older age cohort compared to the youth population. In 2021, about 61.9 per cent of people employed in the Province were older than 35 years of age. Disturbingly, employment dropped sharply by an average annual growth of 2.2 per cent among the youth population over the ten years. In contrast, the older age cohort reported an expansion of 2.5 per cent. The employment level for the youth population dropped sharply by 6.3 per cent over the five-year period between 2016 and 2021. In contrast, the older age cohort recorded an increase of 2.3 per cent during the same period.

5.3.2.2 Informal employment in KZN

The total employment discussed in earlier sections combines formal and informal employment, with the former comprising the largest share, above 80 per cent and the latter accounting only for about 20 per cent. Therefore, Table 5.11 depicts informal employment by sector between 2011 and 2021. The number of people informally employed increased slightly by a cumulative average annual rate of 0.4 per cent over the past ten years. However, it plunged marginally by 0.5 per cent over the five-year period between 2016 and 2021. The largest informal sector employment emanates from the trade industry, with about 197 018 people employed in 2021, which translates to a contribution of 42 per cent to the total informal employment in the Province. This is followed by construction and community services, with about 82 503 and 67 988, respectively, during the same year.

Informal employment expanded in four sectors, with the largest increase in the finance industry with an average annual growth of 3.9 per cent over the ten-year period. The community services and construction industry recorded the second and third largest increase at 3.1 per cent and 2.4 per cent, respectively. Over the same year, manufacturing (6.1 per cent) was the least contributor to informal employment. Notably, the industry reported a substantial decline of about 5.8 per cent in informal employment over the past decade. Informal employment within the manufacturing industry dropped significantly by 10 per cent over the past five-year period, followed by community services at -3.6 per cent. Three industries reported expansion in informal sector employment, with the largest increase emanating from finance at 8.5 per cent.

Table 5.11: Informal employment in KZN, 2011 – 2021

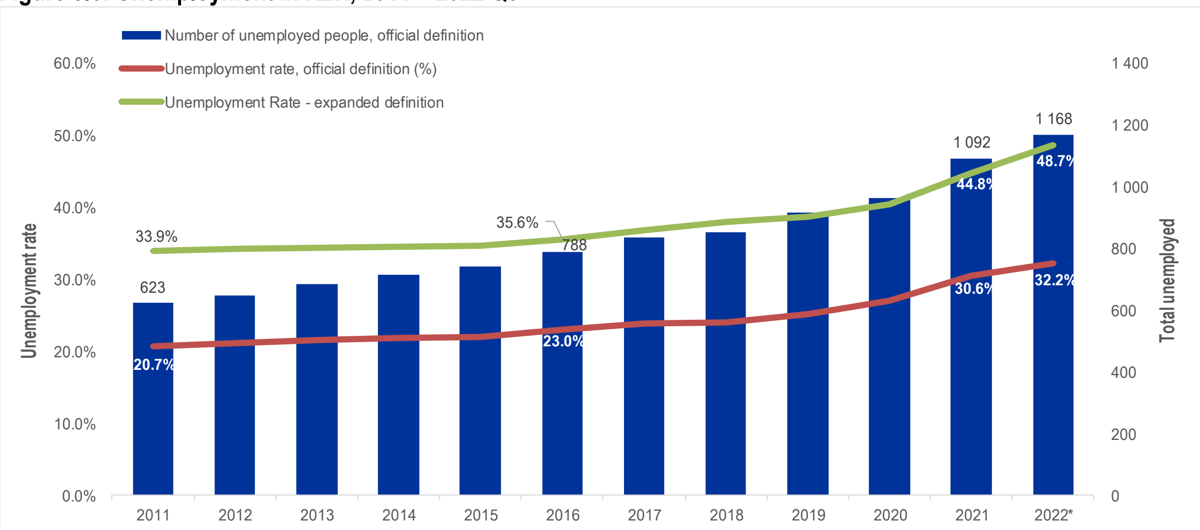
	2011		2016		2021		Cumulative average annual growth	
	Number	% Share	Number	% Share	Number	% Share	2011 - 2021	2016 - 2021
Total Informal Sector	450 645	100.0%	477 965	100.0%	469 161	100.0%	0.4%	-0.5%
Manufacturing	49 128	10.9%	43 615	9.1%	28 668	6.1%	-5.8%	-10.0%
Construction	66 669	14.8%	87 350	18.3%	82 503	17.6%	2.4%	-1.4%
Trade	211 012	46.8%	190 644	39.9%	197 018	42.0%	-0.8%	0.8%
Transport	44 311	9.8%	49 143	10.3%	53 767	11.5%	2.2%	2.3%
Finance	27755	6.2%	28 335	5.9%	39 216	8.4%	3.9%	8.5%
Community services	51 770	11.5%	78 878	16.5%	67 988	14.5%	3.1%	-3.6%

Source: Source: IHS Markit, 2022

5.3.3 Unemployment in KZN

Like other provinces across the country, KZN continues to grapple with the challenge of consistently rising unemployment. The scourge of persistent rise in joblessness could be attributed to a long-lasting legacy of structural factors in the labour market compounded by sluggish economic performance. In addition, the recent unexpected shocks, such as the global COVID-19 pandemic, unprecedented civil unrest, and disastrous flooding, could contribute to long-term unemployment challenges. Figure 5.6 displays the total number of people unemployed and the official and expanded unemployment rate from 2011 to 2022. The figure shows that the level of unemployment maintained an upward trajectory over the entire period under review, with the post-COVID-19 era showing a steep trend compared to other years.

Figure 5.6: Unemployment in KZN, 2011 – 2022 Q3



Source: IHS Markit, 2022 & Stats SA, 2022

The number of unemployed people increased by about 165 000 between 2011 and 2016. Over the five-year period between 2016 and 2021, the number of unemployed people expanded by about 304 000, whereby the largest increase was recorded in 2020 and 2021 with a total of 176 000. The figure further shows that unemployment remained elevated in the three quarters of 2022, thereby average at 1.17 million people unemployed. Therefore, the official unemployment rate accelerated significantly by about 9.8 percentage points over the past decade, from 20.7 per cent in 2011 to 30.6 per cent in 2021. As a result, the official unemployment rate remained higher in the three quarters of 2022, with an average rate of 32.2 per cent. Similar to the national trend, there is a considerable gap between the expanded and official unemployment rate in the Province, which reflects that a greater number of the population have given up actively searching for employment. The expanded unemployment rate also soared notably by approximately 10.9 percentage points, from 33.9 per cent in 2011 to 44.8 per cent in 2021. In the three quarters of 2022, the expanded unemployment rate averaged 48.7 per cent.

The persistent rise in the unemployment rate is attributable to numerous structural factors such as subdued economic performance, skills mismatch, low educational attainment, and rigid labour market regulations, among others. The deteriorating economic growth and the accelerating unemployment rate in the Province manifest the conventional wisdom advanced by Okun (1962). His famous theory, known as Okun's law, asserts that higher economic growth results in a lower unemployment rate; the opposite is true for low economic growth.

The Provincial government must intensify its efforts to drastically narrow the stubbornly high unemployment rate. This intervention could be achieved by strengthening the implementation of programmes and policies to promote inclusive economic growth. This argument is also acknowledged in the Provincial Growth and Development Plan (PGDP) (2021), which stipulates that creating jobs through an inclusive economy is a key enabling factor for the Province. The PGDP further highlights the importance of creating employment through realising agricultural potential and enhancing industrial development through investment into the key productive sectors of manufacturing, tourism, transport and logistics, maritime, green economy and services sectors. Other government initiatives through which the scourge of unemployment can be narrowed include a Provincial Business Retention and Expansion (BR&E) programme, as well as a full range of industrial policy support programmes and measures.

The distribution of unemployment by racial groups reflects that Africans constitute the largest proportion of people unemployed in the Province. In 2021, about 1.02 million Africans were out of employment in KZN, followed by Asians, with about 47 000. The Table shows that unemployment levels expanded across all racial groups over the past decade, with the largest increase among Africans and Asians at 6.5 per cent and 5.9 per cent, respectively. Similarly, all racial groups experienced a massive rise in unemployment over the past five-year period between 2016 and 2021. The largest increase was recorded among Coloured and Whites at 10.7 per cent and 9.3 per cent, respectively. The number of unemployed people in KZN is greater among males than females. About 54.5 per cent of people unemployed in 2021 were males, whilst 45.5 per cent were females. In terms of average annual growth, unemployment increased massively for both gender over the past decade; however, males reported a higher percentage at 7.2 per cent. Unemployment increased at a faster pace for both genders over the last five years. Again, males recorded a more remarkable average annual growth at 8.8 per cent.

Table 5.12: Composition of unemployment in KZN, 2011 – 2021

	2011		2016		2021		Cumulative average annual growth	
	Thousand	% Share	Thousand	% Share	Thousand	% Share	2011 - 2021	2016 - 2021
Total unemployed	623	100.0%	788	100.0%	1 092	100.0%	6.4%	8.5%
By Race								
African	582	93.4%	742	94.2%	1 025	93.9%	6.5%	8.4%
White	6	1.0%	7	0.9%	10	0.9%	5.8%	9.3%
Coloured	6	1.0%	6	0.8%	9	0.8%	4.6%	10.7%
Asian	28	4.5%	33	4.2%	47	4.3%	5.9%	9.2%
By Gender								
Male	319	51.2%	424	53.8%	595	54.5%	7.2%	8.8%
Female	304	48.8%	364	46.2%	497	45.5%	5.6%	8.1%
By Age								
Youth (15 - 34)	482	77.4%	589	74.7%	713	65.3%	4.4%	4.9%
Older age (35 - 64)	140	22.5%	199	25.3%	379	34.7%	11.7%	17.5%

Source: IHS Markit, 2022

The number of unemployed people in KZN is skewed toward the youth population relative to the older age cohort. In 2021, about 713 000 young people aged between 15 and 34 were unemployed, whereas only 379 000 older people were unemployed. However, the older age cohort experienced the largest average annual growth at 11.7 per cent over the past ten years between 2011 and 2021. On the other hand, the youth population reported an average annual increase of 4.4 per cent over the same period. Notably, unemployment among older people accelerated by a cumulative average annual rate of 17.5 per cent over the past five years.

5.3.3.1 Initiatives to reduce youth unemployment in KZN

The provincial government continues to implement programmes aimed at empowering the youth. In doing so, skills development is at the forefront, whereby new entrants are allowed to gain entry-level experience through internships, mentorships and learnership programmes. The government also strives to promote Small, Medium and Micro Enterprises (SMMEs) owned by the youth. guided by empirical evidence, the Province officially launched the KZN Youth Empowerment Fund (KZNYEF) programme in 2019.

The programme aims to assist youth-owned businesses with the necessary financial support and other capital or equipment required for their businesses' proper operational structures. This initiative emanated from a realisation that SMMEs can generate much-needed employment and contribute to the gross domestic product (GDP) growth in the Province. Therefore, the primary objective of the KZNYEF is to address these challenges, assist young people with the necessary financial support, and create a conducive environment for SMMEs to thrive. It is within this perspective that in his State of the Province Address (SOPA, 2022), the then Premier, Mr Zikalala, highlighted that the KZNEF had enabled young people to play a meaningful role in the provincial economy. Therefore, the amount of KZNYF was increased from the initial R50 million in 2019 to R100 million in 2022.

5.3.3.2 Other employment opportunities

Expanded Public Work Program

The Expanded Public Work Program (EPWP) is a nationwide government programme that provides poverty and income relief through temporary work for the unemployed. In addition, the programme provides an essential avenue for labour absorption and income transfers to poor households in short to medium term. EPWP projects employ workers on a temporary or ongoing basis with government, contractors, or other non-governmental organisations under the Ministerial Conditions of Employment for the EPWP or learnership employment conditions. As indicated in the 2022 SOPA, EPWP created more than 181 thousand job opportunities and over 139 thousand full-time equivalents opportunities in 2021 through initiatives implemented in the Province.

Presidential Youth Employment Initiative

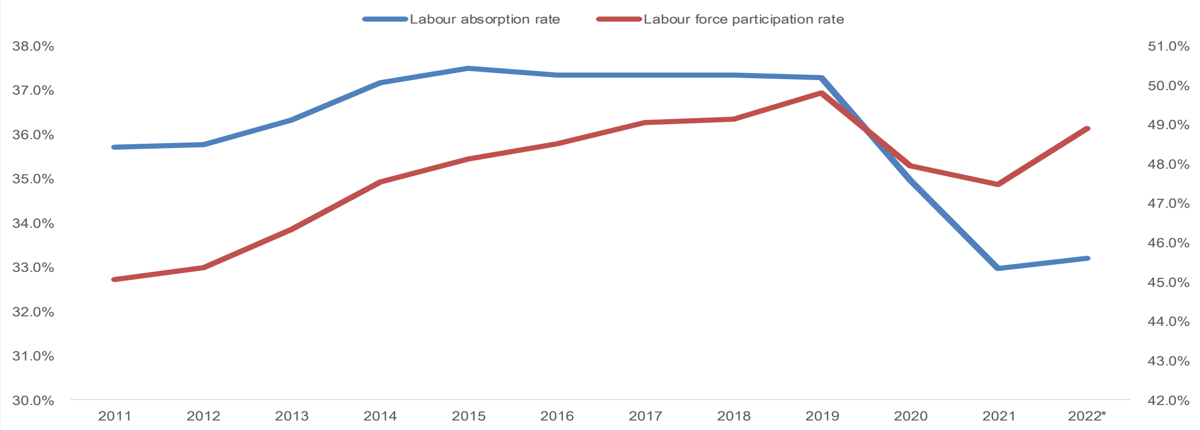
As highlighted above, the PYEI is implemented across nine provincial education departments (PEDs). The national government allocates funds to provinces for implementation of PYEI. For instance, KZN DoE allocated an amount of R1 338 452 000 in 2021/22 for phase 2 of PYEI (1 November 2021 to 31 March 2022). The budget allocation was utilised to appoint approximately 64 117 Education Assistants (EAs) and General School Assistant (GSAs). In 2022/23, the budget for implementation of phase 3 (1 April 2022 to 31 August 2022) of PYEI increased to R1 479 762. Phase 4 of the PYEI is expected to commence early in 2023 and will offer job opportunities to 255 100 youth across the nine provinces in around 20 000 public ordinary schools and schools for learners with special education needs (LSEN). KZN is allocated about 58 500 job opportunities for phase 4, with an estimated budget of approximately R1 483 931 in 2023/24 financial period.

5.3.4 Labour force participation and absorption rate

The uncertainties associated with a slow-growing economy and structural factors on the labour market are evident in other indicators such as labour absorption (LAR) and labour force participation rate (LFPR). Figure 5.7 displays labour absorption and labour force participation rate in KZN between 2011 and 2022. The KZN's workforce gets absorbed in the labour market at a slow pace, which reflects that the number of people employed constitutes a small proportion of the total working-age population in the Province.

The LAR shows an unstable trend over the period under review. It began an uptrend in earlier years from around 35.7 per cent in 2011 and peaked at 37.5 per cent in 2015. This indicator remained stable at 37.3 per cent over four consecutive years until 2019. It then sharply dropped to 35 per cent and 33 per cent in 2020 and 2021, respectively, owing to the COVID-19 pandemic effects. Disturbingly, the LAR continued to deteriorate in the three quarters of 2022 and recorded an estimated average of 33.2 per cent.

Figure 5.7: Labour force participation and absorption rate in KZN 2011 – 2022: Q3



Source: IHS Markit, 2022

The LFPR maintained a resilient upward trend in most parts of the period under review. It accelerated from 45.1 per cent in 2011 and reached a peak of 49.8 per cent in 2019. Unfortunately, it dropped slightly to 47.9 per cent in 2020 and 47.5 per cent in 2021 amid the global pandemic. Encouragingly, the LFPR reflects a strong recovery in the three quarters of 2022, with an average of 48.9 per cent. However, this rate is still below the national level of 58.3 per cent.

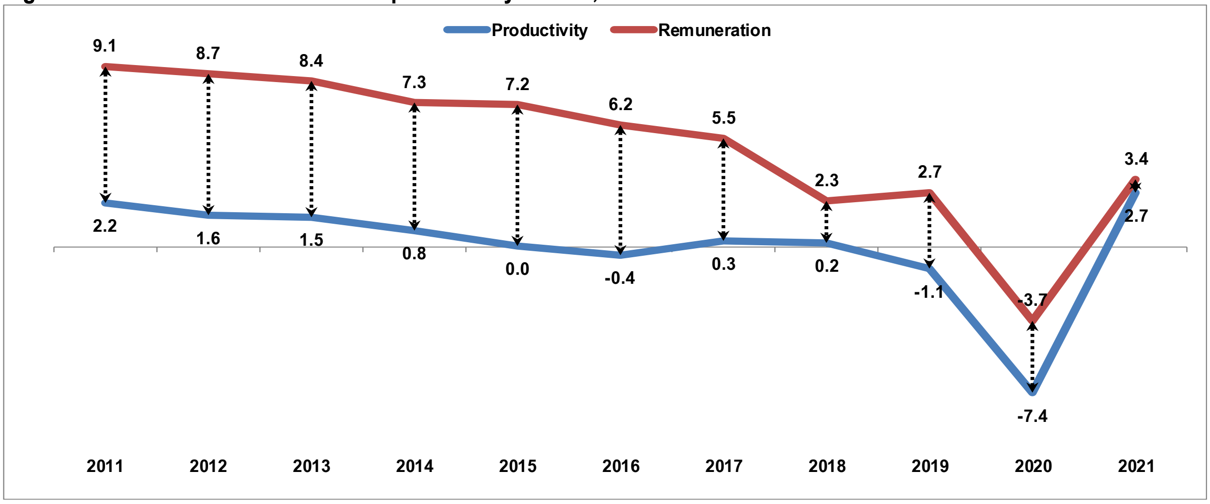
5.3.5 Labour remuneration and productivity

Labour productivity is the measure of output produced by workers in various sectors of the economy with available inputs. It highlights how inputs are efficiently utilised in an economy to produce goods and services (Barker, 1998). According to the mainstream microeconomic theory, productivity is linked with labour remuneration. The labour market is in equilibrium when the marginal cost of employing an additional person equals the marginal revenue earned by employing that person. Hence, a firm should hire more employees if the marginal revenue exceeds the marginal cost of employing an extra person. Conversely, if the opposite is true, a firm should release employees if the marginal cost exceeds the marginal revenue. Therefore, this theory suggests that labour remuneration should positively affect labour productivity (Tsoku, 2014).

Figure 5.10 reviews KZN's labour productivity and remuneration trends between 2011 and 2021. The growth rate in labour remuneration has outweighed productivity growth in KZN over the period under review. In 2021, labour productivity expanded by 2.7 per cent while labour remuneration increased by 3.4 per cent. Following this theory, labour productivity should be higher than the remuneration level to increase the willingness to absorb more labour into the economy.

Therefore, higher productivity above the remuneration level ensures that the costs associated with employing additional labour into the firm would be less than the revenue. Hence, the economy can continue absorbing additional employees into the labour market. Tthe gap between productivity and remuneration continues to shrink over time. However, productivity in the Province remains low compared to the remuneration level. This sluggish productivity shows that more work needs to be done in the Province to ensure that those working do not get retrenched while making efforts to absorb the new entrants into the labour market.

Figure 5.8: Labour remuneration and productivity in KZN, 2011 to 2021



Source: IHS Markit, 2022

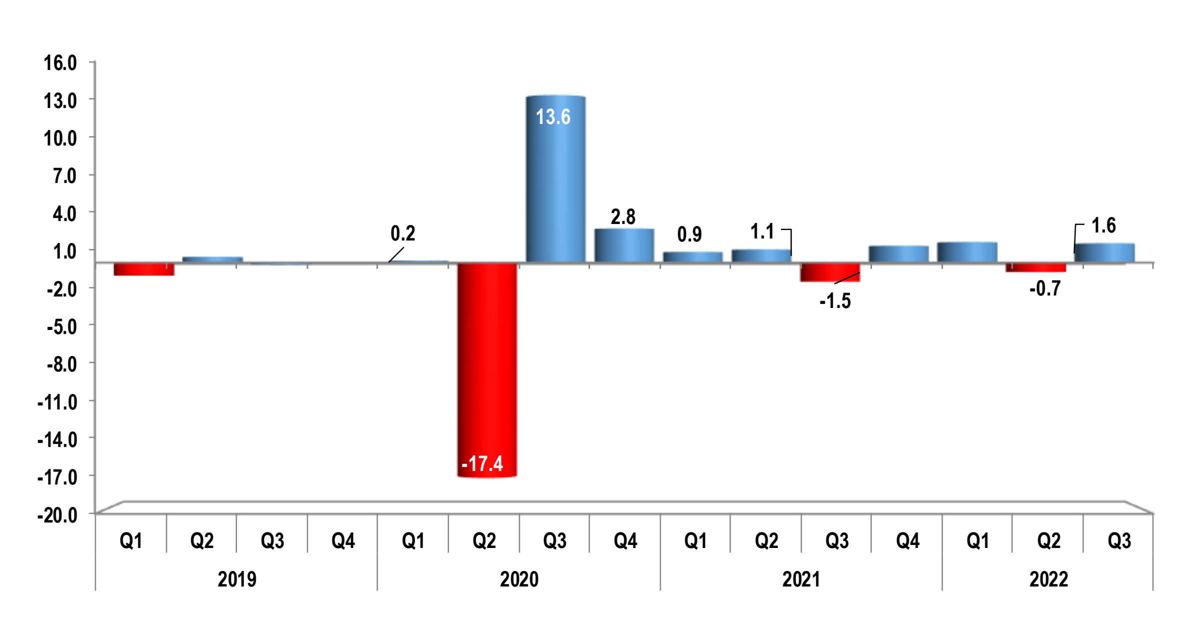
5.4 Conclusion and recommendations

This Chapter provides an analysis of labour market dynamics at the national and provincial levels. The labour force characteristics discussed include labour force, total employment, unemployment, labour force participation, and absorption rates. SA and KZN have had a modest rise in the labour force over the past decade between 2011 and 2021. Notably, the labour force increased moderately among the African population whilst the youth showed a slight increase over the ten years. However, over the past ten years, employment continued to grow at a much slower pace for SA and KZN alike. The sluggish employment trend was exacerbated by the onset of the COVID-19 pandemic, which induced significant employment losses due to company liquidations and subsequent shut-down. Further, the African population reported a marginal expansion of 1.5 per cent and 1.0 per cent for SA and KZN, respectively.

Disturbingly, the youth population continued to depict a decline in employment during the same period. At the national level, employment dropped somewhat in the mining and manufacturing industries, whilst the agricultural industry reported a moderate employment increase. In KZN, the largest employment decreases were recorded in the manufacturing and utilities industries. Both SA and KZN realised a considerable increase in unemployment over the past ten years, with no significant decline. The persistent rise in unemployment could be attributed to structural factors, including skills mismatch, lack of experience, and slow economic performance, among others. Over the past ten years, unemployment increased significantly across all racial groups, both gender as well as age groups. Unemployment is pronounced among the youth population compared to the older age cohort.

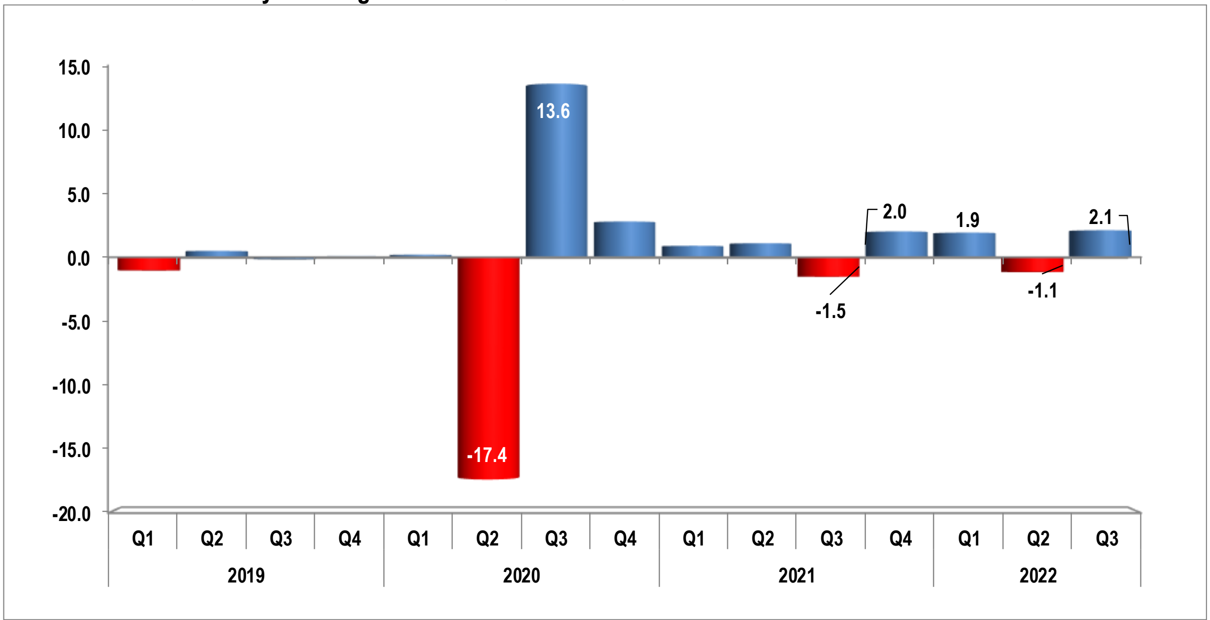
Appendix A: List of additional Figures and Tables

Table A4.1: SA Quarterly GDP-R growth 2019 Q1 to 2022 Q3



Source: Stats SA, 2022

Table A4.2: KZN Quarterly GDP-R growth 2019 Q1 to 2022 Q3



Source: IHS Markit, 2022

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