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RUSSIA UKRAINE INSIGHTS

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RUSSIA-UKRAINE CONFLICT: STAGFLATION AHEAD

INCREASED CLAIMS AND RISKS GLOBALLY AND LOCALLY

Russia's invasion of Ukraine has led to turmoil in the global markets and the impact on the broader South African economy is varied. It is however noted that South Africa's trade links with Russia are relatively muted, with the country making up less than 0.4% of total merchandise exports in 2021. South Africa imported goods worth R 9.2 billion from Russia in 2021, less than 1% (0.7%) of total imports. SA exports mainly edible fruits and nuts, ores, slag and ash to Russia.
While imports mainly consist of copper, wheat, fertilizers and mineral products. South Africa's trade linkages with Ukraine are very minor. Although the higher oil and wheat prices will have inflationary consequences, the ongoing geopolitical tension has boosted the prices of some of South Africa's key export commodities, including maize, PGMs and gold. As South Africa will be benefiting from higher demand and prices for its commodities, this will feed into both public and external accounts and will ultimately also help to boost the local economy in the short term.

The current conflict and its consequences in its current configuration, should therefore not have a significant impact on South Africa's economy. However, the recovery in the tourism sector could be slowed if the confidence falls significantly among potential western European visitors. South Africa is however seen as a safe destination. The same could happen with automotive export to Europe, but domestic and regional sales should not be affected. Despite difficulties linked to supply chains, other inputs will be pricier, but higher selling prices for new and used cars should spare profitability. Based on the trends, inflation is expected to remain reasonable this year at 5.5%. As electricity is produced from domestic coal, this will balance higher costs for imported oil and wheat. There is confidence among investors in South Africa's economy, as shown by the rand's strength and interest in South Africa's financial assets.

It is more important than ever to have excellent credit control processes in place, as well as partnerships with suppliers e.g. Information and Trade Credit Insurer to manage risk and support profitable growth.

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