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MIDDLE EAST CONFLICT: MACROECONOMIC IMPACT UPDATE

23 April 2026

2025 in Review: Agri & Finance Drive Faster Growth

- **Provincial economic growth** has been moderate based on current estimates, recording **1.4% growth** in real terms in 2025.
  - Strong Finance and Agricultural Sector performance led to the doubling of the growth rate recorded in 2024.

- WC **exporters adapted to new global trade** conditions in 2025.
  - The value of **exports overall saw growth**, despite US-bound exports down 16% in 2025.
  - Certain products saw remarkable y-o-y growth in exports: citrus, apples and marine vessels, while other niche products saw declines like jewellery.

- **Tourism** sector has been very strong, even accounting for peak seasonality.
  - Upward trends in arrivals, spend, and occupancy.

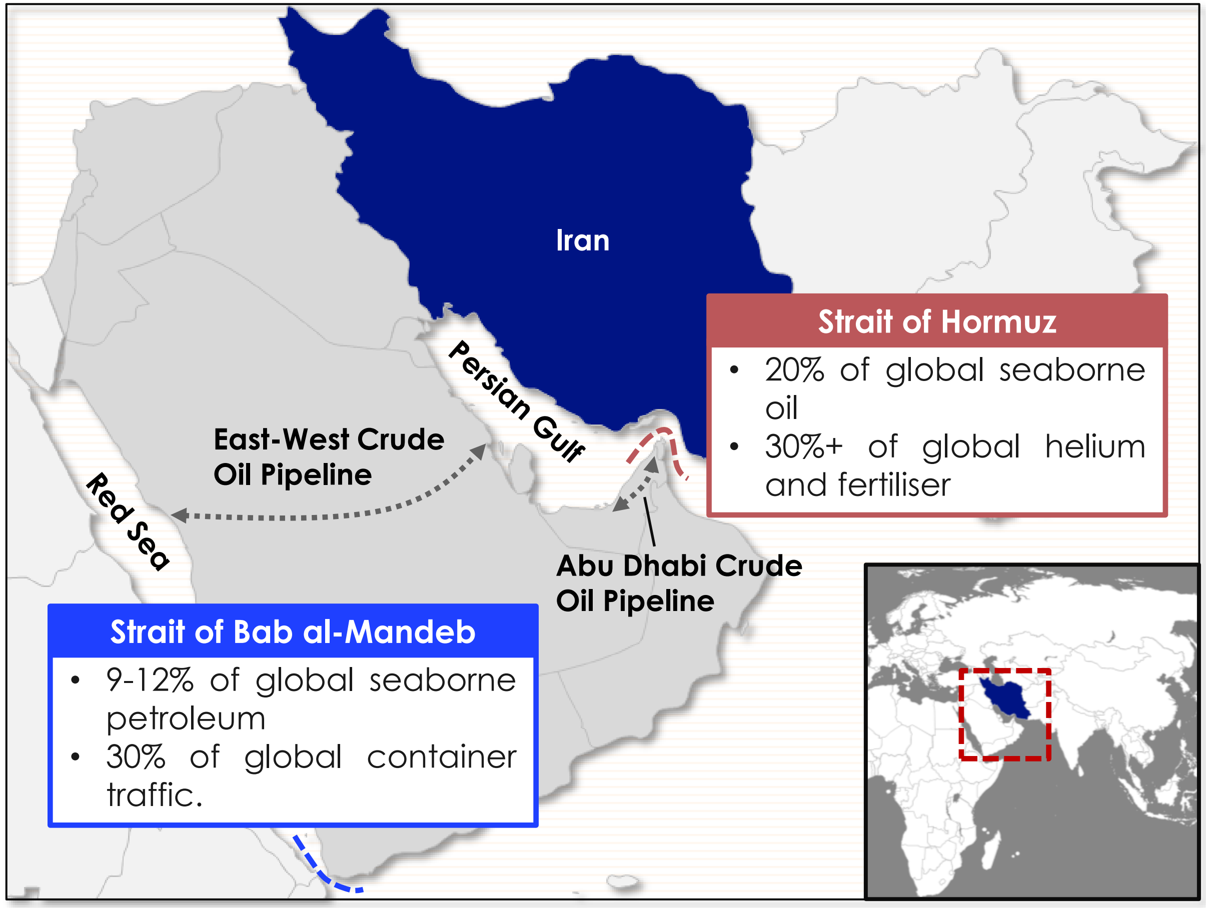
- **Employment** has seen overall gains, with the lowest UR in 5 years.
  - Challenges persist for young people and those who have been out of work long term.

Middle East – Energy, Transportation, Cost of Living and Food Security

1. The purpose of this presentation is to provide economic intelligence regarding how the current escalation of hostilities in the Middle East **may impact the provincial economy**, and evaluate any potential risks against achieving G4J targets.

2. Key issues include the **slowdown of maritime traffic through the vital chokepoints** of Hormuz and Bab al-Mandab, although the Iran's blockage was eased. **90% decline.**

3. Around a **fifth of global seaborne** oil travels through the Strait of Hormuz and just under a **third of global container traffic** through Bab al-Mandab, creating significant risks for global fuel prices and trade volumes.

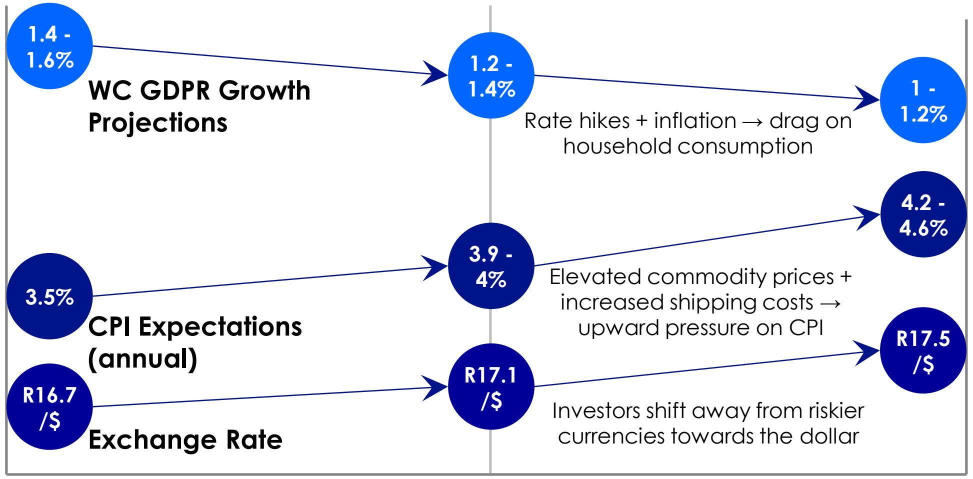


Western Cape Growth to Moderate: Middle East Stability Remains an Ongoing Risk, Tariffs with the US, but New Trade Sparks Optimism.

Domestic commodity price changes for April 2026[1]

Petrol 95 (ULP + LRP)	Diesel (0.05% Sulphur)	LPGas	Paraffin (IP)	Fertiliser (Urea)
↑R3.06 per litre (+16%)	↑R7.37 per litre (+42%)	↑R1.23 per kilogram (+3%)	↑R11.67 per litre (+101%)	↑R6.8k per MT (+59%)
Current Price ~**R22.53**	Current Price ~**R25.07**	Current Price ~**R32.80**	Current Price ~**R23.19**	Current Price ~**R18 407.67**
Previous Price ~**R19.47**	Previous Price ~**R17.70**	Previous Price ~**R31.72**	Previous Price ~**R11.52**	Previous Price ~**R11 604.67**

Middle East Conflict Impacts, projected shifts in key macroeconomic indicators for 2026



Baseline Impacts ——— ±3 months ——— 6+ months

Duration of Conflict

Source: Krutham, BER, DEDAT, 2026

- In its April 2026 outlook report, the IMF revised **global growth** estimates for 2026 **down 0.2% pts[2]**, citing the conflict in the Middle East[3].
- **Western Cape growth** estimates have similarly been **revised down 0.2 – 0.3%** pts for 2026, with growth **now projected between 1.4% - 1.6%.** Slower growth among trade partners may dampen demand for key agri-exports.
- **Elevated oil prices** are filtering through to higher fuel, transport, and **production costs, affecting agriculture, manufacturing**, and households alike. **Headline inflation** for 2026 is anticipated between **3.5 – 4%.**
- To the upside, starting in May, **South Africa will enjoy duty-free trade with China** under CAEPA, opening up **strong opportunities for Western Cape exports to east Asia.**

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[1] DMRE, GrainSA. 2026
[2] Based off a limited duration conflict in the Middle East.
[3] 0.3% pts for emerging economies.
[4] SA Tourism. 2026

Price of Oil Per is Falling, but Remains Elevated: Up 30.4% since 28 February ($72.9 → $95.1)

Fuel Type & main economic impact areas	Increase to date*	Expected Price Range (May)
Petrol • Cost of living (Households = 68% of GDP) • Labour (2.9 million people) • General transportation	**R3.06** per litre current price: R22.53/l	R24 – R27/l *Dependent on Fuel Levy
Diesel • Manufacturing: R85.1 bn (14.2%) • Transport & storage: R48.6 bn (8.1%) • Agriculture: R23.5 bn (3.9%) • Mining: R0.9 bn (0.2%)	**R7.37** per litre current price: R25.07/l	R30+/l *Dependent on Fuel Levy
Marine Fuel • Exports (26.7% of GDP) • Cruise tourism	**US$199.50** per ton · (99% ↑, low Sulphur) current price: $719/mt	$680 – $750/mt
Jet Fuel • Tourism (8.8% of GDP) • Airborne exports and imports	**US$1.3** per gallon (54% ↑)	$3.50 – $4.10 per gallon.

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* Data in the increase to date column is accurate as at 21 April 2026

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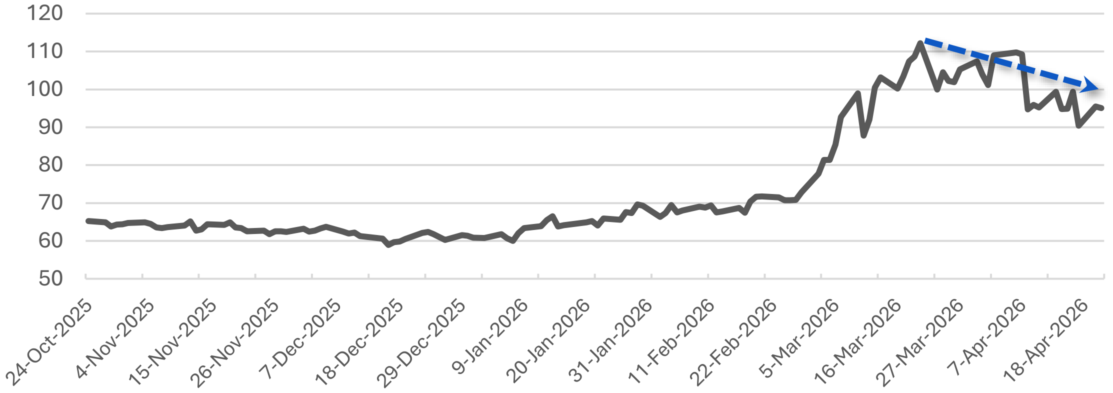
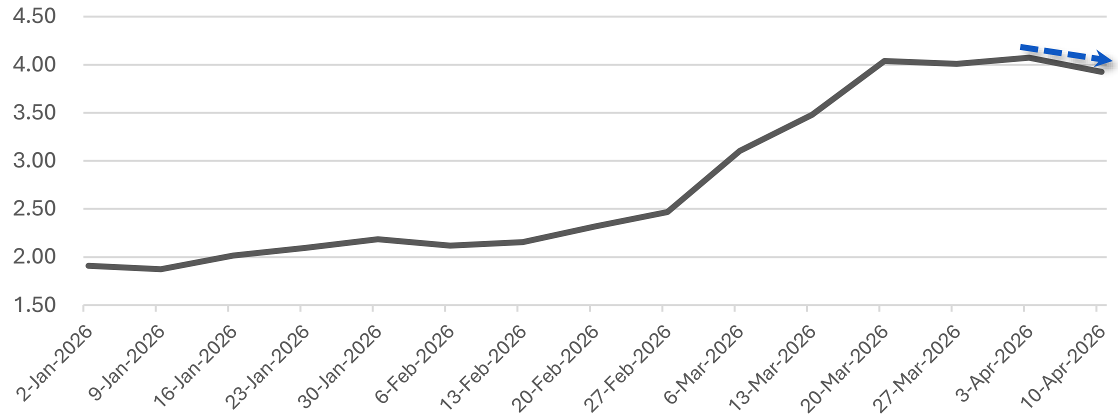
Oil Prices Slowly Declining Globally: Fuel Supplies from Russia, Brazil, Nigeria, Strait Somewhat Open, Declining Demand.

Brent Crude Oil Prices
USD/Bbl



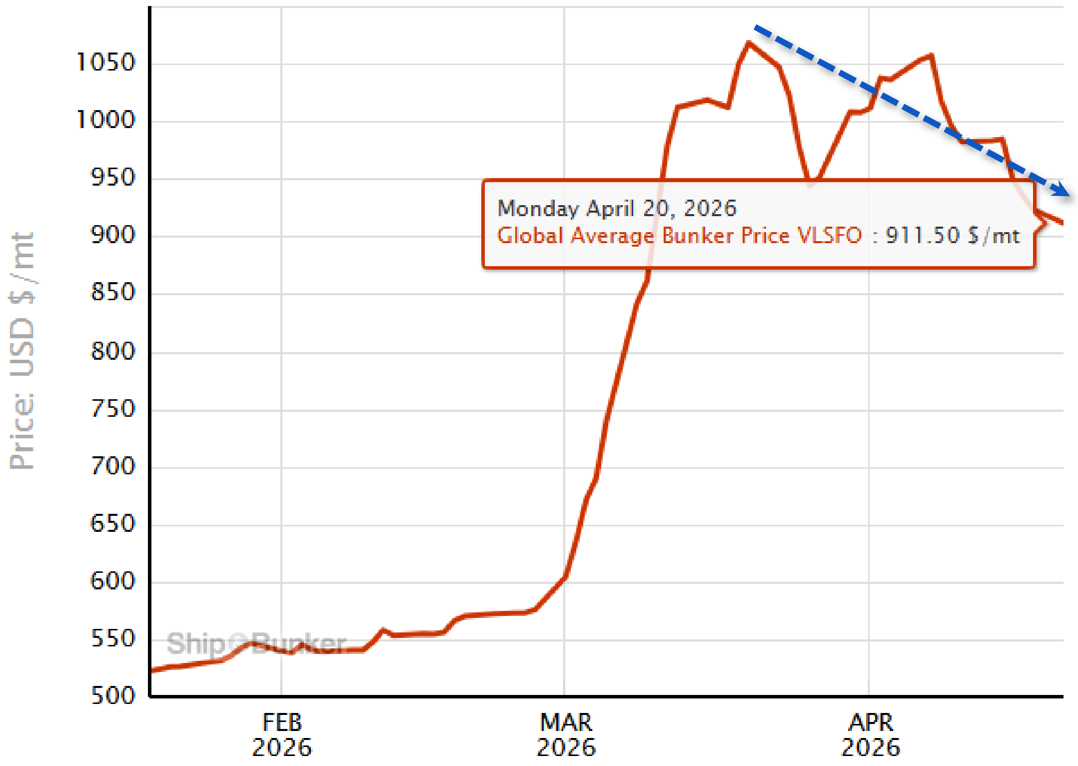
Source: Trading Economics, 2026

Kerosene-Type Jet Fuel Prices: U.S. Gulf Coast
Per Gallon USD/G, weekly averages



Source: FRED, 2026

Global VLSFO Prices
USD/MT



Source: Ship&Bunker, 2026

Fuel supply stable, consignments secured for March 2026

Risk Overview: April Presents an Impact Escalation

Scenario 1: Baseline	Scenario 2: Ceasefire or Resolution within April	Scenario 3: Prolonged Conflict & Escalation
GDP growth: Low-Medium risk; minor short-term decline due to inflation and reduced exports.	**GDP growth: Medium – high risk;** slow return to adjusted trajectory with gradual return to typical commodity and travel flows.	**GDP growth: Medium risk;** tightened monetary policy due to inflation, reduced exports to the region, likely reduced tourism receipts.
Oil and Gas: Brent Crude Oil increases by +69% (30 March 2026)	**Commodities:** Prices stay elevated but **volatility eases**; WC titanium exports could benefit modestly.	**Commodities:** Fuel, transport and **insurance costs rise sharply**; WC faces medium–high risk, input **costs outweighing commodity gains**.
Foreign Direct Investment: Medium risk; investors already face **long timelines** and geopolitical caution.	**Foreign Direct Investment: Confidence improves & redirected** gradually; suspended **deals resume** selectively.	**Foreign Direct Investment: Medium-High risk** as investors already face long timelines and geopolitical caution.
Cargo and Shipment: Medium risk; war-risk **insurance** and bunker **fuel prices** already climbing.	**Cargo and Shipment:** schedules readjust; **short delays manageable**.	**Cargo and Shipment: High risk** as war-risk insurance, bunker fuel and overall logistics costs rise.
Tourism and Travel: Medium risk; airspace **disruptions**, higher fuel costs and **cruise cancellations**.	**Tourism and Travel:** Air **connectivity stabilises**; deferred travel resumes; **limited, but notable impact** on targets.	**Tourism and Travel: High risk** for higher fares, reduced Gulf hub capacity, **softer EU/Asia demand**, pressure on SMEs.

Risks for the Western Cape

Tourism: Disruptions at Sea and Air Pose Risks for the Province's Tourism Performance

Early airspace closures **cost** potentially **2 500 two-way seats per day.** Also **21 fewer cruise ship calls** were recorded in the **2025/26 FY** due to **safety concerns in the Middle East, prior to the current escalation of conflict**. These impacts will also be felt by domestic travellers. **Saudi Arabia** recorded the **largest gains in tourist arrivals** to Cape Town **among Middle Eastern countries**, recording an additional 7 400 arrivals in 2025.

Risk to Tourism – High Medium

- **Air connectivity** disruptions
- Elevated **jet fuel** costs
- Weak **tourism** sentiment
- Fewer ship calls for the **cruise season**
- **DXB/DWC** operations temporarily suspended.

Baseline Impacts

Risk to Tourism - Medium

- **Airspace disruptions** and **fuel surcharges** ease gradually.
- **Pent-up demand** supports a recovery in arrivals.
- Limited, but notable impact on provincial **tourism** targets.

Scenario 1: Ceasefire or Resolution

Risk to Tourism - High

- **Higher airfares**, reduced **seat availability** via Gulf hubs.
- Heightened **traveller caution**.
- Long-haul leisure, business travel, conferences, and buyer missions **weaken**, particularly from **Europe** and **Asia**.
- Risk for **tourism-dependent SMMEs** and employment
- Sharp decline in **ship calls**.
- Increased interest in **WC lifestyle tourism.**

Scenario 2: Prolonged Conflict or Escalation

Agriculture: Major Disruptions to Shipping Lanes and Oil Prices - Increases Costs and Limits Exports

Middle Eastern markets accounted for 10 - 13% of primary agricultural exports for the Western Cape. Current logistic issues may **increase transit durations**, creating **additional spoilage and quality risks** for goods. Further peripheral concerns include the **disruption of foot-and-mouth vaccines from Türkiye**.

The **UAE and Saudi Arabia** together **accounted for** just under a **quarter of net additional export value** between 2023 – 2025.

Risks to Agriculture - Low

- **Port congestion**, adding **10 – 14 days** to transit times, increasing **spoilage risks**.
- Additional **procurement challenges** for **vaccines**.
- **1.6 million** cartons of **stone fruit, apples** and **pears** are currently **stuck at sea.**
- **Weakened Rand** supports **competitiveness** at sale, but increases input costs (**fuel and fertiliser**).
- **90%** of South African **fruit exports** by sea have been **disrupted**.

Baseline Impacts

Risks to Agriculture - Medium

- Shipping route disruptions and fuel surcharges **ease gradually**.
- **Contained impact** on Agri-sector export growth (contained to one harvest impact, for certain produce).

Scenario 1: Ceasefire or Resolution

Risks to Agriculture – High

- Persistent **port congestion** and **increased farm to port transport costs**.
- Increased **fertiliser, chemical** and **machinery costs**.
- Loss of key **agri-export growth markets** in the Middle East.
- Increased vulnerability of **edible fruits, nuts, vegetables, meat products** and **beverages**.
- Nationally, up to **R375 million a week** in **export value** could be **lost**.

Scenario 2: Prolonged Conflict or Escalation

Food Security: Irrigation-Dependent Agri, Imported Foods at Greater Risk

Internal: Transportation & Irrigation Costs

Irrigation in the Western Cape relies **heavily on diesel**, which makes **horticulture** and most **vegetable production** particularly **sensitive to fuel price increases**. By contrast, wheat and barley are mostly rain-fed and therefore face much lower exposure, while livestock operations only use pumps in specific cases.

Irrigation is Diesel Dependent
- **Wheat:** mostly rain fed (risk = low)
- **Horticulture:** mostly irrigated (risk = high)
- **Vegetables:** mostly irrigated (risk = high)
- **Barley:** mostly rain fed (risk = low)
- **Livestock:** sometimes pump dependent (risk = low)

Transportation is Petrol & Diesel Dependent
- Farm-level logistics rely on diesel/petrol
- Load shedding → increased diesel generator use

Food Imports

Though the Western Cape does produce **wheat**, around **half of domestic demand** is **serviced through imports**. Other staple foods like **rice and maize rely on imports** to meet domestic consumption. **Fertiliser and fuel** costs **feed directly into the price of these imported staples**. A weaker rand deepens this pressure, as risk-off sentiment makes all food imports more expensive. Bread and cereals at the highest risk due to wheat dependence.

Staple Import Dependence
- Wheat: 50% imported
- Rice: mostly imported from Thailand and India and Pakistan
- Yellow maize (animal feed): imported in shortfall years
- Fertilisers can account for up to 35% of total input costs.

Global Price Exposure
- Global grain prices ↑
- Fertiliser & fuel costs ↑ → import prices ↑

Exchange Rate Channel
- Risk-off → Rand weakens
- Food imports become more expensive

Logistics & Port Costs
- Shipping costs ↑ (fuel + insurance)
- Port inefficiencies → delays + higher landed costs

Food Security Impact
- Bread & cereals → most exposed (wheat imports)
- Poultry & meat → affected via feed costs (maize imports)

Food Security: Hormuz Strait Closure has Direct and Indirect Impacts on Fertiliser Availability

*GrainSA reports that most farmers secured fertiliser purchases pre-conflict, but more must be secured later in the season for top-dressing.

- **Direct Risks:** Many nitrogen fertilisers, especially **urea**, are **sourced** directly **from Middle Eastern producers**. This is essential for maintaining yields for **wheat, vegetables**, and to a lesser extent **horticulture**.
- **Indirect Risks:** If fuel prices stay elevated, global fertiliser producers may scale back output due to input costs, leading to global supply shortfalls. higher insurance premiums raise the landed cost of fertilisers from all origins.

Crop (and importance)	Main areas grown in WC	Main fertiliser needed	Planting season	Source of fertiliser	Main source of food security risk
Wheat (50–55% of SA production)	Swartland (Malmesbury, Moorreesburg), Overberg (Caledon, Bredasdorp)	Nitrogen (HS 3102) + some Phosphate	**April–June**	**Middle East** (Saudi Arabia, Qatar – urea), some Russia/Europe (~60–80% imported overall)	**Strait of Hormuz disruption** (nitrogen supply) + global price spikes
Horticulture (grapes, citrus, apples, pears)	Stellenbosch, Paarl, Worcester, Ceres, Grabouw, Olifants River	Potash (HS 3104) + Nitrogen	Aug–Oct (new plantings)	Russia, Belarus, Canada (potash – 100% imported)	Global potash **supply monopoly** + shipping & oil price increases
Potatoes	Sandveld, Overberg	Potash (HS 3104) + Nitrogen	Aug–Oct	Russia, Belarus, Canada (100% imported)	Potash **price shocks + logistics costs**
Vegetables (leafy, tomatoes, etc.)	CoCT, Cape Winelands, Eden	Nitrogen (HS 3102) + balanced NPK (HS 3105)	Year-round (peaks Aug–Oct & **Mar–May**)	Middle East (urea), China, Europe (highly import dependent)	**Fertiliser price volatility** + input cost pressures

Impacts on other Sectors: Insights from Provincial Treasury

Health Sector

Demand for medical consumables **is rising** while **delays and backlogs** in pharmaceutical and equipment shipments are **emerging**. **Disruptions at key Gulf trans-shipment** hubs and airspace uncertainty **threatens future supply chains**, mirroring patterns observed during COVID-19.

Logistics

Rising transport costs will place **pressure on provincial fleet budgets** and increased the risk of contractor claims. At the same time, higher **war-risk premiums** and disrupted freight routes are **tightening shipping capacity**, with emerging uncertainty **threatening** the future reliability and **cost of essential imports**.

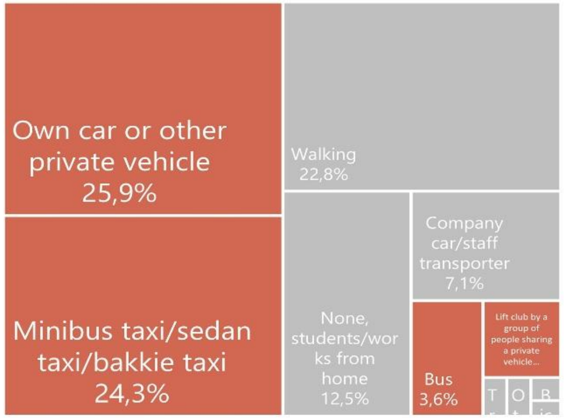
Construction

The supply of petroleum linked chemicals such as **chlorine, ethylene, propylene, resins, adhesives, cables, flooring, paints** and solvents is becoming increasingly constrained, driving **cost escalations** and pressures across provincial construction projects.

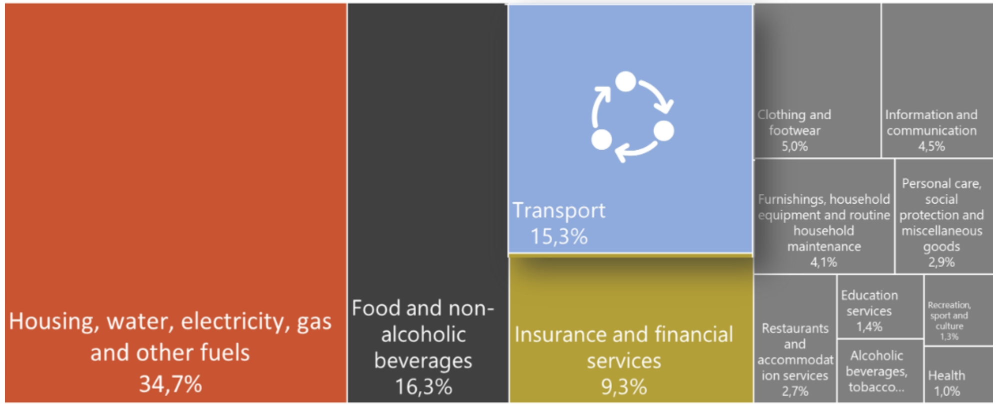
ICT **hardware and spare parts** are also **facing longer lead times** as airfreight gaps through Dubai and Doha disrupt normal routing, forcing **urgent shipments** to move through **European gateways or via direct Asia** to South Africa routes instead.

Cost of Living Pressures Will be Exacerbated and Felt More Acutely by the Poor

Usual Transport to Work



% Distribution of Annual Household Expenditure



Source: Statistics South Africa, General Household Survey, 2024 & Income and Expenditure Survey (IES) 2022/23

- The war-driven fuel price surge will further **strain household expenses**, particularly transportation costs.
- **More than half** of workers in South Africa rely on **motorised transport**, spending around 15.3% of household expenditure on transport.
- Private cars and mini-bus taxis are the most commonly used form of travel.
- Based on the latest Income and Expenditure Survey (IES) 2022/23, Western Cape households already face **South Africa's highest transport costs (R33 487 per year).**
- This will lead to further cost-of-living pressures in the province.

Thank you