



**FRONTLINE AFRICA**  
— **ADVISORY** —

# Local Political and Economic Report

## March 2024

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### Introduction

- With 2 months to go before the national and provincial elections, we track the campaign trails of political parties and key updates from the Independent Electoral Commission (IEC).
- On the international front, the report looks at the new application made by South Africa at the International Court of Justice (ICJ) against Israel's continued assault on Palestine.
- On the economic front, we look at the state of State-Owned Enterprises (SOEs) and cover key economic indicators including the Purchasing Managers' Index, Inflation, employment statistics and the South African Reserve Bank's decision to keep the repo rate unchanged, to get a glimpse of the country's economic trajectory.
- Finally, we set out some potential risks the country faces in the coming months.

## Road to the 2024 Elections

### 1. Party Politics

- The month of March saw parties continue to ramp up their campaign efforts, with the Democratic Alliance (DA) and Economic Freedom Fighters (EFF) launching their provincial manifestos.
- On the other hand, the Inkatha Freedom Party (IFP), Freedom Front Plus (FF+), the United Democratic Movement (UDM) and the GOOD party launched their national manifestos.
- Predictably parties focused their manifestos on issues facing the country, such as the energy crisis, water crisis, crime and corruption, jobs and economic growth. What is glaring from the manifestos is the lack of concrete solutions to lift the country from its current crises. It is as if the parties are saying to the electorate, vote us into power and once in power, we will find solutions to the country's problems.
- At one point, governing African National Congress (ANC) National Chairperson charged that, other than wanting to remove the ANC from power, these parties have nothing to offer to South Africans.
- For instance, on unemployment, while there is an appreciation of the extent of the crisis, there is little detail from parties on how they will create jobs, other than promising to increase grants and introducing a permanent basic income grant. The question still remains, where will the money come from, other than from international lenders, given the country's precarious fiscal position?
- Meanwhile the ANC finds itself distracted from its campaign trail due to its battle against the Jacob Zuma-led uMkhonto weSizwe (MK) party over the MK's registration and use of its (ANC) trademarks by the MK party. In a number of platforms, ANC leaders have found themselves missing the opportunity to unpack the party's manifesto and instead focused on trying to discredit Zuma and the MK.



### 2. Latest Electoral Polls

- Think tanks and research institutions have continued to churn out new election polls, predicting what this year's general election results could look like. Ipsos's latest poll, published in February shows the ANC polling at below 50%, while the DA is at around 20% and the EFF just below 20%.
- The Brenthurst Foundation's polls on the other hand showed the ANC at 39%, the DA at 27% and the EFF at 10%, with the Multi-Party Charter (MPC) at 33%.
- News channel eNCA conducted its own election poll that predicts the ANC's support dropping to 41.4%, and the MK Party likely becoming the fourth biggest party in the country.
- Much has been made of the accuracy and methodologies used to conduct the polls that have been released thus far, as they seem to be predicting different results. ActionSA has come out in criticism of some of the polls released and have stated that as opposed to looking at the sentiments of voters, they are instead designed to shape the upcoming polls.

### Potential Implications

- While these elections are so highly contested, the top 3 parties are still likely to dominate. Talks about creating coalition frameworks have been pushed to the back with the ANC in particular looking to get an outright majority and govern alone.
- This does not mean that talks and negotiations are not happening in the background. Parties seem to be alive to the fact that any outcome is possible and have started flirting with potential partners.
- Polls are usually conducted on a small fraction of the population and cannot be taken as a prediction per se, but they can still be somewhat informative in terms of voting trends and show how some members of the population are thinking.
- The provinces of Gauteng and KwaZulu-Natal are also poised for coalitions. In Gauteng, the ANC and the EFF are at loggerheads over their coalition at the local level. Should they part ways, the ANC will have to look elsewhere for a coalition partner at a provincial level. For its part, the EFF is changing tune on the DA, saying it is open to negotiation. However, on balance of analysis, the ANC will still remain a dominant party in the province even if it falls below 50%.
- Tensions between the ANC and the IFP in KwaZulu-Natal present a complication for the former, as MK party seems to be eyeing the IFP and the EFF as coalition partners in the province. The problem, however, is that the IFP is not keen on working with the EFF.
- Law enforcement agencies, which get deployed in the normal course of elections machinery, will be on high alert as the election draws nearer, to avoid any disruptions or quickly quell any violence that might happen even post elections.

## International Relations

### South Africa in the Global Context

- On 6 March 2024 South Africa approached the ICJ with an urgent application for the provisional measures the court ordered on 26 January 2024, to be strengthened to prevent a catastrophic famine in the Gaza Strip.
- The application concerned the fear of Palestinians facing starvation in Gaza as military operations continue. Aid organisations blamed these military operations, insecurity and restrictions to aid delivery for the impending widespread famine.
- Among other measures, the modifications to the application requests are that:
  - All participants in the conflict must ensure that all fighting and hostilities come to an immediate halt, and that all hostages and detainees are released immediately.
  - All Parties to the Convention on the Prevention and Punishment of the Crime of Genocide must, forthwith, take all measures necessary to comply with all of their obligations under the Convention.

- The State of Israel shall submit an open report to the Court on all measures taken to give effect to all provisional measures ordered by the Court to date, within one month as from the date of this Order.
- Israel has asked the ICJ to dismiss South Africa's latest application, which also states that the former is breaching measures already in place. Lawyers for Israel denied "allegations of deliberately causing humanitarian suffering in the enclave where hunger is rising" and stated that South Africa's continued requests for additional measures were an abuse of procedures.
- Countries such as the US and Britain have also called for a temporary ceasefire to allow more aid to be delivered to Gaza but are still maintaining that Israel has a right to use whatever measures it has to protect itself.
- Meanwhile the United Nations Security Council adopted a resolution calling for a ceasefire in Gaza, with the United States abstaining from the vote – something which angered Israel Prime Minister Benjamin Netanyahu prompting him and his government to cancel their planned visit to the United States to discuss Rafah. Their view was that the United States should have used its veto power to block the resolution.

## Potential Implications

- Israel is increasingly finding its back against the wall on Gaza, as the United States – its major ally – is found wanting on the exact position that the country wants to maintain in respect of the Israel-Hamas conflict.
- The United States is also under pressure not to blindly support Israel. With pressures from the United States and the general international community, the war in Gaza is likely to enter a new phase. The nature and extent of that new phase will be determined, by and large, by how far the United States is willing to pressurise Israel to heed to the international community's demands.
- South Africa's position in the conflict is increasingly gaining momentum. It remains to be seen how this tilts the balance in the South Africa-US relations.

## The State of South Africa's State-Owned Enterprises





- South Africa's SOEs have been a huge strain on the country's economy, as they continue to face high volumes of debt and mismanagement among other challenges. Transnet and Eskom in particular, have been major contributors to the country's economic decline.
- This month, Minister of Public Enterprises Pravin Gordhan announced Michelle Phillips as the new Transnet Group Chief Executive Officer (CEO) and Nosipho Maphulo as the Chief Financial Officer. Phillips has been tasked with stabilising Transnet, following a number of high-profile resignations.
- Rail export volumes are said to have fallen from a high of 213 million tons in 2018/2019 to 149 million tons in the last financial year. Mining companies have been among those who bore the brunt of the failures at Transnet and Eskom having to cut jobs.
- However, Transnet Freight Rail continues with its plan for rail reform, which includes opening up 21 200km of its network for private sector participation. This continues government's plan to work with the private sector to stabilise and revive the economy.
- Eskom on the other hand appointed Dan Marokane, as Group CEO on 01 March. This appointment was followed by the Minister of Electricity Kgosientsho Ramokgopa stating that there will likely be no need for him and his ministry by the end of 2024.
- Eskom, according to Statistics South Africa's (StatsSA's) report on electricity generated and available for distribution, had managed to increase electricity generation by 0.8% year-on-year in January of 2024, with consumption also increasing by 1.6% year-on-year.
- The power utility also continues on its journey of reform, with the National Energy Regulator of South Africa (NERSA) approving Eskom's application for a transfer of its powers and duties related to section 34 Power Purchase Agreements (PPAs) with independent producers (IPPs) to the National Transmission Company of South Africa.
- Meanwhile, SAA finds itself back at the drawing board as its deal with Takatso Consortium collapses, after three years of negotiations. Minister of Public Enterprises Pravin Gordhan explained it as falling apart because SAA and Takatso could not come to terms on certain issues such as the new valuation of SAA, which was now valued at R1 billion and its properties at R5.5 billion, which is higher than the initial valuation three years ago because of economic changes.
- The Minister stated that SAA can be financially self-sufficient for the next 12 to 18 months and that there were various ways in which immediate financing could be obtained, but that the company would not be getting money from the fiscus in the coming months.
- Several organisations including the DA and the National Union of Metalworkers of South Africa (NUMSA) have been calling for a probe into the failed transaction, claiming there were many questions left unanswered, as the fired Director-General of Public Enterprises Kgathatso Tlakudi maintains heat on Gordhan. It remains to be seen if Gordhan, who recently announced his retirement plan, will be held to account for the Takatso fiasco.



## Potential Implications

- SOEs remain the cornerstone of the country's economy, especially in the energy and logistics sectors and so the longer it takes to turn these around, the longer it will take for the economy to recover and grow at a good rate.
- South Africa could still face more job losses across sectors such as mining and manufacturing if logistics problems are not solved soon. Having Phillips, who has been at Transnet for a long time is good for continuity, but still not an assurance that the SOE will do better.
- South Africa's turn towards the private sector and more forms of energy could help the country end loadshedding, but it also requires better management and accountability at the new generation, transmission and distribution companies being formed.
- The pace of implementation of reforms within the energy sector will also continue to play a major role in how soon the country ends loadshedding.

# Economic Updates

Indicator	Rate
Fourth Quarter GDP	0.1% 
PMI	50.8 
Inflation	5.6% 
QES (Total Employment Statistics)	-1.8% q-o-q 
Interest Rates	Prime Lending Rate: 11.75%
	Repo Rate: 8.25%

## Repo Rate

- SARB's Monetary Policy Committee (MPC) unanimously decided to keep the repo rate unchanged for the fifth time at 8.25%, while noting that "on balance the various risks to the inflation forecast are skewed to the upside".
- This is consistent with expectations that global central banks will either put a hold on restrictive inflation policies or start reducing interest rates, as "soft landing" (that is, bringing inflation down without triggering an economic downturn) now seems possible.

## Fourth Quarter GDP Increase



- The country's gross domestic product (GDP) is reported to have increased by 0.1% in the fourth quarter of 2023. Some of the contributors to the increase include:
  - Transport, storage and communication industry increased by 2.9% in the quarter, contributing 0.2 of a percentage point to the GDP growth.
  - The mining and quarrying industry contributed 0.1 of a percentage point, with an increase of 2.9%.
  - The personal services industry increased by 0.9%, contributing 0.1 of a percentage point, with increased economic activities being reported for health and education.
  - The trade, catering and accommodation industry decreased by 2.9%, contributing -0.3 of a percentage point.
- Preliminary indicators showed real GDP to have grown by 0.6% in 2023, following a growth of 1.9% in 2022.

## Purchasing Managers' Index

- For the first time in six months (since August 2023), S&P Global's Purchasing Managers' Index (PMI) crossed the 50.0 neutral mark, rising from January's 49.2 to 50.8 in February and signalling an improvement in operating conditions for firms.
- According to S&P, staffing and purchasing levels increased in response to a stabilisation of new business volumes, with customer demand picking up as the rise of selling prices remained moderate. Growth in staffing and purchasing was driven by the industry sector.
- Services firms seem to have recorded growth, while other categories such as industry, construction and wholesale & retail all recorded a decline.
- The rate of inflation was at the slowest recorded since December 2020, at the height of the COVID-19 pandemic, but firms generally chose to pass through an increase in costs, while others reported offering discounts due to excess stocks and to stimulate sales.
- "Anecdotal evidence" points towards loadshedding and ongoing supply issues (including the Durban port crisis) continuing to somewhat hinder output, with businesses facing challenges in both importing and exporting goods. This therefore contributed to a seventh successive drop in exports and one of the sharpest seen since the end of 2021.
- However, even with the challenges they faced, firms surveyed by S&P reported the strongest output projections for seven months in February, with almost half of all respondents predicting activity to increase over the next 12 months.

## Inflation on the Rise

- Statistics South Africa's (Stats SA's) inflation data for February showed a continued rise in annual consumer price inflation, moving from January's 5.3% to 5.6% in February.
- The consumer price index (CPI) increased by 1.0% in February.
- The main contributors to the 5.6% annual inflation rate were:
  - Housing and utilities (increased by 5.8% year-on-year and contributed 1.4 percentage points).
  - Miscellaneous goods and services (increased by 8.4% year-on-year and contributed 1.2 percentage points).
  - Food and non-alcoholic beverages (increased by 6.1% year-on-year and contributed 1.1 percentage points).
  - Transport (increased by 5.4% year-on-year and contributed 0.8 of a percentage point).



## Fourth Quarter Employment Statistics

- Stats SA released the fourth quarter Quarterly Employment Statistics (QES) for 2023, revealing that total employment had decreased by -1.8% quarter-on-quarter from 10 899 000 in September to 10 705 000 in December 2023.
- The decrease in employment numbers was due to decreases across several industries, namely community services, construction, business services, manufacturing and mining. However, the report noted that there were increases in trade, transport and electricity.
- Year-on-year, between December 2022 and December 2023, total employment is recorded to have increased by 0.9%, while full time employment increased by 0.1% year-on-year.
- Part-time employment decreased by -13.5% quarter-on-quarter, but increased by 7.6% year-on-year.
- The report also showed that there had been a difference of 411 000 in total employment between December 2019 (just before the pandemic), with total employment standing at 10 294 000 and December 2023, with employment standing at 10 705 000. Increase being just below 4%.

## Potential Implications on Economic Activity Indicators

- The decision by the MPC has been largely welcomed, amid current economic and financial difficulties. However, numerous challenges, some of which were outlined by the Reserve Bank Governor Lesetja Kganyago, remain.
- Apart from 2021's economic recovery, following the pandemic, South Africa has been unable to increase GDP by 2% or more for a decade now, showing an economy that has been relatively weak over the last 10 years. For a developed economy, the normal annual GDP growth rate is expected to be between 2% to 3%.
- The country just barely survived a technical recession, as the 0.1% growth follows a 0.2% contraction in the third quarter. This is hardly cause for celebration as the economy could still see further contractions in future if the growth rate does not rise.
- While, the PMI managed to rise in February, continued loadshedding, rising inflation and continued logistics and supply chain challenges at the country's ports mean that certain businesses and sectors such as mining and manufacturing will continue to struggle.
- The aforementioned challenges could also mean employment numbers continue to decline, which would not bode well for government tax revenue collection and the fiscus.
- If the economic challenges leading to job losses are not solved, more people will become dependent on social grants, which will no doubt have negative effects on government's 2025/2026 budget as social grants already play a role in weighing down the current budget.
- While the potential for job growth is there in burgeoning sectors such as ecommerce and energy, investment and transforming the investment into employment are still processes that are likely to be lengthy.
- Higher inflationary pressures will not only affect business input and output expenses, but also households who will have to tighten their wallets as they have over the last 4 years, with the cost of an average food basket constantly rising.
- High inflation also means the Reserve Bank will likely take a lot longer to start bringing down interest rates, which would be bad news for potential home buyers and sellers and those looking to take out loans for other purposes.

## Tourism Sector Recovery After COVID-19



- The tourism sector, according to Stats SA's Tourism Satellite Account for South Africa (TSA) report, has shown signs of recovering the effects of the COVID-19 pandemic.
- The report shows that domestic tourism expenditure was, in 2022, standing at R435,8 billion, which was a rise from 2021's R286,3 billion, 2020's R224,8 billion and much higher than 2019's pre-pandemic R334,2 billion. This shows that not only has domestic tourism expenditure recovered, but it also exceeded its pre-pandemic levels.
- Inbound (visitors coming into the country) and outbound (South African residents exiting the country) on the other hand have not yet managed to reach or exceed pre-pandemic levels of expenditure. Inbound expenditure was reported at R71,1 billion in 2022, which was far below 2019's R121,5 billion. Outbound expenditure is recorded at R70,8 billion in 2022, which is also below 2019's pre-pandemic expenditure of R80,3 billion.

- However, even with the inbound and outbound tourism numbers not reaching pre-pandemic levels yet, the country has managed to keep a positive trade balance, whereby inbound remains above outbound, meaning more money comes into the country than what leaves it. This has been the case since 2005, with the only exception being in 2021, where there was a slightly negative trade balance.
- The TSA report also showed that the tourism sector directly contributed 3.5% to the gross domestic product (GDP) in 2022, which was still 2 percentage points below 2019's 3.7%. The report also showed that employment in the sector had increased after the pandemic, standing at 733 385 individuals directly working in the sector in 2022, which was higher than 2021's 492 561 individuals, but below 2019's pre-pandemic number of 777 686.

## Potential Implications

- Post-pandemic numbers show South Africa to still be a desirable tourist destination, and this could see the sector continue to grow in the years to come.
- However, high crime levels, violent crime in particular could potentially harm the industry as tourists might be less interested in visiting a country where they risk being harmed.
- The industry's growth also helps other industries such as food and beverage, alcohol and restaurants grow as these form an important part of tourism in South Africa.



**Energy: 4**

**Loadshedding: 5**

**Grid Collapse: 2.5**

- While there have been some strides made in energy generation in the country, the threat of higher stages of loadshedding remain high while the risk of grid collapse has decreased.
- Winter is fast approaching and will no doubt lead to an increase in electricity demand. Eskom should be in a position to put measures to meet that demand, especially with maintenance having become more routine and predictable.

**Economy: 4**

- South Africa just barely survived a technical recession, but this remains a possibility as the country's GDP growth remains low.
- Inflationary pressures will bog down business activity and economic growth, especially when coupled with economic enablers such as Eskom and Transnet, failing to perform effectively.

**Crime: 4**

- Crime remains at a 4, as violent crimes have risen year-on-year and quarter-on-quarter as seen in the third quarter crime report.
- Nelson Mandela Bay was ranked the most dangerous city in South Africa, moving from the 24th in 2019 spot to the 9th in 2023, according to the Mexican Council for Public Security and Criminal Justice (CPSC).
- With police remaining under resourced, crime will continue to climb. More provinces could start to follow the lead of the Gauteng province and employ some form of crime prevention wardens. While this could ease some issues, it is still unlikely to deal with the problem as these would still not be qualified police officers and so would have limited training and powers.

**Socio-political Stability: 4**

- The risk of social instability also remains high, especially as this is an election year and the MK party has made some inflammatory statements that could lead to social unrest. They have even suggested that the accident on Zuma's motorcade during the Easter Weekend was targeted. These reckless utterances raise temperatures ahead of the polls.
- Possible tensions between other political parties such as the ANC and the IFP could also lead to political violence in KwaZulu-Natal, in the lead up to this year's elections.
- High levels of poverty, crime, unemployment and lack of sufficient basic service delivery in many places could force residents to take to the streets and go as far as burning infrastructure to show their frustrations.
- However, it is important to also note that government will likely be paying careful attention to potential social unrest in the lead up to the elections, as well as just after the elections. This could mean that the police and military will be on high alert and ready to put a stop to any unrest or riots that could arise.

**END**