



FRONTLINE AFRICA
— ADVISORY —



LOCAL ECONOMIC AND POLITICAL REPORT

AUGUST 2024

by Frontline Africa Advisory

Introduction

- This August edition covers latest developments in the country's political landscape, with the African National Congress (ANC) still making sense of its electoral losses in the May 29 general elections, while the Economic Freedom Fighters (EFF) and the uMkhonto weSizwe Party (MKP) are beset by internal ructions.
- The over five months of no-loadshedding, the country may be slowly moving towards an energy secure era, all this thanks to the deliberate interventions by government, Eskom and working with the private sector.
- Although markets' initial reaction to the formation of the GNU in June was positive, the economy is still unable to shoot the lights out. There was a GDP contraction of 0,1% in Q1 of 2024, against the Treasury National Budget's estimate of 1.3% for this year. Results for Q2 are yet to be released by StatsSA.
- The recent decline of inflation to under 5% and the highly anticipated rate cuts by the South African Reserve Bank may provide much needed relief for consumers and businesses alike.

Political Updates

ANC Post-Election Postmortem

- Following its major electoral loss since the dawn of democracy, the ANC has been conducting an election postmortem.
- It convened a National Executive Committee (NEC) meeting and an NEC Lekgotla earlier in the month, to assess its electoral performance and how it can gain back the lost votes in the 2026 local government elections
- The party emphasised a strategic response to electoral setbacks, focusing on inclusive growth, economic transformation, and rebuilding the organisation's integrity and effectiveness.
- It also called for the expansion of effective public employment programs and assess their impact, strengthening of law enforcement and judicial systems, prevention of political interference, and the need to enhance transparency in State-Owned Enterprises (SOEs).
- It resolved to address the dysfunction in municipalities, particularly in metros where the ANC has seen significant vote declines and implement interventions to stabilise these areas.
- It echoed calls for a National Dialogue to unify South Africans behind a growth and transformation agenda.
- The ANC recognised the disengagement of youth from the electoral process and has decided to engage with them more effectively to address their concerns and integrate them into social and political activities.
- On the international front, the party also reaffirmed its support for the self-determination of Western Sahara and Palestine and continue efforts to resolve international conflicts through dialogue, while committing to joining efforts to resolve the Russia-Ukraine conflict through dialogue.
- The party's National Working Committee (NWC) also visited KwaZulu-Natal – the province where it recorded significant losses to the MKP. There had been reports that the party's Provincial Executive Committee (PEC) would be dissolved. But the national leadership reacted by suggesting that it would be premature to disband the provincial structure; instead, it sought to engage regions and branches with a view to better understanding the factors behind the party's electoral losses.
- It is not the first time the ANC has assessed its electoral performance. Following the 2016 local government elections losses, it met over three days in Johannesburg and agreed to take a collective responsibility for the loss, ostensibly to protect its then president Jacob Zuma who stood accused of costing the party because of corruption, maladministration and state capture allegations hanging over his head.
- Once again, this time around the party suppressed any view that suggested that the current president Cyril Ramaphosa should take responsibility for the party's loss.
- There were even suggestions that, to disband the KZN and/ or Gauteng PECs would be a misdirected response, as the party in its entirety should take the blame for the electoral losses.
- It seems the party would like South Africans to believe that it has heard their cries and is intent on course-correction measures. There is no better way of looking at this posture than the basket of resolutions taken at the NEC Lekgotla. If the party's rhetorical determination is anything to go by, then there would be a sense that change is about to happen.
- The party is faced with the reality that the 2026 local government elections are less than two years away and if it does not effect its internal renewal and fast-track service delivery, it would possibly see further losses in those elections and beyond.



Whither local government?

- Addressing dysfunction in municipalities, which President Ramaphosa promised during his Opening of the 7th Parliament Address on 18 July, is key to turning ANC's fortunes. However, as revealed by Auditor-General, Tsakani Maluleke, in Parliament on 27 August, the country's municipalities remain in a dire state. There is a lack of meaningful improvement in audit results, with evidence of regression and persistent weaknesses.
- The number of municipalities that received clean audits in the 2022/23 financial year decreased by 38 from the previous year. Out of the country's 257 municipalities, just 34 received clean audit outcomes. Most of the clean audits were recorded in the Western Cape, from 18 in the previous financial year to 20 now. The province is governed by the DA.
- The ANC national leadership also needs to find ways of improving its working relations with provincial structures, especially in Gauteng and KwaZulu-Natal. In both provinces, leadership seems to be charting a different course from the national leadership. Nothing amplifies this than ANC Gauteng leadership's decision to exclude the DA from its Provincial Government of Unity (PGU). Ongoing ructions between the national and provincial leadership do not augur well for the ANC's chances of turning its fortunes around in the next elections.

- Following a resolution by the ANC NEC, the City of Johannesburg saw Al-Jamah's Kabelo Gwamanda being demoted to being an MMC and ANC's Dada Morero returning to the Executive Mayoral position.
- The ANC claimed that this change followed many cries about the city's inability to get its house into order. While Gwamanda was certainly not the source of Johannesburg's problems (the city has had no less than five mayors since 2021), none of the mayors since the departure of then DA's and now ActionSA's Herman Mashaba can claim to have improved service delivery in the City.
- By fielding Morero, once more, the ANC in the Johannesburg region seems to be flexing its muscle to increase its chances ahead of the 2026 local government elections.

- EFF's deputy president Floyd Shivambu unexpectedly quit the party he co-founded with Julius Malema to join Jacob Zuma's MKP. This happened at a time when the EFF is preparing for its elective conference in December.

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SA-US Relations

- The jury is still out on whether the US Senate will rubberstamp the House of Representative's decision for the US to conduct a full review of South Africa's participation in the African Growth and Opportunity Act (AGOA) next year.
- As the relations between the two countries have been tainted by South Africa's positions on the ongoing Russia-Ukraine war and the Israel-Hamas conflict, South Africa will also be hoping for gradual normalisation.
- South Africa's stance for a negotiated peace deal between Russia and Ukraine is supported by many countries in Africa and beyond.
- With regards to the Middle East, both South Africa and the US are increasingly finding common ground on the need for Israel to sign a peace deal that recognises the two-state solution in that part of the world.
- The costs of a prolonged conflict and Israel's continued occupation of Gaza has the potential to escalate the conflict and involve other Middle Eastern nations that the US is not ready to be in a confrontation with. Further, South Africa's moral position which saw her take Israel to the International Criminal Court (ICC) and the International Court of Justice (ICJ) is gaining support from the international community. Israel, a long-standing ally of the US, is increasingly getting isolated.

Eskom keeps the lights on. Glimmer of Hope?

- Since March 2024, Eskom has provided uninterrupted power supply, with no load shedding since the start of its financial year on 1 April 2024. While government is unable to confirm if indeed loadshedding is a thing of the past, there is greater confidence that finally the wind of change at the power utility is nigh.
- The utility's Generation Operational Recovery Plan has significantly improved efficiencies, reducing Open-Cycle Gas Turbines (OCGTs) diesel expenditure by R10.21 billion, a 74% decrease compared to the same period last year.
- Eskom has achieved an average Energy Availability Factor (EAF) of 67% over the past week, with several power stations, including Majuba and Kusile, recording EAFs above 70%.
- The average unplanned outages since April have ranged from 9,800MW to 12,400MW, better than the winter forecast of 15,500MW. Eskom's summer outlook for 2024-2025 predicts no loadshedding if unplanned outages stay below 13,000MW, reflecting significant improvements in generation performance, efficiency, and financial stability after a winter without loadshedding.
- The suspension of load shedding will likely encourage both domestic and international investments, potentially stimulating economic growth. The risk, however, is the high municipal debt to the power utility which, at above R70 billion according to Eskom board and management, presents the utility with challenges in respect of reinvesting back into its own infrastructure. Municipalities on their side, have to do more to fight the scourge of illegal connections in communities, which have been causing substation overloads, resulting in most municipalities implementing load reduction to protect their infrastructure.

South Africa's Unemployment Rate Soars to 33.5%

- South Africa's official unemployment rate surged to 33.5% in Q2 2024, up from 32.9% in Q1. The expanded unemployment rate, which includes discouraged job seekers, rose to 42.6%. The number of employed persons decreased by 92,000 to 16.7 million, while the unemployed population grew by 158,000 to 8.4 million. Discouraged job seekers increased by 147,000, contributing to a rise in the number of not economically active individuals to 16.3 million.
- Significant employment losses in provinces such as the Western Cape and KwaZulu-Natal, coupled with job gains in Gauteng and Limpopo, may exacerbate regional economic disparities. This uneven development could hinder national cohesion and equitable growth.
- The sharp rise in the unemployment rate to 33.5% could result in decreased consumer spending, weakening economic growth. It can stifle business investment and innovation, with negative effect on general economic activity.
- There are also fears that unemployment, especially among youth and women, may lead to heightened social unrest. Already there are indications that the increasing crime levels, including extortion rackets in the Eastern Cape and KwaZulu-Natal in particular, could be exacerbated by the high cost of living and unemployment.
- On the other hand, government will need to find more money for social grants, such as the Social Distress Grant, to accommodate the increasing number of unemployed people.



World Bank Warns of Risk Middle-Income Trap

- The World Bank's report, titled *"Unlocking South Africa's Potential: Leveraging Trade for Inclusive Growth and Resilience"*, highlights the need for trade policy reforms to boost economic growth, job creation, and resilience to economic shocks.
- South Africa has underperformed compared to other middle-income economies over the past 15 years. Existing policies have not sufficiently addressed global and domestic economic challenges.
- An export-oriented strategy is proposed to enhance growth and resilience. The country must also address long-standing constraints and align social policies with labour market needs and accelerate initiatives like Operation Vulindlela, which aims to modernise key infrastructure sectors.
- It must also evaluate and refine localisation policies, ensure that policies enhance competitiveness and do not impose excessive costs on consumers. It must further modernise trade policies, leverage agreements like the African Continental Free Trade Agreement (AfCFTA), and improve trade facilitation by investing in infrastructure and reducing non-tariff barriers.



Inflation Rate now within the 3-6% range



- South Africa's annual consumer price inflation declined to 4.6% in July 2024, down from 5.1% in June, marking the lowest inflation rate since July 2021. This decrease signals a positive shift for the economy and consumers.
- The decline in inflation was driven by lower prices in key sectors such as food and non-alcoholic beverages, transport, and housing and utilities. Notably, food inflation dropped to 4.5% in July, down from 4.6% in June, a significant improvement from the 9.0% recorded in November 2023. However, there is still upward momentum in essential items like bread and cereals, which poses a challenge.
- The reduction in inflation provides some relief to consumers, especially following a period where the cost of living had been rising sharply. While the ANC welcomed this decrease, it came too late to affect the outcomes of the May 29 general elections, where the high cost of living likely influenced voter behavior. Nonetheless, this development supports the sentiment that economic conditions under the GNU are set to improve.

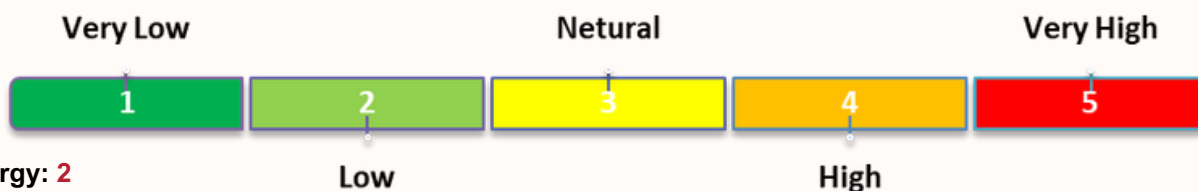


- For sustained economic improvement, both the government and private sector must continue focusing on addressing critical challenges in priority areas such as energy and logistics, which have kept a lid on economic growth.
- Additionally, as highlighted by the President during the 2024 State of the Nation Address, there is a need to strengthen the alignment between skills development and workplace needs to drive the economy forward effectively.
- This positive inflation trend, coupled with other economic and political strategies, could bolster consumer confidence and support gradual economic recovery in the coming months.

Interest Rate Cut on the Cards for South Africa

- The South African Reserve Bank (SARB) is anticipated to cut interest rates in September, with some speculation that the cut could be more significant than initially expected. In the July meeting, the SARB's Monetary Policy Committee (MPC) maintained the repo rate at a 15-year high of 8.25%, though two members advocated for a 25 basis points cut.
- Since 2021, the SARB has raised rates by 475 basis points to tackle rising inflation. Recent improvements in the inflation outlook, with expectations for a return to the SARB's target midpoint of 4.5% by Q4 2024, and a stronger rand following the formation of the GNU, have set the stage for potential rate cuts. Additionally, anticipated rate cuts by the US Federal Reserve could give the SARB more leeway to lower its rates without affecting the rand adversely.
- Financial institutions and analysts, including Bank of America and Standard Bank, predict a 25 basis points cut in September, with some, like the Bureau for Economic Research (BER), suggesting a possible 50 basis points reduction. However, this would depend on stable rand behaviour and controlled oil prices. Inflation data for July and August and global monetary policy dynamics will influence the final decision.
- Despite potential rate cuts, SARB Governor Lesetja Kganyago emphasised that monetary policy alone cannot address South Africa's broader economic challenges, such as inequality and economic growth. He highlighted the need for comprehensive measures beyond interest rate adjustments to improve education, manage urbanisation, and resolve issues like load shedding.
- Capitec and other banks have expressed concern about rising bad debt and high inflation impacting disposable income and credit affordability, leading to reduced credit extension to retail clients. Overall, while rate cuts may offer some relief, they are seen as a partial solution to the country's economic issues.

Risk Index



- **Energy: 2**
- **Loadshedding: 1**
- **Grid Collapse: 2**
 - o Interventions in the energy sector through ENACOM are begging to yield results, although the challenge of municipal debt to Eskom continues to pose risk to the utility's infrastructure reinvestment.
- **Water Crisis: 4**
 - o South Africa continues to face a water crisis that could lead several municipalities towards a day zero situation. Additionally, it has been reported that municipalities owe water boards billions of rands, which could affect water provision to those municipalities in future.
 - o This will negatively impact not only households, but many businesses that are rely heavily on water usage, especially those in mining and manufacturing, among others.
- **Economy: 4**
 - o The country's economy continues to show suboptimal performance and could outperform its current growth outlook by the IMF and World Bank. Socioeconomic indicators remain weak.
- **Socio-political Stability: 4**
 - o High unemployment and high crime rates will continue to shine a risk on social stability.

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