FRONTLINE AFRICA ADVISORY

LOCAL ECONOMIC AND POLITICAL REPORT

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by Frontline Africa Advisory

Introduction

- The September report covers the state of the Government of National Unity (GNU), the ANC's renewal programme and shifting political alliances at local government level.
- The report then takes a look at SOEs focusing on Eskom, Transnet and South African Airways.
- On the international relations front, it covers the strengthening of China-South African relations.
- On the economic front, the report zones in on the second quarter GDP growth, Purchase Managers' Index (PMI), as well as inflation and interest rates.
- Finally, the report takes a look at the monthly risk index, which analyses the potential risks the country faces over the coming months.

Political Updates

Government of National Unity: 100 Days In

- The GNU has now been in place for over 100 days and while remaining stable, continues to face some problems as the Democratic Alliance (DA) seems determined to continue letting its problems with the government play out in the public gallery.
- Earlier in September, DA Leader John Steenhuisen stated that if President Cyril Ramaphosa signed the Basic Education Laws Amendment (BELA) Bill, it would have "destructive implications for the future of the GNU, as it could be "destroying the good faith on which it was based." Ramaphosa went on to sign the bill but allowed room for more consultations on 2 clauses concerning school admissions and language.
- The DA's opposition to the bill also saw the Minister of Basic Education, Siviwe Gwarube, not attending the Bill's signing ceremony.
- While the DA stuck to its historical position in opposing the new law, the party could have dealt with the issue better, similar to other GNU partners that took up their concerns with the bill directly to the President.
- While Steenhuisen later backtracked on the threats, this could be the first of many instances where we might see this kind of public "politicking."

Potential Implications:

- The DA has stated that it is going into the GNU to fulfil its election promises to its constituents and will persist with pushing the boundaries in terms of getting its way in government. However, despite its threats, it is unlikely to exit the GNU, as that will open the door to the Economic Freedom Fighters (EFF) and possibly the uMkhonto weSizwe Party (MKP), which they are dead set against.
- The ANC on its part, knows that it is now in a good position and will not cower to the DA's or any GNU partners' threats to walk out of the coalition.
- The decision by the President to set up a mechanism to resolve disputes among parties is in line with the Statement of Intent and will go a long way towards the prevention of future public squabbles by parties.
- There seems to be positive sentiments on the GNU and its work thus far. Its continued stability will no doubt have positive effects on the bid to address public trust deficit in government and attract more direct investments and grow the economy.

ANC's Renewal Programme and road to 2026

- The ANC is hard at trying to translate its Renewal Programme into a programmatic agenda as it gears for the 2026 local government elections. However, it remains to be seen if this will yield practical results.
- This has seen the party's National Working Committee (NWC) embarking on provincial engagements to assess the state of the party in provinces and why the party performed poorly in some provinces, particularly KwaZulu Natal, Northern Cape and Gauteng.
- In the Provinces that the NWC has visited already, the main issues coming out that affected the party's performance in May 29 polls are intra-party organisational challenges, ANC squabbles, and factionalism.
- It has also been claimed that some members were working for the MKP whilst they were still with the ANC, and this led to the party not pushing as a unit during campaigning.
- Speaking at a recent workshop in Gauteng, former President Thabo Mbeki stated that the quality of the party's membership had deteriorated to an alarming degree and that something needs to be done about it, to avoid further losses in upcoming elections.
- Already thinking about 2026, the ANC resolved to form a task team, led by Parks Tau, to lead its interventions at the municipal level to improve service delivery. This is after party at its NEC Lekgotla in August, acknowledged that its failures at local government level have adversely affected its support.
- Tau will now be able to deploy members of the ANC's NEC to struggling municipalities to assist them with service delivery issues that can be resolved through national government intervention.

Potential Implications:

- To avoid losing more votes and possibly regaining lost municipalities in 2026, the ANC will have to start cracking the whip on corrupt members and where it leads, improve the levels of service delivery.
- The renewal commission established in 2022 also has to move forward without delay in its efforts to renew the movement. However, selective use of some the party's resolutions, including the Step Aside rule, will see it struggle to shake off accusations of selective persecution and undermine efforts to rid the party of corrupt elements.
- The resolution to lead all municipalities where it has a majority is to avoid past situations, where smaller parties were able to claim victories in delivering certain services, at the expense of the ANC.
- It is without a doubt that tough decisions will have to be made with the risk of turning comrade against comrade, especially with the VBS saga rearing its ugly head again.
- The fact that the party takes too long to act on leaders perceived to be aligned to Ramaphosa seems to give credence to suggestions that the ANC is, after all, not as committed to renewal as its rhetoric suggests.

Shifting Alliances at Local Government

- Political alliances continue to shift at local government as the DA finds itself at odds with its former ally, ActionSA.
- The rift was created when the DA decided to join the GNU, alongside the ANC while ActionSA chose not to, in accordance with the agreement in the Multiparty Charter.
- Recognising its waning political currency, ActionSA has decided to go into bed with the ANC, at the expense of the DA to play a more active role in local councils and governments.
- The party gained the Speaker position in Johannesburg after it helped the ANC's Dada Morero secure the mayor position.
- ActionSA was also instrumental in ousting the DA from governing Tshwane after a successful motion of no confidence against Mayor Cilliers Brink. The party will probably be rewarded with MMC positions, with an ANC Mayor at the helm.
- Meanwhile, in the eThekwini metro, the ANC and DA have continued to hit a deadlock over negotiations about forming a local government of unity, with the latter opposing working with the EFF.
- The battle for eThekwini is seen as a precursor to the 2026 local government election campaign. The metro is a powerhouse in KwaZulu-Natal and often plays a kingmaker role in national politics. It contributes 9.59% to the national GDP and 59.88%—R468 billion—to the provincial economy.
- In Nelson Mandela Bay, the ANC is set to take over the coalition in the metro and appoint a mayor from within the party. The party is in negotiations with the DA to form a partnership.

Potential Implications:

- With the DA's hopes of replicating the national GNU in metros has failed, the ANC had decided to go into partnership with other parties.
- How the ANC's resolution to lead municipalities where it has most seats will lead to political instability remains to be seen.
- Continued shifts in political alliances and leadership over municipalities may hurt the chances of the bigger parties if service delivery slows down and only works to anger the voter base.
- With the 2026 local government elections so close, political parties will be desperate to prove themselves to their voters. The ANC, in particular, has a lot to prove as it has now received less the 50% at both national and local level, which means any further losses could lead to the party's complete removal from government eventually, or potentially to the party's demise.

South Africa in the Global Context

SA-China Relations

- While South Africa continues to wait on news of its continued participation in the Africa Growth Opportunity Act (AGOA), it continues to strengthen its relationship with its eastern ally and largest trading partner China.
- President Cyril Ramaphosa led a South African delegation to China for a state visit and the Forum on China-Africa Cooperation (FOCAC) Summit.
- The two countries signed eight trade and investment agreements, which will see an increase in exports of agricultural and manufactured goods to China.
- The two countries will use mechanisms as the China-South Africa Joint Working Group (JWG) and the Joint Economic and Trade Committee (JETC) to further expand economic and trade ties by improving the current trade structure, increasing market access and the export of value-added goods from South Africa.
- Politically, the two countries will work together to advance the agenda of the global South, the reform of global governance institutions, and matters regarding international peace and security. The countries will use multilateral platforms such as the United Nations, BRICS, and the G20 to advance issues of mutual benefit.
- China is South Africa's largest trading partner globally, while South Africa is China's number one trading partner in Africa. Total bilateral trade grew from R614 billion in 2022 to R692 billion in 2023.
- South Africa and China's bilateral relations are maintained at the level of a Comprehensive Strategic Partnership (CSP) level, underpinned by a Ten-Year Strategic Programme of Cooperation (2020–2029).

Potential Implications:

- South Africa's relationship with China continues to grow from strength to strength since diplomatic relations were established in 1998. The relationship now encompasses economic, political, social and military cooperation. Since 2018, the countries have embarked on no less than 4 state visits between them.
- Additionally, South Africa and China tend to have intersecting positions on international issues. The Russia-Ukraine conflict and reform of the UN Security Council being a few examples. Now that the United States has initiated a resolution for inclusion of at least two African states in the Security Council, Africa could be looking up to China for support of the resolution, possibly with an extended veto power. Whether China (and possibly Russia) will move to support the extension of the veto power beyond the top five: Britain, the US, France Russia and China, remains to be seen.
- Although, there were agreements signed to increase the exports of manufactured goods to China, the large trade imbalance is unlikely to be filled anytime soon, if ever. China's manufacturing capacity and technological advancement will forever remain ahead of South Africa's.
- The two countries will need to balance increased economic co-operation with concerns about job security, and environmental sustainability in South Africa.

The state of State-Owned Enterprises

Transnet

- President Cyril Ramaphosa has given the Special Investigating Unit (SIU) the greenlight (via Proclamation 184 of 2024) to "investigate allegations of serious maladministration related to Siyabonga Gama's reinstatement as CEO of Transnet Freight Rail in February 2011 and the payment of Gama's legal costs following his reinstatement."
- Additionally, the investigation is set to look into any unauthorised, irregular, or wasteful expenditure incurred by Transnet concerning these matters.
- The Proclamation covers allegations of unlawful and improper conduct that occurred between 1 January 2007 and 13 September 2024, as well as any related activities before 1 January 2007 and after the date of the Proclamation that are pertinent to the matters under investigation or involve the same persons, entities, or contracts.
- Meanwhile Transnet also found itself in court as APM Terminals, owned by Danish shipping company Maersk, sought to interdict Transnet from proceeding with its multibillion-rand privatisation deal with Philippines-based International Container Terminal Services (ICTSI) to revitalise Durban's Container Terminal Pier Two (DCT2).
- APM argued that the process relating to the award of the 25-year concession (for which ICTSI bid 12 billion in its entirety), which seeks to restore Durban as the number one port on the continent, was not above board.
- However, the SOE has argued that the country's port infrastructure is in crisis and that delays costing the South African economy R98 million per day directly and R1 billion a day indirectly, because of the knock-on effect on the supply chain.
- Amid the court bid, Transport Minister Barbara Creecy has spoken about how greater transparency "would ensure Transnet's plan to greater private sector participation is not crippled by legal challenges."

South African Airways

- This month saw the Auditor-General (AG) briefing the Standing Committee on Public Accounts (SCOPA) on finances at the South African Airways (SAA), revealing that the government had "injected over R38.1 billion" since 2018, R27.6 billion of which was deposited post the business rescue period which kicked off in 2019.
- The AG revealed that audit outcomes had regressed since the 2017-18 period.
- SCOPA was informed that SAA is currently fully funded by equity, "there are no loans and everything was settled."
- The AG also noted that it was unable to get sufficient audit evidence to express whether the financial statements can be reliable or not due to the lack of adequate skills and capacity to prepare credible financial statements and support the audit process.
- Some of the challenges identified by the AG included:
    - o Management's failure to provide audit support due to poor record keeping and loss of finance staff during business rescue.
    - o Insufficient skills and capacity for accurate financial reporting post-rescue.
    - o No effective action plan for previous audit issues or internal findings.
- The AG also made some recommendations, including:
    - o Stabilising governance and internal capacity for business expansion.
    - o Filling executive leadership vacancies with skilled professional.
    - o Implementing and monitoring realistic action plans for audit findings.
    - o Enforce strict consequence management and accountability.

Eskom

- Eskom finds itself facing opposition from the DA, as Parliament debates Eskom's latest request to the National Energy Regulator of South Africa (NERSA) for a tariff increase.
- The power utility is looking for a 36% hike for its direct customers and a 40% hike for its municipal consumers in the upcoming financial year.
- The party held a nationwide protest, opposing Eskom's bid to increase costs for households to keep their lights on.
- The proposal has also received criticism from business chambers who warned that "a proposed 36% electricity price increase next year would be absolutely devastating and could see many enterprises close down."

Commentary on SOEs:

- SOEs still have ways to go before they fully recover, as National Treasury is no longer looking to bailout dysfunctional entities.
- The SIU's investigation at Transnet could potentially lead to further prosecutions for the maladministration that led the company to where it was today. This has been a point of contention for many South Africans following the State Capture Commission.
- However, the logistics company's finances are unlikely to be resolved anytime soon as it continues to take on loans to try and resolve some of its challenges.
- SAA, on the other hand, seems to have found its feet following the deal with Takatso Consortium falling through.
- Embattled SOE's will likely continue to look towards private public partnerships to help get back on their feet.
- Eskom is also on a path of financial recovery, as it has managed to reduce unplanned maintenance and plant breakdowns. Additionally, the power utility now uses less money on diesel, with the money going towards plant maintenance and stabilising the electricity network.
- Further increases in the electricity tariff will not only harm businesses but will also raise the cost of living for many households who are still struggling to live through the current economic climate.

Economic Updates

Second Quarter GDP Rises

- Following a zero-growth rate in the first quarter of 2024, South Africa's GDP was reported to have increased by 0,4% in the second quarter.
- One of the major differences, which helped economic growth being that the second quarter was not affected by the incessant power outages that had been harming the economy over the last few years. The absence of loadshedding helped the electricity, gas and water supply industry, with the sector increasing by 3,1%, "driven by higher electricity generation and water distribution."
- Seven industries recorded positive growth between the first quarter of 2024 and the second quarter of 2024, including finance, trade and manufacturing, with the transport industry being the main negative contributor.
- Statistics South Africa (Stats SA) reported that Expenditure on real GDP increased by 0,5% in the second quarter of 2024, following a decrease of 0,1% in the first quarter of 2024.
- Government's final consumption expenditure increased by 1,0%, contributing 0,2 of a percentage point, while gross fixed capital formation decreased by 1,4%, contributing -0,2 of a percentage point.
- Meanwhile, household final consumption expenditure increased by 1,4% in the second quarter of 2024, contributing 0,9 of a percentage point to the total growth.

Purchasing Managers' Index

- S&P Global reported that their PMI had risen to 50.5 in August, up from July's 49.3, and signalling a pick-up in business conditions, with firms receiving higher volumes of new orders for the first time since April 2023.
- S&P reported that according to respondents, increased economic and political stability had strengthened domestic client spending. The upturn in demand was mainly centred on services while industry and construction faced further downturns.
- Cost and price pressures are said to be the reason firms had limited operations and for sustained cuts in staffing and purchases. Both staffing and purchases decreased for the third month running.
- Challenges in supply chain performance also contributed to slowed business activity as port congestion and longer shipping times contributed to a slight reduction in input inventories.
- S&P's latest survey data signalled a sharp rise in overall input costs in August, with the pace of inflation climbing to its highest in three months, with firms indicating that this was mainly due to a mark-up in supplier prices for raw materials.

Inflation

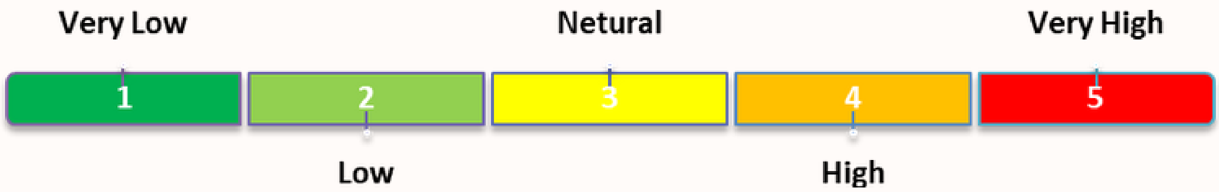
- Annual consumer price inflation continued its descent in August, reaching 4.4% down from 4.6% in July.
- The consumer price index (CPI) was reported to have increased by 0.1%.
- The main contributors to the 4,4% annual inflation rate were:
    - Housing and utilities (4,8% and contributing 1,1 percentage points)
    - Miscellaneous goods and services (7,0% and contributing 1,0 percentage point)
    - Food and non-alcoholic beverages (4,7% and contributing 0,9 of a percentage point)
    - Transport (2,8% and contributing 0,4 of a percentage point).

- As inflation continues dropping, the South African Reserve Bank (SARB) made the decision to finally bring down interest rates, by 25 basis points (bps). This brought the repo rate down to 8% and the prime lending rate to 11.50%.
- This decline comes as global inflation is slowing and other major central banks such as the Bank of England and US Federal Reserve have also been cutting their rates.
- SARB Governor Lesetja Kganyago stated that they “expect improvements in the second half, with growth of 0.6% in both quarters,” reflecting rising confidence, in part due to a stable electricity supply.
- They also “expect extra spending given withdrawals from the new Two-Pot retirement system, although some of these funds will be absorbed by debt repayments and tax.”
- Kganyago added that for the medium term, their growth projections have once again edged higher, but that investment remained a concern as it has been contracting for four consecutive quarters.
- The SARB forecasts a continued “dip in headline inflation, supported by the stronger exchange rate and lower oil prices.”
- The bank’s forecast “sees rates moving towards neutral next year, stabilising slightly above 7%.”

Economic Activity Potential Implications:

- The prolonged suspension in loadshedding and decreases in fuel prices could help the economy continue on a growth trajectory in the third quarter of 2024.
- Continued, positive economic growth could see the country reach the 1.2% GDP growth for 2024, as forecast by the SARB.
- Recent fuel price declines will provide some relief to several industries including transport and manufacturing among others.
- However, the next Quarterly Labour Force Survey (QLFS) will likely continue to show an increase in unemployment numbers as firms continue to shed jobs.
- A continued decline or stabilisation of inflation will lead to further interest rate cuts in the coming months.
- However, rising food inflation will continue to disadvantage households, especially lower-income households who are already struggling with a high cost of living.
- This however declining inflation and interest rates could start to offset this challenge, but it will still take time before low-income households find groceries to be affordable.
- However, more needs to be done towards reforming and rescuing the country’s SOEs and other government institutions as failures at entities such as Eskom, Transnet and municipalities will continue to hamper growth.
- The country is not out of the woods yet, as loadshedding, which was arguably the largest internal contributor to inflation, only remains suspended and could come back at any point while Eskom still sorts out its debt problem among others.
- The Russia-Ukraine war also showed us just how impactful external issues such as geopolitical conflicts can be towards our economy and so these will also continue to remain a threat to inflationary stability.

Risk Index



- **Energy: 2**
- **Loadshedding: 1**
  - o The threat of loadshedding remains at a low this month, as the country has surpassed over 170 days without loadshedding.
  - o The advancements made in the energy sector, such as the signing of the Electricity Regulation Amendment Act, will likely see further improvements in the sector.
  - o However, Eskom’s financial woes will continue to hinder the power utility’s work and its insistence on raising electricity tariff’s will only raise the frustrations of South Africans.
- **Economy: 4**
  - o The economy remains fragile, but it will likely continue to see improvement as loadshedding remains suspended and challenges at the country’s ports are dealt with.
  - o The recent decline in inflationary pressures will no doubt be positive for households, however, the buying power of the rand remains week and so the cost of living is likely to remain high for a while.
- **Socio-political Stability: 4**
  - o This risk has remained low since the establishment of the GNU after the elections.
  - o However, the risk of a disruption to social stability remains one to look out for as South Africans not only have to deal with a high cost of living; they are also forced to deal with a crime rate that has remained high for a few years now.
  - o Communities could start taking matters into their own hands, leading to vigilante and mob justice.
  - o Poor service delivery also remains a risk factor, as this could lead to communities protesting and going as far as burning municipal and other government infrastructure as experienced in the past.

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