



FRONTLINE AFRICA
— ADVISORY —



LOCAL ECONOMIC AND POLITICAL REPORT

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by Frontline Africa Advisory

Introduction

- This edition of the report will look at the Government of National Unity' (GNU) first 100 days, covering various political and economic indicators.
- The report also analyses latest developments at local government level, specifically in Gauteng's Johannesburg and Tshwane councils.
- On the economic section, the focus is on the Medium-Term Budget Policy Statement, delivered by Finance Minister on 30 October, teasing out the country's fiscal framework and other factors that underpin the country's economic trajectory.
- Lastly, the report analyses risks of political, economic and social kind that may or may not affect the country in the near-to-medium-term.

Political Updates

Government of National Unity's First 100 Days

- As the GNU in South Africa completed its first 100 days, there has been mixed sentiments domestically and globally. While President Cyril Ramaphosa and the ANC have praised the GNU as a fit for purpose arrangement that is poised to move South Africa forward, ANC alliance partners, the South African Communist Party (SACP) and Congress of South African Trade Unions (COSATU) continue to poke holes on the GNU. This is despite earlier assurances that, at an ANC National Executive Committee (NEC) Lekgotla a few months ago, the SACP had understood the special circumstances that necessitated the GNU and therefore supported it.
- Equally, markets continue to show a positive sentiment towards the GNU. However, other political parties, such as the Umkhonto weSizwe (MKP) and the Economic Freedom Fighters (EFF), collectively called the 'Progressive Caucus' in Parliament, have lashed out at the GNU as a sellout reformist solution to the country's challenges.



Economic Sentiment

- The economic indicators, business and consumer confidence suggest a gradual recovery, driven largely by improved energy security and a reduction in load-shedding, as well as efforts to address challenges in the logistics sector.
- **Business Confidence:** The RMB/BER Business Confidence Index rose to 38 in Q3 2024, the highest since Q4 2022, reflecting easing pessimism driven by improved electricity supply and a more stable political environment following the GNU's formation.
- **Consumer Confidence:** The FNB/BER Consumer Confidence Index improved to -5 in Q3 2024 from -10 in the previous quarter. Although still negative, this is the highest level since early 2019, aided by lower inflation and expected interest rate cuts.
- **Manufacturing Sector Performance:** The Absa PMI increased to 52.88 in September 2024 from 43.6 in August, indicating renewed expansion driven by improved demand. The positive PMI results suggest that the sector is stabilising after previous turbulence, although employment challenges remain.
- The South African Reserve Bank (SARB)'s decision to lower the repo rate to 8% in September 2024, following a decline in inflation to 4.4%, has contributed to a more favourable economic outlook, suggesting a semblance of economic improvement. SARB's repo rate cuts encourage borrowing, consumer spending, and business investment.



- This has led to an increase in business and consumer confidence, as reflected in the RMB/BER Business Confidence Index and the FNB/BER Consumer Confidence Index.
- However, the economy still faces substantial challenges. The second quarter of 2024 saw only a marginal GDP growth of 0.4%, with investment contracting for four consecutive quarters.
- The need for structural reforms to stimulate investment and job creation remains pressing. Initiatives like Operation Vulindlela, aimed at addressing structural challenges in sectors such as energy and infrastructure, hold promise but require effective implementation to yield tangible results. The initial signs of recovery from load-shedding and enhanced electricity supply have already contributed to a more favourable economic outlook.
- Challenges remain regarding fiscal outlook. Critics argue that while the GNU has created a platform for potential growth, there are underlying issues stemming from historical fiscal policies that have constrained economic development. The emphasis on austerity measures and high-interest rates has historically stifled investment, which is critical for building reserves.
- The GNU has fostered a stable political environment, contributing to increased investor sentiment and foreign investment and a strengthening of the local currency.
- The GNU has now started with Phase Two of Operation Vulindlela.

Government Performance

Responsiveness

- Ramaphosa, with Business CEOs, launched Phase Two of Government Business Partnership, which is essentially about supporting ongoing efforts to accelerate the country's quest to achieve sustainable inclusive economic growth and job creation through increased investments and more positive sentiment.
- Both government and business reaffirmed their collective resolve to address the country's pressing challenges together. This partnership has seen positive yields in the energy sector, and there is reason to believe that, if applied with the same rigour, it may contribute to resolving challenges in the logistics sector and in fighting crime and corruption – some of the bottlenecks identified by Business 4 South Africa (B4SA) as impeding growth.

Business friendly environment

- The Minister of Trade, Industry and Competition, Parks Tau, is actively engaging business, with a view to addressing the many policy and regulatory challenges they face. This is a significant shift from his predecessor, Ebrahim Patel. Organised business, most notably the Business Leadership South Africa (BLSA), Business Unity South Africa (BUSA) and the Black Business Council (BBC), have expressed confidence in Tau's way of doing things.

Criticism of DA Ministers

- There is criticism that the DA ministers, such as party leader John Steenhuisen, Home Affairs Minister Leon Schreiber and Basic Education Minister Siviwe Gwarube, might be overstating their achievements in the GNU.
- Steenhuisen also faces scrutiny over navigating complexities in a coalition, more so as he seems unable to reign in DA Federal Council Chair, Helen Zille, as she often appears to be adopting an antagonist posture towards the main GNU partner – the ANC.

Promotion of Accountability

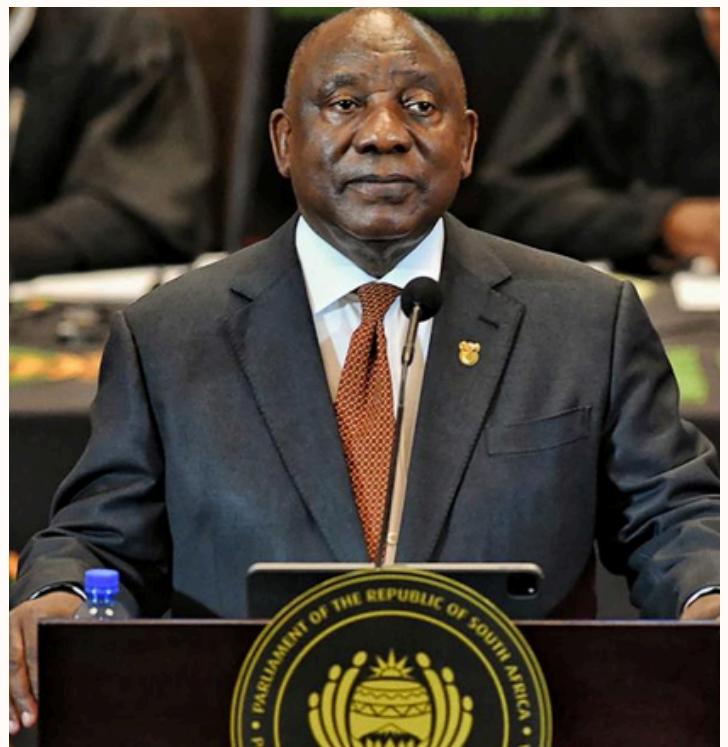
- Public Service and Administration Minister and Inkatha Freedom Party's (IFP) deployee in Cabinet, Inkosi Mzamo Buthelezi, has emerged as a voice of reason when it comes to the appointment of Ministerial staff. He rejected the appointment of unqualified personnel to Steenhuisen, ANC's Gwede Mantashe and Pemmy Majodina's offices, saying these appointments flouted applicable public service rules and regulations.
- Though, insignificant at face value, Buthelezi's stance is putting an end to a culture of deploying unqualified people into public service (as practiced by both the ANC through its cadre deployment policy and the DA in the Western Cape), which has been at the centre of hollowing out state capacity, as heard during the Zondo Commission of Inquiry into State Capture.

Other Ministers

- While there are enthusiastic ministers, such as the Minister of Sports, Arts and Culture, Gayton McKenzie who use social media to engage South Africans, others, such as IFP President and Minister of Cooperative Governance and Traditional Affairs (COGTA), Velenkosini Hlabisa, and Tourism Minister Patricia De Lille, seem to be more measured in their approaches.
- Other members of the GNU, such as UDM's Bantu Holomisa, who was a fierce critic of the ANC under the previous administrations, seem to have neutered. Deputy Minister of Defence and Military Veterans Holomisa is increasingly aligning with his boss, Minister Angie Motshega, on how government is addressing challenges experienced by the Defence Force.

Foreign Policy

- All parties to the GNU started well, seemingly aligned on a number of fronts, despite their individual positions; for instance, the DA's support for Ukraine and South African government's non-aligned stance in the Russia-Ukraine war, and the Patriotic Alliance's (PA) and DA's support for Israel in the ongoing Israel-Palestine conflict.
- A number of DA ministers accompanied President Ramaphosa on his State Visit to China and the FOCAC in early September.
- However, the recently held BRICS Summit in Russia has tested the cohesion of the GNU's foreign policy approach. DA's Steenhuisen has sought to distance his party from Ramaphosa's remarks that Russia was a friend of South Africa. This was met with rebuke from both the public and within the GNU. Steenhuisen and the DA were accused of seeking to rewrite the country's foreign policy.
- Another incident that attracted some demurral to the DA was the pronouncement, via social media, by Home Affairs minister Schreiber, that he had concluded a visa agreement with Ukraine during the latter's foreign affairs minister, Andrii Sybiha, to South Africa late in October.
- Furthermore, the DA has failed to halt Pretoria's move to relocate Taiwan's Liaison Office from Pretoria. This is despite the DA's recognition of Taiwan, which stands in contradiction with the South African government's alignment with One China policy.



- Despite the contradicting positions of the DA and the ANC-dominated GNU, it is unlikely the DA will opt out of government – at least not now and over foreign policy positions at that, for any number of reasons. The DA, as it stated in the formative days of the GNU, now has the opportunity to influence government policy from within – not outside. The party also does not want to have the EFF and MKP in national government.
- Of course, tensions will arise from time to time. However, these issues – just like the BELA Act and the National Health Insurance (NHI) are not 'make or break' issues. Besides, the GNU Statement of Intent provides for consensus-based decision-making as well as dispute resolution. Deputy President Paul Mashatile, on the directive of the President, is leading an important task of developing, along with all GNU partners, a Clearing House Mechanism. This does not suppose that differences will dissipate into the dustbin of history, but these efforts are aimed at containing disagreements within acceptable parameters, instead of collapsing government all together. It would be naïve to think that, all of a sudden, the DA and the ANC in particular, will necessarily align on every piece of policy or legislation.
- After all, the GNU is a political alliance and its success, like that of any alliance, will be contingent on how relations of accommodation and struggle are managed. Part of this management is or should include the DA reigning in its Federal Council Chairperson whose public outbursts and opinions are at variance with the spirit of the GNU. It should also be about the ANC managing its alliance partner, the SACP, that has seemingly gone astray, prioritising ideology over the pragmatism of the GNU. After all, South Africans, who voted the way they did in the May 29 elections, need a practical resolution of their multifaceted socio-economic challenges, not an ideological dogma.

Political twists at Municipal level

- The political ructions at local government level barely square up with the largely positive developments at the national level, as evidenced by the GNU's 100 days. Both senior partners to the GNU, the ANC and the DA, are equally to blame for the chaos at the country's metros.
- The ANC in Gauteng has seemingly gone rogue by acting outside of the spirit and ethos set out by the national leadership on the formation of a government of provincial unity (PGU) and political choices in Johannesburg and Tshwane.
- Recently, the ANC formed a pact with ActionSA to remove Al-Jamah's executive mayor in Johannesburg in favour of its Johannesburg Chairperson Dada Morero. In Tshwane, the two parties worked with the EFF to remove DA's Celliers Brink as executive mayor. In both cases, there seems to be pre-occupation about pulling strings, so to speak; as opposed to a clear case being made for improved service delivery.
- For its part, the DA's negotiation tactics – if not sheer arrogance – put the party on the backfoot of political machinations in Tshwane. While the DA could have claimed it was 'thinking big' by proposing a veritable collaborative framework of cooperation with the ANC in Gauteng metros, including the Nelson Mandela Bay metro in the Eastern Cape, it overlooked the risks posed by the ANC-ActionSA-EFF coalition in the Capital. Pronouncements and even threats by the DA Federal Council Chairperson, Zille, may have hardened the attitude of the so-called 'pro-GNU' faction of the ANC. In the end, the so-called 'anti-GNU' faction of Gauteng Chairperson and Premier, Panyaza Lesufi, won the day. Brink was replaced by ActionSA's Nasiphi Moya as Tshwane's Executive Mayor.
- The ANC is wary of DA-led coalitions in Gauteng metros ahead of the 2026 local government elections, given that these metros were hung because of the ANC decline in the first place.
- The DA naively believed that by forming the GNU at a national level, it would effectively flex its muscle and influence ANC's posture at a local government level.
- For their part, ActionSA which elected to stay out of the GNU realised it faced existential risks even at a local level unless it revived its fortunes. After all, the party performed better in the 2021 local government elections than it did in the 2024 general elections. This may have signalled the need for the party to consolidate its local presence by entering into an arrangement with the ANC.
- The EFF also declined in the 2024 general elections and is facing the challenge of internal defections to the MKP. Holding the ground at local level in Gauteng, by leveraging on the personal relationships with the Gauteng ANC leadership, is somewhat a calculated gamble.
- Unfortunately, in all these shenanigans it is service delivery that suffers. While there is hope that the Municipal Structures Amendment Bill, currently before Parliament, will bring about a semblance of political stability in hung municipalities generally and volatile metros specifically, there is much consternation among smaller parties. This is because of the proposed electoral threshold of 1% for a party or a candidate to secure a seat in a council.
- It seems plausible that the Clearing House Mechanism, initiated under the GNU at national level, may be required at local level as well. The DA and the ANC, more than any other party, may need this mechanism to translate their 'collective' vision nationally to local government.

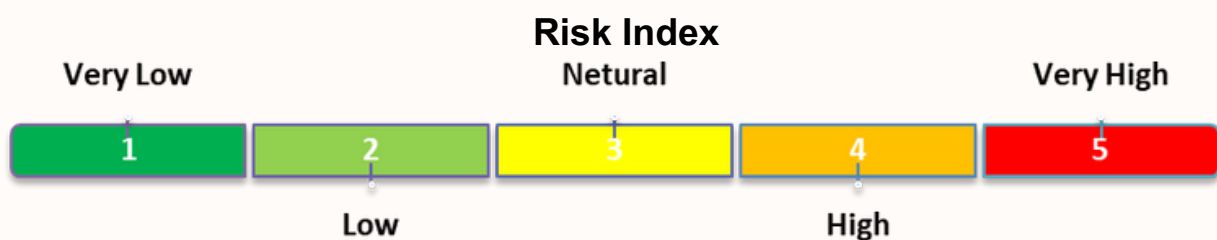


Economic Updates

- The most significant economic development for the month was the MTBPS delivered by the Minister of Finance on October 30.
- The MTBPS revealed concerning news, South Africa is facing a revenue shortfall of over R22 billion for the current year, as SARS failed to meet the National Treasury's tax revenue target. This shortfall has led to an increase in the country's debt-servicing costs.
- Aside from an additional allocation of just over R5 billion in the Special Appropriation Bill earmarked for the SANRAL, the Minister did not announce any significant bailouts for SOEs, which may be viewed as a positive development.
- Over the medium term, the main budget deficit is projected to decrease from 4.7% of GDP in 2024/25 to 3.4% in 2027/28, with the primary budget surplus expected to rise to 1.8% of GDP. The National Treasury forecasts real GDP growth of 1.1% for 2024, which is lower than the 1.3% estimate provided in the February budget.
- Additionally, the government plans to allocate R11 billion over the next two fiscal years to support the early retirement of public sector employees, aiming to manage the public sector wage bill effectively.



- South Africa's post-election economic outlook shows promising signs, largely buoyed by the successful establishment of the Government of National Unity (GNU), lower inflation, and improvements in power stability. These factors contribute to a more optimistic trajectory for the economy.
- PwC's South Africa Economic Outlook report for 2024 indicates improved sentiment in global financial markets towards South Africa's economy since the formation of the GNU. RMB Morgan Stanley suggests that these improving economic prospects will lead to better fiscal metrics and potential upgrades to the country's junk-related debt.
- As South Africa emerges from a period of economic turbulence, the latest projections for 2024 offer a glimpse of cautious optimism. With GDP growth expected to improve, this modest recovery hinges on several key factors, including stabilizing energy supply and easing inflation rates.
- However, the road ahead is fraught with challenges that could impact the overall economic landscape. General business activity, particularly for small and micro enterprises, remains below pre-COVID levels.
- The government has struggled to effectively address the negative trifecta of poverty, unemployment, and inequality. Unemployment remains unacceptably high at 33.5% in Q2 2024, and the cost of living continues to place many families in distress.
- Municipal dysfunction also poses a critical challenge to the country's growth and development.



Energy: 2

Loadshedding: 1

Load reduction: 4

Grid Collapse: 1

- While there are no specific reports focusing on loadshedding, the general context of infrastructure challenges and systemic issues in South Africa suggests that loadshedding remains a significant risk.
- Load reduction strategies are actively being implemented to manage energy demand, particularly in areas with high consumption and network strain. Specific regions in Provinces have been experiencing load reduction at various times to prevent the overloading of local electrical network.
- Eskom has achieved significant improvements in its generation fleet, leading to about 200 consecutive days of uninterrupted power supply since 26 March 2024. The current operational recovery plan and improved efficiencies have reduced the risk of grid collapse.

Water Crisis: 3

- While Gauteng's water crisis is critical, other provinces in South Africa, such as KwaZulu-Natal's eThekweni region, are also grappling with various water-related issues, including infrastructure decay, population growth outpacing water supply, and the impacts of climate change and drought.
- Johannesburg is facing a severe water crisis, with areas going without water for extended periods, such as Crosby experiencing a week without water. The Hursthill 1, Hursthill 2, and Alexandra Reservoirs are severely damaged and exacerbating the issue. Water storage levels throughout Gauteng and other province are significantly declining, and the city has skirted "Day Zero" for the fourth time in a year.
- It is hoped that the maintenance on the Lesotho Highlands Water Project does not go beyond March 2025, as government projects have a reputation of running beyond deadlines.

Economy: 3

- The ongoing water crisis and potential for further infrastructure failures can have significant economic implications. Businesses, especially those reliant on water, may face disruptions. Additionally, the lack of basic services can lead to public unrest and further economic instability.
- These issues may negatively affect the investment and hinder economic growth, as investors may view the region as high-risk due to the inability to provide basic services.
- While the GNU has been attributed to triggering a wave of investment, structural challenges, such as road and rail infrastructure maintenance still need to be addressed to help create an enabling business environment.

Socio-political Stability: 3

- The water crisis has already led to public protests, with residents blocking roads and submitting memorandums demanding action. The lack of adequate response from authorities has heightened tensions and frustration among residents.
- The dismissal of motion (The main goal of the motion was for a feasibility study to assess the viability of adding another litter catchment mechanism in the Jukskei River at the Jukskei Bridge) by the MMC for Environmental and Infrastructure Services Jack Sekwaila and the perceived indifference towards residents' struggles have eroded trust in local governance. This could lead to increased socio-political instability and demands for stronger leadership and accountability.
- Municipal dysfunction will likely lead to more service delivery protests across different municipalities if it is not addressed.

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