



SOUTH AFRICA

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ECONOMIC PREDICTIONS AND SELECTED POLITICAL TRENDS

“South Africa urgently needs higher economic growth. The country’s national development fortunes rest largely on lifting energy and logistics constraints and executing reforms that increase investment and reduce vulnerabilities arising from fiscal imbalances.” - Minister of Finance, 1 November 2023

World Bank

The World Bank October 2023 Macro Poverty Outlook states that GDP growth declined to 1.9% in 2022 from 4.7 % in 2021, and to 0.9 % in 2023H1. On the spending side, household consumption continued to be the main growth driver, but its support is fading. It increased by 0.7% annually over the first half of 2023 against 2.5% in 2022. The labour absorption rate is low due to the weak economy. Based on the upper middle-income poverty line, the poverty rate was estimated at 62.6% in 2022, with about 1.5 million more people living in poverty compared to in 2019. High fuel and food inflation has hit low-income households the hardest.

The global environment has become less supportive and domestic factors have also contributed to the weakening of South Africa’s external sector. Global risk aversion has resulted in rand depreciation and portfolio outflows, reinforced by the grey listing of the country by the Financial Action Task Force (FATF) in February 2023. South Africa’s terms of trade deteriorated by 15.3% between 2021Q2 (a historical high) and 2023Q2. This, combined with domestic floods and strikes at the ports, led to a continued reduction in the trade surplus and a return to current account deficits of 0.5% of GDP in 2022 and 1.6% of GDP in 2023H1, financed by net financial inflows. International reserves increased by nearly \$1 billion over 2023H1, to US\$61.6 billion at the end of June.

GDP growth is projected at 0.5% in 2023 (the SA government predicts 0.8%) and is expected to stabilise at around 1.5% over the medium term as reforms in the energy sector are anticipated to support a reduction in loadshedding and a pick-up in activity. However, the slow pace of other structural reforms will continue to limit South Africa’s growth potential. Inflation is projected to

decrease progressively, from 6% in 2023 to 4.5% by 2025. The unemployment rate is projected to remain above 32% throughout the projection period and the poverty rate to decline only slightly to 62.5% by 2025. Lower commodity prices and transport bottlenecks are expected to continue to constrain the external sector, leading to persistent current account deficits slightly above 2% of GDP over the medium term. Government is expected to continue restraining expenditure growth to reduce fiscal deficits, whose trajectory will be impacted by the debt relief arrangement with Eskom and lower revenue because of weaker commodity prices. The deficit is projected to reach 5.9% of GDP in FY2023/24 and to improve to 4.5% of GDP in FY2026/27, after the end of the Eskom deal. The public debt-to-GDP ratio is projected to increase, reaching 72.3% in FY2023/24 and 76.3% in FY2025/26.

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-6.0	4.7	1.9	0.5	1.5	1.6
Private consumption	-6.1	5.8	2.5	0.7	1.9	1.5
Government consumption	0.9	0.5	1.0	2.1	0.5	0.9
Gross fixed capital investment	-14.6	0.6	4.8	5.3	4.8	4.2
Exports, goods and services	-12.0	9.1	7.4	3.2	3.0	3.0
Imports, goods and services	-17.6	9.6	14.9	6.0	4.5	3.5
Real GDP growth, at constant factor prices	-5.5	4.4	1.9	0.5	1.5	1.6
Agriculture	17.8	7.4	0.9	0.9	2.0	2.0
Industry	-12.1	6.2	-2.5	-1.6	0.5	1.1
Services	-4.1	3.8	3.4	1.1	1.8	1.7
Inflation (consumer price index)	3.3	4.5	6.9	6.0	4.9	4.5
Current account balance (% of GDP)	1.9	3.7	-0.5	-2.0	-2.1	-2.2
Net foreign direct investment inflow (% of GDP)	1.5	9.7	1.6	0.9	1.2	1.2
Fiscal Balance (% of GDP)^a	-9.9	-4.6	-4.2	-5.9	-5.5	-6.0
Revenues (% of GDP)	25.1	27.8	28.5	27.7	27.5	27.5
Debt (% of GDP)	70.1	67.9	71.2	72.3	73.8	76.3
Primary balance (% of GDP)	-5.7	-0.4	0.5	-0.9	-0.5	-0.8
International poverty rate (\$2.15 in 2017 PPP)^{b,c}	22.6	21.7	21.5	21.6	21.5	21.4
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{b,c}	42.7	41.4	41.1	41.3	41.1	41.0
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{b,c}	63.6	62.8	62.6	62.7	62.6	62.5
GHG emissions growth (mtCO₂e)	-2.5	3.2	3.7	-2.6	0.8	1.5
Energy related GHG emissions (% of total)	77.7	78.3	78.8	78.3	78.2	78.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ The Eskom debt-relief arrangement is reported above the line, in expenditures.

b/ Calculations based on 2014-LCS. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.

c/ Projection using neutral distribution (2014) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

IMF

The International Monetary Fund (IMF) forecasts economic growth of 0.9% in 2023 in its October 2023 World Economic Outlook (WEO). It predicts growth of 1.8% in 2024 and 1.4% in 2028. The IMF said in its April 2023 WEO that the economy would grow by 0.1% in 2023.

The IMF also cautioned African nations about the possibility of a regional economic downturn and the ripple effects that China's slowing economy could bring. Africa and China have forged economic ties over the past 20 years, making the Asian giant the continent's largest trading partner. Africa exports metals, minerals, and fuel to China, while importing manufactured goods and machinery from that country. The IMF says the partnership is threatened by China's economic slowdown and aging population, trade tensions, geopolitics, and the ongoing impact of the COVID-19 pandemic.

Comment: Economic risks are significant. Externally, South Africa is exposed to portfolio flows, reversals and increases in global interest rates. Higher energy prices could affect domestic inflation, complicating monetary policy in a context of weak domestic demand. The country is also vulnerable to climate shocks. Domestically, South Africa is vulnerable to a slowdown in structural reforms ahead of next year's elections. Fiscal risks are high, with spending pressures on public sector wages, social and state-owned enterprise transfers, and rising debt-service payments. Improving primary balances is critical to ensure debt sustainability in a context of unfavourable debt dynamics, as economic growth is projected to be lower than the average interest rate on public debt.

South Africa is also becoming increasingly exposed to Chinese trade relations, debt and even investment. However, China's economic recovery from the pandemic slowed in recent months due to a sluggish property market and weak consumer spending. China's trade data showed that exports and imports continued to decline as demand for Chinese goods waned.

PwC

In its tenth South Africa Economic Outlook report for 2023, the company says South Africa's fiscal environment has deteriorated since the publication of Budget 2023 (in February this year), with the past number of months seeing increased concern over the expected shortfall in government revenue during 2023/2024, alongside a deteriorated macroeconomic situation. PwC forecasts lower growth rates of 0.5% in 2023 and 1.1% in 2024, respectively.

The report adds that "government spending makes only a small direct contribution to overall economic growth. However, public sector expenditure is at the core of economic development and socio-economic upliftment. In addition, public services provide the basic hard and soft infrastructure needed by the private sector to grow their business and employment. These are key reasons why an expected shortfall in fiscal revenue during 2023/2024 is bad news for the South African economy."

Comment: Finance Minister Enoch Godongwana's Medium-Term Budget Policy Statement (MTBPS) revealed a country on the verge of drowning in debt, with no clear plans to turn the ship around. According to the MTBPS, the government will have to borrow R553 billion per year over the next three years. This will result in total debt rising from R4.8 trillion to R6 trillion in the 2025/26 financial year. Over the same period, total interest payments will be R1.3 trillion, or 22c of every rand that government spends. The reason is quite simple: Government cannot cut its expenditure to mirror the drop in tax revenue. Expenditure will be reduced by R21 billion - this represents a saving of 1% of the total expenditure budget of R2.04 trillion. It is largely inconsequential. The implication is that South Africa's total debt-to-GDP ratio will swell to 77%, compared to 23.5% in 2008.







There was a lot of talk about austerity coming from Godongwana, but the numbers don't support it. South Africa's debt service costs are now the fastest-growing public finance expenditure.

The financial tightrope that South Africa is currently walking has three potential solutions: increasing revenue through taxes, cutting back on expenditure, or escalating borrowing (or a combination). Considering the country’s political landscape with upcoming elections in 2024, substantial expenditure cuts are not going to happen. Based on the MTBPS, the best we could hope for is an attempt to rationalise (“reconfigure”) government departments, entities, and programmes.

Crime and Justice Indices

According to the Global Crime Index, South Africa’s criminality score went from 6.63 in 2021 to 7.18 in 2023 - the seventh highest in the world and the third highest in Africa. Myanmar has the highest criminality score (8.15). In Africa, the Democratic Republic of Congo (7.35) and Nigeria (7.28) were ahead of South Africa. According to the report, South Africa’s crime networks have deeply entrenched the criminal economy within the country, leading to a “crisis of trust in government and law enforcement”. The DA, utilising data from think tanks and government statements, said that these criminal networks, including the Eskom Mafia, illegal mining networks, and wildlife syndicates, are draining a staggering R155 billion per annum from the national economy. The National Prosecuting Authority (NPA) has warned that the weakening of the criminal justice system has made South Africa a lucrative playground for organised criminals and various illicit actors.

According to the 2023 World Justice Project (WJP) Rule of Law Index, South Africa ranks 56 globally out of 142 countries (1=best; 142 worst), down from 54 in 2022 and 5th out of 34 countries assessed in Sub-Saharan Africa, in terms of preservation of order, fundamental law and absence of corruption. Its score is 0.57. Scores range from 0 to 1, with 1 indicating the strongest adherence to the rule of law. The report measured rule of law based on several criteria, such as constraints on government power, absence of corruption, regulatory environment, and criminal justice.

	Factor Score	Score Change	Regional Rank	Income Rank	Global Rank
 Constraints on Government Powers	0.62	-0.01	3/34	4/41	40/142
 Absence of Corruption	0.47	-0.01	7/34	18/41	69/142
 Open Government	0.62	-0.01	1/34	2/41	34/142
 Fundamental Rights	0.63	0.00	3/34	9/41	48/142
 Order and Security	0.60	-0.01	22/34	35/41	119/142
 Regulatory Enforcement	0.52	-0.01	7/34	14/41	60/142
 Civil Justice	0.59	-0.01	5/34	11/41	49/142
 Criminal Justice	0.50	0.00	5/34	13/41	55/142

* Indicates statistically significant change at the 10 percent level

Low Medium High

Short- to Medium-Term Political Trends to Watch

An **election poll** conducted in recent weeks predicts a sharp decline in support for the ANC, placing the governing party at 45%. The Social Research Foundation (SRF) poll, conducted in October, places the DA at 31%, the EFF at 9%, and the IFP at 6%. Note: The poll questioned a sample of 1 412 registered voters, with a 5% margin of error in place. According to the latest poll by market research organisation Ipsos, 43% of registered voters are likely to give their support to the ANC. The Ipsos poll was conducted from 1 to 23 July in the form of face-to-face interviews with 3 600 people.

About 42.3 million South Africans, aged 18 and older, are currently eligible to cast their votes. However, as of 25 October 2023, the Independent Electoral Commission (IEC) website indicated that **only 26,214,764 South Africans are registered to vote**. This suggests that only around 62% of South Africans who are eligible to vote, will have the opportunity to participate in the upcoming National and Provincial elections in 2024. This is unless an extraordinary effort is made by the IEC, political parties, other institutions, the media, and concerned individuals to boost this number and motivate South Africans to register to vote before President Cyril Ramaphosa declares the election date, which will be the indication for the voters' roll to be closed.

The ANC's head of political education, David Makhura, declared in a document tabled at a recent National Executive Committee (NEC) meeting that **the EFF was not an acceptable coalition partner** because it was a "proto-fascist party run dictatorially". The document states that the EFF has no regard for good governance and its antipathy towards ANC leaders is born of the self-interest of its leaders. "[The EFF is] embedded in corrupt practices and links with criminal business syndicates such as the cigarette mafia, which it publicly defended. It supports the Constitution and the law when decisions favour it," the document reads. As a result, it is proposed that the ANC review its partnership with the EFF, as coalitions with the party have been damaging. The ANC believes that the red berets have used coalitions to contest their social base and further damage the ANC's brand. "Although research and by-elections show that the EFF is still growing, mainly in the traditional base of the ANC, its growth is levelling up below 20%. Accordingly, it has adopted a new strategy to gain power through coalitions with the ANC, so that it can demonstrate its ability to deliver," the document warns.

Comment: The ANC's leadership is unwilling to enter into pre-election coalition agreements, still believing that the party could gain more than 50% of the national vote. However, some, including Gauteng Premier Panyaza Lesufi, argue there is much to be gained from a cooperation agreement. Lesufi, who is faced with the certain prospect of the ANC falling below 50% in the provincial elections next year, believes that working with the EFF provides a good foundation for him to remain premier next year. A second group within the ANC argues that the party should be willing to fill the opposition benches, as it has done in the Western Cape, if that is the implication of the election results. A third group, probably the smallest of the three, favours a 'coalition of the centre,' implying an agreement with the DA and its own coalition partners. For the EFF, the consequences are equally existential. Much of Julius Malema's presumed political power is based on the assumption that the EFF could be in a national coalition next year. If that prospect

disappears, he and the EFF could again end up with no real power, reduced to being no more than a nuisance in parliament.

The ANC is also looking at cutting ties with the Patriotic Alliance (PA), because of the **PA's views on the Israel-Hamas conflict**. PA leader, Gayton McKenzie, has been quoted as saying that his party is willing to relinquish working with the ANC in Johannesburg rather than change its stance on Israel to instead favour Palestine. In contrast, Malema said "We're not only going to arm Hamas, but we're also going to remove this [Israeli] embassy because we can't stay with murderers in the same area. Condemning Hamas is an act of cowardice ... There's nothing wrong with what Hamas is doing."

Comment: The ANC has had a longstanding history with the people of Palestine and has openly supported its leadership. This seems to represent further common ground between the ANC and the EFF. However, according to McKenzie, "We would rather be out of power than be on the side of baby killers, shooters of innocent youth. Hamas is a terrorist organisation, period." This suggests there is no room for negotiation on this issue. Were the ANC to refuse to work with the PA, it would be able to argue that it is doing so on the basis of principle, which could resonate with some voters. In contrast, the PA, which is driven by nationalist-populist considerations, might lose support in especially Muslim communities, including in the Western Cape.

The nomination list for **women candidates to replace Limpopo Premier Stan Mathabatha** shows divisions within the ruling party. Provincial Deputy Chairperson, Florence Radzilani, and Phophi Ramathuba, who received the highest votes at the provincial conference on the list of additional members, as well as Provincial Treasurer, Nakedi Sibanda-Kekana, and Nkakareng Rakgoale, have been suggested as possible replacements for Mathabatha. He was elected as premier in July 2013, is currently serving his second term, and is expected to leave the position when it ends.

Comment: The divisions could create two centres of power, as Mathabatha is still the ANC Provincial Chairperson, after having been elected to that position in June 2022. Contacts say that whether his replacement is a woman or a man, Limpopo will have a new premier if the ANC wins next year's provincial election. The province is expected to remain one of the ANC's political strongholds. We expect a similar jostling for the position of premier in a number of provinces, including the Eastern Cape, Mpumalanga, North West, and the Free State.

The ANC in KwaZulu-Natal (KZN) hopes to boost its chances of winning elections in the province by capitalising on the **popularity of former president Jacob Zuma** and other party elders. This reliance on the man who epitomises the party's descent into State Capture, patronage, and corruption, flies in the face of its efforts to clean up its act under President Cyril Ramaphosa. The main reason the provincial leadership of the ANC wants Zuma as a frontman in their 2024 election campaign is because they believe no one has the political and popular clout in KZN that Zuma still maintains.

Comment: According to party officials, the latest internal ANC polling in KZN reveals that the party's support in the province stands at about 52%. This is vastly different from a poll by the

Brenthurst Foundation that was released recently. It put the ANC at 32%, followed by the IFP at 27%, the DA at 19% and the EFF at 15%. According to the latest SRF poll, the combined vote of the DA and IFP in KZN stands at 46%, while the combined vote of the ANC and EFF is at 42%. Between February 2022 and April 2023, the IFP won seven wards and the DA one from the ANC in the province during by-elections. Although Zuma might be able to mobilise some much-needed votes for the ANC in KZN, his involvement is likely to be costly from an overall perspective.

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