MINISTÈRE
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ECONOMIC WRAP-UP
Southern Africa

A publication from the Pretoria Regional
Economic Service from November 28 to December 5, 2024

DATA OF THE WEEK

-0,3%

The GDP growth rate of South Africa in the third quarter of 2024

Post-election crisis: several economic sectors are devastated, major projects are postponed, but the risk of recession remains unlikely at this stage

As Mozambique enters its 6th week of post-election protests, the initial leading indicators suggest a limited impact on the economy, confined to specific regions and sectors. Certain parts of the tertiary sector (tourism, hospitality, catering, entertainment, urban public transport, land transport along the Maputo/South Africa route, etc.) are particularly hard hit, especially in cities like Maputo, where the Mozambican employers' organization, CTA, estimates a 90% decline in activity. Some isolated incidents (property invasions, particularly in mining areas; looting, etc.), linked to criminality, have also been reported in various parts of the country.

The main contributors to GDP, including the energy, mining, logistics, and agriculture sectors, continue to operate almost normally, at least in terms of production and export levels. All sectors are also impacted by the suspension of administrative activities and the widespread postponement of business visits, which delay investment projects. For instance, the signing of an agreement between Italian company ENI and the Mozambican government for the doubling of the Coral North gas liquefaction project (USD 5 billion) could not take place as planned at the end of November, amid the emergency postponement of the Mozambique Energy and Gas Forum to February 2025. Similarly, the concession contract for the Mphanda Nkuwa hydroelectric power plant (USD 5 billion) has been delayed, and there has been no progress on lifting force majeure on the Mozambique LNG mega-project by Total Energies, among other delays.

The growth slowdown, already underway since the start of the year, will inevitably worsen in the coming weeks (+4.5% year-on-year in Q2; +3.7% in Q3, compared to +5.7% in Q3 2023), even in sectors where growth remains strong, such as the extractive sector (+13.6% year-on-year in Q3; +17.5% in Q2). While the Purchasing Managers Index (PMI) from S&P, published by Standard Bank, reached its lowest level in ten months in November at 48.4, down from 50.2 in October, it remains far from the historical lows of this index, recorded in 2016 (PMI of 43) following the hidden debt scandal, and in 2020 (PMI of 37) amid the Islamic terrorism surge in the north of the country. Consequently, forecasts for 2025 still predict activity growth at 3.3% (compared to a target of 5.5% in the 2024 Finance Law), with inflation rising but still under control at 5.8% by the end of 2025 (compared to 2.7% in October, on a 12-month basis).

Summary:

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- Cereal harvest down by 8 million tons (-20.2%) in 2023/2024 in Southern Africa, according to FAO *(Ecofin Agency)*

South Africa

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- Government Approves Framework Law to Promote Good Governance and Local Content in Oil Sector
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Zambia

- Africa GreenCo to Increase Electricity Imports to Mitigate Zambia's Energy Crisis (Agence Ecofin)

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Zimbabwe

- Inflation Slows to 11.7% in November, Central Bank Maintains Key Rate

Southern Africa

Cereal harvest down by 8 million tons (-20.2%) in 2023/2024 in Southern Africa, according to FAO *(Ecofin Agency)*

Cereal production in Southern Africa is estimated at 32.3 million tons for the 2023/2024 season, a decrease of 20.2% compared to the previous year, according to the FAO report published on November 3. This drop, representing a loss of 8.2 million tons, is attributed to the severe drought caused by the El Niño climate phenomenon, which affected almost all the countries in the sub-region. Six countries — Botswana, Lesotho, Namibia, Malawi, Zambia, and Zimbabwe — have declared a state of emergency due to the extreme weather conditions. Zimbabwe has been the hardest hit, with a nearly 60% drop in its cereal production.

In this context, maize imports, the main staple cereal, are expected to double to 3.8 million tons during the 2024/2025 season. South Africa, the region's top maize producer, has allowed maize imports from Argentina for the first time since 2017 and also plans to import genetically modified maize from the United States to address the deficit.

South Africa

Activity contracts by 0.3% in the third quarter of 2024 *(StatsSA)*

According to the national statistics agency (StatsSA), GDP contracted by 0.3% in the third quarter of 2024 (seasonally adjusted quarterly change), following a 0.3% growth in the previous quarter. This contraction is mainly due to a significant decline in agricultural activity (-28.8%, contributing a negative 0.7 point), linked to the severe drought that affected the country, with particularly severe consequences on maize, soybean, wheat, and sunflower crops. Other sectors that saw declines include transport (-1.6%, contributing -0.1 point), trade, catering, and communications (-0.4%, contributing 0.0 points), as well as general administrative services (-0.1%, contributing 0.0 points). On the other hand, the financial sector showed strong performance (+1.3%, contributing a positive 0.3 points), supported by the banking, insurance, real estate, and business services sectors. Other sectors also saw rebounds, including electricity, gas, and water (+1.6%, contributing 0.0 points), the mining sector (+1.2%, contributing 0.1 points), construction (+1.1%, contributing 0.0 points), personal services (+0.5%, contributing 0.1 points), and manufacturing (+0.5%, contributing 0.1 points).

From the demand side, the decline in exports, the largest in three years, was the main factor contributing to the economic contraction (-3.7%, contributing a negative 1.0 points). Imports also fell (-3.9%, contributing a positive 1 point). On the other hand, household consumption increased slightly (+0.5%, contributing +0.3 points) in the third quarter, while public consumption decreased (-0.5%, contributing -0.1 points). This performance was below expectations from the Bureau for Economic Research (BER), which had forecast growth between +0.2% and +0.4% for the third quarter. These results have lowered the prospects of annual growth exceeding +1.1%, as initially anticipated by the central bank.

Transnet at risk of credit rating downgrade by S&P

The rating agency S&P has placed Transnet under CreditWatch, increasing the risk of a downgrade of its credit rating. This decision comes after the South African Treasury announced that it would no longer bail out state-owned enterprises. Although S&P expects operational performance at Transnet to improve, it believes that the high debt service costs and capital investment needs continue to limit the public company's room for maneuver. The agency forecasts that debt will reach ZAR 150 billion by the end of 2025, further increasing the debt burden, estimated between ZAR 15 billion and ZAR 17 billion per year. S&P warned that if Transnet fails to present a viable plan to reduce its debt and improve its cash flow, the company's rating could be downgraded.

For context, in December 2023, Transnet was granted a sovereign guarantee of ZAR 47 billion to help raise funds. The company is still implementing a recovery plan approved in October 2023, aimed at improving the reliability of its rolling stock and railway infrastructure, as well as optimizing productivity.

Eskom: MoU with India including coal plant upgrades and modernization *(Engineering News)*

Eskom, South Africa's state-owned electricity producer, signed a memorandum of understanding (MoU) with NTPC, India's electricity giant, during the Matla-Urja Energy Conference in Johannesburg on November 28. The agreement aims to strengthen cooperation between the two companies in the areas of research and development (R&D), coal plant modernization, and renewable technologies. Eskom's CEO, Dan Marokane, emphasized the similarities between the two entities and the opportunity to learn from NTPC's experiences, especially regarding the management of aging assets and improving coal plant performance.

The partnership also includes collaborations on renovations, technical audits, and interventions to reduce emissions. NTPC will share its expertise in the management and operation of coal plants, enabling Eskom to add capacity at a lower cost through targeted renovations. A one-year training program for Eskom executives is also planned, along with joint R&D activities.

Major changes in South Africa’s aviation sector *(BusinessTech)*

On The national airline South African Airways (SAA) announced it has made a profit (ZAR 252 million / EUR 13 million for 2023/2024) for the first time since 2012. This contrasts sharply with the combined losses of ZAR 23.5 billion (EUR 1.2 billion) recorded over the past four years. Total revenues increased by 183%, from ZAR 2 billion (EUR 105 million) last year to ZAR 5.7 billion (EUR 300 million), and were accompanied by the reopening of several continental and intercontinental routes. These positive results have sparked renewed interest from private investors, according to interim CEO John Lamola, especially after the failed attempt in March to sell 51% of SAA to the Takatso investment fund, which was blocked by the now-defunct Department of Public Enterprises (DPE). Since its bankruptcy and restructuring in 2020, SAA has lost significant market share and its dominant position in Southern Africa to private players like Airlink and FlySafair.

At the same time, Airlink announced the retirement of its co-founder and long-time CEO since 1992, Rodger Foster. His successor is the company's CFO, Villiers Engelbrech, who was involved in Qatar Airways' recent 25% stake acquisition in the company. Meanwhile, FlySafair remains suspended, awaiting an announcement of sanctions for its non-compliance with the local ownership rule (75%), which has been delayed due to ongoing legal reviews by the International Air Services Licensing Council (IASLC). FlySafair refutes claims from competitors Airlink and Global Aviation Operations (Lift) that it is 74.86% owned by the Irish ASL Aviation Group.

Finally, the South African aviation sector is under pressure as Parliament has asked the competition commission to investigate alleged ticket price gouging. The Trade, Industry, and Competition Committee believes there has been a significant price increase over the past two years, which local airlines attribute to the liquidation of Comair in 2022, leading to reduced air supply, rising kerosene prices, a weaker rand for imports, and inflation.

Legal challenge against South Africa's government project to build new coal plants due to public health concerns *(MoneyWeb)*

The High Court of South Africa has upheld a legal challenge against the government's plan to procure a new 1.5 GW coal-fired power plant, deeming it illegal due to its potential public health impact. Judge C.J. van der Westhuizen ruled that building new coal plants violates the constitutional right to health, and therefore, the Ministry of Electricity and Energy and the regulator NERSA must compensate the three environmental advocacy groups that filed the complaint against the government in 2021 under the 2019 Integrated Review Plan.

South Africa relies on coal for about 80% of its electricity. Air pollution caused by this use seriously harms the health of South Africans, leading to between 30,000 and 45,000 deaths annually, according to studies. Delaying the closure of coal plants would increase the death toll by an additional 2,800 deaths per year.

Tshwane Municipality signs repayment plan with Eskom

The Tshwane Municipality, which includes the capital city Pretoria, has signed a five-year repayment plan with Eskom to settle its debt of ZAR 6.7 billion (EUR 350 million). The agreement, approved by the courts, requires an initial payment of ZAR 400 million (EUR 20 million) in December 2024, with the final payment due by March 2029. If the terms are not met, the total debt will become immediately payable. Eskom considers this arrangement essential for its financial stability, as it has its own debt exceeding ZAR 6.6 billion (EUR 21 million).

Philippine shipping giant ICTSI appeals court decision blocking its deal with Transnet for Durban port terminal concession *(MoneyWeb)*

International Container Terminal Services Inc (ICTSI), the Philippine port giant, is appealing a High Court ruling in Durban that blocked Transnet from implementing its public-private partnership (PPP) agreement with ICTSI for the operation of the main Durban container terminal (DCT2).

This agreement was made between Transnet, South Africa's state-owned operator for rail and ports, and ICTSI. It provided a 25-year concession for managing the DCT2 terminal in a joint venture between Transnet (51%) and ICTSI (49%), with an investment of ZAR 11 billion (EUR 570 million).

The Durban High Court criticized Transnet's selection process, highlighting major flaws in how the tender was managed, and ruled in favor of APM Terminals (APMT), a subsidiary of the Maersk shipping group, one of the losing bidders, which contested the validity of ICTSI's offer. Transnet had allowed ICTSI to use its market capitalization to meet solvency requirements, a measure deemed non-compliant by experts.

South Africa assumes G20 presidency and unveils strategic priorities

On December 2, South Africa officially took over the presidency of the G20 from Brazil: a position of influence it hopes to use to advance Africa's development, combat climate change, and reform international financial architecture, according to the first statement from President Cyril Ramaphosa. The first African country to hold the G20 presidency, South Africa positions itself as a defender of the continent and advocates for mechanisms to financially compensate for the effects of climate change, debt relief for low-income countries, and a revision of sovereign credit ratings to make them fairer and more transparent for developing economies.

Angola

Historic visit of U.S. President Joe Biden to Angola

U.S. President Joe Biden made an official visit to Angola from December 2 to 4, aimed at strengthening bilateral relations between the United States and Angola. This marked the first official visit by a U.S. president to Angola, and the first visit to Africa since Obama's 2015 trip to Kenya and Ethiopia. The visit had two key moments: (I) discussions between the two presidents and official ceremonies at the presidential palace in Luanda; (II) a visit to the Lobito port and terminals, with the COO of LAR (Lobito Atlantic Railway), a tour of the large food processing plant of the Carrinho group, and participation in a summit on the "Lobito Corridor," attended by the presidents of Angola, the DRC, and Zambia. During the visit, President Biden confirmed a $553 million loan to LAR (a European consortium made up of Trafigura, Mota Engil, and Vecturis, responsible for the freight rail concession of the corridor, especially for minerals) for investments in road infrastructure, rolling stock, and signage. The loan is funded by the DFC ($353 million) and DBSA ($200 million), the Southern African Development Bank.

Russian Diamond Giant Alrosa Forced to withdraw from Angola

The Angolan government decided to end its partnership with Alrosa, which held a 41% stake in Sociedade Mineira de Catoca, one of the world's largest open-pit diamond mines. This decision came in response to Western sanctions imposed on Russia, which prohibit the importation of Russian diamonds. The Minister of Mines stated that these sanctions "were affecting Angola's credibility in the international diamond market and that the state-controlled Russian company had become a toxic partner due to the global context." Alrosa has been present in Angola since the early 1990s and contributed to the development of Catoca, which is majority-owned by the Angolan state. Alrosa is also involved in the newly opened Luele diamond mine, providing technical assistance and exploration equipment. The process to remove Alrosa from Catoca had been ongoing for two years, and its stake will be taken over by the Omani investment fund, Maaden International Investment.

Government Ends State Monopoly on Electricity Transport to Facilitate Private Investment

A bill to amend the General Electricity Law was approved by the Angolan Parliament, removing the state's absolute monopoly on electricity transport. This amendment aims to encourage private sector participation in public service concessions in the sector. The authorities hope to attract investments necessary for the rapid electrification of the country, with reduced public financial burdens, greater transparency, and improved market competitiveness. The new rules are expected to ensure a variety of economic operators in the electricity transport sector and encourage independent power production. However, the state will need to quickly raise the subsidized price of electricity to make the sector attractive to private investments.

Shell to Assess Potential of Six Angolan Oil Blocks

The oil company Shell signed a memorandum of understanding with Angola's oil and gas concessionaire (ANPG) to assess the oil potential of offshore blocks 19, 34, 35, 36, 37, and 43. This agreement is the result of the Angolan government's efforts to revive oil exploration activities and confirms the impact of the permanent offer regime for oil concessions, which allows ANPG to negotiate directly for concessions that were not awarded through a tender. Shell, which left Angola 25 years ago following a series of unsuccessful drills, is now returning, reflecting the company's new expectations in the country.

Botswana

Botswana to Host Diamond Certification Center as Part of G7 Sanctions Against Russia

The G7 countries announced that Gaborone would become the second global center for rough diamond certification, after Antwerp. Since January 1, 2024, G7 member countries have banned the import of diamonds from Russia. Starting in March 2025, indirect imports of Russian diamonds will also be banned through a centralized tracking system via Antwerp and Gaborone. As the world's second-largest rough diamond producer (after Russia), Botswana was concerned that the establishment of a single certification hub in Belgium would destabilize global flows in its favor. In Gaborone, De Beers uses tracking technology to certify diamonds extracted from Botswana, Namibia, and Angola, which will now be certified locally. Although Botswana is working to develop its cutting and polishing industry, these activities remain concentrated in India, while Dubai and Antwerp remain the main trading hubs.

Malawi

Cooperation Between France and Malawi on Rural Electrification Announced at the EU-Malawi Investment Forum

The EU-Malawi Investment Forum was held in Lilongwe from November 26 to 28, 2024, gathering Malawi's President Lazarus Chakwera and European representatives, including France's Ambassador to South Africa, Lesotho, and Malawi, David Martinon, and Myriam Ferran, Director-General of DG INTPA, European Commission. This forum mobilized public investments in agriculture, tourism, and energy, with the signing of several agreements. It also marked the announcement of French-Malawian cooperation on rural electrification. France will support Malawi's ambitious electrification goals, aiming for 30% coverage by 2030 and full electrification by 2050 (currently 15%). France plans to implement a pilot solar mini-grid project in rural areas, showcasing French expertise and technology. Additionally, institutional and technical assistance will be provided for priority needs, such as advanced planning capabilities and feasibility studies.

Namibia

Elections Bring Netumbo Nandi-Ndaitwah, SWAPO Candidate, to Presidency

On December 3, the electoral commission confirmed the victory of Netumbo Nandi-Ndaitwah, SWAPO's candidate and the outgoing Prime Minister, who secured 57.3% of the vote in elections marred by irregularities. SWAPO, in power since independence in 1990, performed better than expected, despite the party losing momentum (56% of the vote in 2019, compared to 86% in 2014). While Nandi-Ndaitwah's campaign focused on job creation (with an ambitious goal of 250,000 jobs by 2029) and attracting foreign investments, SWAPO lost 12 seats in parliament, reflecting public dissatisfaction with structural economic issues, including high unemployment (18.2%) and poverty.

Central Bank Revises Growth Forecast to 3.5% for 2024

Namibia's central bank revised its growth forecast for 2024 to 3.5%, up from 3.1% in August 2024, due to better-than-expected performance in gold (+26.2%), livestock (+11.5%), and trade (+8.6%). However, growth remains lower than the previous year (+4.2%), with negative performance in diamonds (-8.2%) and agriculture (-3.3%) due to drought. In 2025, growth is expected to return to 4.0% due to improved external conditions and expected growth in the construction sector.

Central Bank Cuts Benchmark Interest Rate by 0.25 Percentage Points to 7.0%

On December 4, Namibia's central bank reduced its benchmark interest rate by 0.25 percentage points to 7.0%, marking the third consecutive rate cut in a year. This decision comes amid a continued decline in inflation since June 2024, with annual inflation at 3.0% in October 2024, its lowest since February 2021.

Government Approves Framework Law to Promote Good Governance and Local Content in Oil Sector

On November 29, the Namibian government adopted a local content policy for oil extraction. The law outlines principles like job creation, local skill development, and sourcing certain equipment and services from Namibian companies. The government aims to maximize the benefits from oil discoveries by creating value locally, despite challenges in skills, technology, and infrastructure.

Starlink Advances in South Africa but Faces Blockage in Namibia

In South Africa, Starlink, SpaceX's satellite internet provider, is making progress to expand services, including ongoing discussions about an Equity Equivalent Program to meet Black Economic Empowerment (BEE) requirements. However, in Namibia, the communications regulator (Cran) has issued an order to cease operations, claiming Starlink is operating without a license. The company's application for a license is still under review, leading to a regulatory impasse.

Zambia

Africa GreenCo to Increase Electricity Imports to Mitigate Zambia's Energy Crisis *(Agence Ecofin)*

Electricity trader Africa GreenCo announced on Thursday, November 28, the signing of a $55.5 million agreement with Stanbic Bank Zambia and Standard Bank South Africa to finance electricity imports into Zambia, which is facing an energy crisis (nearly 24 hours of power outages per day due to the drought affecting hydroelectric dams, including the Kariba Dam). Africa GreenCo will prepay for more than 130 MW of electricity imports, which will primarily benefit the Zambian mining sector, especially copper, whose industrial activities are suffering due to the crisis. This announcement follows a previous agreement to import an additional 200 MW of electricity from Zimbabwe and South Africa, which have not been sufficient to resolve Zambia's energy crisis.

The announcement also comes a month after Africa GreenCo was granted import/export and electricity trading licenses by the South African energy regulator. These accreditations allow the company to facilitate sustainable energy transactions in both South Africa and beyond its borders, by directly connecting renewable energy producers to consumers, such as those in Zambia.

To remind, Zambia is experiencing daily power outages due to the drought, which has impacted the electricity production of the country's main dam (Kariba), on which over 80% of the country's electricity production depends.

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According to the national statistics agency (Zamstats), consumer prices increased by 16.5% year-on-year (y-o-y) in November, up from +15.7% in October. Inflation has thus reached its highest level in three years, driven by an unprecedented drought and the continued weakness of the kwacha (down 3.5% against the US dollar since the beginning of the quarter), which has caused price increases in the following sectors: "food and non-alcoholic beverages" (+18.2%, contributing +10.5 points), "housing, water, electricity, and fuels" (+20.9%, contributing +2.3 points), and "transport" (+16.3% y-o-y, contributing +1.3 points). Other sectors such as "furniture, household equipment, and routine household maintenance" (+10.9%, contributing +0.8 points), "clothing and footwear" (+9.2%, contributing +0.6 points), and "miscellaneous goods and services" (+10.5%, contributing +0.4 points) also contributed to this increase.

For reference, the central bank raised its key interest rate to 14% this month, the highest in seven years, to curb inflationary pressures and support the kwacha. Denny Kalyalya stated on November 13: "The bank is ready to take appropriate measures if inflation persists above the target range of 6% to 8%." The annual inflation has been above the central bank's target since May 2019.

Zimbabwe

Inflation Slows to 11.7% in November, Central Bank Maintains Key Rate

According to the Reserve Bank of Zimbabwe, monthly consumer price inflation slowed to 11.7% in November, after 37.2% in October. The main contributors to inflation were food products (+15.7%, contributing 5.4 points to total inflation, linked to the drought and the devaluation of the ZiG, which made imports more expensive) and transport (+13.8%, contributing 1.2 points due to a 15.2% increase in fuel prices). The inflationary pressure caused by the 42.6% devaluation of the ZiG on September 27 seems to be gradually easing. Furthermore, the exchange rate premium has reportedly decreased and now represents only 35% (official exchange rate of 25.6 ZiG per 1 US dollar compared to 35-40 ZiG per 1 US dollar on the informal market).

In this context, the Reserve Bank of Zimbabwe's monetary policy committee, meeting on December 3, kept its key rate at 35% (the highest in Africa). The commercial banks' required reserve ratios (30% in local currency and 20% in foreign currency) were also maintained. The monetary authority, however, welcomed the slowdown in inflation, stabilization of the exchange rate, and the increase in foreign currency inflows (+19.1% in the first 10 months of 2024 compared to the same period last year). The financial institution's forecast of inflation at less than 3% in 2025 seems overly optimistic, given the country's low foreign exchange reserves (about 1 month of imports), lack of access to international markets, and the government's tendency to finance the deficit (projected at 10.4% of GDP in 2024 according to the IMF) through money issuance.