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DES FINANCES
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ECONOMIC WRAP-UP
Southern Africa

A publication from the Pretoria Regional
Economic Service from November 22 to 29, 2024

DATA OF THE WEEK

2,8%

Year-on-year inflation rate of South Africa for the month of October

The OECD recommends reforming South Africa's public procurement system (Business Day)

A recent report by the Organisation for Economic Co-operation and Development (OECD) has criticized South Africa's public procurement system, describing it as inefficient and vulnerable to corruption. These findings echo those of the Zondo Commission, which highlighted similar issues during its investigation into state capture.

Despite complex regulatory frameworks such as the Public Finance Management Act (PFMA), the system is fragmented and overly complicated, enabling abuses and making it challenging to detect irregularities. These inefficiencies, combined with a lack of transparency and institutional capacity, lead to poor resource allocation.

With an annual budget of nearly ZAR 1 trillion (EUR 52.3 billion) dedicated to public procurement, the challenges are substantial. The OECD recommends simplifying procedures, adopting proven digital solutions to centralize and automate processes, and ensuring complete transparency through publicly accessible platforms. The report emphasizes the need for consequence management, calling for strict sanctions against officials and suppliers who bypass the rules.

While the new administration has pledged reforms, progress has been slow. Internal pressures from various ministerial portfolios and sectors dependent on procurement reform could accelerate change after a decade of bureaucratic stagnation.

Notably, this investigation predates the July 2024 enactment of the Public Procurement Act, which introduced a new standardized framework for all public entities (government departments, institutions, municipalities, provinces, and public entities) regarding procurement. The implementation details of the law have yet to be published.

Summary:

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South Africa

IMF concludes its annual "Article IV" economic review mission *(IMF)*

Following its annual economic analysis mission (referred to as the "Article IV" mission), which took place from November 11 to 25, the International Monetary Fund (IMF) published its preliminary findings. The financial institution first noted the improved prospects for South Africa, marked by increased business confidence, the absence of power outages since the end of March, a recovery in domestic demand, and a gradual decline in interest rates. However, it also highlighted several risk factors that could weigh on growth, including intensified protectionism, the slowdown in China's economy, or slower-than-expected disinflation. The IMF thus conditions the recovery of growth on the implementation of swift and ambitious reforms, particularly in fiscal policy. While the mission commended the budget stabilization efforts outlined in the mid-year budget, it deemed them insufficient to stabilize debt and called for a more ambitious reduction of the deficit, as well as the establishment of a debt ceiling at 60% of GDP (compared to a current debt level of 75%).

Central Bank Lowers Repo Rate to 7.75% Amid Falling Inflation *(StatsSA)*

According to the national statistics agency, StatsSA, inflation decreased to 2.8% year-on-year in October, down from 3.8% in September. This is the fifth consecutive month of decline, marking the lowest level since March 2021. The moderation in inflation is due to a decrease in transport prices (-5.3%, contributing -0.8 percentage points overall), driven by a fall in fuel prices (-17% since May). Conversely, ten of the eleven sectors of the economy contributed to the price increase, with the most significant being "housing" (+4.8%, contributing +1.1 percentage points), "miscellaneous goods and services" (+6.8%, contributing +1.0 percentage points), and "food" (+3.6%, contributing +0.7 percentage points).

In this context, the South African Reserve Bank's (SARB) monetary policy committee, convened on November 22, once again lowered its repo rate by 0.25 percentage points to 7.75%. This decision, anticipated by observers, is part of a global trend of slowing inflation and monetary easing (with a 0.25 percentage point decrease in interest rates from the ECB, Bank of England, and Fed in October/November). The sustained moderation of South Africa's inflation, which is expected to remain below 4% (within the lower range of its target of 3-6%) until mid-2025, should allow the SARB to continue its cautious monetary easing policy in the coming months, with observers anticipating stabilization of the repo rate around 7% by the end of the first half of 2025. However, the central bank emphasizes the persistent inflationary risks linked to the depreciation of the rand, high electricity costs, and an unstable international context.

Mixed Performance in retail and automotive sales for september *(StatsSA)*

According to the national statistics agency StatsSA, retail sales increased by 0.9% year-on-year in September 2024. This rise was mainly driven by "general retailers," whose sales grew by 4.5% (contributing 2.1 percentage points overall). The "textiles, clothing, footwear, and leather goods" category, however, contracted sharply (-5.5%, contributing -0.9 percentage points overall). For the third quarter as a whole, retail sales showed a 2.0% increase compared to the same period last year.

StatsSA also reported a 7.1% decline in vehicle sales in September 2024 compared to the previous year. The main negative contributors to this decline were new vehicles (-13.9%, contributing -3.5 percentage points overall), accessory sales (-7.9%, contributing -1.6 percentage points), and fuel sales (-5.8%, contributing -1.6 percentage points). For the entire third quarter, automotive sector sales fell by 3.9% compared to the same period in 2023.

S&P Upgrades South Africa's Credit Outlook to "Positive"

On November 15, 2024, S&P Global Ratings upgraded South Africa's sovereign credit outlook from "stable" to "positive." However, the agency maintained its long-term and short-term credit ratings (BB-/B for foreign currency, which is three notches into speculative territory, and BB/B for local currency). To recall, S&P had downgraded its outlook from "positive" to "stable" in March 2023. This revision reflects the optimism that has emerged since the May general elections and the formation of a national unity government. The agency expects better predictability in fiscal policy, despite mixed results so far. The rand strengthened to ZAR 17.93/USD, from ZAR 18.64/USD, supported by investor optimism.

National Treasury Proposes Higher Taxes on Alcohol *(Farmer's Weekly)*

The South African National Treasury has published proposals to increase excise duties on wine and beer to reduce alcohol abuse, in line with recommendations from the World Health Organization (WHO). This announcement has sparked strong opposition from producers.

The proposals include adjusting excise duties based on alcohol content. For example, wine with alcohol content between 9% and 16.5% would be taxed 1.8 times the current rate (ZAR 8.36 per liter, or €0.43), while beer and fermented beverages would be subject to a similar structure. The Treasury is also considering a minimum price for alcohol, prohibiting sales below a certain threshold to limit aggressive promotions.

Stakeholders have until December 13, 2024, to submit their comments, a deadline deemed insufficient by industry representatives. However, these measures may lead to higher consumer prices, making alcohol less accessible without necessarily reducing abuse. Christo Conradie, head of stakeholder relations at South Africa Wine, warned that these taxes could encourage illicit trade, as seen with tobacco during the COVID-19 pandemic, and criticized the discrepancy with international practices. He also highlighted that 43% of wine farms operate at a loss, while only 8% generate sustainable income, with an average return on investment of 0.73%.

The Treasury document also proposes efforts to combat illicit trade, which accounts for 14% to 22% of the market, in line with WHO recommendations.

Anglo American Divests Platinum and Coal Assets *(Business Day, Miningmx)*

Anglo American announced the sale of 17.5 million shares of Anglo American Platinum (Amplats) in an accelerated placement, generating ZAR 9.6 billion (€502 million). The shares, representing 6.6% of Amplats' capital, were sold at ZAR 548 (€28.7), an 8.5% discount to Tuesday's closing price.

This divestment is part of Anglo American's plan to simplify its portfolio, with a full separation from Amplats planned by mid-2025. In parallel, the company sold its metallurgical coal mines in Australia for a total of $4.8 billion, exceeding initial analyst estimates. The sale includes a recent agreement with Peabody Energy for $3.8 billion.

The company's restructuring, initiated in May, also includes the sale of nickel mines and potentially its 85% stake in diamond giant De Beers. Analysts praise these moves as a key lever to refocus Anglo American on its core, profitable activities in copper, premium iron ore, and agricultural fertilizers.

EDF Finalizes Energy Storage Projects in South Africa *(Energy Storage News)*

EDF has finalized financing for the Oasis Aggeneis (77 MW/308 MWh) and Oasis Nieuwehoop (103 MW/412 MWh) projects in South Africa, following the closure of Oasis Mookodi (77 MW/308 MWh) financing in October. These three battery energy storage system (BESS) projects, totaling 257 MW/1,028 MWh, will be deployed in the Northern Cape region and represent the largest projects of their kind in Africa. These initiatives are being developed under the Battery Energy Storage Independent Power Producer Procurement Programme (BESIPPPP), aimed at enhancing the stability of Eskom's grid.

The EDF-led consortium, including local producers Mulilo, Pele Energy Group, and Gibb-Crede, raised ZAR 7.7 billion (€366 million) from Standard Bank of South Africa and ABSA to fund the projects. Each installation will include a 5% stake for local communities via a Community Trust. Construction is expected to complete within 24 months. EDF Renewables is also continuing to develop hybrid projects combining wind, solar, and storage in Northern Cape, further strengthening its presence in South Africa. The BESIPPPP program aims to add 615 MW/2,460 MWh in its next funding phases to sustainably improve the country's energy infrastructure.

Angola

Central Bank keeps its key rate at 19.5%, anticipates inflation of 27% by Year-End

The Monetary Policy Committee of the Central Bank of Angola (BNA), which met on November 19, decided to maintain its key interest rate at 19.5%. At the same time, the institution revised its inflation forecast for 2024 from 24.3% to 27%. While inflation has followed a downward trajectory since May, it still reached 29.1% year-on-year in October.

The Governor also reminded of the difficult macroeconomic context facing the country, characterized by irregular supply of goods, gradual fuel subsidy removal, price adjustments for communications, transportation, and education, as well as persistently rising healthcare costs. According to INE statistics, the GDP grew by 4.3% in the first half of 2024, mainly due to positive performances in the oil (+4.6%), diamond (+33.3%), transport and storage (+17.2%), and electricity and water (+8.7%) sectors.

Comments from SE: The maintenance of very high interest rates and a significant reduction in the money supply have not been effective in curbing inflation, mainly due to the long lag between monetary policy measures and their impact on the real economy, as well as the weak transmission mechanism, with inflation in Angola being predominantly imported (80%).

Meeting of the central bank's financial stability committee

The Financial Stability Committee met to assess the main systemic risk factors impacting national financial stability observed in the third quarter of 2024.

After its analysis, the committee decided to:

(i) maintain the capital conservation buffer at 2.5%, applicable to all banking financial institutions;

(ii) publish the new list of nationally systemically important financial institutions (D-SIBs), which will require additional capital reserves of between 1% and 2%;

(iii) maintain the countercyclical buffer at 0%, applicable to all banking financial institutions.

Botswana

Inflation remains relatively stable in october

According to the national statistics agency (StatsBots), inflation slightly increased in October to 1.6% year-on-year (from 1.5% in September). It remains below the lower bound of the medium-term target of 3%-6%. This rate is also significantly lower than the 3.1% recorded in October 2023. The slight rise in inflation between September and October 2024 is mainly attributed to the "food and non-alcoholic beverages" and "miscellaneous goods and services" categories, which contributed 0.8 and 0.7 percentage points, respectively. The "transport" category, on the other hand, had a moderating effect on price increases (a negative contribution of 0.8 percentage points). Given these results, the Central Bank of Botswana is expected to keep its key rate stable at 1.9% during its next monetary policy committee meeting in December 2024.

Botswana court cancels water infrastructure contracts awarded to Chinese companies

The Botswana Public Procurement Tribunal annulled the award of a 1.8 billion BWP (125 million EUR) contract for the construction of water supply systems in Ghanzi South and Kgalagadi North, which had been granted to China Civil Engineering Construction Corporation and Zhong Gan Engineering & Construction Corporation. The decision follows major irregularities found during the evaluation process, leading to an investigation for corruption involving the Ministry of Lands and Water Affairs and its then-permanent secretary, Dr. Kekgonne Baipoledi.

The dispute was initiated by Tawana JV, a local consortium of G4 Civils, Landmark Projects, and Asphalt Botswana, after their bid was disqualified during the financial evaluation. Tawana JV contested the evaluation methodology, claiming their proposal had been unfairly assessed. However, the tribunal's investigation revealed that China Civil did not meet one of the technical evaluation criteria, failing twice to meet the required minimum threshold to progress to the financial stage. Despite these failures, Baipoledi and the Director of Procurement allowed China Civil to proceed to the next stage, contrary to the evaluation team's recommendations.

The Tribunal annulled the contract, referred the case to the Directorate of Economic Crimes and Corruption (DCEC) for investigation, and ordered reimbursement of Tawana JV's complaint fees. The Ministry is also required to cover the appeal costs. The parties have 30 days to challenge the decision in the High Court.

Malawi

Inflation decreases to 32.4% in October 2024

The annual inflation rate for goods and services in Malawi decreased to 32.4% year-on-year in October 2024, down from 34.3% in September 2024. This slowdown is mainly attributed to a deceleration in food price inflation (from 43.5% in September to 40.3% in October). Non-food inflation also slightly eased, from 21.8% in September to 21.2% in October. On November 8, the Central Bank decided to keep its key rate at 26%.

Mozambique

Accusations of lack of transparency in Mozambique's sovereign wealth fund

In a study published on November 24, the prominent Mozambican NGO Centre for Public Integrity (CIP) criticized the lack of transparency in the management of the country's Sovereign Wealth Fund, created at the end of 2023 to specifically manage revenue from Liquefied Natural Gas (LNG). The NGO highlighted several issues, such as incomplete government reports, the absence of financial returns on accumulated funds, inconsistencies in revenue declarations, and the involvement of government-affiliated individuals in the Investment Advisory Committee. CIP noted that the composition of the board violates regulations requiring its members to be independent of the government.

Sixth rate cut of the year by Mozambique's Central Bank to 12.75%

On November 27, the Monetary Policy Committee of the Central Bank of Mozambique decided to reduce the key rate by 0.75 percentage points, bringing it to 12.75%. Despite low and controlled inflation and the uncertainties related to the duration and magnitude of post-election tensions and their impact on goods and services prices, the inflation rate was 2.7% year-on-year in October, up slightly from 2.5% in September.

Since January 1, 2024, the Central Bank has cut the key rate by 450 basis points in six steps, with no negative impact on the currency's performance (which has remained stable throughout the year without requiring intervention) or on the inflation trajectory (which decreased from 4.2% in January to 2.7% in October). The Central Bank has stated its intention to maintain its commitment to further reducing the key rate in the short to medium term, based on inflation developments.

Namibia

AGL Plans to invest nearly USD 40 Million in Namibia by 2030

Africa Global Logistics (AGL), a subsidiary of the Italian-Swiss group Mediterranean Shipping Company (MSC), announced an investment of 731 million NAD (40 million USD) in Namibia by 2030 to support the oil, gas, and renewable energy sectors. This investment includes the construction of a warehouse in Walvis Bay and the development of additional facilities in Lüderitz. These infrastructures aim to support oil and gas exploration activities, as well as the importation of renewable energy equipment such as wind turbines. AGL also announced the creation of an energy unit dedicated to oil and gas services, in response to growing demand linked to recent major discoveries by TotalEnergies and Shell in Namibia. The company is also exploring partnerships to improve rail infrastructure.

In April, AGL signed a management contract for the bulk terminal in Walvis Bay, which will be used for exports of iron, manganese, copper, coal, lithium, and possibly agricultural products. It is also noteworthy that Terminal Investment Limited (TIL), another subsidiary of the MSC group, was granted the concession for the container terminal in Walvis Bay at the end of 2022.

Zambia

Chinese CNMC to invest USD 1.5 Billion in Zambian mining sector

The China Nonferrous Metal Mining Corporation (CNMC) announced an investment of 1.5 billion USD in Zambia to develop the mining sector, motivated by discussions with President Hakainde Hichilema at the China-Africa Forum (FOCAC) in September. The investment details include 650 million USD for the rehabilitation and expansion of Shaft 28 in Luanshya once drainage is complete, 250 million USD for the development of the Samba copper mines, and 100 million USD for the development of the Lusaka South economic zone.

President Hichilema welcomed these announcements, which support the national goal of achieving an annual copper production of 3 million tons by 2031. He also encouraged CNMC to invest further and share its technical expertise with local workers. Additionally, CNMC committed to contributing to strategic infrastructure projects such as the development of the Tanzania-Zambia Railway (TAZARA), a key copper supply corridor to China, thus enhancing regional connectivity.

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