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ECONOMIC WRAP-UP
Southern Africa

A publication from the Pretoria Regional
Economic Service from September 9 to 13, 2024

DATA OF THE WEEK

+1,7%

manufacturing output rebounded by 1.7% year-on-year in July - *StatsSA*

European offensive on low-carbon hydrogen in Southern Africa *(EngineeringNews)*

Visiting Namibia for the Global African Hydrogen Summit 2024, European Energy Commissioner Kadri Simon stressed the need for Europe to create a 'network of partnerships' to secure its supply of decarbonised hydrogen and decarbonise its industry through import contracts. In the presence of Belgian Minister Van Der Straeten and German Secretary of State Kellner, the Commissioner highlighted the opportunity to create jobs in the sector in Namibia. Finally, she formalised four projects (totalling €36.9m), also supported by Germany and the Netherlands, to finance the expertise needed to develop the hydrogen industry in the country.

Following this, the Commissioner travelled to South Africa, where, in the presence of the Minister for Electricity and Energy, Kgosientsho Ramokgopa, and the Minister for Trade, Industry and Competition, Parks Tau, she announced the award of a EUR 32 million grant to support the development of the nascent low-carbon hydrogen industry in South Africa. This grant is in addition to EU funding under the Just Energy Transition Partnership (JET-P) with South Africa. It is divided into two parts, the first of which will provide EUR 25 million to help develop a regional centre for low-carbon hydrogen in southern Africa, by encouraging the mobilisation of EUR 500 million in private and public funding across the entire value chain, including production, transport, storage and downstream industries. This grant should be implemented through a financial institution in an EU Member State.

The second grant of €7m to Transnet, the state-owned freight company, will be implemented by Agence Française de Développement, and will be used to finance feasibility studies and pilot projects focusing on the production and storage of low-carbon hydrogen. As a reminder, South Africa and Namibia, whose geographical and climatic situation is highly favourable to the competitive production of low-carbon hydrogen, aim to become leading global producers of this energy. For the time being, however, hydrogen is still a very immature form of energy and is far from being profitable, even if major technological advances are being made to bring costs down.

Summary:

Southern Africa

- The European Investment Bank (EIB) lends a further EUR 100m to the Development Bank in Southern Africa's (DBSA) renewable energy support programme *(Engineering News)*

South Africa

- Manufacturing and mining output fall in June (*StatsSA)*
- Land Bank reaches agreement with its creditors *(Ministry of Finance)*
- Government rejects civil servants' demand for a 12% pay rise *(News24)*
- Major investment needed to upgrade South Africa's road infrastructure *(EngineeringNews)*
- French asset management company Mirova invests in renewable energy company SolarAfrica *(CFNews)*

Angola

- The President (finally) authorizes the conclusion of the financing agreement for the acquisition of an earth observation satellite supplied by Airbus D&S *(Jornal de Angola)*
- The Angolan government signs a new agreement with Gemcorp to finance projects in the water sector worth USD 2 billion *(Valore economico)*
- Implementation of a USD 80m guarantee line managed by the Credit Guarantee Fund *(Jornal de Angola)*

Botswana

- The IMF publishes its Article IV review *(IMF)*

Lesotho

- The IMF publishes its Article IV review (IMF)

Malawi

- The Central Bank maintains its growth forecast of 2.3% for 2024 *(RBM)*

Namibia

- Inflation hits lowest level since November 2021 *(NamStats)*
- A 100 MW solar power plant in Namibia is to be built by a Chinese joint venture *(The Namibian)*

Southern Africa

The European Investment Bank (EIB) lends a further EUR 100m to the Development Bank in Southern Africa's (DBSA) renewable energy support programme *(Engineering News)*

The European Investment Bank (EIB) is lending a further EUR 100m to the Development Bank in Southern Africa's (DBSA) renewable energy private participation programme (IPP). This is in addition to the EUR 100m loan disbursed by DBSA on top of the first loan of EUR 400m approved by the two institutions at COP 22, which brings the total funding for small and medium-sized private renewable energy projects in southern Africa to EUR 600m. This financing initiative is part of the Global Gateway, the EU's external strategy for clean and sustainable infrastructure. It is also part of the Just Energy Transition Partnership (JETP), which aims to support South Africa's efforts to decarbonise the country, and comes on top of the EIB's EUR 1bn commitment in this area.

South Africa

Manufacturing and mining output fall in July *(StatsSA)*

According to the national statistics agency (StatsSA), manufacturing output rebounded by 1.7% year-on-year in July, after falling by 5.5% in June. The indicator is thus back on the rise after two months of decline, beating the forecasts of observers (between +0.7% and 0.9%). Five out of ten sectors recorded an increase in their activity, particularly the agri-food (+9.5%, a positive contribution of 2 points) and metal (+5.2%, or +1.1 point) industries. Conversely, the automotive industry contracted (-12.1%, or -1.3 points), in line with the fall in local demand (-6.5% in July) and exports (-13.5%).

At the same time, mining production fell by 1.4% year-on-year in July (after -3.6% in June). This contraction was greater than expected (forecast of -0.6%). Seven out of twelve groups recorded a fall in activity, particularly iron ore (-19%, or a negative contribution of 2.8 points) and gold (-3.5%, or -0.5 points). Conversely, manganese ores (+27%, a positive contribution of 2 points) and chromium ores (+23.3%, or +1 point) continue to support activity. The mining industry's results are particularly disappointing, despite the fact that no power cuts have been recorded since 26 March.

Land Bank reaches agreement with its creditors *(Ministry of Finance)*

After four years of negotiations, Land Bank has reached an agreement with its creditors. The financial institution, which is of systemic importance to South Africa's agricultural sector (accounting for 28% of total loans granted to the country's agricultural sector), had been the first South African public company to default on the repayment of its local and international debt, its balance sheet burdened by non-performing loans (50% of its loan portfolio). The agreement provides for a significant reduction in the bank's debt, from ZAR 45 billion to ZAR 16 billion, with repayments to be made in two tranches (ZAR 4 billion by 30 September The Ministry of Finance, which provided financial support of ZAR 10 billion during the four years of negotiations, welcomed the agreement.

Government rejects civil servants' demand for a 12% pay rise *(News24)*

On September 11, the government rejected a demand for a 12% pay raise for civil servants submitted to the Public Service Coordination Bargaining Council (PSCBC) on September 3. This increase, well in excess of inflation, would represent an additional cost of ZAR 140 billion for the State, which is unsustainable given the continuing rise in public debt. In particular, the unions can rely on the five-year agreement reached in the local civil service (municipalities), which also provides for a pay rise above inflation (+0.75 points above inflation in 2025/26 and 2026/27, and +1.25 points above inflation in 2027/28 and 2028/29, following a 6% rise in two tranches between March 2024 and March 2025). For its part, the government has proposed a more modest increase (+3%), which has in turn been rejected by the unions. Negotiations are due to resume at the beginning of October, to be completed before the presentation of the mid-term budget, expected at the end of October.

Major investment needed to upgrade South Africa's road infrastructure *(EngineeringNews)*

The Minister of Transport, Barbara Creecy, said on Tuesday 10 September that South Africa, which is already facing a heavy bill to modernise its port, rail and electricity infrastructures, needs EUR 15.5 billion to repair and improve its national road network. For its part, the South African National Roads Agency (Sanral), which manages 4% of the country's 750,000-kilometre road network, has identified 1,437 necessary upgrading projects. These have been delayed by problems ranging from contractor bankruptcy to extortion by organised crime, according to the Minister. Between now and 2027, provincial road infrastructure renovation projects should amount to EUR 860 million per year. SANRAL is also preparing to award projects worth EUR 192m by the end of 2024. These projects, which aim to modernise and strengthen the road infrastructure in the Eastern Cape province, are part of a vast programme to improve the network. These amounts are still insufficient in view of the needs expressed above. In addition, the dilapidated state of the railways is increasing the pressure on the road infrastructure, causing it to deteriorate prematurely.

French asset management company Mirova invests in renewable energy company SolarAfrica *(CFNews)*

Mirova Gigaton, the impact senior debt fund launched two years ago by Mirova, a subsidiary of Natixis Investment Managers, has chosen to invest in the South African renewable energy company SolarAfrica for EUR 13.5 million. In its thirteen years of existence, SolarAfrica has delivered and financed more than 204 solar and on-site battery installations, representing an installed capacity of more than 520 MWp of solar energy production and 60 MWh of storage. The company also made a name for itself last July with the launch of its first large-scale solar park, SunCentral, in the Northern Cape province. Phase 1 of this ambitious project will generate around 342 MW, with subsequent phases bringing total capacity to 1 GW, making it one of the largest solar projects in South Africa. This investment is Mirova Gigaton's fifth since its creation. In total, the fund has already raised nearly USD 300m out of a target of USD 500m. The fund has announced that it will focus on solar home systems, agri-solar and mini-grids, mainly in Africa, Asia and Latin America, while also financing innovative projects linked to electric mobility, energy storage and the pre-financing of carbon credits.

Angola

The President (finally) authorizes the conclusion of the financing agreement for the acquisition of an earth observation satellite supplied by Airbus D&S *(Jornal de Angola)*

The Angolan President has signed the long-awaited decree no. 206/24 of 6 September 2024 authorizing the final negotiations for the conclusion of the financial agreement for the project for the supply and launch by Airbus Defence and Space of the ANGEO-1 earth observation satellite. The commercial contract for this satellite was signed in 2019 and amended in March 2023 during the French President's visit to Angola. Société Générale is providing the EUR 225m financing for the satellite, while the export credit is guaranteed by Bpifrance Export Insurance. The satellite will provide a wide range of services in a variety of fields, such as assessing agricultural productivity, monitoring deforestation, monitoring oil spills at sea, maritime surveillance, and infrastructure development and monitoring (e.g. road networks). It will therefore benefit the management of natural resources, fisheries and agriculture, as well as facilitating the population census.

The Angolan government signs a new agreement with Gemcorp to finance projects in the water sector worth USD 2 billion *(Valore economico)*

By decree no. 207/24 of 6 September, the President authorised the signing of a framework agreement between Angola, represented by the Ministry of Finance, and the Gemcorp group (a London-based investment fund that has been very active in Angola since 2015) for the financing of up to USD 2 billion worth of structuring projects in the water sector aimed at combating the effects of drought, increasing production and promoting access to drinking water. The agreement is also intended to promote the development of the agricultural sector and the standardisation of water systems, by improving the operational and commercial performance of public water and sanitation companies.

Implementation of a USD 80m guarantee line managed by the Credit Guarantee Fund *(Jornal de Angola)*

The Angolan government and the World Bank signed a loan agreement to support the non-oil sector. As part of the implementation of this agreement, a guarantee line called 'Diversifica Mais' (diversify further), endowed with USD 80 million and managed by the Credit Guarantee Fund (CGF), was recently launched. This line is aimed at micro, small and medium-sized enterprises and is in addition to the three other lines already in existence and managed by the FGC, namely: Garanties d'Appui à la Production (GAP), the Projet de Développement de l'Agriculture Commerciale (PDAC with AFD) and the Ligne d'Appui aux Projets Durables (LAPS). The FGC and the Angolan private bank BFA have signed an agreement to set up a support line for sustainable projects aimed at stimulating small businesses and promoting financial inclusion and the conversion of the informal economy.

Botswana

The IMF publishes its Article IV review *(IMF)*

On 10 September, the IMF published its annual 'Article IV' economic analysis report. The monetary institution anticipates a sharp slowdown in growth (+2.7% in 2023 and +1% in 2024, after +5.5% in 2022), linked to the difficulties currently facing the diamond sector (slowdown in global demand and falling prices). Public finances, affected by the fall in mining royalties and a continued rise in investment spending, are expected to continue to deteriorate (public deficit forecast at 6% of GDP in 2024). However, public debt should remain contained (below 20% of GDP), as the government has favoured the use of its reserves to finance itself in recent years. The IMF's main recommendations concern the need to diversify the Botswana economy, whose dependence on the diamond sector makes it particularly vulnerable to external shocks, and to undertake fiscal consolidation measures in order to stop drawing on the country's reserves.

Lesotho

The IMF publishes its Article IV review *(IMF)*

On 10 September, the IMF published its annual 'Article IV' economic analysis report. Growth is expected to pick up slightly in 2023/24 (+2.2%, after +1.6% in 2022/23), supported by the implementation of the Lesotho Highlands Water Project (LHWP-II), which aims to transport the country's water to South Africa. It should peak at 2.7% in 2024/25, reflecting the construction of the Polihali dam, before declining and stabilising at around 2% in the medium term. The public finance situation, which had deteriorated significantly in recent years, is now clearly improving, with the country recording a budget surplus of 6.1% of GDP in 2023/24 (i.e. a fiscal consolidation of 11.6 points over one year). However, this spectacular improvement is mainly due to cyclical factors (massive increase in transfers from the Southern Africa Customs Union) and the consolidation of the country's status as a 'cash economy' (increase in water royalties following the renegotiation of the terms of the agreement between South Africa and Lesotho). The international financial institution is therefore urging the government to manage its public finances prudently, and in particular to use its current budget surpluses to rebuild its level of reserves, repay its arrears, and then reduce the level of public debt (61.5% in 2023/24). It also reiterates the need for structural reforms to diversify the country's economy and create favourable conditions for private sector investment.

Malawi

The Central Bank maintains its growth forecast of 2.3% for 2024 *(RBM)*

In its economic and financial report of September 5, the Central Bank noted the slight improvement in the country's macroeconomic indicators, without modifying its growth forecasts. Growth is expected to reach 2.3% in 2024 (after 1.9% in 2023). Activity is expected to be driven by the construction (+5.3%), mining (+4.2%) and manufacturing (+2.1%) sectors, which should benefit in particular from the increase in electricity production capacity (+4.6%). The agricultural sector (+0.7%), on the other hand, is likely to suffer from weather conditions (unprecedented drought linked to the El Nino phenomenon). Inflation, affected by the sharp devaluation of the Kwacha at the end of 2023 (-44% against the USD in November), remains particularly high (+32.8% year-on-year in Q2 2024), although slowing slightly. Despite an increase in the trade deficit (a quarterly deficit of USD 653m in Q2, after USD 508m in Q1), the level of reserves is up slightly, but remains at a critical level (USD 173.2m, or 0.7 months of imports in Q2 2024, compared with USD 147.7m and 0.6 months of imports in the previous quarter).

Namibia

Inflation hits lowest level since November 2021 *(NamStats)*

According to the National Statistics Agency (NamStats), the one-year inflation rate reached 4.4% in August, compared to 4.6% in the previous month. The indicator, which has declined for the third consecutive month, has reached its lowest level since November 2021. While the moderation in price increases affects almost all sectors, the main items contributing to inflation remain “food products” (+5.2%, a positive contribution of 1 point), “housing, water and electricity” (+4.1% or +1 point) and “transport” (+6.1%, or +0.9 points). Inflation, which is expected to slow down to 4.4% in Q4 2024 (after 4.6% in Q3) according to the Central Bank, should however start to rise again (forecast of 4.8% in Q1 2025), driven by the price of food products, linked to the low agricultural production coming from the El Nino phenomenon.

A 100 MW solar power plant in Namibia is to be built by a Chinese joint venture *(The Namibian)*

Namibia Power Corporation (NamPower) has awarded a EUR 70 million contract to a Chinese joint venture to build the country's largest solar power plant (100 MW) at Rosh Pinah, in southern Namibia. The engineering, procurement and construction (EPC) contract for the Rosh Pinah photovoltaic project has been awarded to a joint venture between China Jiangxi International Economic and Technical Cooperation and CHINT New Energy Development (Zhejiang). Construction of the plant will take around 18 months, with almost 800 workers mobilised on site at the height of activity. The plant is scheduled to go into commercial operation in the second quarter of 2026. As part of the agreement, the Chinese joint venture is required to devote at least 25% of the construction cost to local content, which should inject more than €17m into the local economy. Of the total project cost of EUR 70m, almost 80% is being financed by a concessionary loan from Kreditanstalt für Wiederaufbau (KfW), the German development bank. NamPower is responsible for the remaining 20%. The addition of 100 MW to Namibia's current installed capacity of around 500 MW is an important announcement for NamPower, against a backdrop of growing energy demand and pressure on electricity infrastructure. Namibia imports almost 60% of its energy and half its population has no access to electricity.

	Exchange rates	Change in USD exchange rates (%)			
	12/09/2024	Over a week	Over a month	Over a year	Since 1st of January
South Africa	17,88 ZAR	-0,6%	2,1%	4,3%	2,3%
Angola	925,8 AOA	-0,8%	-4,8%	-10,8%	-10,5%
Botswana	13,2 BWP	-0,5%	1,1%	1,7%	0,3%
Mozambique	63,2 MZN	0,0%	0,0%	0,0%	0,0%
Zambia	26,4 ZMW	-0,5%	-0,9%	-21,5%	2,2%

Note: a positive sign indicates an appreciation of the currency.

Source : OANDA (2024)

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