MINISTÈRE DE L'ÉCONOMIE, DES FINANCES ET DE LA SOUVERAINETÉ INDUSTRIELLE ET NUMÉRIQUE
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French Treasury

ECONOMIC WRAP-UP
Southern Africa

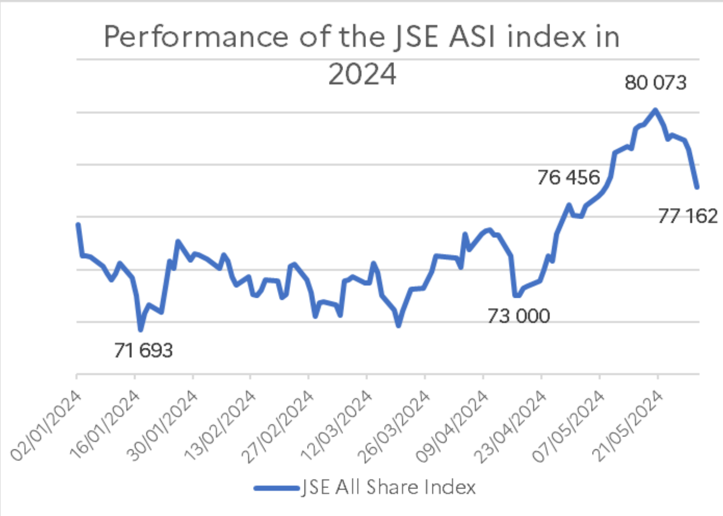
A publication by the Pretoria Regional Economic Service from 27 to 31 May 2024

DATA OF THE WEEK

23 %

% of South African households where social grants are the primary source of income - *StatsSA*

Focus on : the high volatility of the JSE the start of 2024 (*JSE*)



The Johannesburg Stock Exchange (JSE) experienced a period of significant volatility at the start of 2024, which became much more pronounced from May onwards as a result of stock market announcements and the general election. Between January and mid-April, the All Share Index (JSE ASI - the index covering almost all the market capitalisation of the stock market) fluctuated between 71693 points and 75710 points (a second all-time high after January 2023), with no real dominant trend, although the Resources 10 mining sub-index rose (14.7% - the index covering the 10 largest market capitalisations in the mining sector). From mid-April onwards, the stock market index began to rise sharply, buoyed by the strong performance of the Industrial 25 sub-index (an index of the 25 largest market capitalisations in the industrial sector). The markets showed renewed optimism thanks to the appreciation of the rand (+4.6% over the same period) and the absence of power cuts (no blackouts since 26 March). The mining sub-index (Resources 10) also benefited from BHP's takeover bid for Anglo American on 25 April, leading to a rise of around 30% in its share price over the week and extending the sector's strong momentum (+10.6% since the start of the year). The high point was reached on 20 May, when market capitalisation surpassed the symbolic 80,000-point mark (80,073 points), representing an increase of 9.7% over the past month and 5.8% since 1 January. The trend suddenly reversed in the run-up to the general elections (29 May): the JSE ASI index lost almost 2% of its value between the opening of the markets on Monday 27 May and the close of trading on Thursday 30 May, closing at 77,162 points. This fall was confirmed when the preliminary results were announced (confirming the ANC's loss of an absolute majority), and particularly affected the financial sectors, followed by results (-3.2% for the Financial 25 index and even -4% for the banking index). On 4 June, the index reached 76833 points (-2.9% since 27 May). It is also sustained by the depreciation of the rand (-3% over the same period). As a reminder, the volatility of the index had already been particularly high during 2023, when it fluctuated between 63,417 and 80,791 points, finally reaching a level at the end of December close to those seen at the start of the year.

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South Africa

The Central Bank keeps its repurchase rate at 8.25% *(Resbank)*

At its meeting on 30 May, the Monetary Policy Committee of the South African Reserve Bank (SARB) unanimously decided to maintain its repurchase rate at 8.25%. This decision comes as inflation reached 5.2% year-on-year in April, confirming the ongoing deceleration in inflationary pressures, even though they have remained high since the start of 2024. The central bank now expects the indicator to stabilise at around 4.5% (the mid-point of the SARB's target range) from the second quarter of 2025, two quarters earlier than in their previous forecasts. Despite these favourable developments, the press release warns of a climate of great uncertainty, with the results of the general elections on 29 May announcing the loss of the ANC's absolute majority, a first since 1994. Against this backdrop, the rand was particularly volatile. Indeed, the domestic currency has depreciated sharply against the USD since 29 May (-1.4% to reach a parity of ZAR18.72 to the USD1 on 4 June), whereas it had reached a 10-month high on 21 May (ZAR18.08 to the USD1). At the same time, the SARB has maintained its growth forecast at 1.2% for 2024, compared with 0.9% according to the IMF. Despite the easing of power cuts over the period (no power cuts since 26 March), it expects economic growth to be weaker than initially forecast in the first quarter (which is in fact negative: --0.1% - StatsSA publication of 4 June), followed by a stronger rebound in the second half of the year. Note that the next Monetary Policy Committee meeting will be held on 18 July 2024.

Closing date for Bid Window 7 renewable energy tender officially extended by two and a half months *(Department of Mineral Resources and Energy)*

On 27 May 2024, the Department of Mineral Resources and Energy (DMRE) announced that the closing date for the Bid Window 7 renewable energy tender had been extended from 30 May to 15 August. This Bid Window 7 concerns 1,800 MW of photovoltaic solar energy and 3,200 MW of onshore wind energy, making a total of 5 GW. The announcement of the successful bidders is expected around three months after the closing date.

BHP abandons plans to buy Anglo American *(Anglo American)*

Following the refusal of the Anglo American (AA) board of directors to extend the deadline (29 May) set for BHP to submit a firm offer, the Australian mining group has formally terminated negotiations with its South African competitor. An initial postponement was accepted last week in relation to the initial date (22 May), but this time AA has decided to put a definitive stop to negotiations. Under British law, where both companies are listed, BHP will not be able to submit a new offer for the next six months. The main disagreement between the two parties concerned the future of the group's South African assets, in particular Kumba Iron ore and AngloAmerican Platinum (Amplats, the world's leading platinum group), which were not included in the scope of the acquisition proposed by BHP. A final offer of GBP 38.6 billion (EUR 45.4 billion) was rejected by AA last week. In the meantime, AA has confirmed its intention to implement its restructuring strategy independently, which includes the sale of Amplats and De Beers, the world's number two diamond producer. The group would nevertheless like to retain Kumba Iron Ore, whose activities are considered profitable.

The share of social grants in household income is increasing significantly *(StatsSA)*

According to the latest study by the national statistics agency (StatsSA), published on 23 May, in 2023 the State paid social grants to half of all South African households, compared with just one-third ten years earlier. This increase is due in particular to the introduction of the *Special Relief of Distress grant* during the covid crisis, designed to compensate for the loss of income of the weakest households. This monthly allowance of ZAR 350 (EUR 17.2) benefits the poorest households not eligible for other transfers (9 million individuals to date). In total, these allowances represent 23% of total household income, a share that is rising sharply from 20-21% between 2010 and 2019. At the same time, income from wages and salaries accounts for only 55% of household income, and its share is falling compared with 2010 (between 60% and 58%).

Mobile operator Vodacom takes rival MTN to court *(MyBroadband)*

Vodacom has taken legal action to overturn a decision by the Independent Communications Authority of South Africa (ICASA), the telecoms regulator, regarding the technical agreement between MTN and its competitors. This agreement with its competitors Cell C and Liquid Intelligent Technologies, which ICASA had approved in 2022, enabled MTN to accumulate large continuous 4G bandwidth spectrums by combining its frequencies with those of Cell C and Liquid Intelligent Technologies. MTN thus outperformed Vodacom and all the other operators on the continent by combining the frequencies belonging to Cell C and Liquid Intelligent Technologies with its own, giving it a substantial competitive advantage. Vodacom contests this agreement, which would give its main competitor an advantage that is as substantial as it is unfair.

Tourism recovery continues in the first quarter of 2024 *(StatsSA)*

According to the national statistics agency StatsSA, the number of international tourist arrivals reached 2.4 million in the first quarter of 2024, up 15.4% on the same period last year (2.1 million). The rebound in the sector is therefore continuing, and the number of tourists is approaching pre-covid levels (between 2016 and 2019 arrivals were stable overall, at over 10 M per year). Nearly three quarters of tourists in 2024 came from Africa, 98% from SADC countries - a stable share compared to 2023. Next in order of importance were British tourists (125,000), Germans (99,000), Americans (83,000), French (35,000) and Dutch (30,000). French tourist arrivals continued to record the strongest growth over the quarter (+10.7%). The tourism industry is a key sector of the South African economy, accounting for almost 10% of GDP and employing (directly) around 1.5 million people in 2019 (BER data). It relies in particular on a top-of-the-range offer (safaris and luxury lodges) aimed at this wealthy American and European clientele.

BP and Shell sell the Sapref oil refinery to the South African government *(EngineeringNews)*

BP Southern Africa and Shell Downstream South Africa (SDSA) have reached an agreement to sell their respective 50% stakes in the Sapref refinery in Durban, Kwazul-Natal, to South Africa's state-owned Central Energy Fund (CEF). The sale of this refinery, the largest in southern Africa, includes other associated assets such as tanks, processing units and pipelines linking Sapref to the Island View terminal. The refinery was severely affected by flooding in KwaZulu-Natal in April 2022 and has not operated since. It has a nominal capacity of 180,000 barrels per day, or around 35% of South Africa's refining capacity. This decision comes against a backdrop of Shell's withdrawal from South Africa. Last December, *TotalEnergies* had already sold its minority stake (36.36%) in the Natref refinery, controlled by Sasol.

Spending on food products will fall in 2023 *(PwC)*

According to PwC's latest economic outlook report, entitled 'Towards greater food security for our people', the food budget of South African households fell by 3.2% compared with the previous year. According to the FinMArk Trust, two out of five adults needed to borrow money to buy food in 2024. The situation could be exacerbated by the drought linked to the El Nino climate phenomenon, which has been affecting southern Africa since the end of 2023. The lack of rainfall could lead to a 25% drop in maize production in South Africa, and a 10-12% rise in the price of maize meal (the staple of the local diet). While the country remains largely selfsufficient, in the long term, 40% of domestic maize and wheat production will be threatened by 2050, while South Africa's population is expected to continue to grow by 4 million between now and 2030, creating long-term pressure on food security. The country therefore needs to find ways of increasing food production to meet demand. In its report, PWC draws up a list of recommendations to meet this challenge, encouraging in particular the development of more intelligent agriculture (a green revolution), but also the reduction of food waste. In fact, 11.1 million tonnes of food are lost every year in South Africa (a third of the volume consumed!): 0.9 million tonnes during production, 2.1 million tonnes between harvest and storage, 5.4 million tonnes in the industrial process and 2.7 million tonnes in storage.

Mozambique

IMF formally expresses concern over continued excessive public sector wage bill *(IMF)*

In a letter sent to the Government on 28 May, the IMF formalised its concern, expressed informally several months ago, about the continuing deficit in the budget allocated to public sector wages and salaries. From the start of the IMF programme launched in 2022 (FEC of USD 470 million), the relative weight of the public sector wage bill had been highlighted as the main macro-economic problem facing Mozambique, with this budget line reaching an all-time high of 80% of tax revenues following a movement, initiated in 2016, of continuous and disproportionate increases in the average public sector wage: + 120% between 2016 and 2022. The IMF points out that only this determinant is in question, as the number of civil servants (who represent only 3% of the workforce, a percentage considered reasonable by the institution) only increased by 20% over the period, an increase comparable to both Mozambique's GDP and population. This letter puts into perspective the satisfaction that the institution gave to the Mozambican authorities in its last FEC evaluation report, published in January, in which it praised the efforts made by Mozambique in 2023 to introduce a structural reform of civil service pay, which had enabled the share of salary expenditure to be reduced to 73% of government revenue - which, combined with the repayment of public debt, meant that the country's public debt could be repaid in 2023, added to the repayment of public debt, which accounts for around 20%, leaves only 7% of revenue for all other government expenditure, including investment. The IMF believes that the downward trend in this budget line, which began in 2023, will no longer be respected - the budget execution report for the 1st quarter of 2024 indicates that the level of expenditure exceeded the budget in the finance law, without an amending law having been approved - and that this expenditure, which has started to rise again, will push the country into a risk zone of a magnitude that is still difficult to gauge.

Malawi

Discussions continue for the conclusion of the second review of the IMF programme *(IMF)*

Following an economic analysis mission conducted from 12 to 23 May, the International Monetary Fund (IMF) has published its initial conclusions in a press release. The mission took place as part of the first review of the *Extended Credit Facility* (ECF), a financing programme approved in November 2023 (132 MSUD over a four-year period). The press release begins by highlighting the major impact of the drought caused by the El Nino weather phenomenon on the economy: growth is expected to plateau at 2% in 2024 (after 1.6% in 2023 and compared with the 3.3% initially forecast by the IMF at the WEO in April 2024) - which should be seen in the context of population growth of around 3% a year. The authorities' efforts to implement the reforms supported by the ECF, despite this unfavourable economic context, are also commended. The IMF points out that a sustainable exit from the economic crisis will require (i) fiscal consolidation, (ii) rebuilding the level of Central Bank reserves to reduce vulnerability to external shocks, and (iii) restructuring external debt. Without giving any explicit reason, the IMF teams have stated that they have not yet reached an agreement in principle with the authorities on the conclusion of the second review (an essential stage for confirming the continuation of the programme and releasing the second instalment of around USD 13 million) and that they are therefore continuing discussions.

Namibia

Namibia declares state of emergency due to drought *(Agence Ecofin)*

Namibian President Nangolo Mbumba has declared a state of emergency due to the severe drought affecting the country. The news was reported by the local media on Tuesday 28 May 2024. This measure, based on the Constitution and the Disaster Risk Management Act, aims to mobilise additional resources and solicit international aid to supplement the national budget. Namibia is the latest country in the region, after Zimbabwe, Zambia and Malawi, to declare a state of emergency due to the drought caused by the El Nino weather phenomenon.

Zambia

Bondholders overwhelmingly approve the agreement reached with the government to restructure their debt *(Ministry of Finance)*

According to the Zambian Minister for the Economy, Dr Musokotwane, the proposal to restructure the country's bond debt has been accepted by the vast majority of the creditors concerned. As a reminder, the committee of bondholders had reached an agreement with the Zambian government on 25 March 2024, which complied with the conditions of comparability of treatment with official creditors. All the bondholders, who hold USD 3 billion of debt (i.e. 16% of Zambia's total external debt), had until 30 May to approve the agreement, which provided for the exchange of the three bonds maturing in 2022, 2024 and 2027 into two amortising bonds. With a quorum well in excess of the required three-quarters and a positive vote of more than 90% (three-quarters majority), this result marks the restructuring of the bond debt. While all the official bilateral creditors have also signed an agreement with Zambia (including India at the beginning of May 2024), the government is now in discussions with the other private creditors (nearly USD 3.5 billion of debt), including several Chinese banking institutions (Exim Bank of China), as the final step towards finalising the external debt restructuring process, which began in 2022.

	Exchange rates	Change in USD exchange rates (%)			
	04/06/2024	Over a week	Over a month	Over a year	Since 1st of January
South Africa	18,65 ZAR	-1,7%	-0,8%	2,6%	-2,0%
Angola	851,5 AOA	-0,4%	-2,2%	-28,4%	-2,7%
Botswana	13,5 BWP	-0,6%	0,4%	-0,4%	-1,6%
Mozambique	63,2 MZN	0,0%	0,0%	0,0%	0,0%
Zambia	26,2 ZMW	2,3%	2,1%	-23,8%	1,7%

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

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