RISK ALERT

12 DECEMBER 2022

CRA
Centre For Risk Analysis

First thing every Monday morning as a text and audio note

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GDP rebound?

South Africa's GDP expanded by **1.6%** quarter-on-quarter, in the three months to the end of September. The better-than-expected news comes in the context of a **rebound** after two-and-a-half years of Covid-19 and lockdowns.

The biggest **drivers of growth** were agriculture and the financial, real estate and business services sectors. Agriculture expanded by 19.2% in Q3, from a contraction of 11% in Q2. A healthy harvest especially helped to boost agriculture. The financial, real estate and business services sector, the economy's **largest sector** (23.7% of GDP), grew by 1.9%. Manufacturing grew by 1.5% quarter-on-quarter and for the first time since Q1 2021, **construction** increased.

In terms of negative signs, household consumption spending contracted by 0.3% quarter-on-quarter, notably because of smaller purchases of non-durable goods. This means that **higher inflation** is steadily eating into disposable incomes. **Household spending** on food and non-alcoholic beverages declined by 0.9%, and on recreation and culture, by 1.6%. Consumer and producer sentiment indicators remain negative, as highlighted in last week's *Risk Alert.* Exports grew by 4.2%, which could indicate **dampened local demand.**

Looking towards 2023, South Africa could be heading for **a perfect storm:** continued heightened load shedding, anti-investment policies, political volatility, stickier inflation (exacerbated by imported inflation and administered costs), lower global demand for commodities, and depressed global growth prospects are all likely to weigh negatively on South Africa's **growth outlook** — as well as on the **electoral prospects** of the African National Congress (ANC) in 2024.

In a black hole

Higher economic growth means more load shedding, as the **electricity infrastructure** cannot cope with higher demand. Right on cue, the dire state of operations at Eskom was once more laid bare over the past week, as the state-owned entity implemented **Stage 6 rolling blackouts** in the same week that some positive GDP growth numbers were reported.

Some reports indicated that Stage 8 had been on the cards but planned **maintenance** at the Koeberg nuclear power station was postponed in order to ease the pressure on other Eskom stations and resources. The Koeberg maintenance was **rescheduled** to begin on 10 December. Once that programme begins, Unit 1 at Koeberg will be offline until mid-2023, taking 920 MW from the grid.

Breakdowns meant that, by Wednesday this past week, over 19 000MW were unavailable. About 5 000MW were unavailable due to planned maintenance. Eskom has also already spent its entire annual budget for diesel on **open-cycle gas turbines** and is scrambling for more funding. The National Treasury recently rejected Eskom's request for R19.5 billion to buy more diesel. Eskom's rising **Unplanned Outage Factor** is steadily eating into its **Energy Availability Factor.** With outages mounting, the entity does not have the personnel, budget, nor skills to keep up. Stage 6 loadshedding in the summertime — typically a period of seasonally lower demand for electricity — bodes ill for the coming winter, when demand is typically higher.

On policy, the government continues to hold the country and the economy hostage. In Bid Window 6 of the Mineral Resources and Energy Department's **renewable energy** procurement programme, only 860MW in projects — less than a fifth of what had been hoped for — were given the green light. This is mainly due to transmission grid **capacity constraints.** While the cap on self-generation was lifted earlier this year, one still needs to obtain a licence from the National Energy Regulator of South Africa. This brings the possibility of delays as a result of **bureaucracy and vested interests,** and also raises the significant risk that given the pressures, Eskom's CEO could exit the parastatal in the coming months, leading to further disarray.

The ANC's elective conference

The **elective conference** of the ANC is set to take place from 16 to 20 December. What appeared to be a one-horse race, with the current ANC and country president Cyril Ramaphosa in the driving seat, has potentially been upended by the recent release of the Section 89 Independent **Panel Report** on constitutional and legal violations centred on Mr. Ramaphosa's **Phala Phala** farm. Mr. Ramaphosa is taking the report on judicial review, and the National Executive Committee (NEC) of the ANC has indicated that its caucus in Parliament would reject the report.

Former Minister of Health — Zweli Mkhize — is also in the running for the position of **party president.** The release of the report, wherein the panel indicated it found *prima facie* evidence that Mr. Ramaphosa may have **contravened** the country's laws and violated the Constitution, could prove useful for Mr. Mkhize and others who want to oust Mr. Ramaphosa.

One name to look out for is that of the man currently occupying three of the **ANC's 'Top Six'** offices: Paul Mashatile is the party's Treasurer General, Acting Secretary General and Acting Deputy Secretary General. He has carefully avoided aligning himself with **'camps' or 'factions,'** but has accrued much power and influence in the party. A possible scenario is that Mr. Ramaphosa wins the presidency, but steps down within the next few months, at which point Mr. Mashatile would take over. A new NEC, and the so-called 'Top Six' office-bearers, will be elected at the conference. Regardless of who is elected, we do not expect substantive pro-growth and investment **policy reforms** to be adopted.

Ambulance services on life support

Not only does the proposed **National Health Insurance** (NHI) scheme pose a grave risk to the fiscus, but should it be implemented, the additional bureaucratisation and **centralisation** of all healthcare in the hands of the state will **disincentivise** healthcare professionals from staying and working in South Africa. Additionally, it will not solve the current structural and financial problems that plague the public health sector.

In his response to questions posed by Democratic Alliance MP Haseena Ismail, the Minister of Health — Joe Phaahla — revealed that while the government aims for a ratio of **one ambulance per 10 000** people, South Africa's provincial health departments are currently **operating only 49%** of the 6 824 ambulances needed to meet the target. Budget misallocations, lacking maintenance, and staff shortages are cited as the main reasons for this crisis.

A shortage of available staff, and in turn fewer available ambulances, means urgent care needs cannot be met, and citizens who cannot **afford private care** simply might not make it to a hospital in time. It is highly unlikely that the NHI will bring about the solutions needed for such basic problems in public healthcare. The scheme will in all probability exacerbate such issues by pushing healthcare professionals and technicians to pursue work overseas, further accelerating the diminishment of the **middle class and tax base.**

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