

### Inflation and interest in SA

The South African Reserve Bank (SARB) last week increased its benchmark repo rate by a further 25 basis points, to 4.25%. The SARB has pursued a **prudent monetary policy** compared to other central banks, with the latest increase contributing to a cumulative 75 basis point hike since November 2021. This **third consecutive hike** reflects heightened inflation concerns stemming from rising fuel prices, driven among other things by the war in Ukraine. In February, consumer inflation remained high, at 5.7% — unchanged from January and close to the top end of the SARB's **3%-6% inflation targeting band**. Meanwhile, the GDP growth projection for 2022 was raised to 2% (from 1.7% in January) and to 1.9% for 2023 (compared to 1.8% in January).

We expect to see **further rate hikes** in South Africa as supply chain disruptions continue into the medium-term — food prices will remain at elevated levels. The **hawkish sentiment** of the SARB will have the effect of promoting foreign inflows via a favourable interest rate differential and encourage some level of investment and savings over consumption, with benefits for the fiscus and for financial investors. However, the underlying **economic performance** of the country remains dire in terms of employment, growth, and businesses sentiment, all of which will be negatively impacted by ongoing rate hikes.

### The President's investment jamboree

President Cyril Ramaphosa's fourth South Africa Investment Conference (SAIC) ended last Thursday with **R332 billion** in new pledges, bringing the total to **R1.14 trillion, or 95%** of the target the President had set in 2018 when he launched his five-year drive. However, observers of South Africa's political economy cannot help but notice that the country's unemployment is at a record high, gross fixed capital formation is at its lowest in 60 years, and the country's rail, road and port infrastructure is rapidly degrading. Fifteen years after it began, loadshedding shows no signs of abating. The Treasury's 3-year **growth forecast** for the economy is below 2% and given consistent overestimates by **50% or more** during the past decade, even that may be optimistic.

Possible explanations could be that the **amounts committed** are too little; the money pledged is not necessarily money spent; the pledges represent money that would have been spent anyway, even without some presidential arm-twisting; spending goes towards the maintenance of **existing assets** (for example, upgrading an existing car factory or a mine) rather than expansion or the creation of new assets; and that some of the money being spent is not being spent on productive purposes, as with the **R20.1 billion** the Industrial Development Corporation committed for black industrialists and small and medium enterprises.

Whatever the reasons, the investment conferences give the impression of being an exercise in **political spin** rather than a measure that will boost investment, growth, and job creation. South Africa as an investment destination continues to perform far below its potential because of **government own goals** such as threatening expropriation without compensation and prescribed assets, cancelling bilateral investment treaties with key trading partners, and allowing corruption, overregulation, and incompetence to thrive unmolested. Our call is that until these **barriers to investment** are removed, no number of investment conferences will improve South Africa's economic outcomes.

## Rise of the anti-constitutionalists

The Premier of KwaZulu-Natal, Sihle Zikalala, last week suggested that South Africa's **Constitutional Democracy** be replaced with a **Parliamentary Democracy** — the type that existed under apartheid. His comments were motivated by his perception that the Constitutional Court was hampering the efforts of the executive to further transformation. In doing so, Mr. Zikalala was reflecting a concept of democracy rooted in **simple majoritarianism**, where the fickle will of the majority must prevail above any rule or safeguard.

It mirrors **criticisms expressed** earlier by former President Jacob Zuma, who a year ago lamented 'the emergence of a judicial dictatorship in South Africa' and 'the gradual entrenchment of the counter-majoritarian problem'. It is also a thread that runs through Julius Malema's Africanist majoritarian chauvinism; and it is a feature of serial minister Lindiwe Sisulu's extraordinary diatribe **against the Constitution** in January, in which she lambasted the judiciary for 'rulings against their own', among other things.

Although these forays are currently isolated and few, the thinking that underpins them holds considerable risks for **South Africa's democracy**. It should therefore form part of your country risk assessments. The Constitution imposes restrictions on the exercise of power that act as important **safeguards against abuse**. Removing those safeguards would create scope for even more intrusive government policies, subject to fewer checks and balances, that would threaten the **civil liberties** of South Africans as well as economic growth and recovery.

## Food price inflation: brace for impact

In **global agriculture**, multiple factors are converging to create a perfect storm of lower supply and higher prices. The Green Markets fertiliser price index for North America has risen by 50% in the past two months and tripled in the past two years. The **price of ammonia** is rising because it is a direct derivative of natural gas, the price of which has been spiking. The world's second and third-largest suppliers of potash — Russia and Belarus — are under sanctions because of the Russian invasion of Ukraine. China has halted **phosphate exports** to ensure domestic supply.

Herbicides are also **under pressure**. The world's most-used weed-killer, glyphosate, is derived from similar substances as are fertilisers, including phosphorous and nitrogen, and so is facing similar **supply shortages** and **rising prices** that are having knock-on effects on replacement products as well.

A further important input into **farming activities** — diesel fuel — is also facing a global supply crunch. This is driven among other things by the rising demand for transportation as **supply chain** bottlenecks started easing last year. At the same time, European refineries rely on natural gas to remove sulphur from diesel — the spike in **gas prices** made that process a great deal more expensive, cutting output.

These factors, as well as ongoing transport capacity bottlenecks, will push food prices up. If they rise fast and far, this holds the potential for **social unrest and upheaval**, as happened in France, Russia, and the Middle East in the past. Further risks include a **disruption of international food trade** if countries start introducing national hoarding policies, banning exports to secure domestic supplies, or implementing price controls to cap the cost of food — which would mute market price signals and slow down expansion in the production of **food and agricultural inputs**.

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