# THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

FOURTH QUARTER 2020

*The Real Economy Bulletin is a TIPS review of quarterly trends, developments and data in the real economy, together with a comprehensive analysis of the main manufacturing industries and key data in Excel format*.*

## Gross Domestic Product

*As forecast since the middle of 2020, the South African GDP in 2020 was 7% lower than in 2019. After the very sharp downturn during the lockdown in the second quarter, most of the real economy has largely recovered on the back of higher metals prices and more targeted measures to prevent COVID-19 from spreading. Still, economic growth was affected by the continued risk of contagion, which suppressed recovery particularly for in-door hospitality and entertainment. The factors that slowed growth before the COVID-19 pandemic also remain a challenge, although government has announced measures to address unnecessary red tape and infrastructure shortfalls more consistently through its Operation Vulindlela.*

The 7% decline in GDP in 2020 was mostly a result of the lockdown in the second quarter. The annual figures are somewhat misleading, however, because the pandemic led to a sharp once-off decline followed by an almost equally rapid recovery, as Graph 1 shows. The GDP contracted by 17% in the second quarter followed by growth of 14% in the third and 1.5% in the fourth, in seasonally adjusted but not annualised terms. As discussed in the following section, employment declined less than the GDP, but also rebounded much less fully.

*Available at www.tips.org.za/the-real-economy-bulletin

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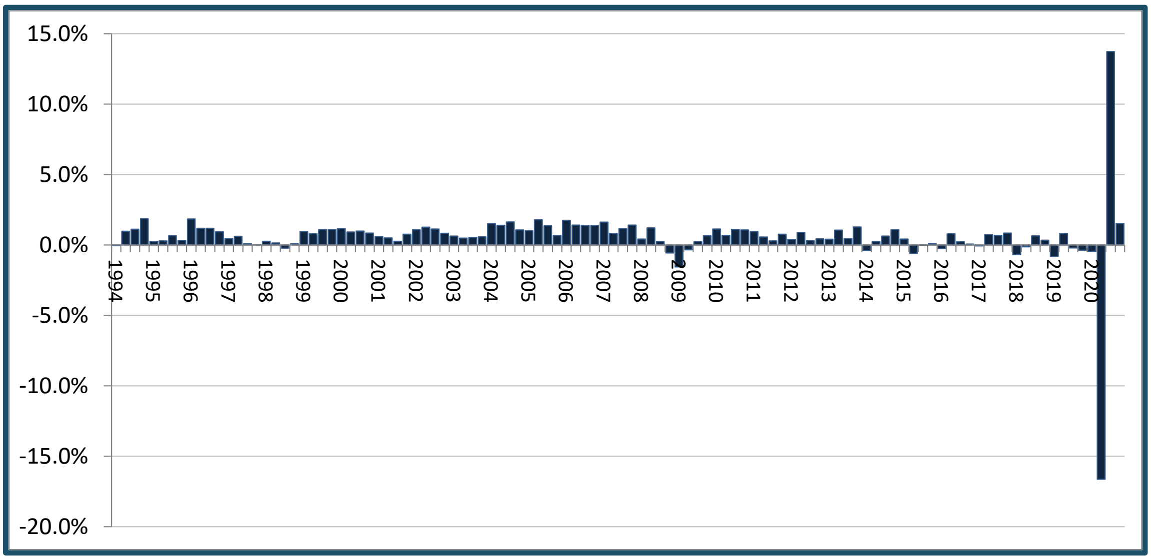
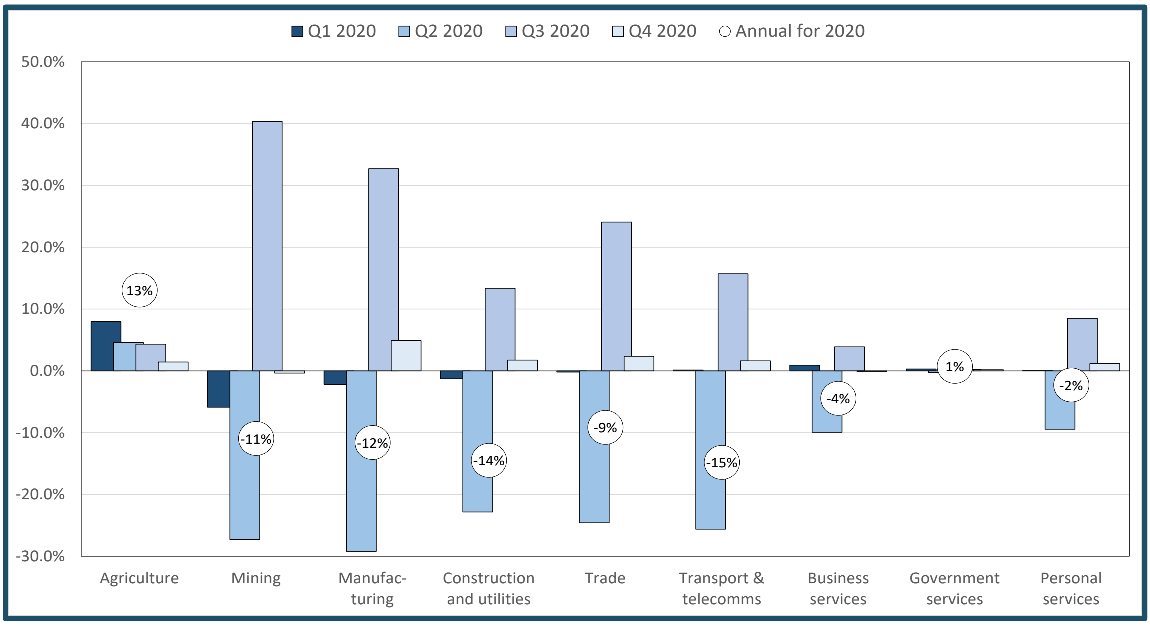
**Graph 1. Quarterly change in GDP, seasonally adjusted, 1994 to third quarter 2020**




*Source:* Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za

The sectors that experienced the biggest decline in the second quarter generally saw the largest rebound in the second half of 2020, as Graph 2 shows. In the third and fourth quarter, value added in manufacturing and mining recovered to pre-pandemic levels, although construction remained relatively depressed. That said, mining output in volume terms shrank by 1.4% in the fourth quarter, apparently mostly due to refinery problems at Amplats. Agriculture did not contract at all, thanks to its status as an essential service combined with good weather. GDP data for hospitality and entertainment are included under the much larger retail sector, which masks the industry's particularly slow recovery as a result of its high risk to customers as long as the pandemic persists.

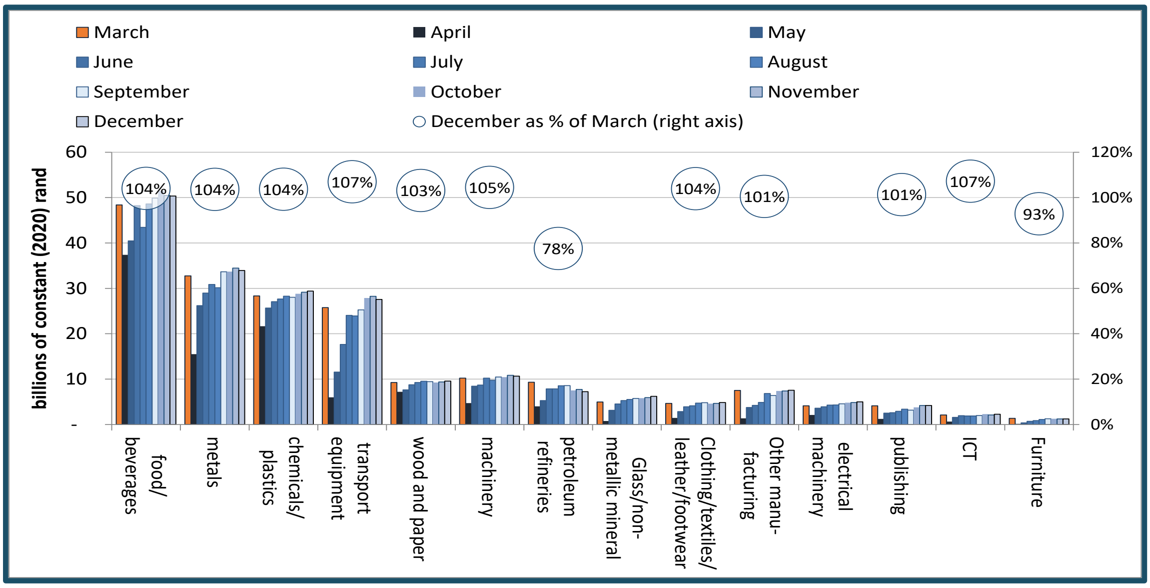
**Graph 2. Quarterly and annual change in contribution to GDP by sector, 2020**




*Source:* Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

In manufacturing, the recovery in sales from the April low point was particularly marked in auto and non-metallic minerals.

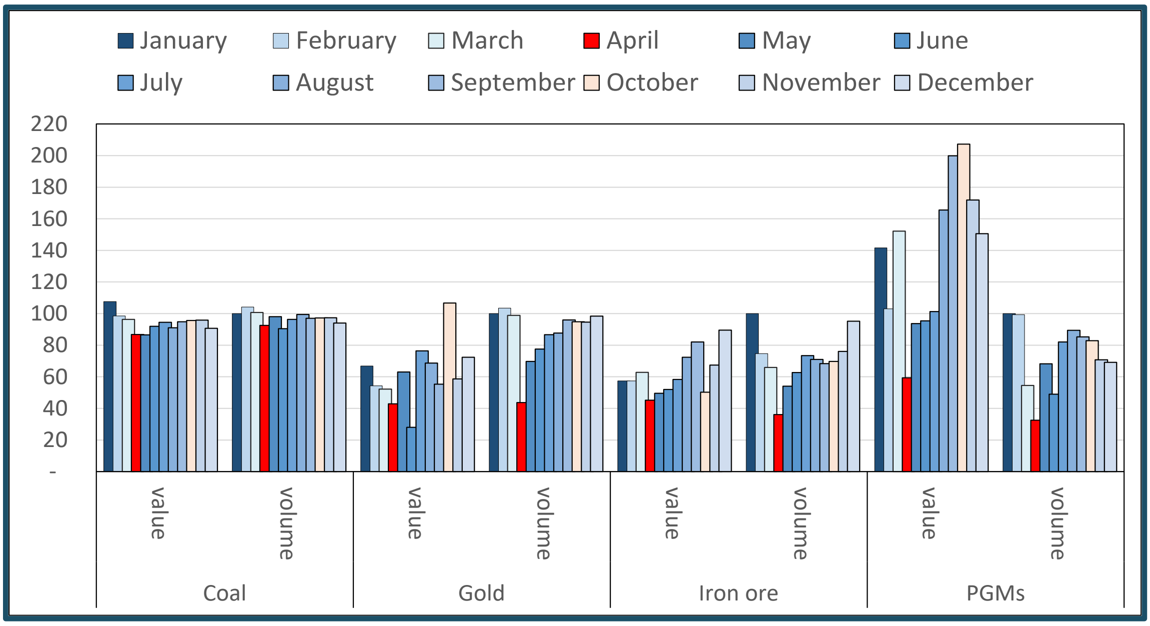
**Graph 3. Monthly sales by manufacturing industry in billions of constant (2020) rand (a), seasonally adjusted, and December sales as percentage of March sales**




*Note:* Reflated with CPI rebased to December 2020. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

In mining, platinum accounted for most of the slowdown in recent months. In volume terms, its sales dropped 23% from August to December. Only coal also saw a fall in volume of production in this period, and gold and iron ore both experienced higher sales and revenues.

**Graph 4. Mining monthly index of production volume and value of sales**
*Production volume: January = 100, seasonally adjusted;*
*sales in constant R100 millions, not seasonally adjusted*

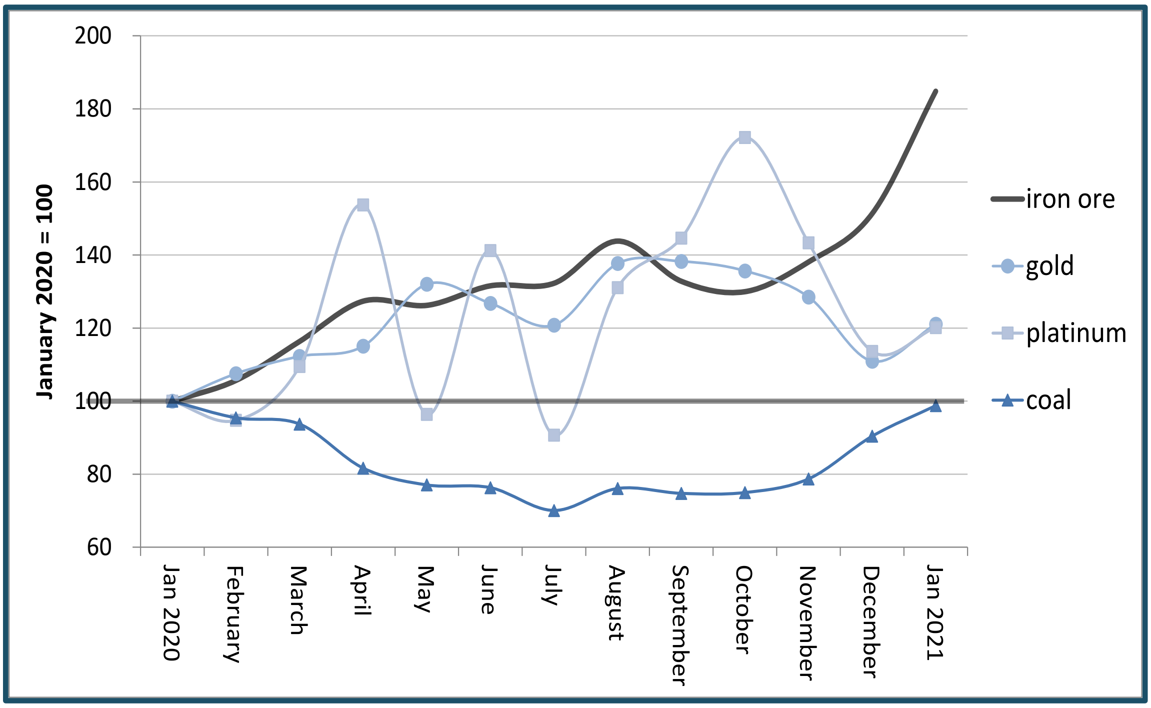



*Note:* Reflated with CPI rebased to December 2020. *Source:* Calculated from Statistics South Africa. Mining Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

Sales in bars and restaurants in December 2020 were still 28% lower than year earlier, although they had improved from near-zero in April. The second surge in December robbed the industry of its most important season for both domestic and foreign tourism. The impact was harshest in the Western Cape, which falls outside of the KwaZulu-Natal/Gauteng mining-industrial complex. The challenge for in-door hospitality and entertainment is that, unless COVID-19 is controlled, its historic model can be either profitable or safe, but not both. Until vaccines are fully available, pushing to reopen on the pre-pandemic model risks a cycle of repeated shutdowns and growing consumer aversion.

The mining value chain largely shapes South Africa's relationships with the global economy, and consequently has a determinant impact on growth. The resurgence in metals prices was thus critical for the recovery. As Graph 5 shows, unit prices for gold, platinum and iron ore all climbed in constant rand terms, despite the decline in the volume of production in the fourth quarter. In contrast, coal tracked relatively subdued petroleum prices, which reduced earnings from coal exports but also the cost of imported oil (see section on international trade below).

**Graph 5. Index of mining unit export prices in constant rand (a), monthly 2020 (January 2020 = 100)**

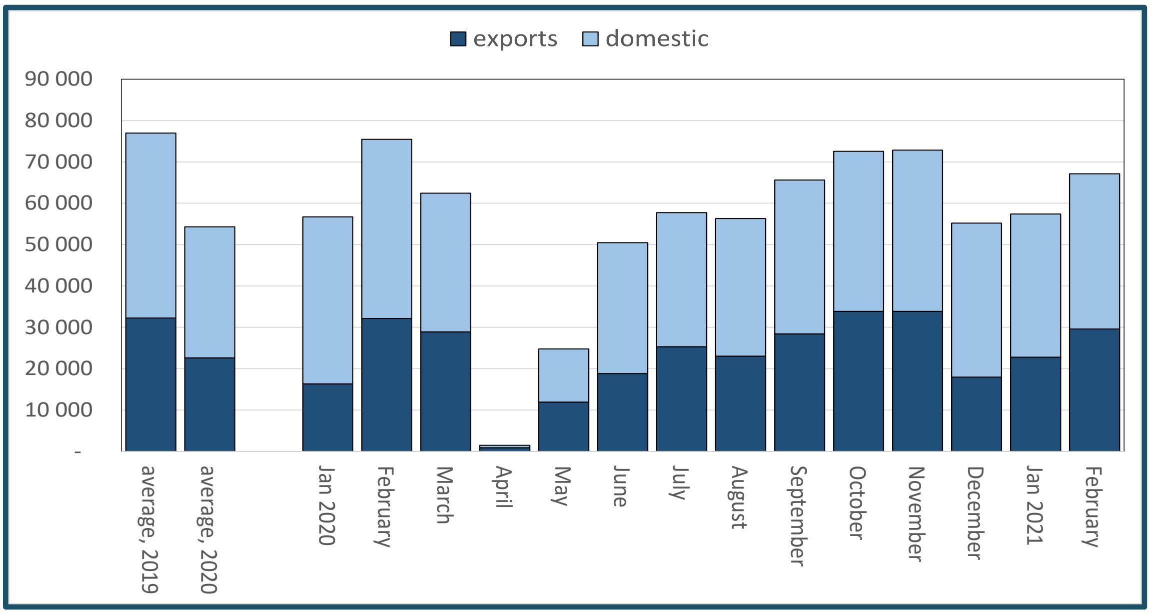



*Note:* (a) Deflated with CPI. *Source:* Calculated from Quantec EasyData. RSA Trade HS 8-digit. Downloaded from www.quantec.co.za.

The auto industry is South Africa's largest manufactured export outside of the mining value chain. Sales recovered strongly from near-zero in April 2020, but remained below 2019 levels.

In February 2021, exports were 8% lower than a year before, while domestic sales were 13% lower.

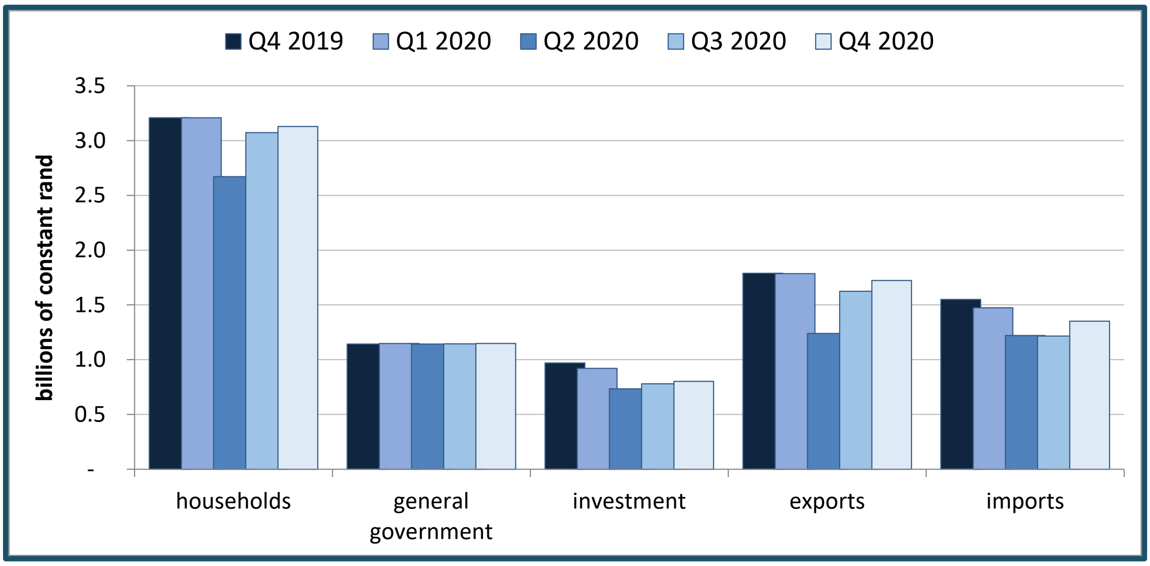
**Graph 6. Domestic and export auto sales, averages for 2019 and 2020 and monthly from January 2020 to February 2021 (number of vehicles)**




*Source:* Calculated from NAAMSA data published by Quantec. EasyData. Downloaded from www.quantec.co.za.

From the expenditure perspective, the recovery in the GDP in the second half of the year was driven primarily by household consumption and the soaring balance of trade. In the fourth quarter of 2020, net exports were 9% higher than in the first quarter, before the pandemic, and household consumption was 2% below the first quarter. In contrast, investment was still 13% lower than pre-pandemic levels, with relatively slow recovery especially for state-owned enterprises (see section below on investment). Government consumption was flat, but it barely fell in the second quarter and then barely grew in the second half of the year.

**Graph 7. Quarterly expenditure on GDP, fourth quarter 2019 to fourth quarter 2020, by category, seasonally adjusted, in billions of constant (2020) rand (a)**




*Note:* Reflated using implicit deflator rebased to fourth quarter 2020. Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

The durability of the recovery largely depends on factors outside South Africa – above all, strong monetary and fiscal stimulus packages in the global North, combined with continued growth in China. These factors have driven the increase in precious metals and iron ore prices as well as demand for car exports.

In the short run, the main risk to recovery is a resurgence of COVID-19 at home or abroad. As discussed in the Briefing Note, *South Africa's emerging recovery strategy*, in the longer run the ability to boost growth and job creation going forward will depend largely on the ability to address core domestic constraints, including the growing cost and unreliability of electricity; dependency on the mining value chain, which leaves the economy vulnerable to global price cycles; the pro-cyclical fiscal policy, which promises cuts in government spending in 2021; and deep economic inequality, which leads to contested and consequently often inconsistent and uncertain economic policies.

The Presidency has announced that it will move more vigorously to reduce the cost of doing business through Operation Vulindlela, which will focus on improving infrastructure delivery and facilitating visas for skilled personnel and tourists. Measures to promote reconstruction through economic diversification and building a stronger middle class remain poorly defined and face tough budget cuts, however.

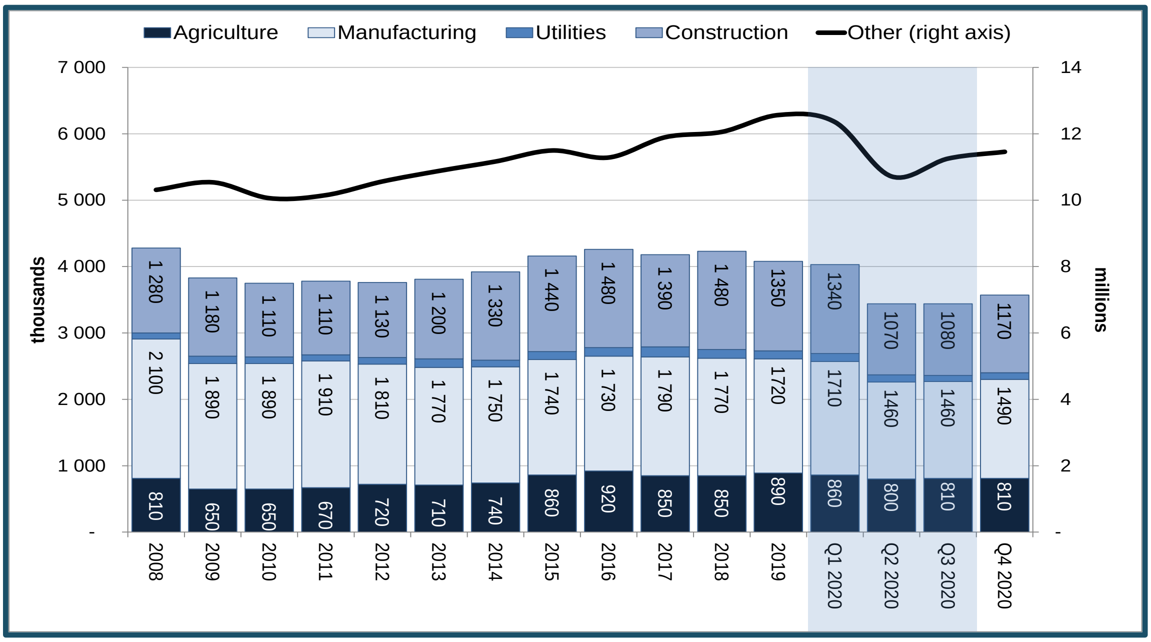
## Employment

*As usual with downturns, but on an unusually devastating scale, the recovery in jobs lagged the resurgence in the GDP. Total employment grew by 330 000 or 2.2% in the fourth quarter of 2020. But employment remained 1.4 million below 2019 levels because the economy shed some 2.2 million jobs in the second quarter. The decline over 2020 was greatest for lower-level workers in general and informal workers in particular, aggravating South Africa's already sharp income inequalities.*

South Africa added 330 000 jobs between the third and fourth quarter of 2020, compared to 540 000 from the second to third quarter. As a result, after losing at least 2.2 million jobs in the second quarter,[1] it had regained a total of 870 000, for a net loss of 1.4 million compared to the first quarter of the year. Total employment in the fourth quarter was still 9% lower than in the fourth quarter of 2019.

[1] Statistics South Africa did not collect employment data for April, which likely saw the biggest job losses. Figures for the second quarter are an average for May and June, when employment had probably begun to recover.

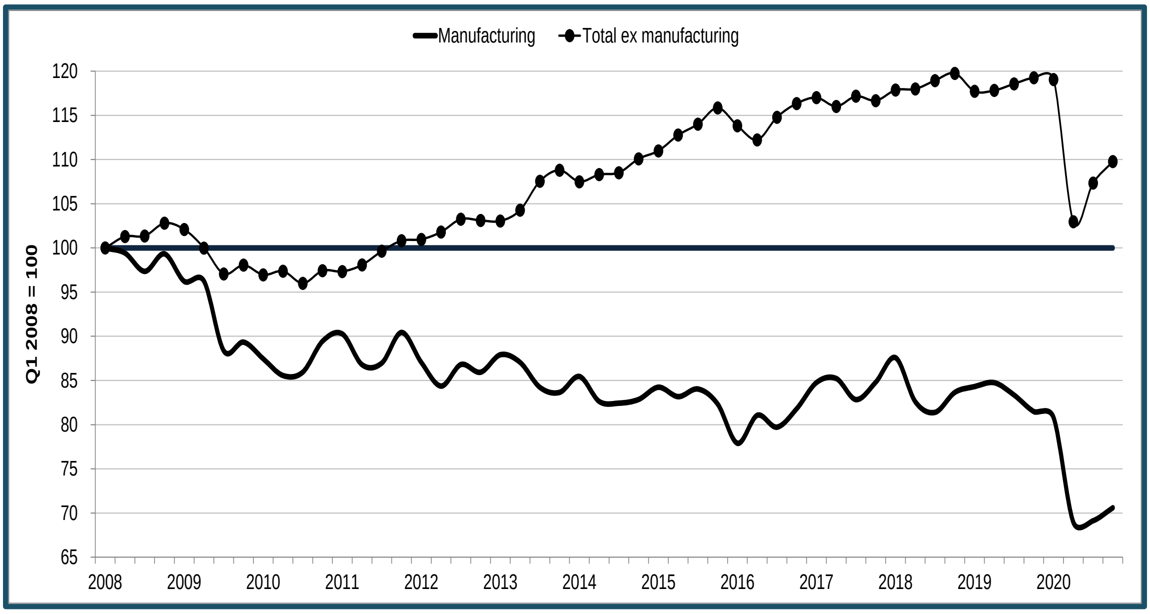
### Graph 8. Employment by sector, not seasonally adjusted, fourth quarter 2008 to 2019 and second to fourth quarter, 2020




*Source:* Calculated from Stats SA. QLFS 2008-2020 Q4. Electronic database. Downloaded from www.statssa.gov.za.

Both manufacturing and non-manufacturing employment continued to rebound in the fourth quarter of 2020. Manufacturing recovered only 2.4% over the second quarter, however, compared to a 6.6% bounce in the rest of the economy. As a result, manufacturing's share in total employment fell from 15% in 2008 to 10.4% in the first quarter of 2020, and 9.9% in the fourth quarter.

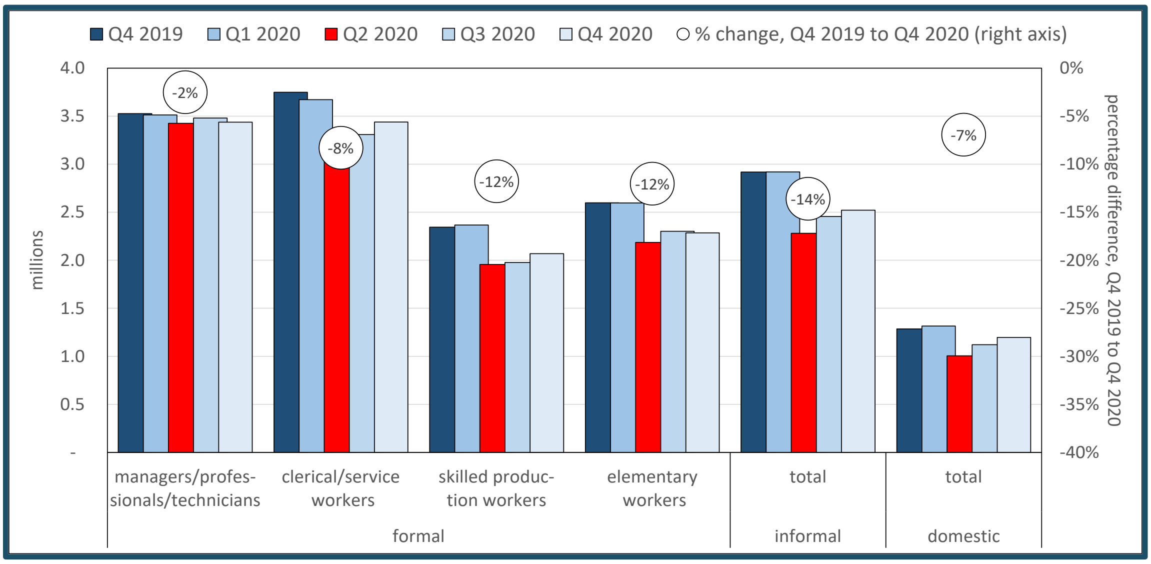
### Graph 9. Indices of employment in manufacturing compared to the rest of the economy (first quarter 2008 = 100), first quarter 2008 to 2020




Source: Calculated from Stats SA. QLFS 2008-2020 Q4. Electronic database. Downloaded from www.statssa.gov.za.

Lower level and less formal workers saw the biggest decline in employment, despite a substantial rebound especially for domestic workers. As Graph 10 shows, the employment deficit for formal workers (both employees and business owners) compared to the fourth quarter of 2019 was deepest for informal workers and less-skilled workers generally, and smallest for formal managers and professionals.

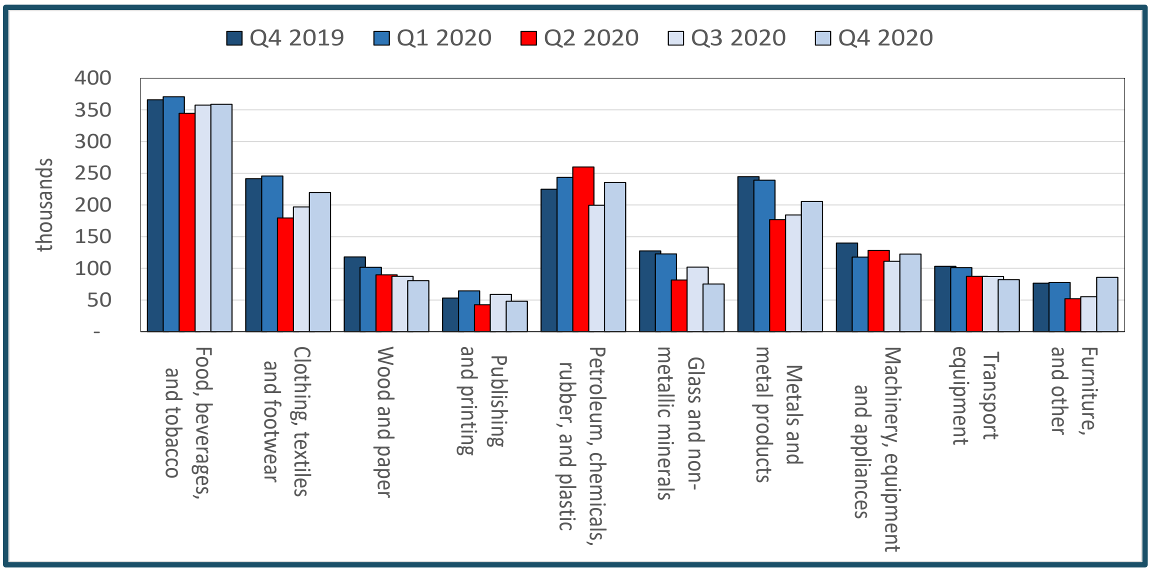
**Graph 10. Employment by occupation level and nature of employment, Q4 2019 to Q4 2020**




Source: Calculated from Stats SA. QLFS 2008-2020 Q4. Electronic database. Downloaded from www.statssa.gov.za.

The recovery at sector level resulted from jobs growth exclusively in clothing, metals, food and publishing, and in the residual category that combines furniture, recycling and other activities. In contrast, despite improved sales, job losses persisted in auto and machinery, and in wood, chemicals, glass and non-metallic minerals.

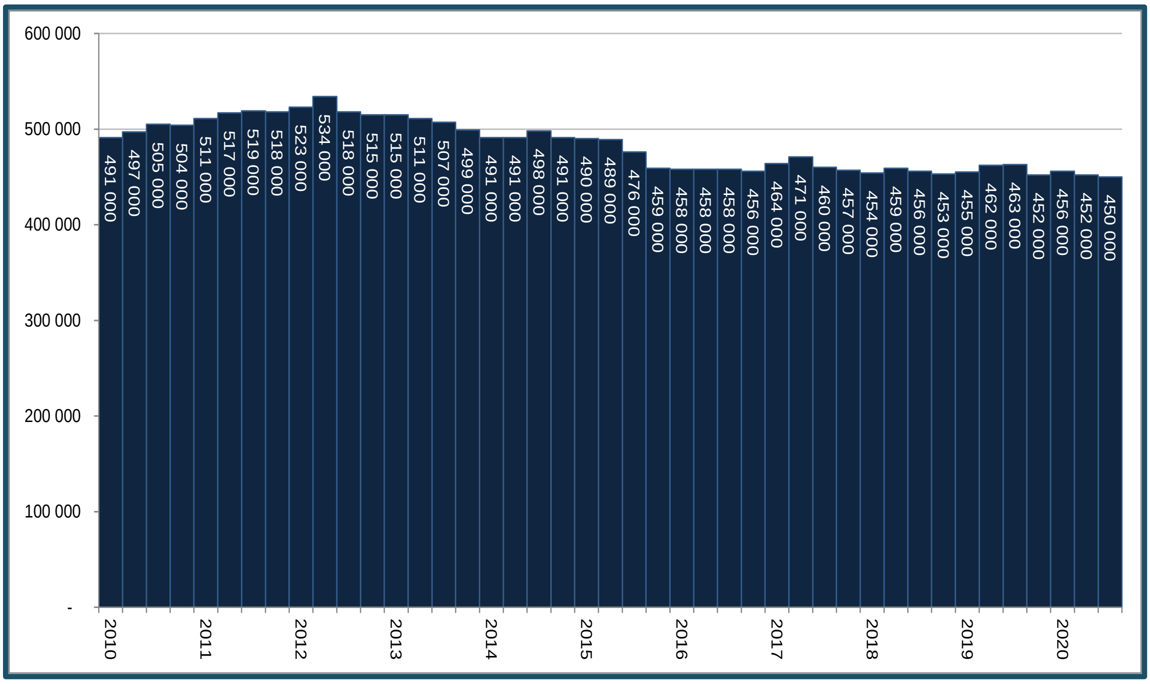
**Graph 11. Employment by manufacturing industry, third quarter of 2008, 2010, 2015, 2018 and 2019 and 2020.**




*Source:* Calculated from Stats SA. QLFS for relevant quarter. Electronic databases. Downloaded from Nesstar facility at www.statssa.gov.za.

Mining lost jobs between the second and third quarters of 2020, the latest available data, despite the increase in production over this period. It did not, however, suffer the catastrophic decline seen in the rest of the economy in the second quarter.

**Graph 12. Mining employment, Q1 2010 to Q3 2020**




*Source:* For quarters through second quarter 2020, Stats SA. Quarterly Employment Survey. Excel spreadsheet. Downloaded from www.statssa.gov.za in March 2020.

## International trade

*The trade balance remained strong in the fourth quarter, largely because exports benefited from higher mining prices and auto exports. Manufactured imports also rebounded sharply, but petroleum prices remained lower than before the pandemic and food imports declined.*

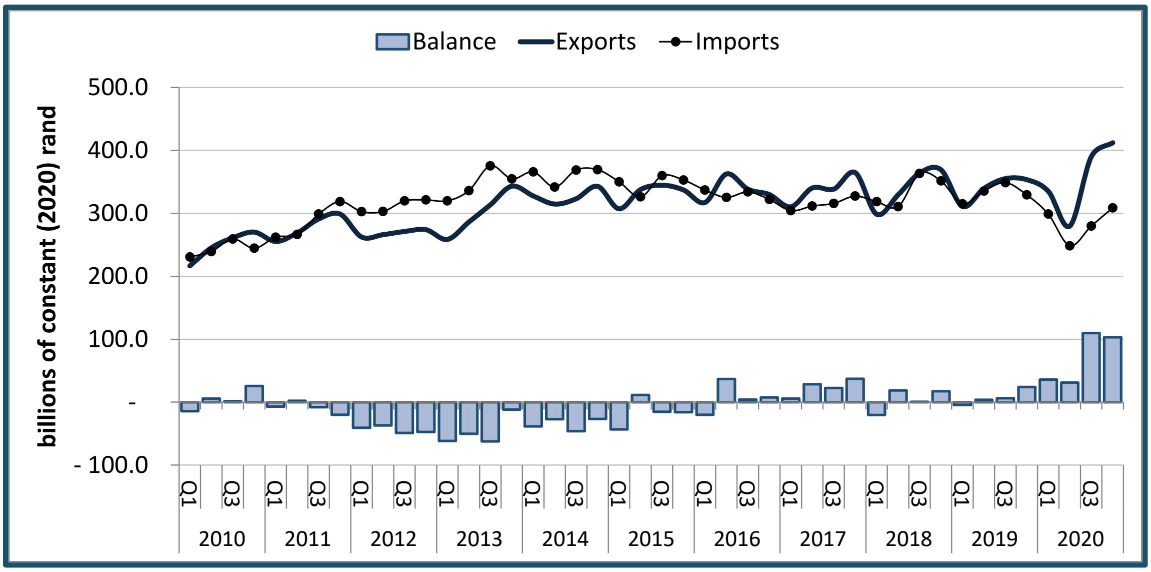
South Africa's trade surplus remained above R100 billion in the fourth quarter of 2020, a slight decline from the R110 billion reported in the previous quarter. The surplus in the second half of 2020 was higher than at any point in the past decade. Year-on-year, exports grew about 17%, while imports declined 6%.

Gold exports, which drove export growth, especially in the third quarter, declined by about 4% quarter-on-quarter, but remain 36% higher than in the fourth quarter of 2019.

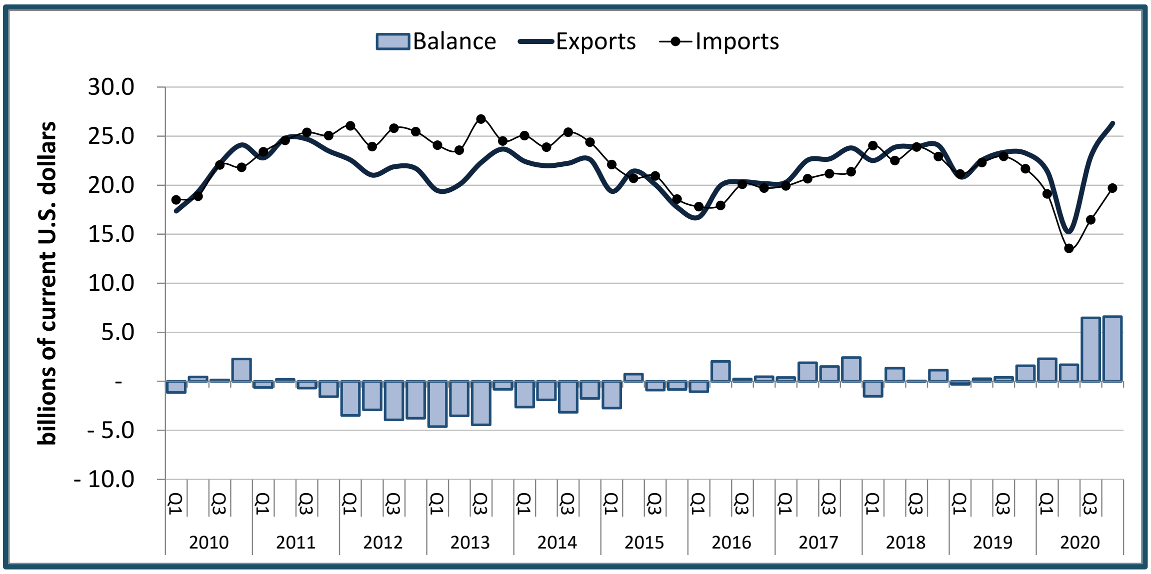
Auto exports also continue to grow, with goods vehicles alone growing 33% from the third quarter, surpassing exports in the fourth quarter of 2019.

**Graph 13. Exports, imports and balance of trade in billions of constant rand and current US dollars (a)**

**A. Billions of constant (2020) rand**




**B. Billions of US dollars**

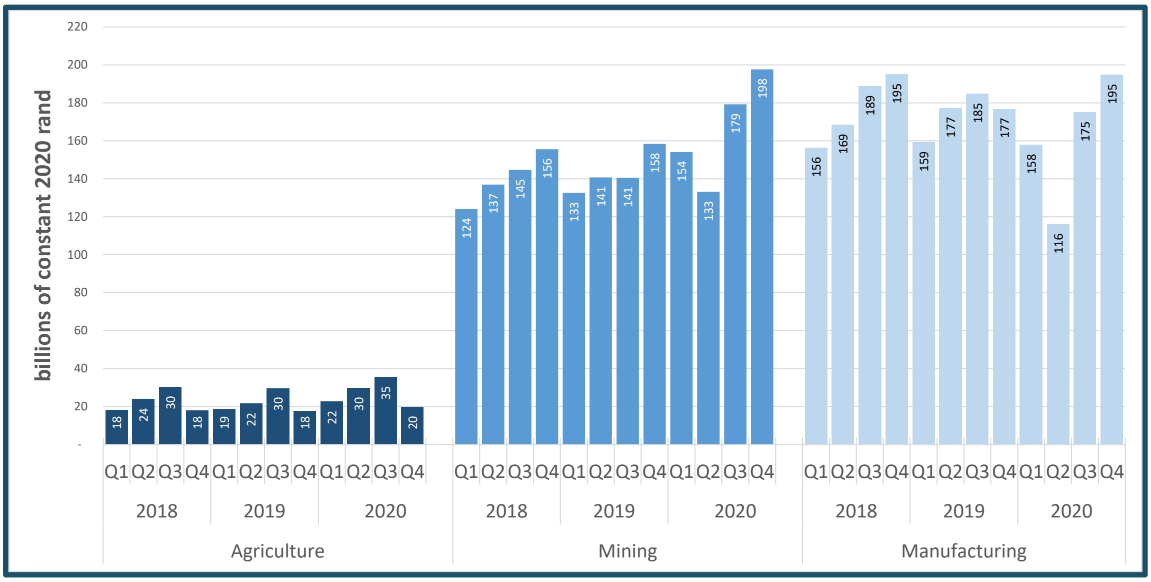



*Note:* (a) Constant rand values reflated using CPI rebased to December 2020; US dollar values calculated with trade-weighted exchange rate from the Reserve Bank. *Source*: Calculated from South African Revenue Service data.

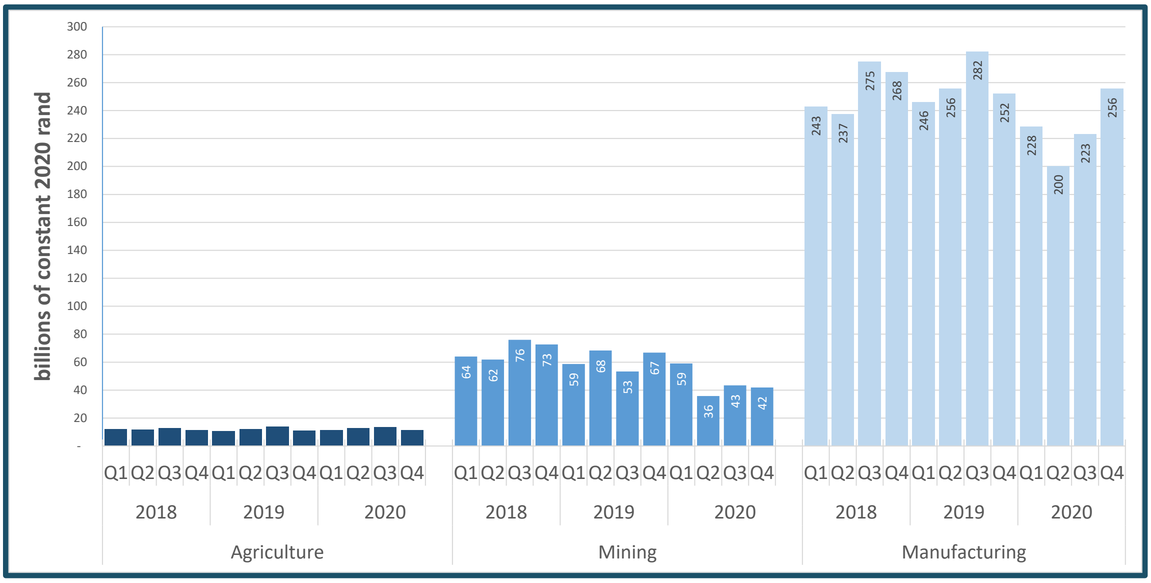
Imports remained 6% lower than was reported in the fourth quarter of 2019, although they increased about 10% in quarter-on-quarter terms. Manufactured imports climbed by 15%, but crude oil (classed under mining imports) was down more than half in year-on-year terms, and agricultural imports were flat. Oil prices have tended to recover as the end of the pandemic has come into view, which will likely lead to higher import costs in the coming months.

**Graph 14. Exports and imports by quarter from the first quarter of 2018 in billions of constant (2020) rand (a), not seasonally adjusted**

**A. Exports**




**B. Imports**

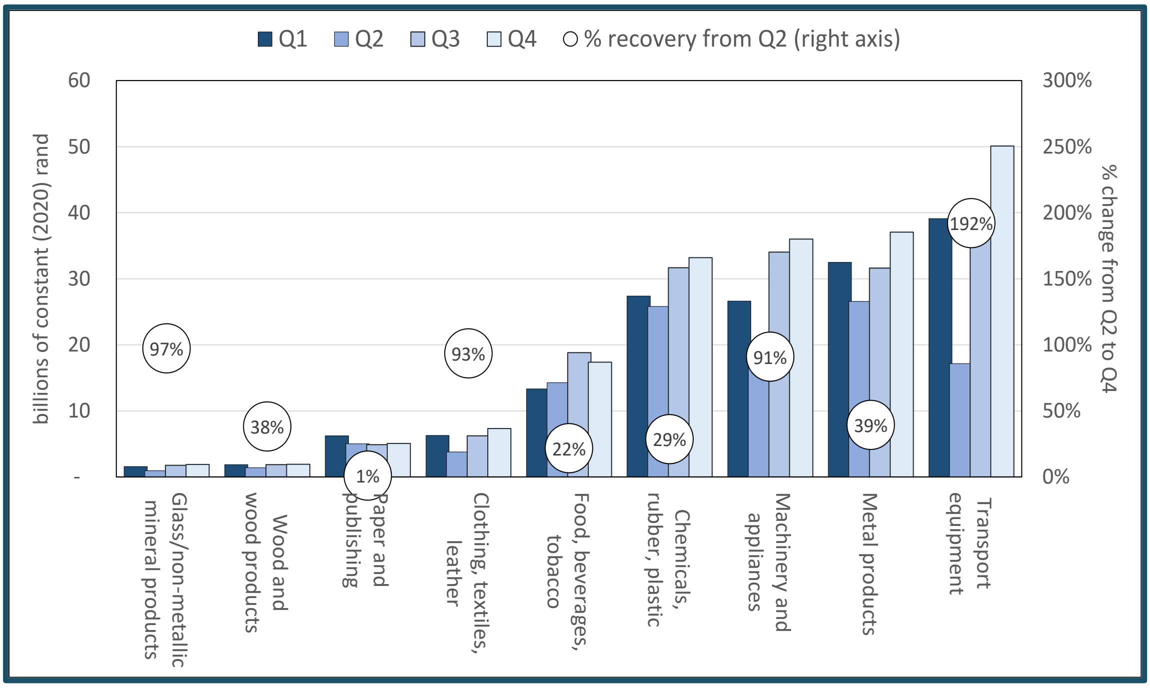



*Note:* (a) Reflated using CPI rebased to December 2020. *Source:* Calculated from South African Revenue Service data.

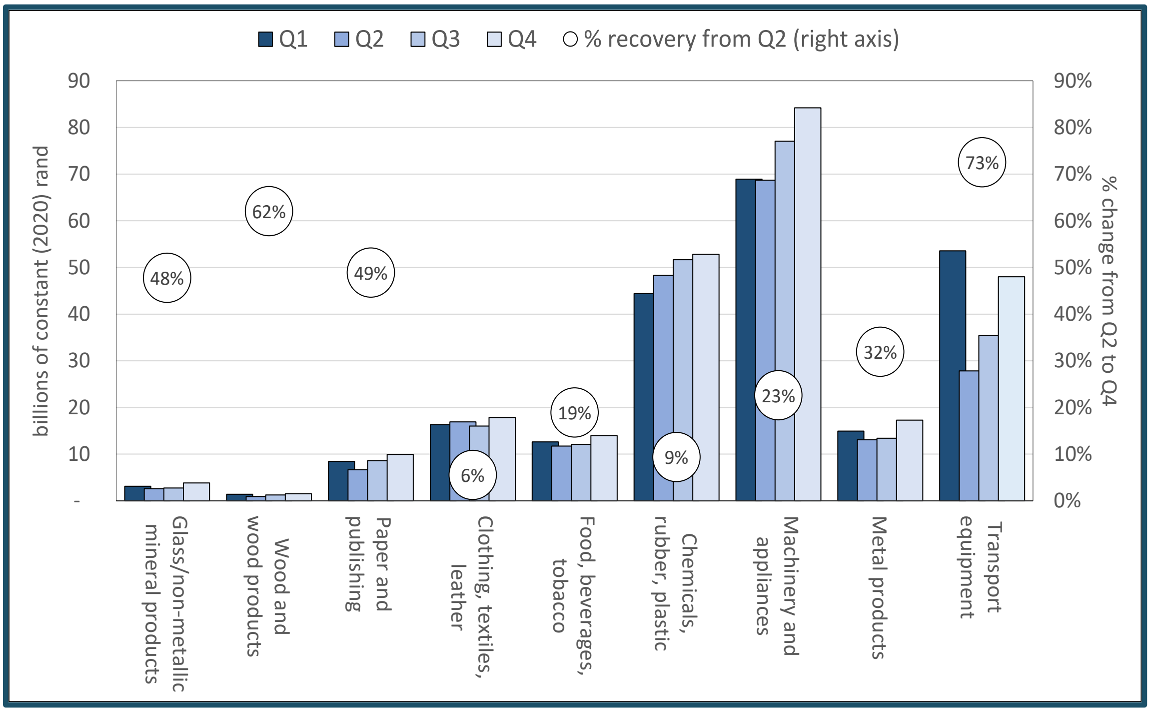
The rebound in manufactured exports over the past two quarters was driven by machinery and transport equipment. Auto imports remained 5% below 2019 levels but grew 36% quarter-on-quarter. Machinery imports were 4% higher than in the fourth quarter of 2019, and 9% higher than reported in the third quarter of 2020, pointing to some recovery in investment.

**Graph 15. Quarterly exports and imports by manufacturing industry, in billions of constant (2020) rand (a), first quarter 2020 to fourth quarter 2020, and change from the second quarter to the fourth quarter**

**A. Exports**




**B. Imports**



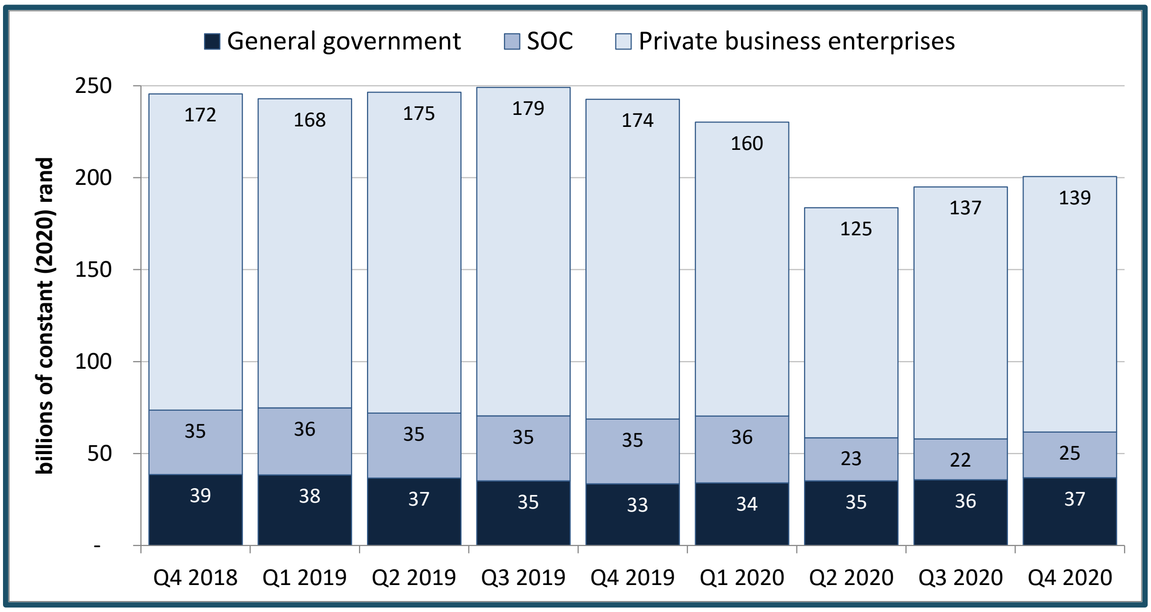

*Note:* (a) Reflated using CPI rebased to December 2020. *Source:* Calculated from South African Revenue Service data.

## Investment

*Private investment flattened out in the fourth quarter of 2020 while public investment showed strong growth. The investment rate (investment as a percentage of the GDP) improved marginally from 15.1% of the GDP in the third quarter to 15.4% in the fourth quarter – still far below pre-pandemic levels. Returns on assets improved for mining and manufacturing in the third quarter, but fell for construction.*

After climbing by 10% in the third quarter of 2020, private investment rose only 1% in the fourth quarter. Since it had fallen 22% in the lockdown from the first to the second quarter, it remained some 13% below pre-pandemic levels. In contrast, investment by state-owned companies (SOCs) fell a total of 39% in the second and third quarter, but climbed 12% in the fourth quarter of 2020. It remained 32% below the first quarter, however, due to the sharp and prolonged decline during and immediately after the lockdown. In contrast, investment by the government itself climbed steadily through the pandemic, and by December was 8% above the start of the year.

**Graph 16. Quarterly seasonally adjusted investment by type of organisation, fourth quarter 2018 to fourth quarter 2020, in billions of constant (2020) rand (a)**

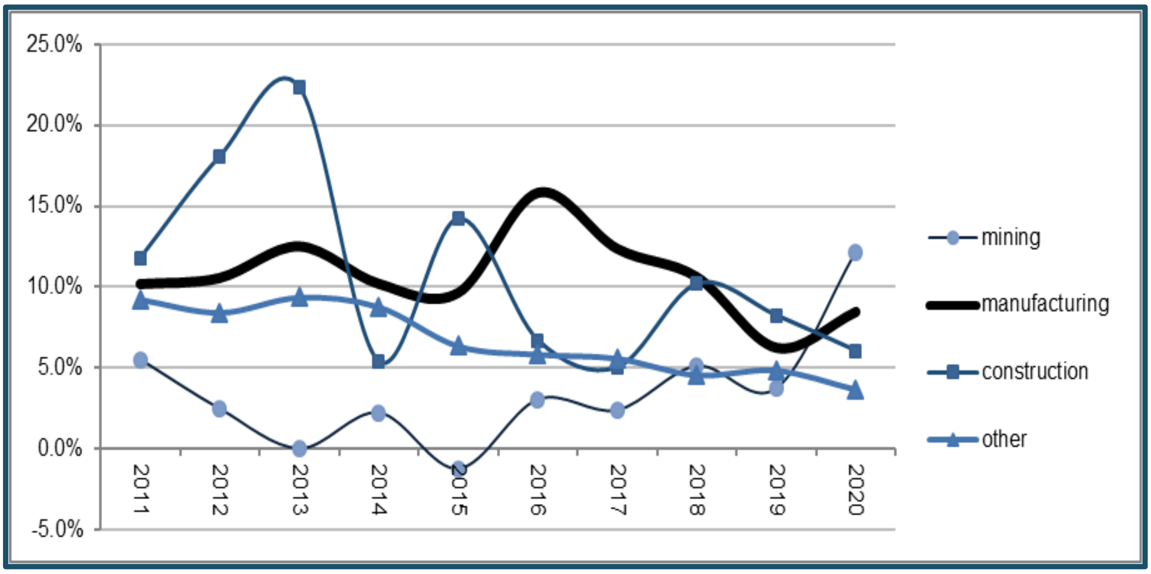



*Note:* Reflated with implicit deflator rebased to fourth quarter 2020. Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

The trends in investment meant that public investment (that is, government and SOC investment combined) recovered to 31% of the total. That compared to 29% in 2019, but was still down from over 35% in 2010 and 2011, when it was boosted by the global commodity boom, which brought higher revenues, and the FIFA World Cup.

The return on assets for mining and manufacturing improved in the third quarter of 2020 (the latest available data), while construction saw a decline to 6%. Mining saw the largest improvement, with returns on assets rising to 12.1%, compared to 3.7% in the same quarter in 2019. Manufacturing returns on assets increased slightly, from 6.3% to 8.5% in the year to the third quarter of 2020. Construction returns on assets continued to decline, from 8.2% to 6% over the same period.

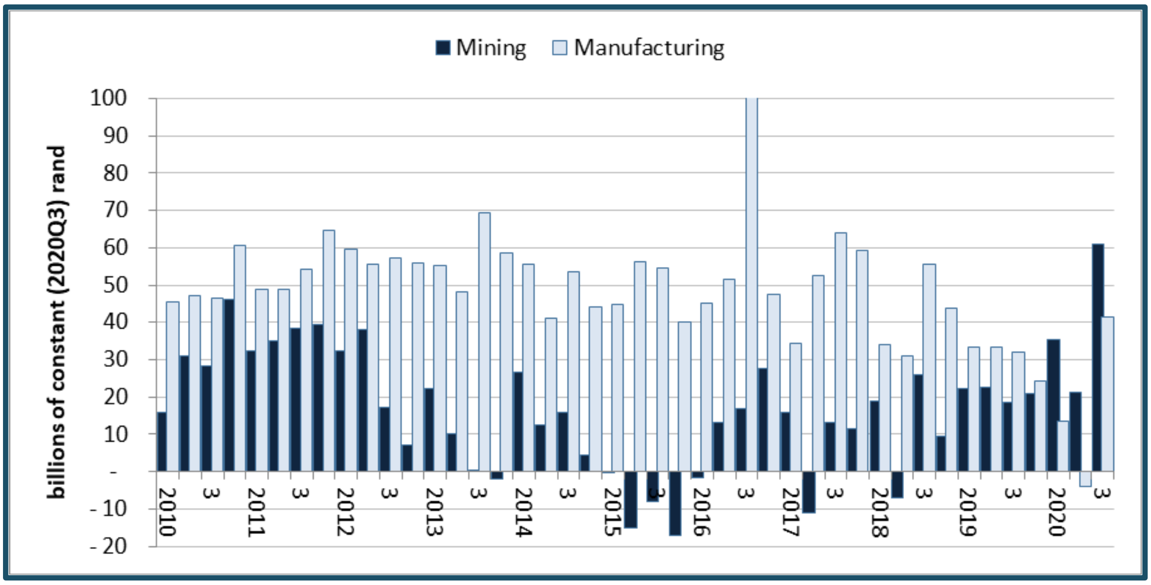
**Graph 17. Return on assets in constant rand, 2011 to September 2020**




Source: Stats SA, Quarterly Financial Statistics adjusted to constant rand. Excel spreadsheet downloaded www.statssa.gov.za. February 2021

Mining profits more than tripled in constant 2020 rand in the year to the third quarter of 2020, from R19 billion to R61 billion. The high profitability reflects overall improvements in the global economy (in the form of increased output and increased prices) as countries reopened their economies following COVID-19 related lockdowns. Anglo American for instance reported operating at about 95% capacity in October 2020. Manufacturing also showed some improvements in profitability over the same period, rising from R32 billion to R41 billion. Although it initially appeared that manufacturing profits declined to R3.6 billion in the second quarter of 2020, revised data show a loss of R4.1 billion, largely the result of the national lockdown that began towards the beginning of the second quarter.

**Graph 18. Quarterly profits in manufacturing and mining in billions of constant 2020 rand**




*Note:* Deflated with CPI rebased to June 2020. *Source:* Statistics South Africa, Quarterly Financial Statistics

## Foreign direct investment projects

*The TIPS FDI Tracker monitors foreign direct investment projects on a quarterly basis, using published information. The total investment value from projects captured this quarter was R68.9 billion. Projects captured in the fourth quarter are a mix of those announced at the 2020 Investment Conference and others identified outside the conference.*

### The 2020 South African Investment Conference

The third South African Investment Conference took place in November 2020 against the backdrop of the COVID-19 depression. It picked up 50 pledges from foreign and local companies, totalling approximately R109 billion. Of these, 21 pledges totalling R36.1 billion came from foreign companies. Table 1 summarises FDI projects announced at the 2020 investment conference. As with previous conference pledges, some of the investments are already in the pipeline, rather than entirely new projects. The FDI Tracker for quarters three and four 2020 will provide a detailed analysis.

**Table 1. Investments announced by foreign companies at the 2020 Investment Conference**

| PROJECT | COMPANY | VALUE R'BILLION | COUNTRY OF ORIGIN | LOCATION | INDUSTRY |
|---|---|---|---|---|---|
| United Heavy Industry Investment Programme | United Heavy Industries | 17.0 | India | KwaZulu-Natal | Manufac-turing |
| Pioneer Food Manufacturing capacity expansion | PepsiCo | 5.50 | US | Various | Manufac-turing |
| Teraco datacentre infrastructure expansion | Teraco/Permira/ Birkshire Partners | 4.40 | United Kingdom/ US | Gauteng | Services |
| Google "Equiano" subsea cable | Google | 2.28 | US | Western Cape | Services |
| Belgium Collective Investment | Belgium Companies | 1.50 | Belgium | Various | Various |
| Johannesburg 1 Data Centre | Dimension Data/ Nippon Tele-graph and Telephone Corp | 0.88 | Japan | Gauteng | Services |
| Beverage canning plant | Dangold Packaging | 0.83 | United Kingdom | Gauteng | Manufac-turing |
| Ivanhoe/Ivanplats Platreef project | Invanhoe Mines | 0.73 | Canada | Limpopo | Mining |
| Capita delivery centre | Capita | 0.53 | United Kingdom | Western Cape | Services |
| Facilities expansion project | Equites Property Fund Sandvik | 0.29 | Sweden | Gauteng | Manufac-turing |
| Titanium beneficiation project | Anglo African Metals | 0.28 | United Kingdom | Gauteng | Manufac-turing |
| Fuch operations expansion | Fuchs Lubricants SA/Fuchs Petrolab SE | 0.26 | Germany | Gauteng | Manufac-turing |

| PROJECT | COMPANY | VALUE R'BILLION | COUNTRY OF ORIGIN | LOCATION | INDUSTRY |
|---|---|---|---|---|---|
| P&G diaper manufacturing plant expansion | Procter and Gamble (P&G) | 0.26 | US | Gauteng | Manufac-turing |
| Sew-Eurodrive head office and factory | Sew-Eurodrive | 0.20 | Germany | Gauteng | Manufac-turing |
| Dr Oetker product production expansion | Dr Oetker | 0.20 | Germany | Gauteng | Manufac-turing |
| Paper production expansion | Sonae Arauco/ Sonae Industria | 0.20 | Portugal | Mpumalanga | Manufac-turing |
| Homestead game lodge | Really Epic Dog (The Homestead) | 0.20 | US | KwaZulu-Natal | Services |
| Eco-tourism development (Giant Flag project) | Giant Flag con-sortium (Giant Flag, Gigawatt Global and CT Worldwide | 0.18 | Netherlan ds | Eastern Cape | Services |
| Supavut Auto components investment (Tshwane Special Economic Zone) | Supavut Industry | 0.15 | Thailand | Gauteng | Manufac-turing |
| Sundale cheese and dairy production | Sundale and Schreiber | 0.10 | US | Eastern Cape | Manufac-turing |
| Lactalis milk powder production plant | Lactalis | 0.10 | France | Eastern Cape | Manufac-turing |

*Source:* Adapted from South Africa Investment Conference Announcements.
https://www.sainvestmentconference.co.za/wp-content/uploads/2020/11/SAIC-2020-Announcements-18112020-V3.pdf

Table 2 presents projects that were not announced at the 2020 investment conference. Values were available for four of the seven projects identified, totalling R32.9 billion. Announced projects had the highest pledged investment value and number of projects, compared to projects under exploration or pre-feasibility.

**Table 2: FDI Projects captured in Q4, 2020 (excluding investment conference projects)**

| | ANNOUNCED | EXPLORATION | PRE-FEASIBILITY | COMPLETE |
|---|---|---|---|---|
| Number of projects | 3 | 2 | 1 | 1 |
| Value (R billions) | 29 | 1.5 | 2.4 | Not reported |
| Industries | 1 Utilities<br>1 Unspecified<br>1 Mining | 2 Mining | 1 Mining | 1 Retail |
| Type | 1 Greenfield<br>1 Unspecified<br>1 Expansion | 1 Greenfield<br>1 Brownfield | 1 Greenfield | 1 Expansion |
| Company | Amazon<br>French companies' collective investment<br>Anglo American | Total<br>Rainbow Rare Earths/Bosveld Phosphates | Vanadium Resources | Starbucks |

## New projects

Amazon commissioned the SOLA Group to develop a 10MW solar farm which SOLA will build, own and operate. Other stakeholders in the project include African Infrastructure Investment Managers (AIIM), through the IDEAS Fund, one of South Africa's largest domestic infrastructure equity funds and a major investor in the country’s renewable energy landscape. Through the project, 28GWh of solar energy will be wheeled via Eskom’s grid to Amazon’s facilities every year. A “Wheeling Use-of-System” agreement was concluded for this, the first of its kind in South Africa. The project is part of Amazon’s 26 global “utility scale” wind and solar projects. This will be Amazon’s first facility in South Africa, although it has extensive programming operations here. Construction is expected to start in early 2021 and is expected to be completed in 2022.

Vanadium Resources, a junior vanadium developer, plans to invest US$161.5 million (R2.4 billion) in the Steelpoortfontein vanadium mining and beneficiation project in Limpopo. The project will produce high-purity vanadium pentoxide from concentrate produced at Steelpoortfontein. The concentrate is used in production of specialist steel, renewable energy and industrial inputs. A scoping study conducted by the firm estimates that over a 25-year life cycle of the mine the project could produce between 18.7 million and 20.8 million pounds of high-grade vanadium pentoxide.

Rainbow Rare Earths has signed a development agreement with Bosveld Phosphates to develop the Phalaborwa Rare Earths Project in Limpopo. Rainbow will pay Bosveld US$750 000 (R11.6 million) in three tranches over 12 months. Following the pre-feasibility study on the project, Rainbow will own a 70% stake. The project aims to develop long-term sources of neodymium and praseodymium and associated rare earth elements. These elements are used in the manufacture of large permanent batteries used in electric vehicles, and in magnets used in the construction of wind farms. The total value of the investment and timeframes for the project have not been reported.

A group of French companies has pledged R14 billion in new investment in various projects, which have yet to be detailed. The full list of companies has not been released, but Air Liquide, Total and Canal+ are mentioned as potential investors. The new commitment is a follow-up to the R20 billion pledged by French companies at the 2019 Investment Conference. However, no updates are available on the 2019 pledge.

Anglo American is expanding its investment in its South Africa operations. The R15 billion investment is an addition to Anglo’s previous R87 billion commitment made at the 2018 South African Investment Conference, of which R57 billion has already been deployed. The additional investment is towards the roll-out of new technologies including a green hydrogen fleet and bulk ore sorting. Approximately R2 billion would be spent cultivating existing and new sources of demand for South Africa’s platinum group metals, and a further R7 billion would be allocated to a new pit at Kolomela, a mine operated by Kumba Iron Ore in the Northern Cape.

## Existing projects

Total has discovered a second gas condensate on the Luiperd prospect in the Outeniqua basin. It has invested R1.5 billion in this endeavour. An initial finding in 2019 suggested that the area may hold a billion barrels of oil-equivalent gas. Drilling started in August 2020. Luiperd was drilled to a depth of 3 400 meters, encountering 73 metres of gas condensate. Total operates the block with a 45% working interest. The remaining shares are allocated to Qatar Petroleum (25%), CNR International (20%), and Main Street (10%), the latter being a South African consortium. Total and partners are still to conduct a detailed assessment of the reservoir. The partners have now decided to proceed with development studies and engage authorities on the commercialisation of the gas.

Starbucks South Africa launched eight new stores, with six in Cape Town, one in Johannesburg and one in Pretoria. Two of the outlets are located within the new Checkers FreshX supermarkets in Stellenbosch and Rosebank. Rand Capital Coffee is the current licence holder of Starbucks in South Africa, the licence having been previously held by Taste Holdings.

### Updates

Lekela Power has started commercial operations at the Kangnas Wind Farm in the Northern Cape and Perdekraal East Wind Farm in the Western Cape. The projects were developed for a combined R6.6 billion. Perdekraal East has 110MW capacity and Kangnas 140MW. The wind farms were part of the fourth round of the Renewable Energy Independent Power Producer Programme. Construction started in 2018.

The 22 600 tonne Richards Bay liquefied petroleum gas (LPG) storage facility has been completed and commissioned. The R1-billion facility was developed by Petredec and Bidvest Tank Terminals. It is the region’s largest pressurised LPG import terminal, with four mounded tanks capable of storing about 5 500 tonnes of gas apiece. To ensure consistent supply for Southern Africa, there are 24-hour road tanker and railcar loading facilities. Development of the project started in 2017.

The Thabametsi power station, planned as a private coal-based producer, is facing cancellation. The 630MW project was to be developed by the Thabametsi Power Company, established by Korea Electric Power Corporation and Marubeni Corporation, with local stakeholders holding 51%. The foreign investors and local financiers, including the Public Investment Corporation, the Industrial Development Corporation and South African private banks, have withdrawn funding for the project, which would have required about US$2 billion (R30 billion). Thabametsi Power has submitted a request to the Independent Power Producer authorities to withdraw from the project.

## Briefing Note: South Africa’s emerging recovery strategy

From the day the lockdown started, government has contended that South Africa cannot simply go back to pre-pandemic days, when growth was already slow and inequality persistently high. Instead of a narrow recovery, then, it called for reconstruction, addressing the structural constraints on inclusive growth.

There is, however, a huge gap in how different groups define and prioritise the structural constraints to growth. Three main perspectives have emerged.

1. Business organisations have focused their proposals on improving infrastructure and cutting red tape for formal enterprise. As a rule, they are clear on the need to fix electricity and to a lesser extent rail transport by bringing in more private suppliers. In contrast, they are generally coy about which regulations should be streamlined. The main issues appear to be difficulties in dismissing workers for disciplinary and productivity issues; getting visas for

skilled people and tourists; meeting B-BBEE certification requirements in order to supply government; and the delays and red tape needed for most licences required to operate, from water to mining to rezoning to the myriad municipal mandates.

2. Industrial policy proponents inside and outside of government typically argue that the economy can only achieve sustained growth if it expands manufacturing. Exactly how to achieve that aim remains unclear. A critical question is how to leverage mining in this context – should government simply redirect its current support for the value chain, which centres largely on dedicated Transnet ore and coal lines plus below-cost electricity for refineries? Or should it promote beneficiation of mining products and hope that will ultimately boost downstream manufacturing? In either case, a core task is to ensure that mining rents are captured appropriately, whether through taxes to finance new activities or through cost-plus pricing for domestic users. A second challenge is to balance the allocation and pricing of infrastructure so as to promote diversification rather than simply further entrenching the dominance of mining. For instance, proposals to subsidise mining refineries using coal-fuelled electricity seem unlikely to promote more advanced or inclusive manufacturing.

3. A third perspective argues that the profound inequalities left by apartheid are the main blockage to sustained growth, since they foster contestation and inconsistency in economic policy and limit domestic demand. In this view, long-run economic development depends on building the middle class by addressing the factors that reproduce inequality – notably around access to quality education; decent housing near to economic opportunities; market and infrastructure systems that remain largely unsupportive of small businesses; and profoundly inequitable work organisation in most workplaces, with the associated pay gaps.

In practice, these divergent viewpoints have resulted in broad consensus on the urgent need to fix the electricity system and promote localisation, although how to achieve either in detail remains somewhat contentious. Moreover, everyone seems to agree on the need to expand investment in infrastructure and limit red tape. They disagree profoundly, however, on whether the resulting measures should centre on reducing the cost of doing business for the established private sector, or on upgrading facilities for poor communities and emerging business. Finally, vehement disagreements remain about key measures required to build the middle class, especially to ensure more equitable education, workplaces and pay; densification of urban areas; and a massive increase in support for small business that would include funding, access to improved infrastructure, and upgraded technical support and market systems.

The government's practical take on recovery vs reconstruction emerged in the past month from two core initiatives, namely Operation Vulindlela (a joint project to drive key recovery projects between the Presidency and the National Treasury) and the 2021/22 budget. Key elements of these programmes include the following.

- A strong commitment to improving infrastructure for established businesses, especially around electricity, water and transport. In terms of red tape, Operation Vulindlela also prioritises reducing hindrances to visas for skilled personnel and tourists.

- The budget anticipates an overall decline in spending in real terms, which it hopes to offset for infrastructure through public-private partnerships and ring-fencing some infrastructure spend. In constant rand terms, government spending will be 3% lower than in 2019.

Government investment will, however, climb by 15% compared to 2019/20, rising from 3.4% of total expenditure in 2019/20 to 4.1% in 2021/22, while other spending contracts.

- The budget reduces spending on some major programmes required to build the middle class, including a cut of 1% in education compared to 2019 (with the population growing 1.5% a year), and reductions of 10% in housing and 6% in land reform. Within housing, funds are shifted to informal-settlement upgrading, which is certainly desirable but militates against efforts to densify unless land is released closer to industrial and urban centres (golf courses, anyone?) Growth in funding for small business through the Small Enterprise Finance Agency (sefa) almost doubles, but off an extremely small base. Government plans to provide R1.2 billion rand in 2021/22; for comparison, the Industrial Development Corporation as a whole disbursed R15 billion in 2018.

- The budget cuts spending on social grants by eliminating the COVID-19 Special Grant in April (it reached six million destitute individuals), and by holding increases on old-age pensions and disability grants below inflation. Child support grants, which pay around a quarter as much as the old-age pension, will increase at inflation. As a result, spending on social grants as a whole will return to the 2019 level of 3.7% after climbing to 4.5% in 2020.

- Neither the budget nor Operation Vulindlela make commitments on addressing exclusionary systems in the workplace or the impoverished labour-sending regions. The budget plans to cut public service remuneration by around 2% in real terms, mostly by eliminating the annual increment (but not annual notches) for public servants. This measure will aggravate inequalities because the public service is the main route into the middle class for most working-class households, and especially for black women and people in the historic labour-sending regions.

- Government has not indicated that it will take any action to ensure that upstream producers in the steel, poultry and chemicals value chains will be pressured to mitigate prices so as to promote downstream manufacturing.