THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA THIRD QUARTER 2021

*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.**

Trends in GDP growth

The GDP reportedly shrank by 1.5% in the third quarter of 2021. That was the first major setback in the recovery from the COVID-19 depression. Most observers blamed the July unrest. This view is borne out by monthly figures for manufacturing, mining and retail sales, which showed a sharp dip in July followed by a degree of recovery through October. It seems likely, however, that the remarkably rapid surge in COVID-19 from late November will lead to a renewed downturn in December.

The sharp decline in the GDP in the past quarter put an end, at least temporarily, to the recovery from the COVID-19 recession that started in April 2020. Even before the decline, the growth rate had slowed to around 1% a quarter. The renewed downturn left the GDP 3% below pre-pandemic levels. (Graph 1)

The sharpest reported fall in value added emerged in agriculture. Statistics South Africa reported that it shrank by 14%. That finding means agriculture alone accounted for a quarter of the total decline in value added, although it contributes only 3% of the GDP. The non-agricultural GDP contracted by 1.1%, with most of the decline in retail and manufacturing. Only business, government and private services showed any growth in the last quarter. (Graph 2)

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

CONTENTS

EDITORIAL TEAM

The Real Economy Bulletin is a TIPS Publication

Editor

Muhammed Patel

Contributors

Neva Makgetla

Nokwanda Maseko

Kelello Mashiane

Lesego Moshikaro

Wendy Nyakabawo

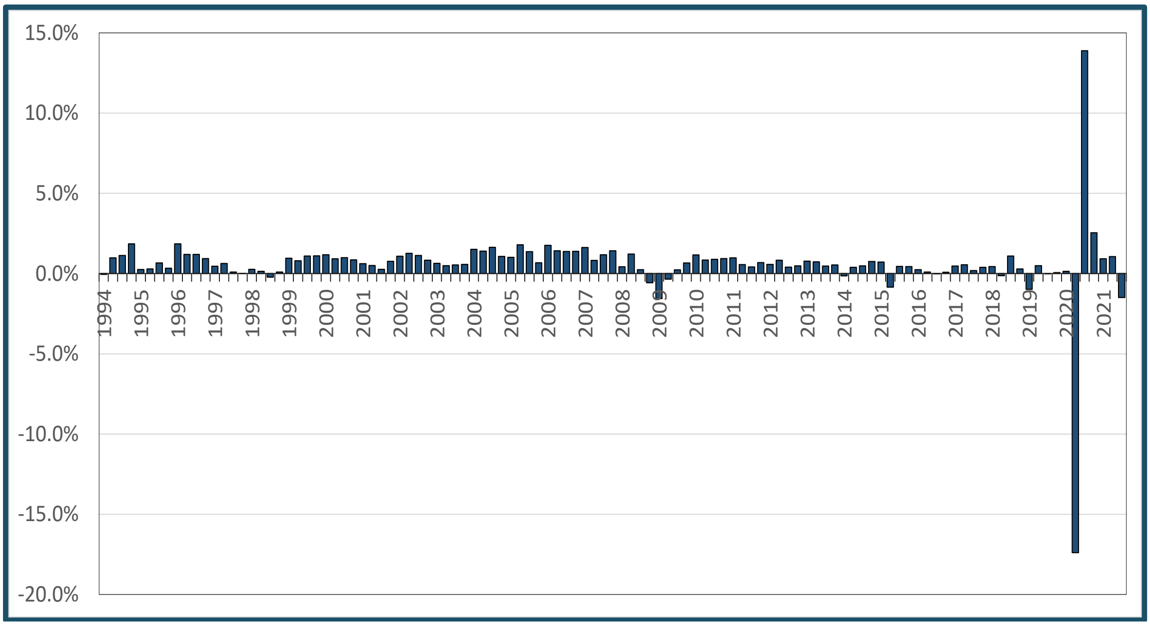
TRADE & INDUSTRIAL POLICY STRATEGIES

+27 12 433 9340

info@tips.org.za

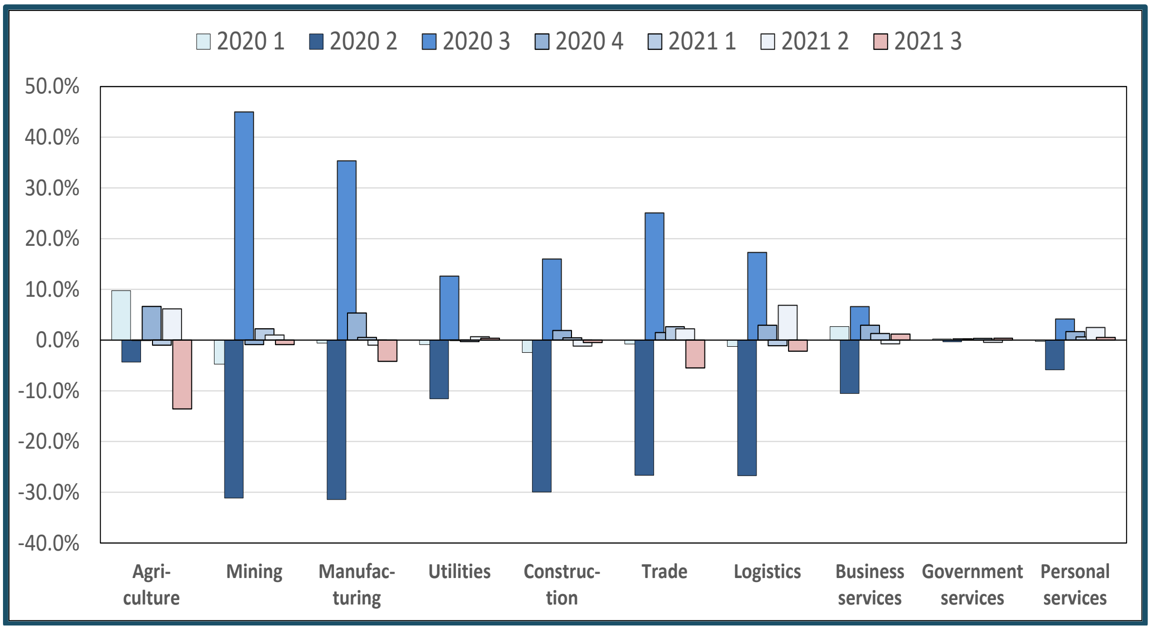
www.tips.org.za

Graph 1. Quarterly change in GDP, seasonally adjusted, 1994 to third quarter 2021



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet downloaded from www.statssa.gov.za.

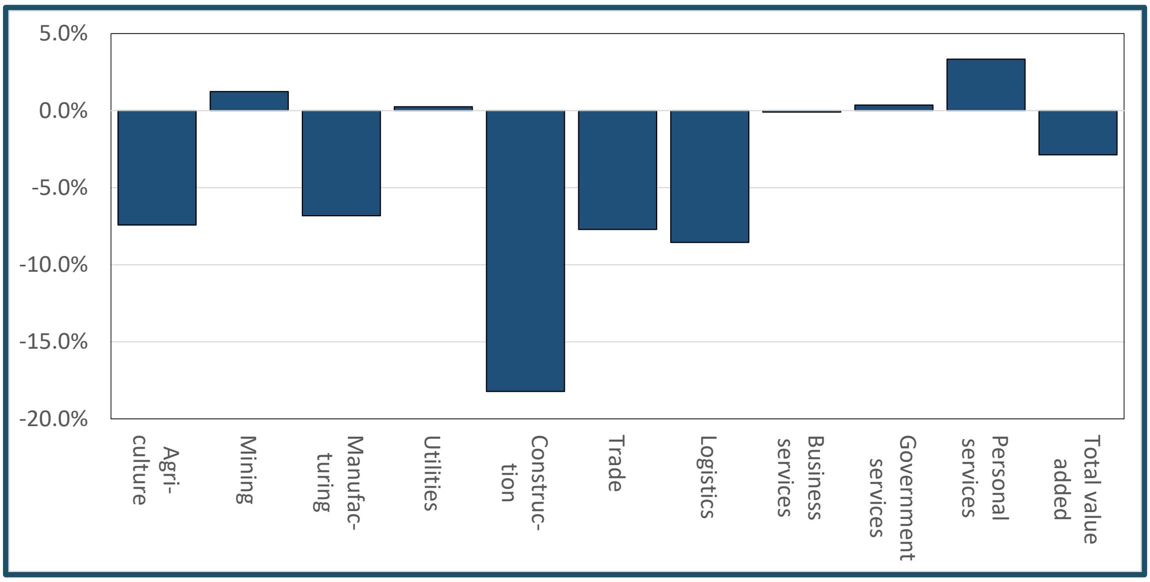
Graph 2. Quarterly change in contribution to GDP by sector, first quarter 2020 to third quarter 2021



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet downloaded from www.statssa.gov.za.

Although construction saw a relatively small decline in the past quarter, it remained the most affected by the pandemic downturn. In the third quarter of 2021, its contribution to the GDP was more than 15% lower than at the start of 2020. Manufacturing lagged 7% behind its pre-pandemic level. Only mining, utilities and services produced at a higher level in the third quarter of 2021 than before COVID-19. (Graph 3)

Graph 3. Change in GDP from first quarter of 2020 (pre-pandemic) to third quarter 2021 by sector

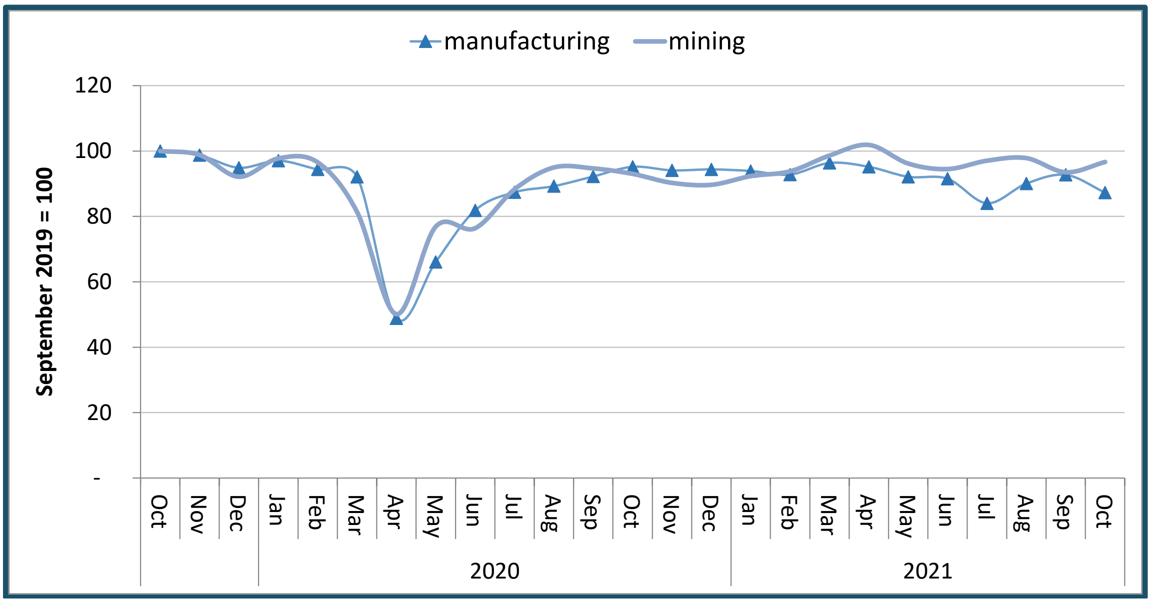


Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet downloaded from www.statssa.gov.za

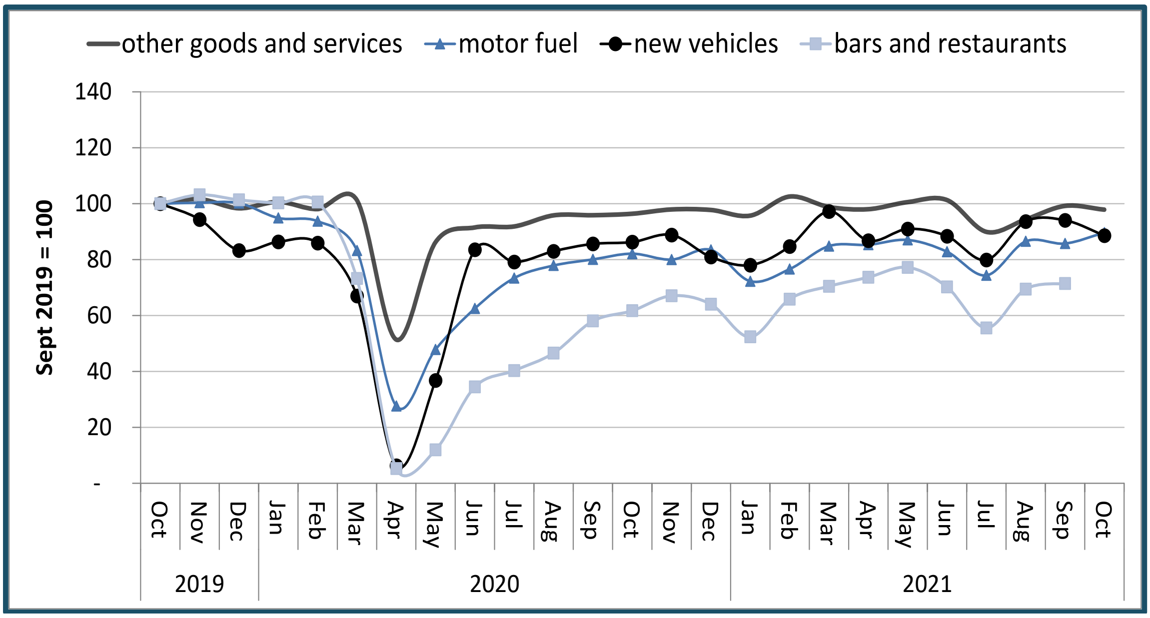
Most observers blamed the downturn in the GDP on the July unrest. The data on seasonally adjusted production in manufacturing and sales in retail reinforce this view. Both fell sharply in July but rebounded in August and September. Mining production stayed comparatively flat. (Graph 4). Despite the recovery, manufacturing sales in September were still lower than those witnessed throughout the second quarter of 2021. Moreover, in October manufacturing sales dipped again.

Graph 4. Indices of monthly production volumes in manufacturing and mining, and of sales in retail, in constant, seasonally adjusted figures, October 2019 to October 2021 (October 2019 = 100)

A. Mining and manufacturing production



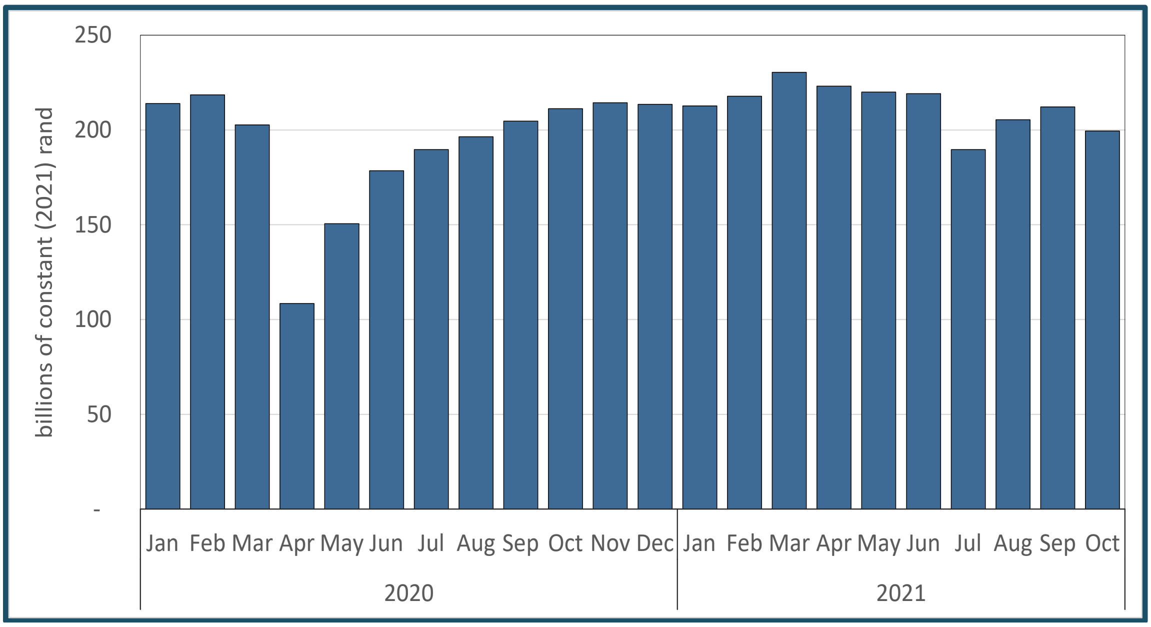
B. Retail sales (a)



Note: (a) Figures for fuel and new cars sales devalued with CPI. *Source:* Calculated from Statistics South Africa. Mining: Production and sales, September 2021. P2041. Excel spreadsheet from 2003. Manufacturing: Production and sales, September 2021. P3041.2. Excel spreadsheet (202109). Food and beverages, September 2021. P6420. Excel spreadsheet (202109). Tourist accommodation, September 2021. P6410. Excel spreadsheet (202109). Motor trade sales, September 2021. P6343.2. Excel spreadsheet (202109). Retail trade sales, September 2021. P6242.1 Excel spreadsheet: Retail sales from 2002.

Figures for manufacturing sales in constant 2021 rand underscore the extent of the decline in July.

Graph 5. Monthly manufacturing sales in billions of constant (2021) rand (a), seasonally adjusted

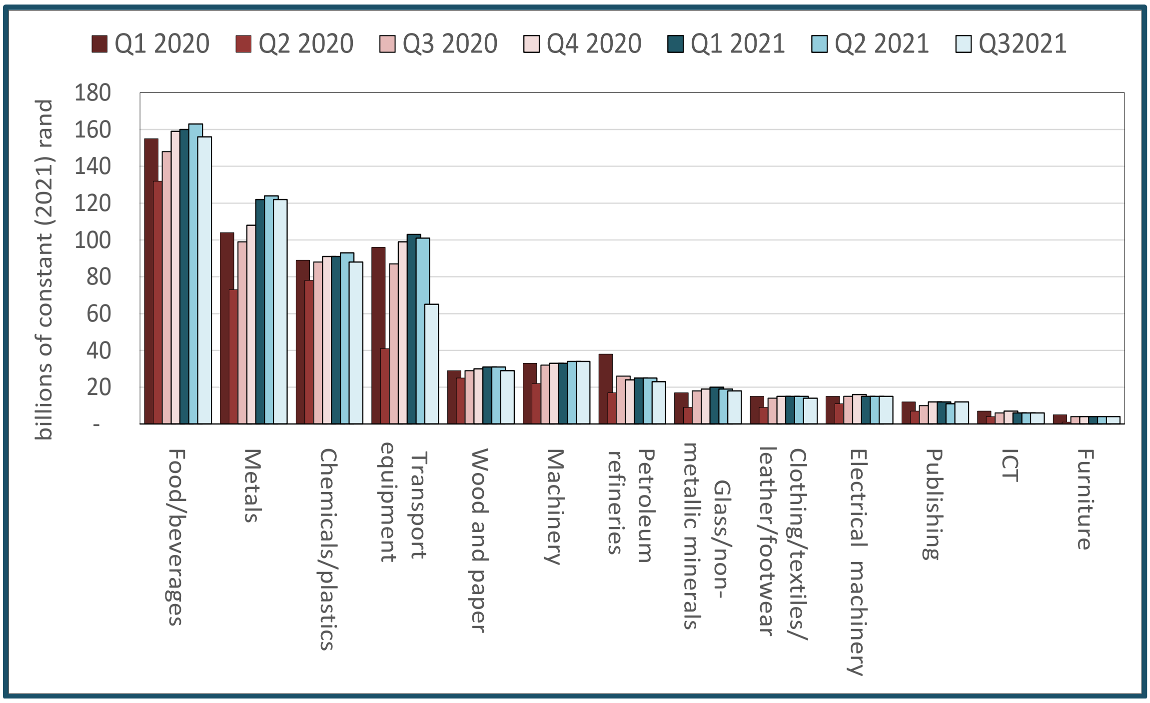


Note: Reflated with CPI rebased to October 2021. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

At industry level, auto production was the biggest contributor to the downturn in manufacturing sales in the past quarter. In constant rand, car sales dropped from R101 billion in the second quarter of 2021 to R65 billion in the third quarter, for a 36% decline. In many ways, the industry faced a perfect storm. In addition to the July violence, it was hit by global supply-chain disruptions, notably the international shortage in semi-conductors, as well as a cyberattack on Transnet, which affected car and input shipments. Moreover, several companies introduced new models, which take time to ramp up to full production.

Other industries showing a major dip in sales were petroleum refineries, which shrank by 8% from R25 billion to R23 billion; clothing and textiles, at 7%; and wood and paper products, at 6%. Capital goods production was flat. (Graph 6)

Graph 6. Quarterly sales by manufacturing industry in billions of constant (2020) rand (a), seasonally adjusted

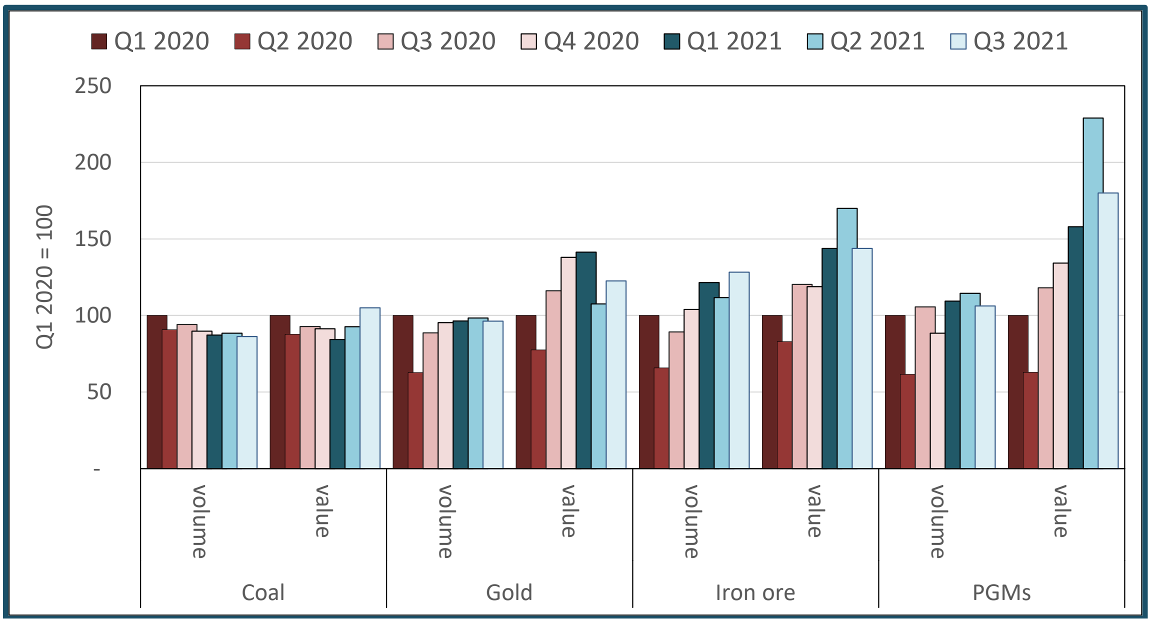


Note: Reflated with CPI rebased to September 2021. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

Mining sales varied substantially by product, largely due to the sharp fluctuations in global mineral prices.

Platinum output fell, with an even sharper decline in the value of sales. Iron ore production increased, but plummeting global prices left it with lower revenue. Gold saw some recovery, while coal revenues increased as world energy prices surged over the quarter. (Graph 7)

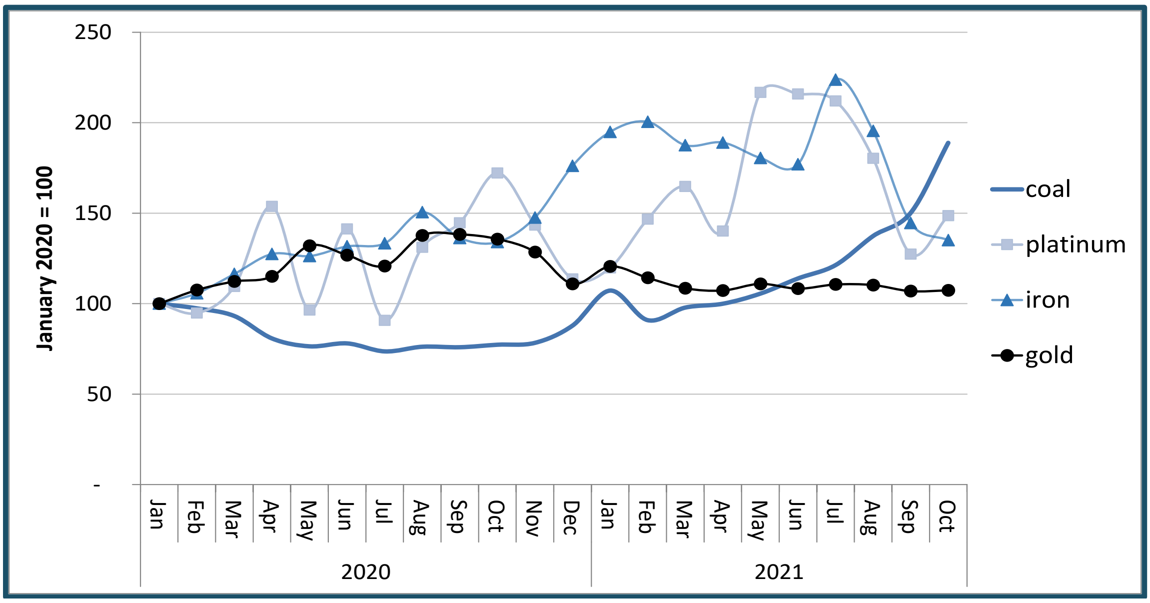
Graph 7. Indices of seasonally adjusted quarterly production and sales (in constant rand) in mining (Q1 2020 = 100)(a)



Note: (a) Production volume indices rebased to first quarter of 2020; sales are deflated with CPI. Source: Calculated from Statistics South Africa. Mining Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

Graph 8 shows the instability in prices for South African exports of platinum, iron ore and coal in the past quarter in constant rand terms. The sharp fall in revenues from iron ore and platinum as a result of declining export prices contributed to the slowdown in the third quarter.

Graph 8. Indices of unit prices for South African mining exports in constant (2021) rand (a), monthly from the first quarter of 2020 to the third quarter of 2021 (first quarter 2020 = 100)



Note: (a) Reflated with CPI rebased to October 2021. *Source:* Calculated from Quantec. National trade data. Accessed at www.quantec.co.za.

In expenditure terms, GDP growth in the second quarter of 2021 was driven disproportionately by household consumption and a fall in the balance of trade, although it remained strongly positive. Government consumption and investment were essentially flat for the quarter.

Employment

The Quarterly Labour Force Survey found a fall of 660 000 in total employment, or 4.4%. While the July unrest undoubtedly led to job losses, technical factors mean the survey findings likely overstate their extent.

The data in the Quarterly Labour Force Survey (QLFS) for the third quarter of 2021 suggest a disaster, with employment overall falling by 4.4%, or 660 000, and formal jobs alone shrinking some 5.6%. That would mean 570 000 formal workers left employment over the past quarter – almost half as many as reportedly lost their jobs in the second quarter of 2020, during the initial strict lockdown against the COVID-19 pandemic.

In reality, the QLFS findings for the third quarter likely overstate job losses significantly. The non-agricultural GDP dropped by 1.1% in the third quarter, and it is highly unlikely that employment fell four times as fast. Historically employment falls usually track economic downturns, but only with a lag. Furthermore, there have not been reports of mass retrenchments over the past quarter, which seems unlikely if there were such large-scale formal job losses.

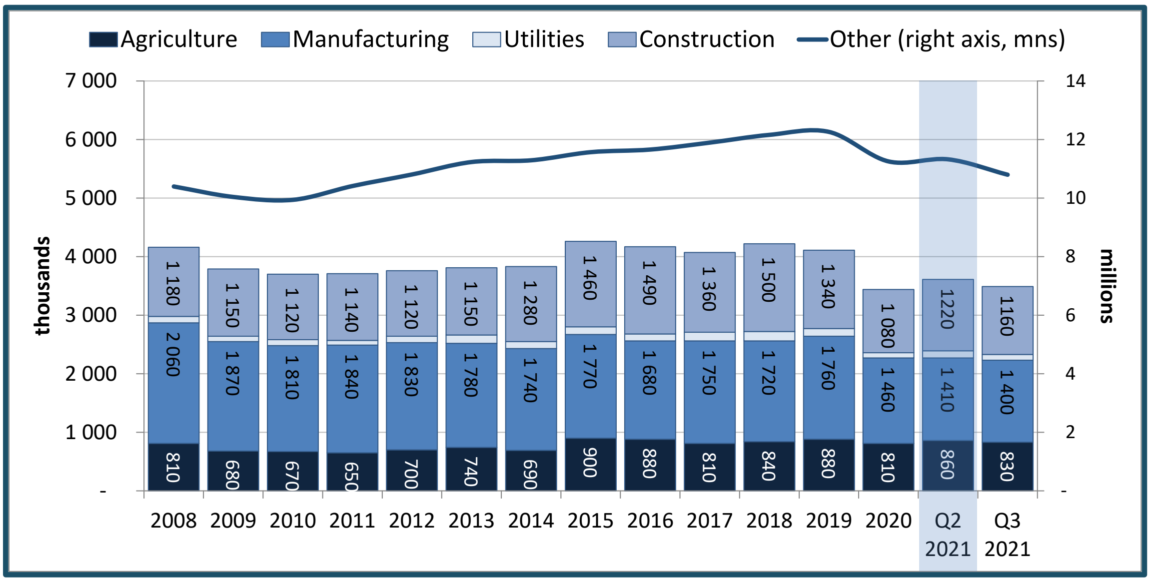
Four factors could explain the QLFS findings. First, the survey is an average of findings over three months. The overall response rate for the third quarter was unusually low, especially in the two most affected provinces of KwaZulu-Natal and Gauteng. These two provinces account for half of all formal workers in South Africa. It seems likely that many households there simply did not respond to the survey in July. Second, at the height of the violence, some workers may have been unsure about their employment status.

Third, mining accounted for a disproportionate share of the reported job losses. Statistics South Africa says, however, that the QLFS data on mining are unreliable because of the way mining is distributed spatially, with concentrations in fairly small rural towns.

Finally, since the lockdown in April 2020, Statistics South Africa has only used telephone interviews for the QLFS. That has effectively shut out households without phones, most of which are comparatively poor and rural. To compensate for the absence of these households in the survey, Statistics South Africa has adjusted the data based on pre-pandemic findings. The longer the time since the last face-to-face survey, the less reliable the data become.

Given these caveats, Graph 9 summarises the QLFS findings on employment over the past quarter. Outside of mining, the steepest job losses were reported in retail and community services. Construction, agriculture and manufacturing reportedly all shed positions.

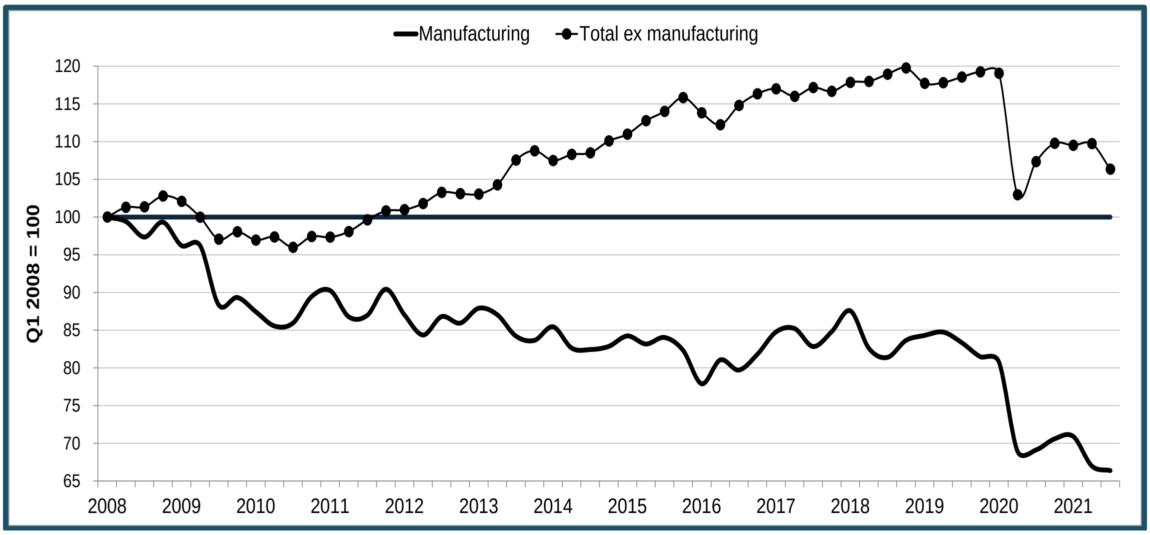
Graph 9. Third quarter employment by sector from 2008 to 2021, and in the second and the third quarter of 2021



Source: Calculated from Stats SA. QLFS 2008-2021 Q2. Electronic database. Downloaded from www.statssa.gov.za.

Manufacturing reportedly saw a smaller proportional fall in employment than the rest of the economy in the past quarter, as Graph 10 shows. Still, the data suggest that, despite growth in production, manufacturing employment is now almost a fifth below pre-pandemic levels, and a third lower than in 2008.

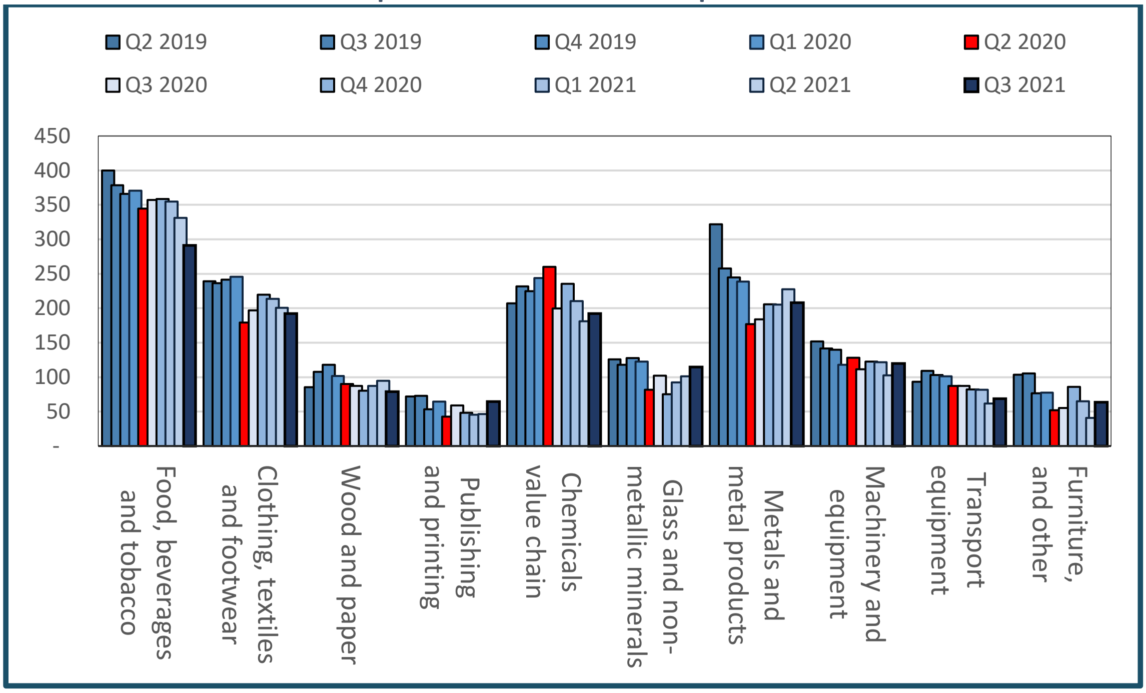
Graph 10. Indices of quarterly employment in manufacturing compared to the rest of the economy (first quarter 2008 = 100)



Source: Calculated from Stats SA. QLFS 2008-2021 Q2. Electronic database. Downloaded from www.statssa.gov.za.

Individual industries in manufacturing often have fairly low employment numbers, so reports on quarterly changes are mostly not statistically significant. Moreover, the figures are not seasonally adjusted. Longer-term trends and figures on larger industries are more significant. According to the QLFS, food processing saw significant job losses in the third quarter of 2021, followed by metals and metal products and wood and paper. (Graph 11)

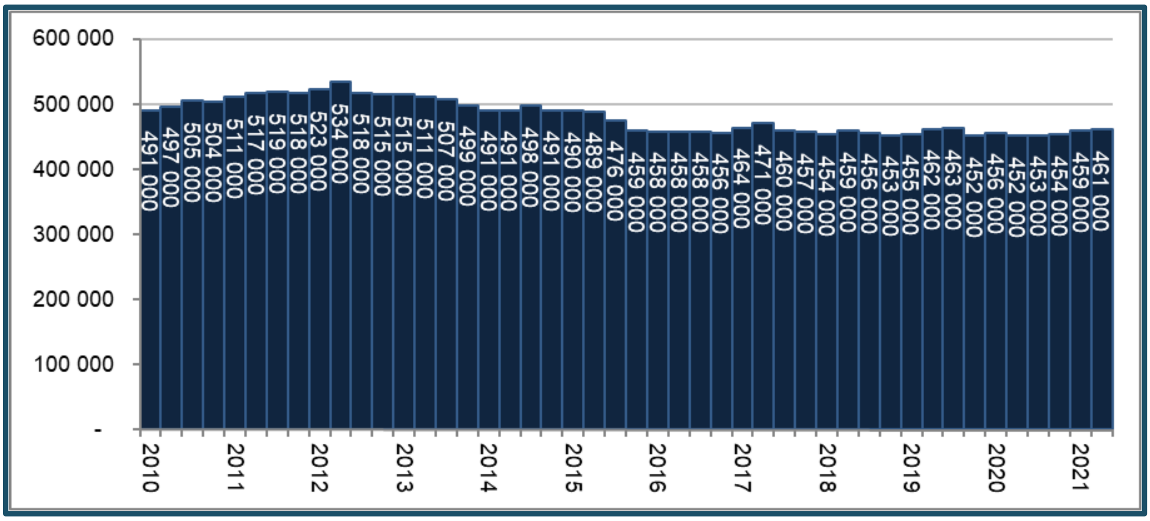
Graph 11. Employment by manufacturing industry per quarter, second quarter of 2019 to second quarter of 2021



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

Mining data are only available through the second quarter of 2021. They suggest that employment was largely flat over the past two years.

Graph 12. Mining employment, Q1 2010 to Q2 2021



Source: For quarters through second quarter 2021, Stats SA. Quarterly Employment Survey. Excel spreadsheet. Downloaded from www.statssa.gov.za in June 2021.

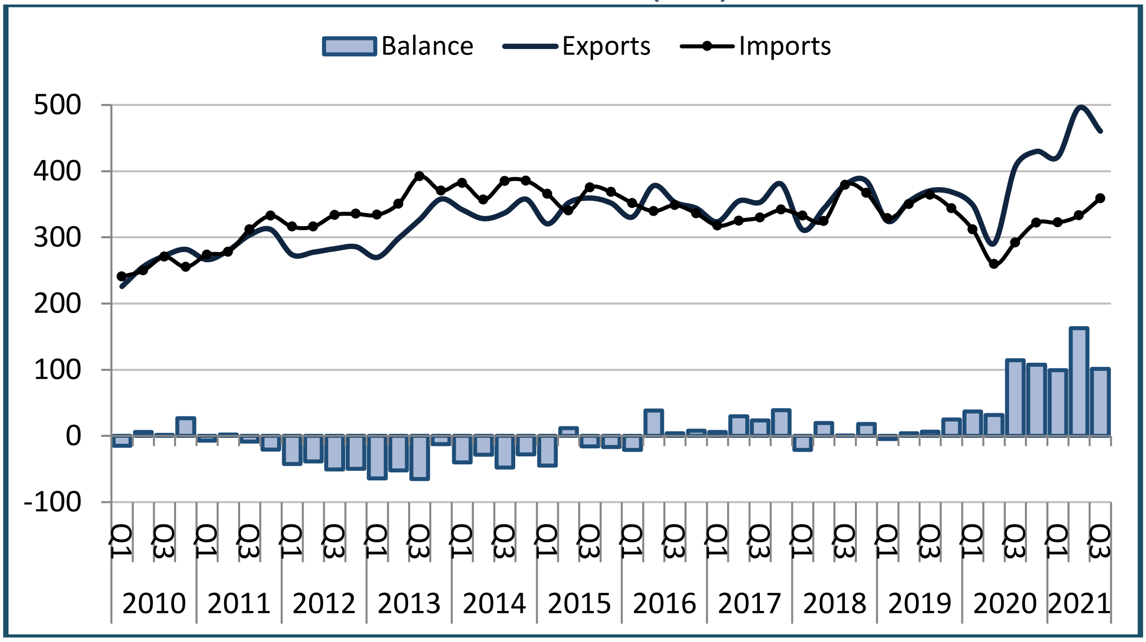
International trade

The balance of trade has been strongly positive over the past five quarters, mostly as a result of high mining prices combined, until recently, with depressed petroleum costs. The auto industry, however, saw a steep fall in exports in the quarter.

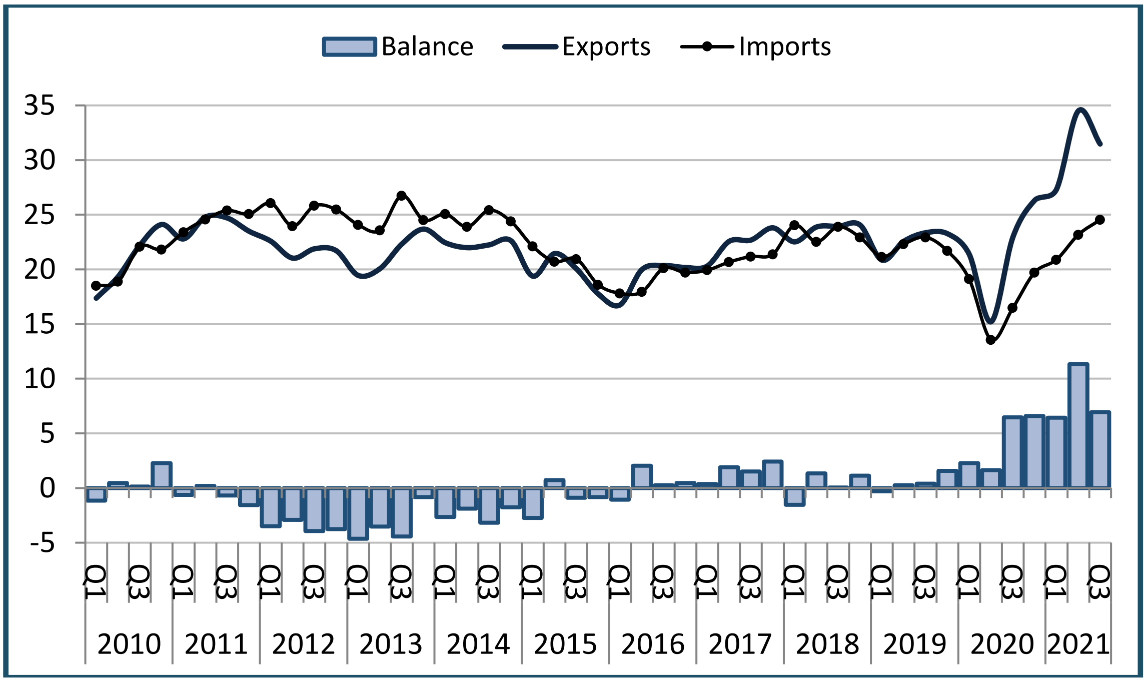
South Africa's trade balance remained strongly positive, with a R101 billion (US$6.9 billion) surplus in the third quarter of 2021. Exports decreased by 7% from the previous quarter, dropping to R460 billion in constant 2021 Rands. This represented a 13% increase compared to the third quarter of 2020, when the pandemic disrupted international value chains. In constant rand, in the third quarter of 2021, imports climbed by 8%. The combination of lower exports and higher imports meant the balance of trade declined almost 38% in the quarter.

Graph 13. Third quarter exports, imports and balance of trade in billions of constant rand and current US dollars

A. Billions of constant (2021) rand



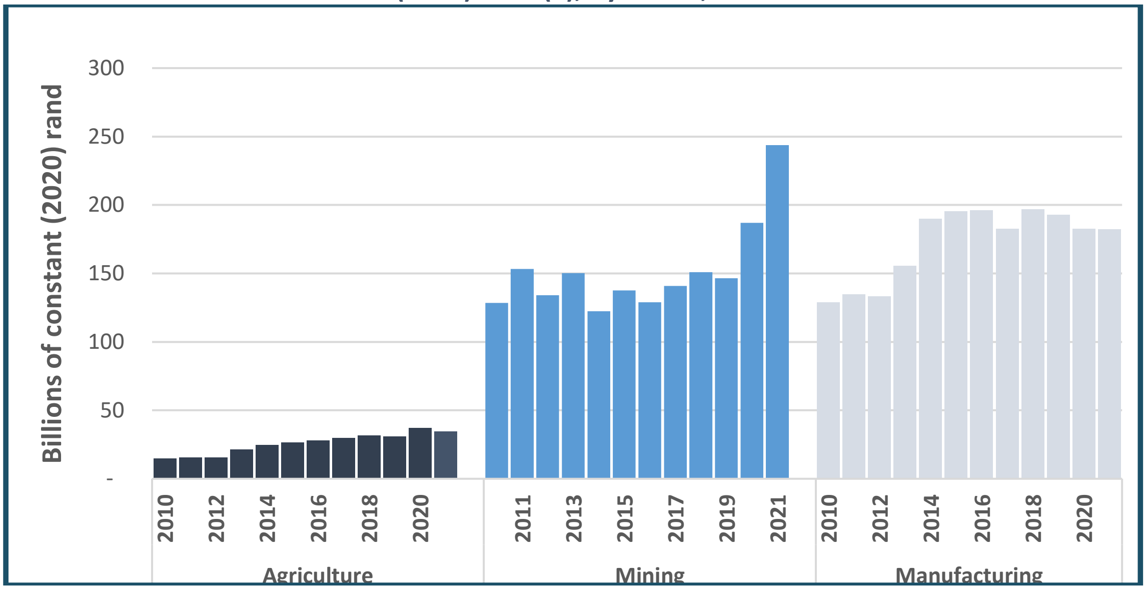
B. Billions of US dollars



Note: (a) Constant rand values reflated using CPI rebased to September 2021; US dollar values calculated with the trade-weighted exchange rate from the Reserve Bank. *Source:* Calculated from South African Revenue Service data.

Mining exports increased by 30% in constant rand terms in the year to the third quarter of 2021, representing the highest levels of mining exports since 2010. The increase over the previous year mostly reflected higher prices, although they fell somewhat over the past quarter. Manufacturing exports were down, largely due to the problems facing the auto industry.

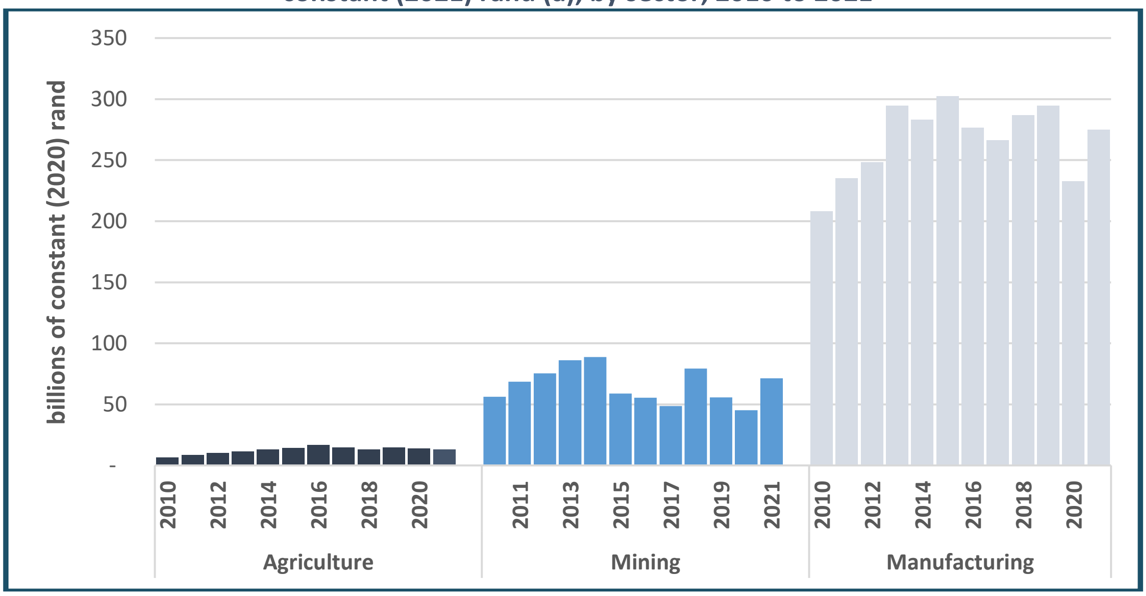
Graph 14. Third-quarter goods exports in billions of constant (2021) rand (a), by sector, 2010 to 2021



Note: (a) Reflated using CPI rebased to September 2021. *Source:* Calculated from South African Revenue Service data.

Petroleum imports, which are included under mining, increased by 57% in the year to the third quarter 2021, parallel to the global surge in energy prices. Manufacturing imports climbed 18% over the year, but remained below the levels witnessed in 2018 and 2019.

Graph 15. Third-quarter goods imports in billions of constant (2021) rand (a), by sector, 2010 to 2021



Note: (a) Reflated using CPI rebased to September 2021. *Source:* Calculated from South African Revenue Service data.

Manufacturing exports were flat in the third quarter of 2021 in constant rand. The largest declines in exports emerged in auto (19%), food (18%) and clothing (10%). These declines reflected the impacts of the July unrest combined with disruptions to global value chains. Commodity-based producers in metals and wood saw the largest rise in exports by value in the third quarter of 2021. Manufactured imports increased 15% in the period, with the largest increases in transport equipment and metals.

Table 1. Trade by manufacturing subsector, third quarter 2021 with third quarter 2020

	VALUE (BILLIONS)		% CHANGE FROM Q3 2020		CHANGE IN BILLIONS	
INDUSTRY	USD	RAND	USD	RAND	USD	RAND
EXPORTS						
Food and beverages	1.11	16.20	-0,1%	-17.5%	-0.00	-3.43
Clothing and footwear	0.40	5.90	9.1%	-9.8%	0.03	-0.64
Wood products	0.17	.,40	51.7%	25.3%	0.06	0.49
Paper and publishing	0.38	5.50	31.2%	8.5%	0.09	0.44
Chemicals, rubber, plastic	2.47	36.10	32.4%	9.4%	0.60	3.09
Glass and non-metallic mineral products	0.12	1.80	15.0%	-5.1%	0.02	-0.09
Metals and metal products	2.90	42.50	55.9%	28.8%	1.04	9.50
Machinery and appliances	2.33	34.10	16.2%	-4.0%	0.33	-1.42
Transport equipment	2.36	34.60	-1.3%	-18.5%	-0.03	-7.87
IMPORTS						
Food and beverages	0.93	13.70	31.0%	8.2%	0.22	1.03
Clothing and footwear	1.22	17.80	29.2%	6.6%	0.28	1.11
Wood products	0.10	1.40	34.8%	11.4%	0.03	0.15
Paper and publishing	0.68	10.00	35.0%	11.6%	0.18	1.04
Chemicals, rubber, plastic	4.45	65.10	46.3%	20.9%	1.41	11.24
Glass and non-metallic mineral products	0.25	3.70	56.%	29.4%	0.09	0.85
Metals and metal products	1.38	20.2	75.2%	44.6%	0.59	6.25
Machinery and appliances	5.57	81.4	22.7%	1.3%	1.03	1.04
Transport equipment	3.78	55.30	81.4%	49.8%	1.70	18.40

Source: SARS monthly data.

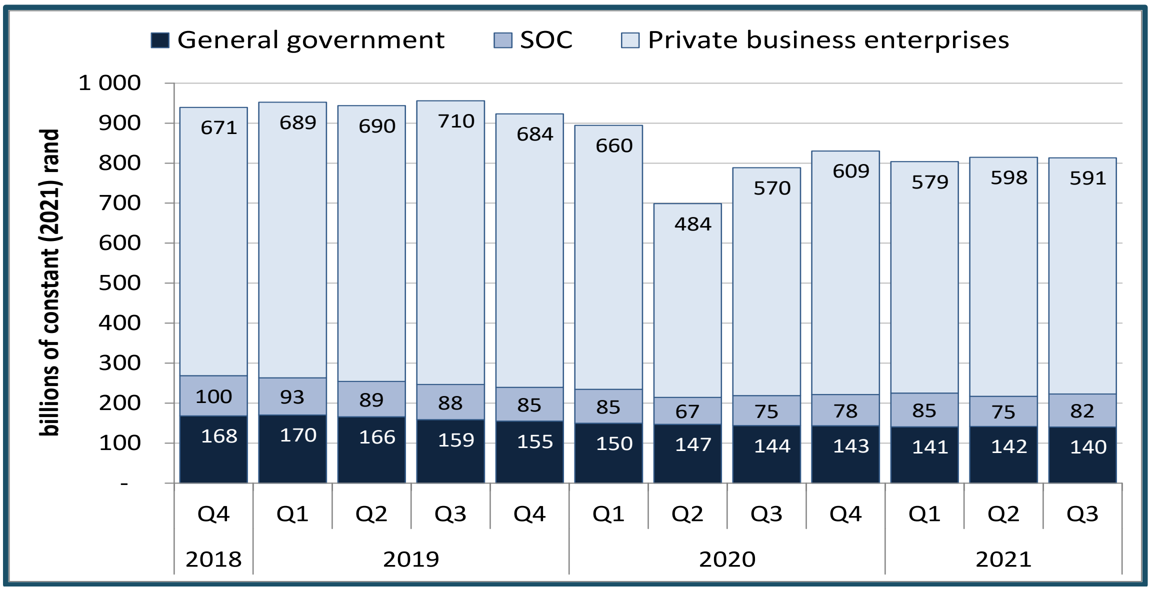
Investment

Since the end of 2020, the recovery in investment has stalled well below pre-pandemic levels. Private investment, which accounts for the bulk of capital formation, is still down by more than state-owned company (SOC) and government investment. That said, public investment has fallen almost continuously, although gradually, since well before the pandemic.

In the third quarter of 2021, total investment was virtually unchanged, as a surge in capital expenditure by SOCs offset a fall in the private sector. Overall, investment remains 9% below pre-pandemic levels. Private investment is down by 11%, government by 6%, and SOCs by 3%.

In the past quarter, SOC investment climbed by R7 billion, or 10%. The fall in private investment essentially equalled the growth in SOC capital expenditure. Because private investment is so much larger, however, it contracted by only 1.2% in the third quarter of 2021.

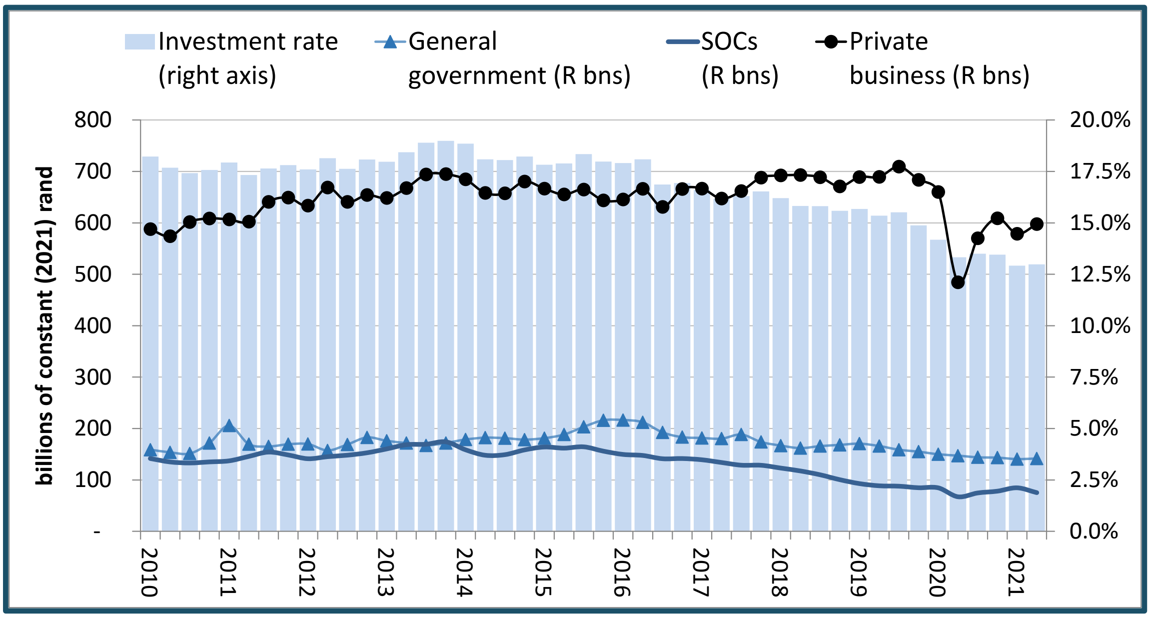
Graph 16. Quarterly investment by type of organisation, seasonally adjusted, fourth quarter 2018 to third quarter 2021, in billions of constant (2021) rand (a)



Note: Reflated with implicit deflator rebased to third quarter 2021. *Source:* Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

The share of investment in the GDP – the investment rate – remains very low, at just over 12.5%. Government and SOC investment has fallen gradually but substantially since 2016. Private investment was more stable before the pandemic, but did not grow fast enough to offset the fall in capital expenditure by the state.

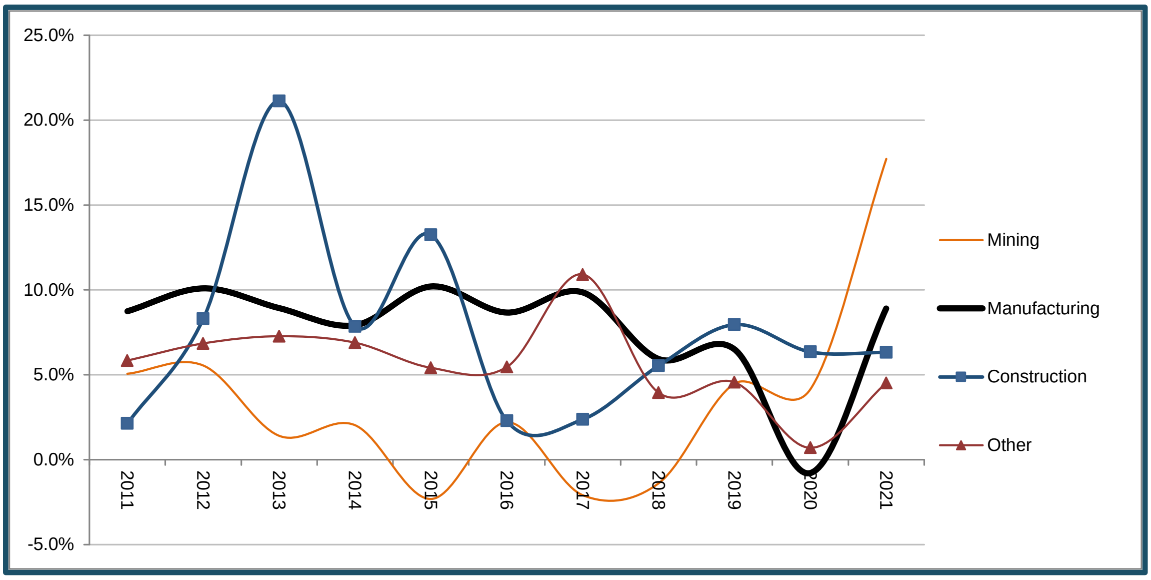
Graph 17. Quarterly investment by type of organisation in billions of constant (2021) rand, and total investment as a percentage of GDP, 2010 to second quarter 2021



Note: Reflated with implicit deflator rebased to third quarter of 2021. *Source:* Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

Data on profitability by sector are available only through to the second quarter of 2021, as shown in Graph 18. Year-on-year comparisons are misleading for this quarter, because the lockdown started a year earlier. Still, the percentage return in mining is at a high for the decade, and manufacturing has largely recovered to pre-pandemic levels.

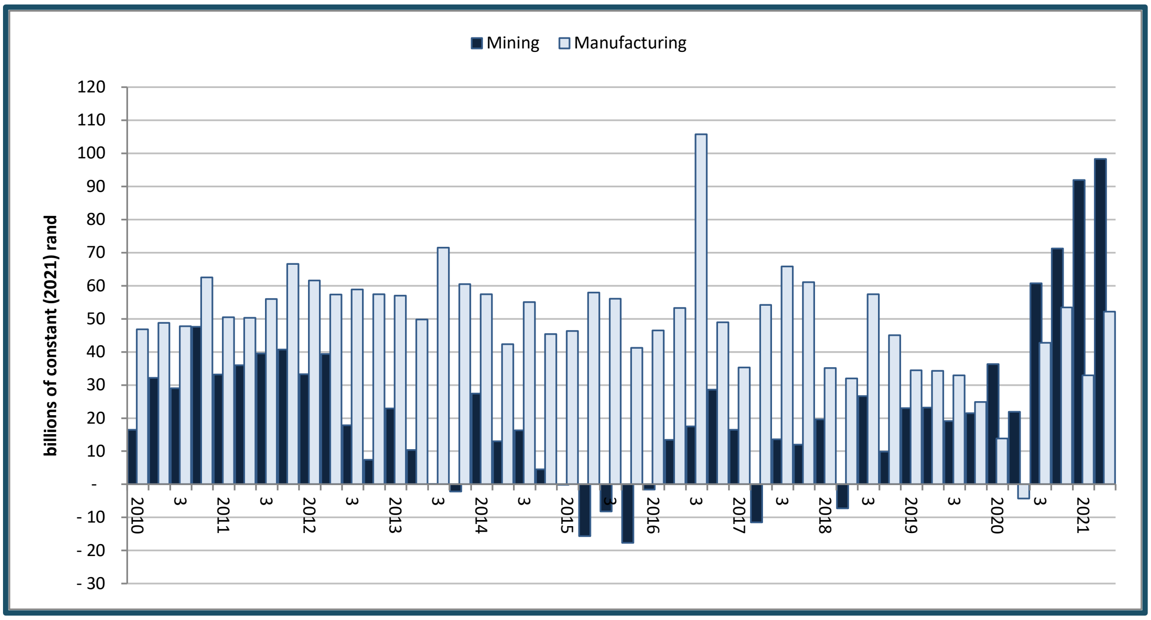
Graph 18. Percentage return on assets, 2011 to second quarter 2021



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

As shown in Graph 19, manufacturing profits recovered significantly to R52 billion, with a 58% increase between the first and second quarter in 2021. The jump raised profits to levels last seen before the pandemic. Mining profits increased even further, reaching levels last seen in the global metals price boom that ended in 2011.

Graph 19. Quarterly profits in manufacturing and mining in billions of constant rand (a), 2010 to second quarter 2021



Note: (a) Deflated with CPI rebased to January 2021. *Source:* Statistics South Africa, Quarterly Financial Statistics.

Foreign direct investment projects

The TIPS Foreign Direct Investment Tracker monitors FDI projects on a quarterly basis, using published investment information. In the third quarter of 2021, 11 projects were identified as foreign investment projects. The total investment value captured was about R45.4 billion, captured from data available from seven projects.[1] *While mining investments accounted for the bulk of investment this quarter, mostly due to a single large project by De Beers, there was also progress on Aspen's investment in manufacturing COVID-19 vaccines in East London, with committed financing at R11 billion largely from multilateral institutions. There was an equal number of new and complete projects, and greenfield investments accounted for the largest amount of investment types. There were changes in the status of 10 projects previously captured in the Tracker, and these were updated accordingly.*

Table 2: FDI projects captured in the third quarter of 2021

	ANNOUNCED	EXPLORATION	CONSTRUCTION/ IMPLEMENTATION	COMPLETE
NUMBER OF PROJECTS	4	1	2	4
VALUE (R BILLIONS)	R1.8	R0.7	R42.8	R0.2
INDUSTRIES	3 Manufacturing 1 Retail	1 Mining	1 Mining 1Manufacturing	1 Services 1 Construction 1 Utilities 1 Mining
TYPE	2 Greenfield 2 Upgrade 1 Expansion	2 Brownfield	1 Expansion 1 Greenfield	3 Greenfield 1 Expansion
COMPANY	Draslovska Holding Company; Arcelik/Beko; Consortium of Earth and Wire, ENERTRAG and 24Solutions; Enaex Africa	Orion Minerals	De Beers, International Finance Corporation (IFC) Proparco, DEG, US International Development Finance Corporation	Arcelik/Defy; Teraco; EDF Renewables; Ntsimbintle Holdings/ Glencore

Source: TIPS FDI Tracker database.

New and existing projects

Mining

Anglo American's subsidiary De Beers is developing the Venetia Underground Project, an expansion of the Venetia mine in Limpopo. The US$2 billion (R32 billion) project aims to convert the open-pit mining operation at Venetia to underground mining, ultimately extending the life of mine to 2046 while producing about 94 million carats. Excavation work began in 2013 and preparations are ongoing to transform the mine. Construction is expected to be complete in 2025/6.

[1] The headline investment number is aggregated from project information about investment value for each project. Companies do not always report the investment value publicly, hence the number of projects identified (11) exceeds the number of projects for which investment data is available (7).

Orion Minerals plans to develop the Okiep Copper Project located in the Northern Cape. The estimated value of the project according to a scoping study is AU$58 million (R656 million). Orion is in the process of conducting feasibility studies for the development of the foundation phase, while conducting exploration programmes. The study also estimates the project has a potential peak annual production of 9 000 tonnes of copper-in-concentrate, a prospective supplement to Orion's Prieska Copper-Zinc Project.

Glencore (49%) and local joint-venture partner Ntsimbintle Holdings (51%) have started production at a new mine, Mokala manganese mine, in the Northern Cape. The partners developed the mine for an undisclosed sum. First ore from the mine was shipped in May. Mining is ramping with steady state production expected in the third quarter of 2021. Mokala is an opencast mine with over 10 years' life of mine, expected to produce more than one-million tonnes of manganese annually.

Retail

Defy's Turkish parent company, Arçelik, is expanding its presence with the addition of a new brand of appliances named Beko. It has been launched in South Africa starting with stand-alone stores in Gauteng, and KwaZulu-Natal, and targeting growth into Southern Africa. In the next three years Beko plans to open an additional eight to 10 stores. In the long term, Beko intends to establish local manufacturing.

Services

Defy launched a R170 million warehouse in KwaZulu-Natal. The facility has a storage capacity of 100 000 cubic metres, serving as a dry dock for products requiring transportation to the north. It is capable of loading and unloading more than 200 trucks daily.

Teraco Data Environments has completed the construction of the JB3 data centre in Johannesburg, an expansion of its Isando Campus. The building structure of JB3 spans 45 000 square metres while data hall space covers 12 000 square metres with 29 megawatts of critical power load. The facility is part of the broader Platform Teraco, providing information technology services to numerous enterprises. The value of the investment was not reported.

Manufacturing

The World Bank Group's International Finance Corporation (IFC) mobilised a joint funding package for Aspen Pharmacare to support the development of vaccines for African countries. It was announced that Aspen will receive €600 million (R10.8 billion) from four institutions: €200 million (R3.6 billion) from the IFC, €156 million (R2.8 billion) from Proparco (an arm of Agence Française de Développement Group), €144 million (R2.6 billion) from Germany's Develop DEG, and €100 million (R1.8 billion) from the US. Aspen is manufacturing COVID-19 vaccines under its own brand, with a licence from J&J, at its new manufacturing facility in the Eastern Cape.

Draslovka Holding Company is a Czech-based global manufacturer of specialty chemicals focused on those that are cyanide-based and agrochemicals. Following Draslovska's acquisition of Sasol's sodium cyanide business in Sasolburg, the firm announced plans to invest an estimated US$50 million (R797 million) to modernise the facility, improve efficiency and increase productivity. The project still needs Competition Commission approval.

Enaex Africa, which specialises in explosives, will invest R16 million towards the Enaex Electronic Initiation Systems assembly plant, for Africa. It will be based in Mpumalanga at Enaex Africa. The plant will produce detonators and at full capacity will have the planned capability to manufacture 800 000 detonators a year.

A consortium comprising German subsidiary ENERTRAG South Africa and local companies Earth and Wire, and 24Solutions, plan to develop a facility that will produce e-methanol from green hydrogen. The facility will be based in the Eastern Cape. While conventional methanol is produced from fossil fuels, the consortium aims to manufacture the e-methanol through an electrolyser powered by renewable electricity. The feasibility study for the project is underway and the value of the project has not been disclosed.

Utilities

EDF Renewables' 34.5 megawatts Wesley-Ciskei Wind Farm located in the Eastern Cape has reached commercial operation. The wind farm comprises 10 turbines, with each standing 18 metres tall. The project was part of the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) Bid Window 4. The project was completed for an undisclosed amount.

Updates

Italy's Instituto Nazionale di Astrofisica (INAF – National Institute of Astrophysics) has committed R100 million towards the extension of the SKA MeerKAT telescope in the Northern Cape. This follows an R800 million contribution in 2020 from the South African and German governments towards the project. The new funding will be used to further support the development of new dishes.

The National Energy Regulator of South Africa (NERSA) granted Karpowership SA generation licences to operate in three of the countries ports: Coega, Richards Bay and Saldanha Bay. It was not clear whether they would in fact become operational, however, since the Department of Forestry, Fisheries and the Environment refused environmental authorisation, amid widespread opposition to the initiative. There are still other authorisations Karpowership SA needs to secure before it can move ahead with the project.

Diamcor Mining concluded phase 1 of planned upgrades at the Krone-Edora at Venetia project in Limpopo. These include an expanded and refined diamond concentration system, and a new electronic diamond X-ray recovery unit, among other improvements. Despite delays as a result of COVID-19, Diamcor has managed to complete the first phase ahead of schedule. The expansion initially planned for 2020 was delayed by the COVID-19 pandemic.

The Kropz Elandsfontein phosphate project in the Western Cape has been cleared for production after an appeal opposing the mines integrated water use licence was dismissed by the Water Tribunal. Environmentalists opposed the licence on account of the mine's proximity to the Langebaan Lagoon.

South32 divested a subsidiary, Southern African Energy Coal (SAEC), under which it was developing the Klipspruit life extension project. By the time SAEC was acquired by South African mining firm Seriti Resources, South32 had completed the R4.3 billion Klipspruit project. The project aims to extend the life of the Klipspruit Colliery by 20 years.

Anglo American Platinum has commenced the R1.3 billion modernisation of the Amandelbult underground platinum group metals mine in Limpopo. The improvements are in two parts, which entail enhancing safety and efficiency for conventional mining and mechanisation and installation of low-profile equipment in newer areas of the mine.

A R365-million Radisson Red Hotel has officially been opened in Rosebank, the second hotel of its kind in Africa under the Radisson Hotel Group. In addition to 222 standard rooms and suites, it has meeting rooms and work space for remote workers.

The 140-megawatt Oyster Bay wind farm in the Eastern Cape has reached commercial operation. It was developed by Enel Green Power for €180 million (R3.2 billion). The facility has the capacity to generate over 568 Gigawatts per hour of power annually. The project is a part of the REIPPPP under Bid Window 4.

Sitatunga Resources' R250-million flagship mine, East Manganese in the Northern Cape, is in operation. East Manganese is an opencast mine with one 14 hectare mining pit. It is expected to produce 30 000 tons a month run-of-mine manganese ore. First ore was mined this quarter and a 350 ton per hour dry crushing and screening plant has been commissioned. Sitatunga Resources is a subsidiary of Luxembourg resource company, Menar.

Briefing Note: COP26 and support for South Africa

The United Nations Climate Change Conference in Glasgow (COP26) took place in early November 2021. The conference aimed to mobilise support and negotiate a sustainable climate future among global countries. The conference was attended by 25 000 delegates from about 200 countries, along with around 120 heads of state. COP26 culminated in the Glasgow Climate Pact, which reflected the widely differing interests, conditions, contradictions and political will in the countries involved.

Some of the agreements reached at the conference have important implications for South Africa. The parties reached a decision on phasing down coal power and reducing fossil fuel subsidies. While there was a lot of support for a complete phase out of coal, ultimately the conference only supported a phase down. It also noted adaptation financing as an area requiring further support, with an agreement to double adaptation finance for developing countries. Other agreements related to recognising that climate change constituted an emergency, accelerating country action, calling for increased support, and increasing technical support for developing countries.

A number of deals were also announced at COP26, with South African support highlighted on the global stage. In the run up to COP26, climate envoys from the United Kingdom, the United States and the European Union (including France and Germany) visited South Africa to discuss aid packages in assistance for a sustainable transition. The focal areas of support related to South Africa's just transition, and support for e-mobility and green hydrogen. In preparation for COP26, South Africa also submitted a revised Nationally Determined Contribution (NDC) to reduce domestic carbon emissions. It foresaw a target range for emissions of between 420 CO2-eq and 350 CO2-eq by 2030 – around 10% lower than in 2019.

Based on the negotiations with the respective climate envoys and the South African government, France, Germany, the United Kingdom, the United States, and the European Union committed to providing $8.5 billion (R131 billion) over the next three to five years through a range of instruments, including grants and concessional finance, to support the implementation South Africa's revised NDC through a just transition to a low carbon and climate-resilient economy. The exact projects to which funding will be directed have yet to be publicised, however, this funding can certainly assist carbon-intensive value chains to mitigate emissions further and speed up South Africa's transition to a lower carbon economy.

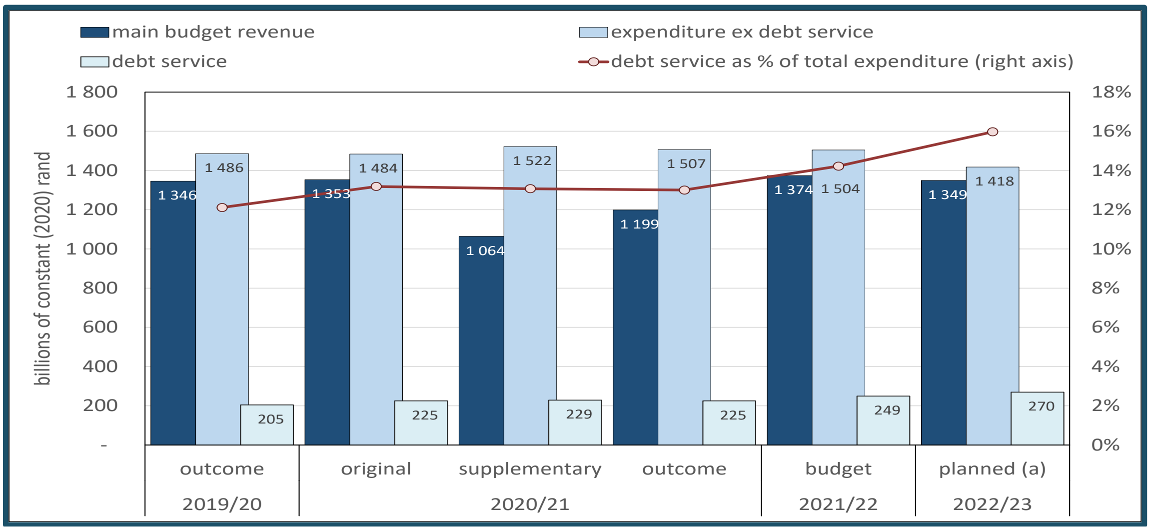
Briefing Note: Economic implications of the Medium Term Budget Policy Statement

At the start of the pandemic, the government took a conscious decision to maintain spending despite falling revenues in order to avoid further damage to the economy. That decision began to erode in 2021/22, and was fully reversed in the budget plans announced for 2022/3 in the Medium Term Budget Policy Statement (MTBPS). The resulting steep budget cuts are likely to prove a drag on growth. That said, as in 2020, the cuts rely on elimination of the COVID-19 Special Grant and a wage freeze for public servants. These measures are attractive for budget makers because they avoid fights over which programmes to eliminate or downsize. Experience in 2021 already showed, however, that because they place the burden of cuts squarely on critical parts of the electorate, they are unlikely to be carried out as currently designed.

Despite the renewed economic downturn in the third quarter 2021, South Africa aimed for a 7% cut in spending on programmes in 2022, as Treasury capped total spending and taxes while debt-service payments rose 8%. This approach mirrored a turn to austerity across Southern Africa, reflecting the comparatively weak position of middle-income economies on global financial markets compared to the Global North nations. They faced much stronger push back against rising spending – and soaring financing costs – as they grappled with the pandemic outcomes.

These realities leave South Africa with classic tough choices. The country can cut back on relief and investment programmes, which will fuel unrest and may block the economic recovery. Alternatively, the state could maintain spending in the face of escalating interest payments and pressure from multilateral institutions, ratings agencies and global pundits. Both paths involve substantial risks without promising easy solutions. In the event, as of late 2021 the government seemed inclined to go with pro-cyclical cuts in spending, despite the human and economic costs. Graph 20 shows the trend in spending in constant rand, including the plans announced for 2022/23. Since the population is growing almost 1.5% annually, spending would fall even more sharply in per-capita terms.

Graph 20. Planned main budget revenue, expenditure and debt service in constant (2020) rand (a), and debt service as a percentage of total expenditure, 2019/20 to 2022/23



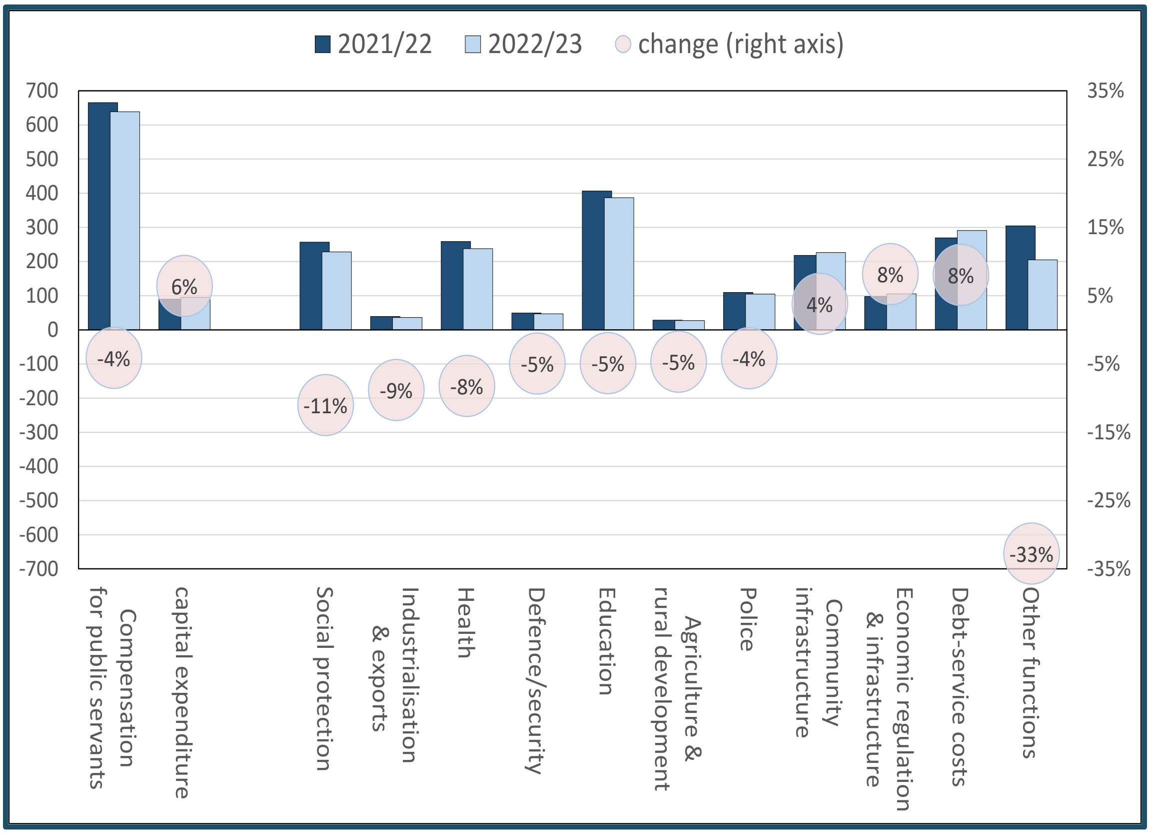
Note: (a) Deflated with CPI as estimated in budget documentation. *Source:* Calculated from Treasury. *Budget Review 2021* and *Medium Term Budget Statement* 2021. Data in excel spreadsheets. Accessed at www.treasury.gov.za in November 2021.

To fund the cuts, the Medium Term Budget Policy Statement (MTBPS) expected to end the COVID-19 Special Grant, leading to a 23% reduction in social grants in constant terms. This measure contributed two thirds of the anticipated reduction in government expenditure. The proposed wage freeze would reduce public servants' pay by 4% on average. In theory, that would permit a 5% cut in the budget for basic education, 8% for health and 7% for police without a similarly draconian cut in services.

In practice, it remained unclear if the state could actually enforce the proposed cuts. The government already reversed an effort to eliminate the COVID-19 Special Grant at the start of 2021 following the unrest in July. That uprising cost far more in lost growth, investment and incomes than the grants themselves. Similarly, the government did not implement the wage freeze for public servants proposed in the 2021/22 budget. Instead, it zeroed out the budgeted transfer to Infrastructure SA. This is a fairly common outcome of contentious austerity programmes. Public investment is usually project based, making it easier to cut than long-term service programmes that are linked to contractual employment agreements and community expectations.

The 2022/23 budget plan foresaw more targeted cuts for trade and industrial policy as well as for agriculture and land reform, as Graph 21 shows. The MTBPS does not publish estimates for departmental votes, but the projections by function foresaw a 9% cut in real terms to expenditure on industrialisation and export promotion, and 5% for agriculture and rural development. The decline in spending on industrial policy would obviously limit the scope for promoting economic reconstruction as the country recovers from the pandemic.

Graph 21. Spending plans by function in the 2021 MTBPS in constant rand terms (deflated by CPI)



Source: Calculated from National Treasury budget and MTBPS data.