THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA FOURTH QUARTER 2023

*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.**

EDDIE WEBSTER

TIPS mourns the passing of Professor Eddie Wesbter earlier this week. Eddie made an indelible contribution to social and labour research in South Africa. He was a teacher, colleague and friend. He will be missed.

GDP growth

The GDP eked out a 0.1% increase in the fourth quarter of 2023, reversing the decline in the third quarter. For the year, growth came to 0.6%, driven almost exclusively by business and personal services. Mining was flat for the year, manufacturing shrank by 0.1%, and agriculture by 0.4%. Most of the growth occurred in the first half of 2023, with losses in the second half.

The GDP grew by 1% in the first half of 2023, but shrank by 0.1% in the second half. As a result, the recovery from the extraordinary pandemic decline in 2020 came almost to a standstill. (Graph 1) From 2020 to 2022, annual growth averaged 3.3%, compared to the 0.6% annual increase in 2023.

The slowdown in the GDP meant that the GDP per person declined for the first time since the pandemic in 2020. In constant 2023 rand it fell by 0.5%, from R114 300 to R113 800, after recovering by 4.5% from the pandemic low of R109 400 in 2020. South Africa's GDP per person peaked in 2013 at R121 100.

Even before growth slowed in 2023, South Africa's recovery from the pandemic already lagged far behind its peer economies. From 2019 to 2022, upper-middle-income economies excluding China expanded an average of 1.6% a year; for South Africa, the figure was just 0.1%. From 1994 to 2007, South Africa grew at virtually the same rate as its peers. Since then, upper-middle-income economies as a group, including China, have experienced slowing growth, but the slowdown has been far more pronounced in South Africa. (Graph 2)

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

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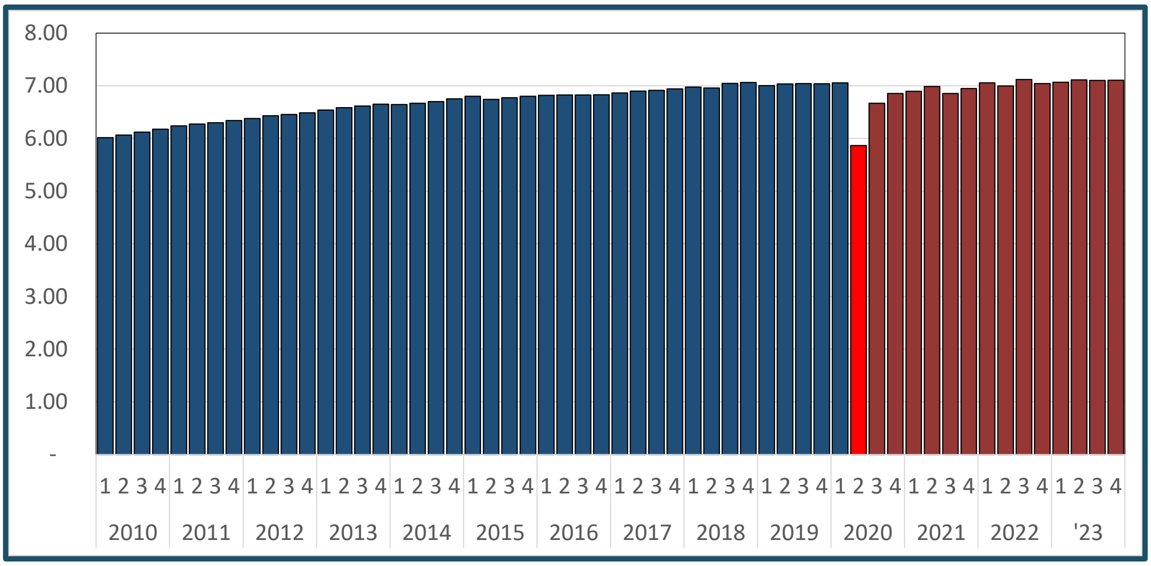
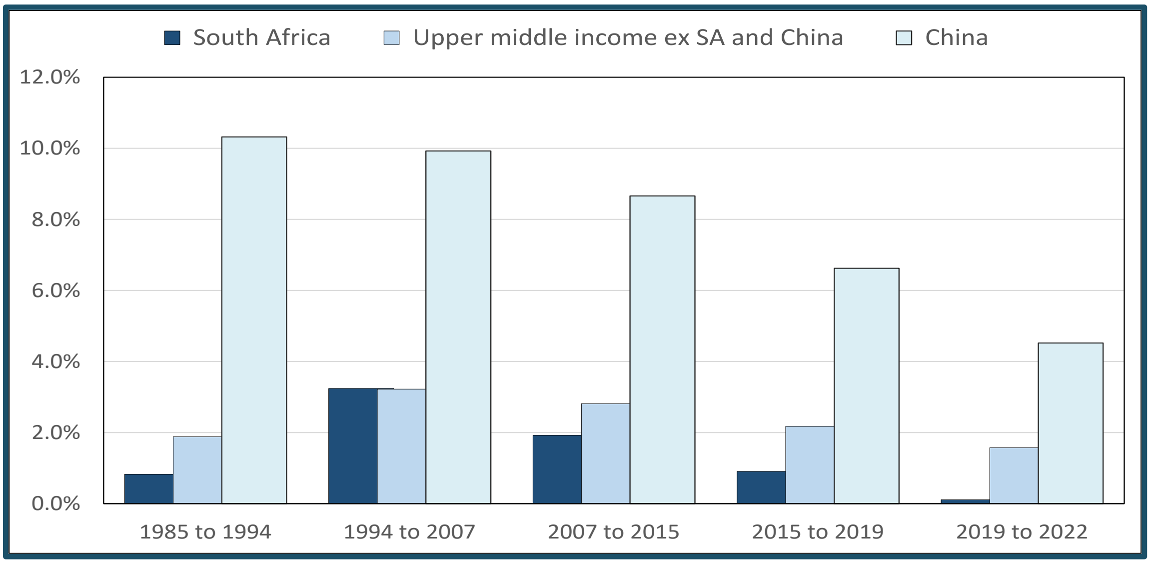
Graph 1: Quarterly GDP in trillions of constant (2023) rand (a) from 2010



Note: (a) Reflated using implicit GDP deflator rebased to fourth quarter 2023. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2023Q4. Excel spreadsheet.

Graph 2: Growth in South Africa compared to China and other upper-middle-income countries, 1985 to 2022

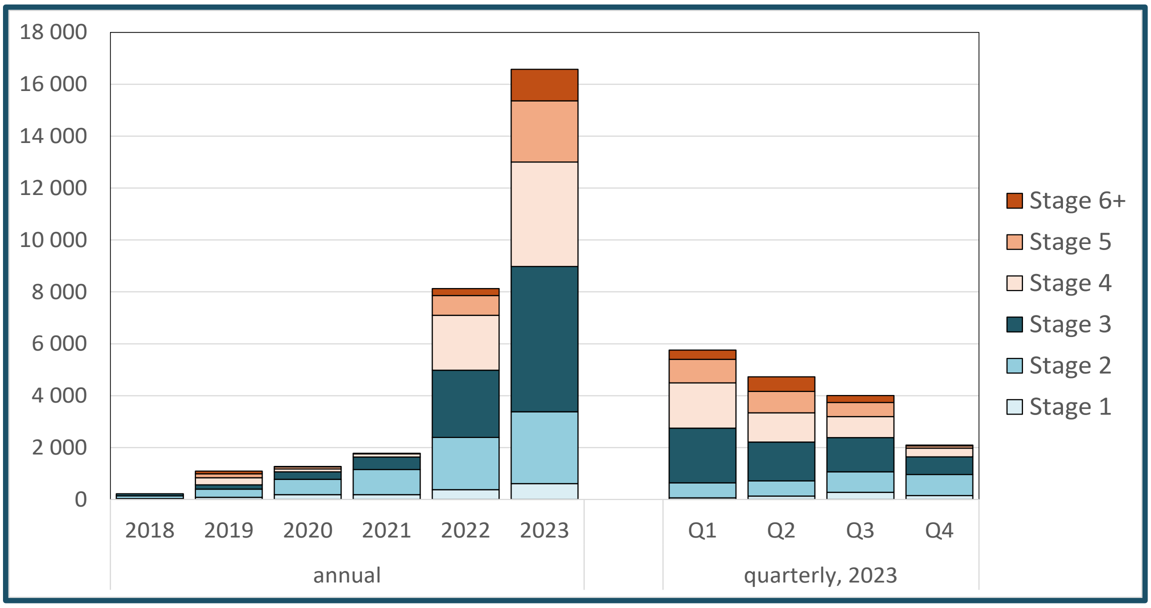


Sources: Calculated from World Bank, World Development Indicators; Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2023Q4. Excel spreadsheet.

Economic growth in 2023 was underpinned in large part by relatively high world mining prices, as discussed in the section on trade. Although they trended downward during the year, they remained well above pre-pandemic levels.

The benefits of robust mining prices were, however, largely negated by extremely high levels of loadshedding. The number of gigawatt hours (GWh) lost during the year as a whole was twice as high as in 2022, which in turn was four times higher than in 2021. Half of loadshedding occurred during Stages 4 or higher, which meant over six hours lost every day. (Graph 3) Loadshedding declined through the year, however, falling 50% in the fourth quarter. Still, loadshedding in that quarter alone was higher than in all of 2021. In these circumstances, even the very modest growth seen in 2023 suggests the extraordinary resilience of the South African economy.

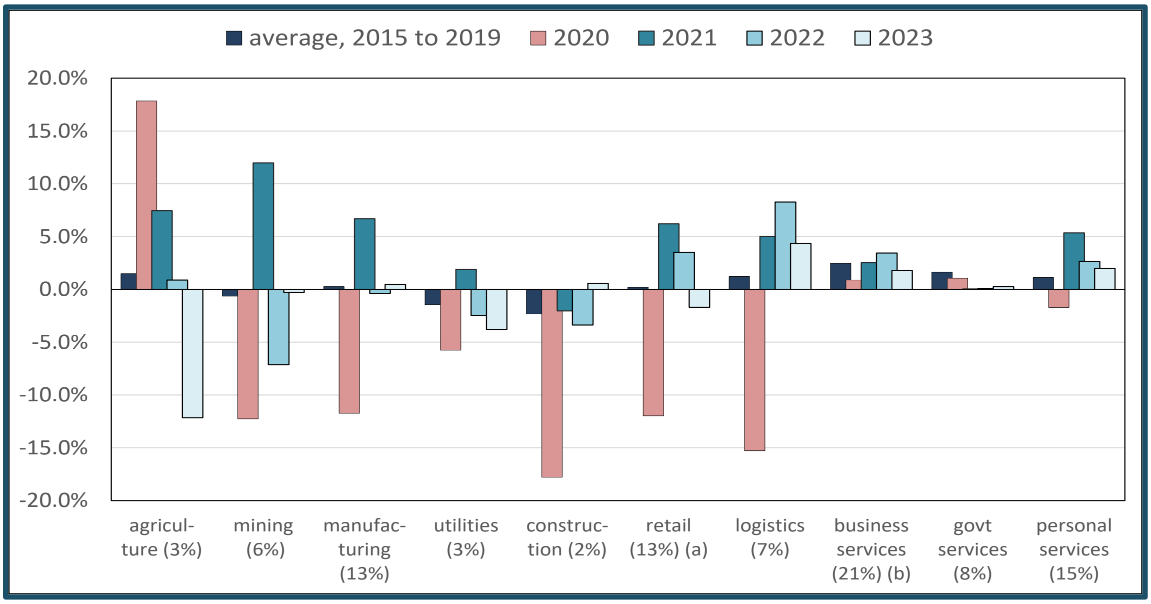
Graph 3: Loadshedding by stage, annually from 2018 to 2023 and quarterly in 2023



Source: National Treasury. 2024. Budget graphs and data. Excel spreadsheet.

Growth rates between the main sectors varied substantially. In annual terms, manufacturing expanded 0.5% in 2023, recovering from a 0.4% decline in 2022. Mining and agriculture both continued to be highly volatile, with a 0.3% fall in mining value added and 12% reported for agriculture. Retail and utilities also shrank. The public and private services all grew modestly, while value added in logistics climbed some 4%. (Graph 4)

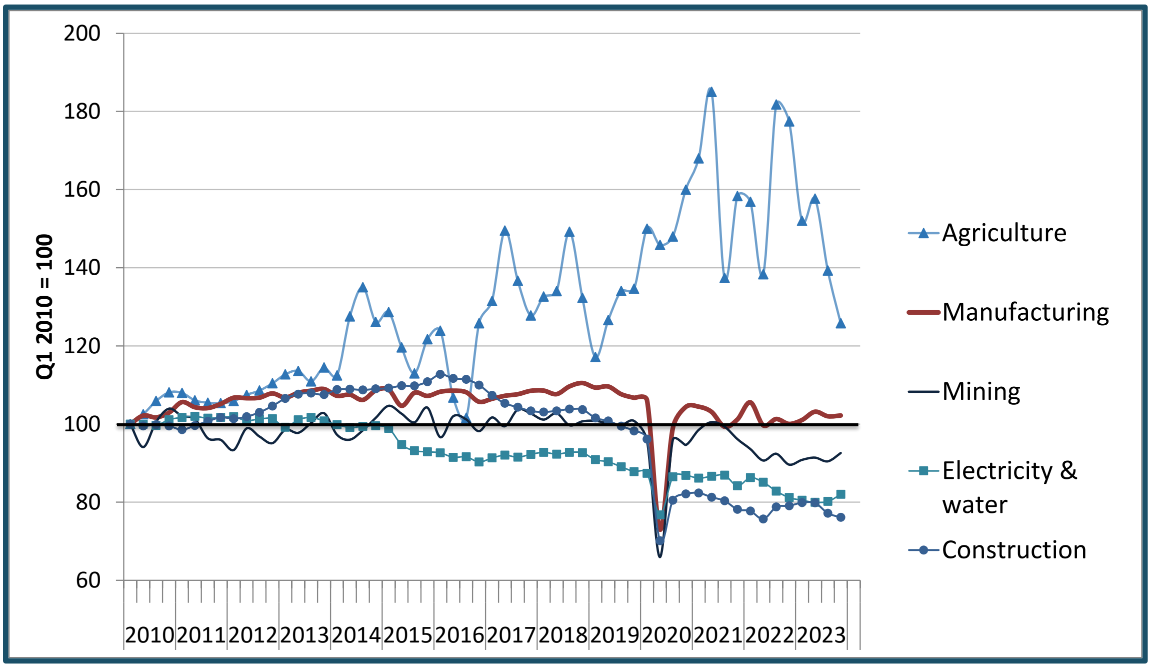
Graph 4: Growth in value added by sector, average 2015 to 2019 and annually from 2020 to 2023 (share in GDP in brackets)



Notes: (a) Includes hospitality. (b) Includes financial services. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2023Q4. Excel spreadsheet.

Indices of quarterly value added for the goods-producing sectors – agriculture, mining, manufacturing, construction, electricity and water – point to some longer-term trends. As Graph 5 shows, by late 2023 production in construction, electricity and water and mining was well below 2010 levels. Manufacturing was 2% higher than in 2010, but around 8% lower than in the late 2010s. In contrast to these sectors, the GDP data found that agricultural value added was more than 20% higher than in 2010. Its growth was remarkably volatile, however, which may point to methodological problems in the GDP reports.

Graph 5: Indices of quarterly value added for goods-producing sectors, 2010 to 2023 (first quarter 2010 = 100)

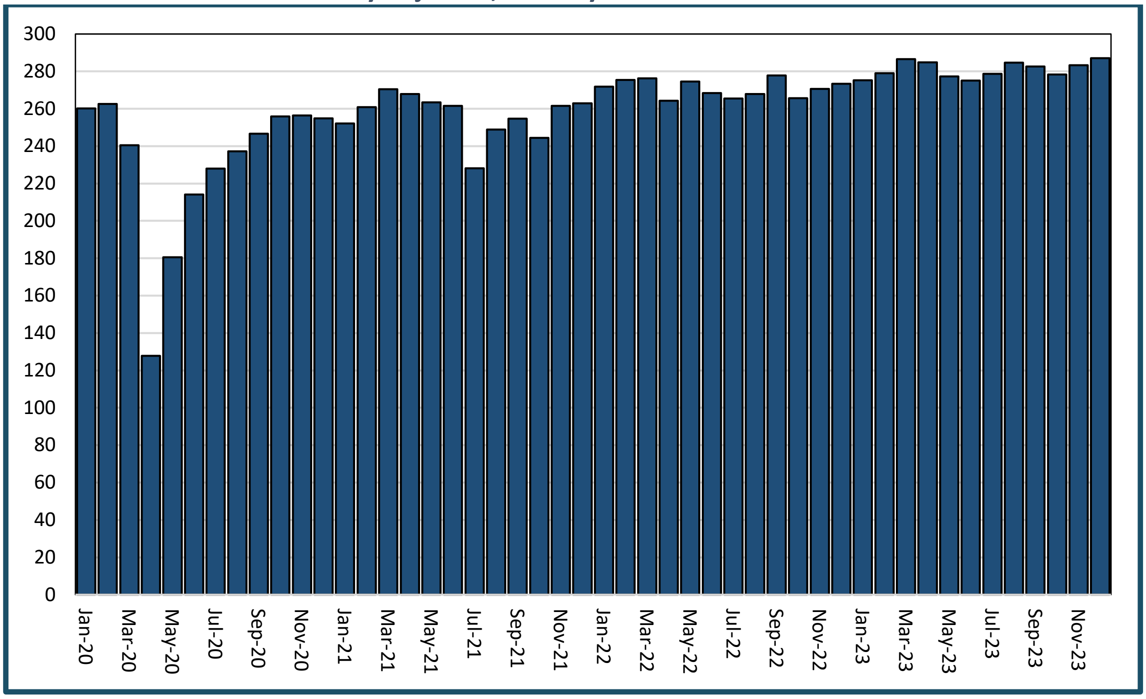


Notes: (a) Includes hospitality. (b) Includes financial services. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2023Q4. Excel spreadsheet.

Statistics South Africa does not provide value added data at industry level within manufacturing. Figures on manufacturing sales provide some insight, however.

Overall, manufacturing sales climbed 5% in the year to the fourth quarter 2024. Virtually all of the growth occurred in the first quarter, however. In the fourth quarter, sales recovered from a dip in the third quarter. Still, in December they were only 0,2% higher than they had been in March, in seasonally adjusted terms. (Graph 6)

Graph 6: Monthly manufacturing sales in billions of constant (2023) rand (a), seasonally adjusted, January 2020 to December 2023



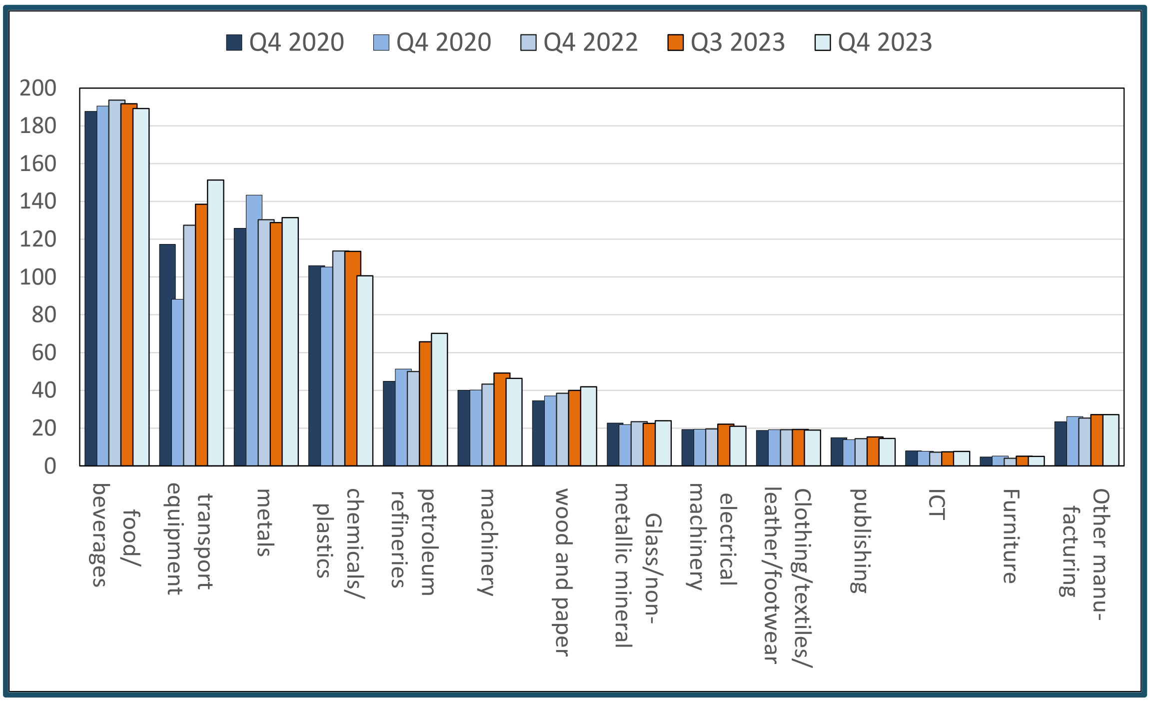
Note: (a) Reflated with CPI. Source: Calculated from Statistics South Africa. Manufacturing: Production and Sales, December 2023

Within manufacturing, growth rates varied heavily by quarter (Graph 7). Petrochemicals sales climbed 40% for the year, mostly in mid-2023. The jump was mainly due to the re-opening of the Astron refinery in Cape Town, which had been closed from 2021 following an explosion. The result was a surge in crude oil imports in the second half of 2023, combined with a fall in refined products.

Auto sales climbed 19% year on year, and 9% in the last quarter, continuing a strong recovery from the pandemic downturn in early 2020. The expansion was driven primarily by exports, which account for around 60% of autos assembled in South Africa.

In contrast to auto and petroleum, sales of chemicals and food manufactures declined. Chemical sales plummeted 11% in the final quarter after remaining essentially flat for the previous three quarters. In the third quarter of 2024, food manufacturing, the largest industry in the sector, dropped by 5%, and it fell a further 1% in the fourth quarter. That fall reversed almost 11 quarters of almost continual growth since the pandemic lockdown.

Graph 7: Fourth quarter sales by manufacturing industry from 2020 to 2023, and third quarter 2023, in billions of constant (2023) rand (a), seasonally adjusted



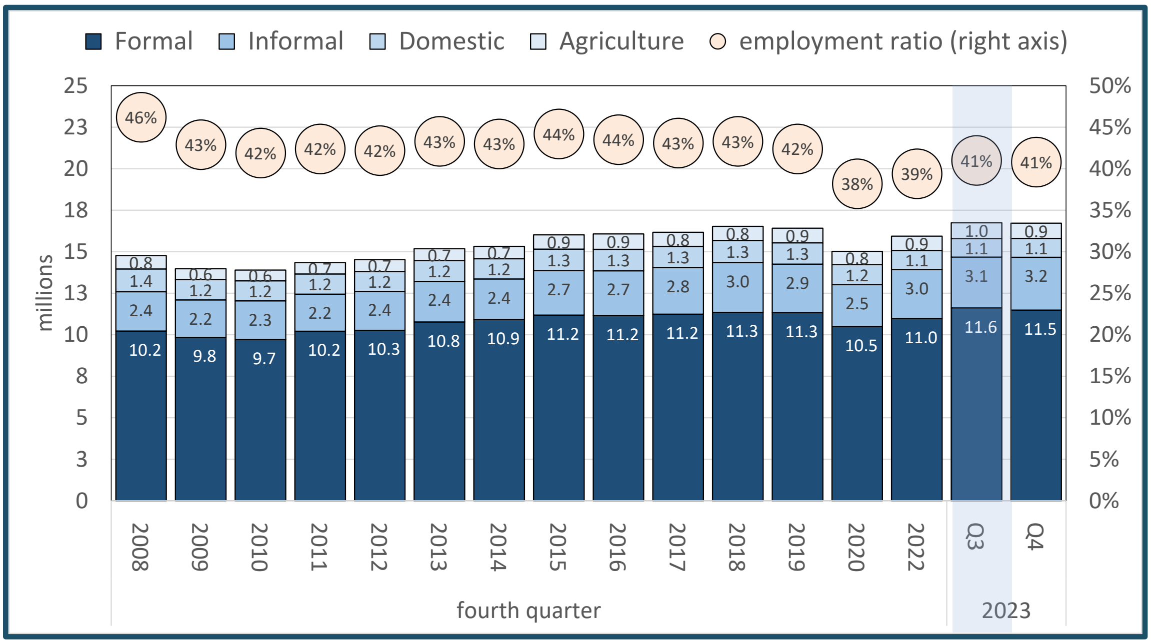
Note: (a) Reflated with CPI. Source: Calculated from Statistics South Africa. Manufacturing: Production and Sales, December 2023

Employment

Employment grew by 800 000 or almost 5% in 2023, far more rapidly than the GDP or the working-aged population. The informal sector expanded particularly rapidly, but formal employment also climbed. In contrast, domestic work continued to stagnate. Construction employment reportedly grew particularly rapidly, apparently mostly due to investment in housing rather than infrastructure.

The economy generated almost 800 000 new employment and self-employment opportunities in 2023 as a whole, for an increase of almost 5%. That marked the second year of strong growth since the pandemic brought over half a million layoffs. Total employment reached 16.5 million, slightly above pre-pandemic levels. The share of the working-aged population with employment rose from 39% in the fourth quarter of 2022 to 41% a year later. Despite the improvement, it remained below the 44% achieved in the mid-2010s. (Graph 8). In line with seasonal expectations, total employment remained flat in quarter-on-quarter terms.

Graph 8: Fourth quarter employment by type of work, and the employment ratio, fourth quarter from 2008 to 2022 and third and fourth quarter 2023(a)



Note: (a) The employment ratio equals employed as percentage of total working aged population. Figures for 2021 are not reliable due to a low response rate on the survey. Source: Calculated from Statistics South Africa. QLFS Trends 2008-2023Q4. Excel spreadsheet

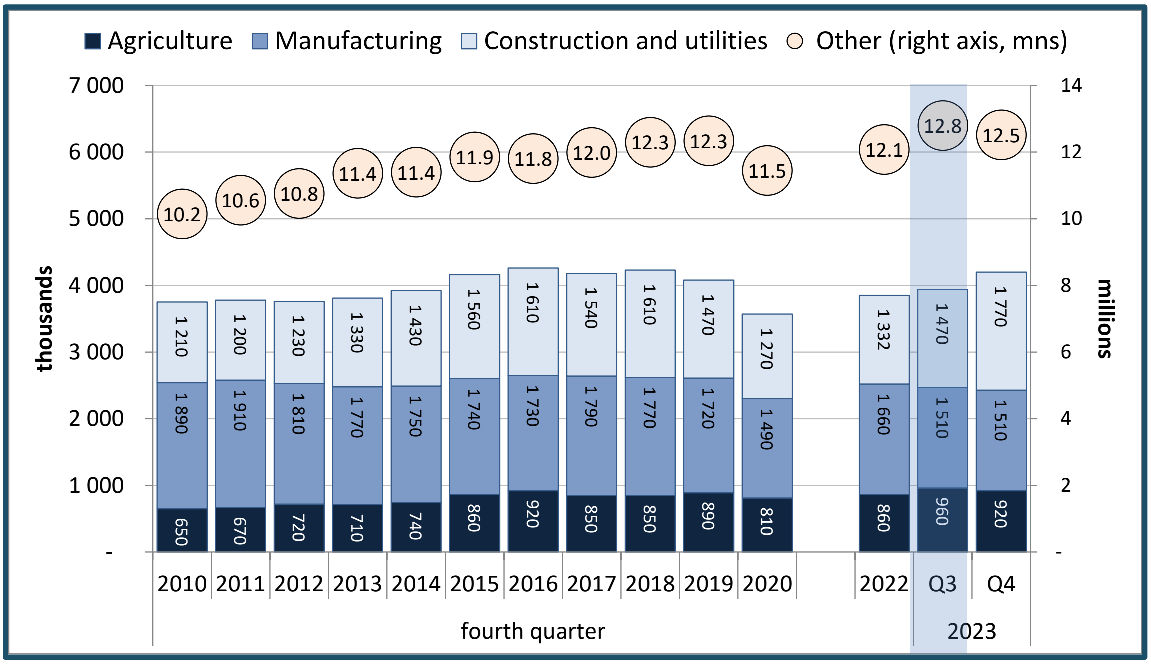
The informal sector grew particularly rapidly in 2023, climbing by 225 000 or 7.6%. It generated 156 000 more employment opportunities than in the fourth quarter of 2019, just before the pandemic. Informal employment climbed from 16% of total employment in the mid-2010s to 18% in 2019 and 19% in 2023.

Formal employment rose by 510 000 or 4.6% in 2023. In the fourth quarter of 2023 it generated 150 000 more positions than in the fourth quarter of 2019. Domestic work, however, continued to stagnate. At 1.1 million jobs, it remained 160 000 lower than before the pandemic. Agriculture grew by 60 000 or 7% from the end of 2022 to the end of 2023.

Construction and utilities saw unusually rapid growth in employment in 2023, rising by almost 440 000 positions or 20% from the end of 2022 to the end of 2023. (Graph 9) The growth in construction jobs accounted for half of the total expansion in employment in the past year, and two thirds of all net jobs growth since 2019. It was buoyed by a recovery in housing construction from the pandemic downturn in early 2020 through mid-2020, which has since reversed. Investment in non-residential buildings and public works has fallen almost continuously from 2016, and is now half as high as in the mid-2010s. As a result, residential construction equalled around 26%of investment in buildings and public works in the mid-2010s, but climbed to 37% in 2022 before falling back to 36% in 2023. (Graph 10)

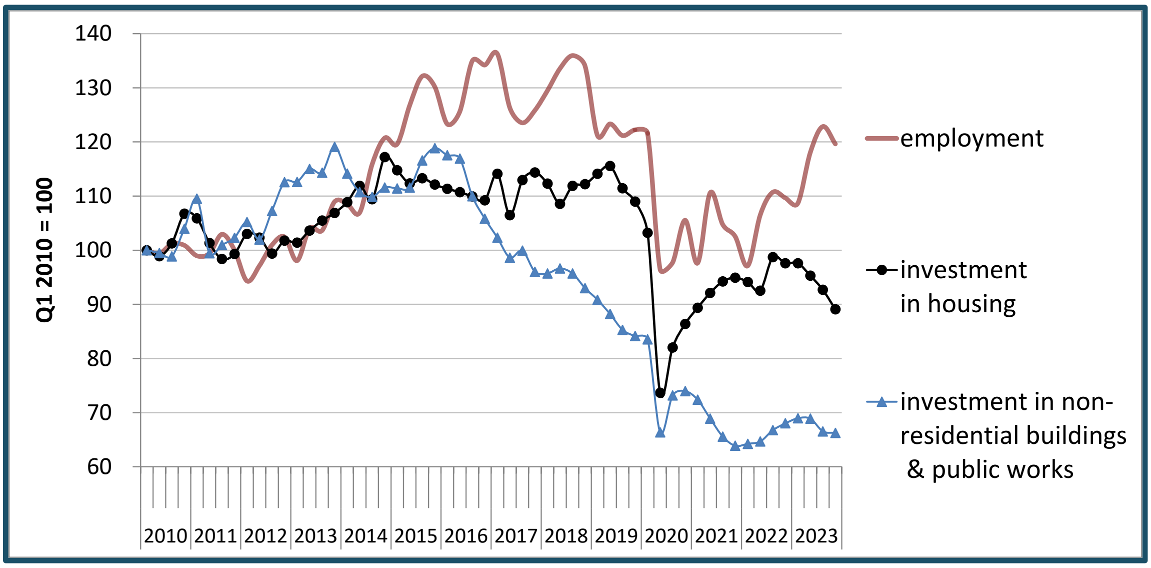
The picture for manufacturing was much less rosy. The sector lost 9% of its total employment, or 150 000 jobs, in the year to the last quarter of 2023. It remained 150 000 jobs short of its 2019 level, which was in turn far below the peaks set a decade earlier.

Graph 9: Employment in agriculture, manufacturing, utilities and construction compared to the rest of the economy, fourth quarter from 2008 to 2022 (a) and third and fourth quarter of 2023



Note: (a) Fourth quarter of 2021 is excluded due to a very poor response rate to the quarterly survey. Source: Calculated from Statistics South Africa. QLFS Trends 2008-2023Q4. Excel spreadsheet.

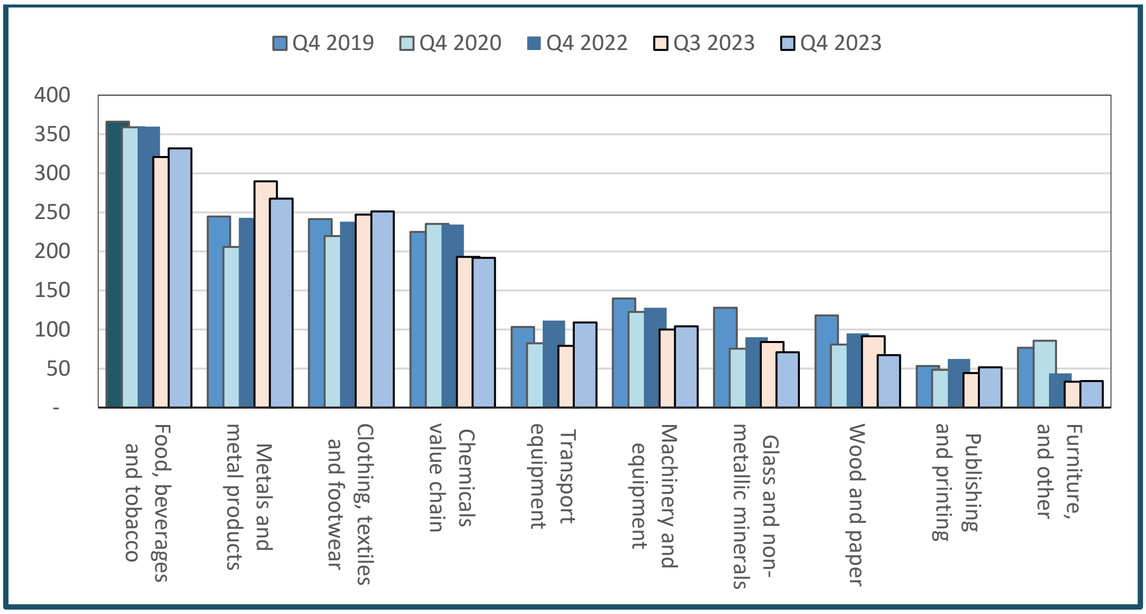
Graph 10: Indices of employment in construction and investment in housing and in public works plus non-residential buildings (first quarter 2010 = 100)



Source: Calculated from Statistics South Africa. QLFS Trends 2008-2023Q4. Excel spreadsheet; and GDP.

The year-on-year fall in manufacturing employment was driven primarily by chemicals and plastics, which shed over 40 000 jobs in 2023. Food processing and the wood/paper value chain each lost over 25 000. In contrast, metals production gained 25 000 jobs and the clothing and footwear value chain, 13 000. All of the other manufacturing industries lost jobs in year-on-year terms. (Graph 11)

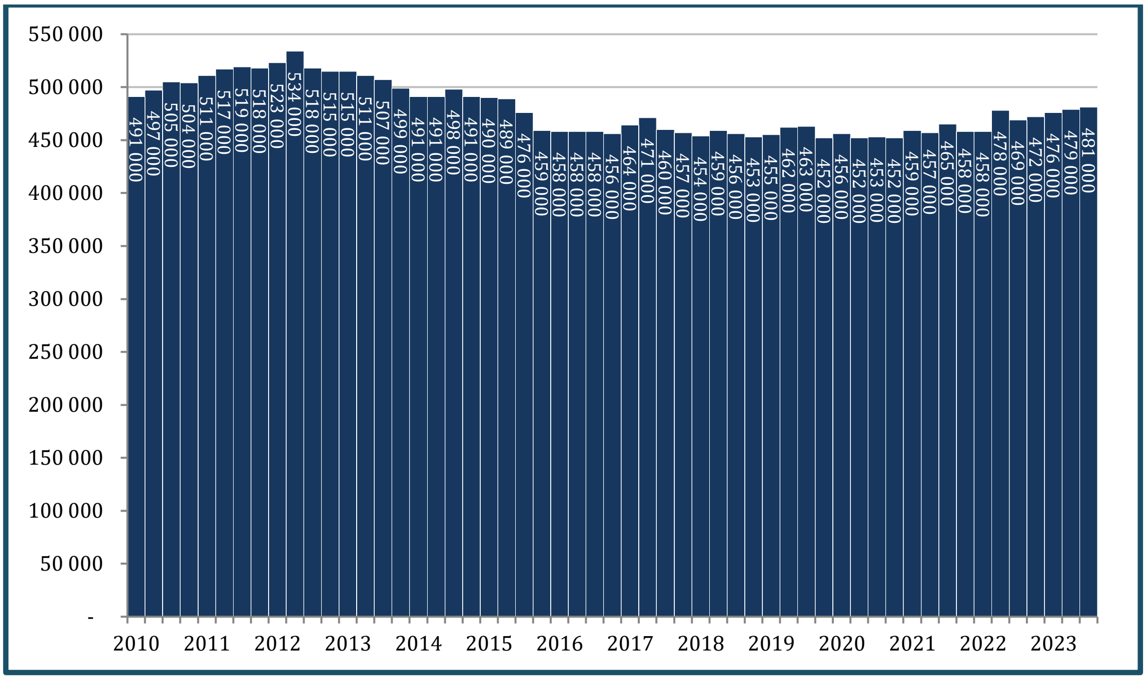
Graph 11: Employment in manufacturing industries, fourth quarter 2019 to 2022 and third quarter 2023 and 2024 (a)



Note: (a) Fourth quarter of 2021 is excluded due to a very poor response rate to the quarterly survey. Source: Calculated from Statistics South Africa. Quarterly Labour Force Survey for relevant quarters. Electronic databases.

For data on mining employment, Statistics South Africa recommends use of the survey of formal businesses, the Quarterly Employment Survey, rather than the Quarterly Labour Force Survey, which samples households. The Quarterly Employment Survey is published a quarter behind the Quarterly Labour Force Survey, however. In the third quarter of 2023, it found that the industry had added 12 000 jobs compared to the third quarter of 2022. (Graph 12)

Graph 12: Mining employment, third quarter 2010 to third quarter 2023



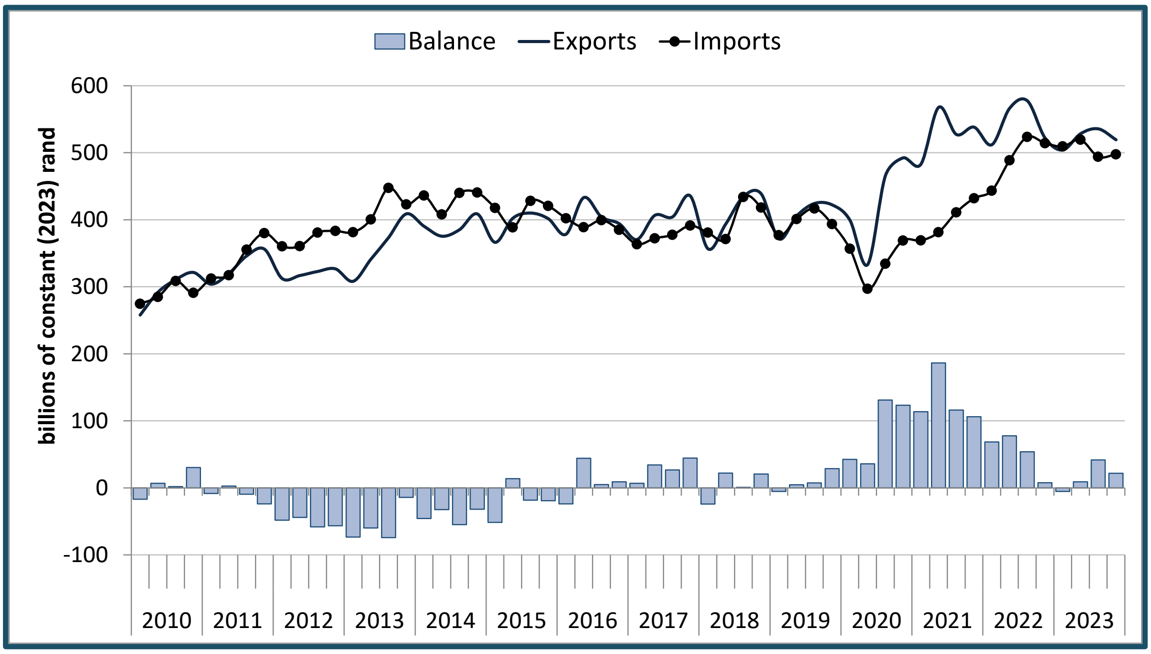
Source: Statistics South Africa. Quarterly Employment Statistics. Detailed breakdown. Second quarter 2023 Excel spreadsheet.

International trade

South Africa maintained a trade surplus in the fourth quarter of 2023, but its value fell by half from the previous quarter. Platinum and coal revenues dropped sharply as world prices plummeted in the past year. Still, mining revenues remain well above pre-pandemic levels in constant rand terms, which contributed to the resilience of the South African economy in the face of domestic and external headwinds. In manufacturing, the auto industry accounted for most of the increase in exports, followed at a considerable distance by food and metal products.

South Africa's trade surplus shrank by almost half in the fourth quarter of 2023. It fell from R42 billion in the third quarter to R22 billion in the fourth. In effect, the balance of trade has returned to normal levels, after the extraordinary surpluses of the early 2020s. Those surpluses resulted from slow growth combined with speculatively high export prices thanks to the pandemic and the Russian invasion of Ukraine. 2023 still saw trade surpluses for the final three quarters, reversing a R5 billion deficit in the first quarter. In constant rand, exports declined 3% in the fourth quarter, falling to R519 billion, while imports increased by 0.7% to R498 billion (Graph 13).

Graph 13. Quarterly exports, imports and balance of trade in billions of constant rand, 2010 to 2023

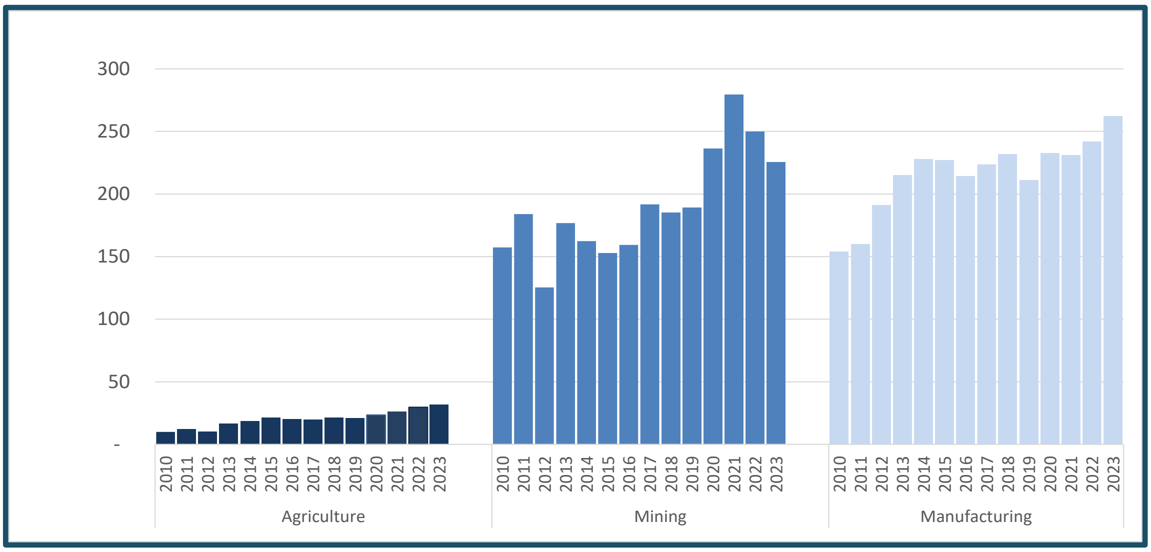


Source: Calculated from South African Revenue Service data.

Exports of basic mining products declined sharply for the second year, but remained far above levels before the pandemic. In contrast, manufacturing exports jumped 8% in constant rand to R262 billion.

Agriculture has maintained a steady increase since 2022. In the year to the fourth quarter of 2023, agriculture exports rose by 7% (Graph 14).

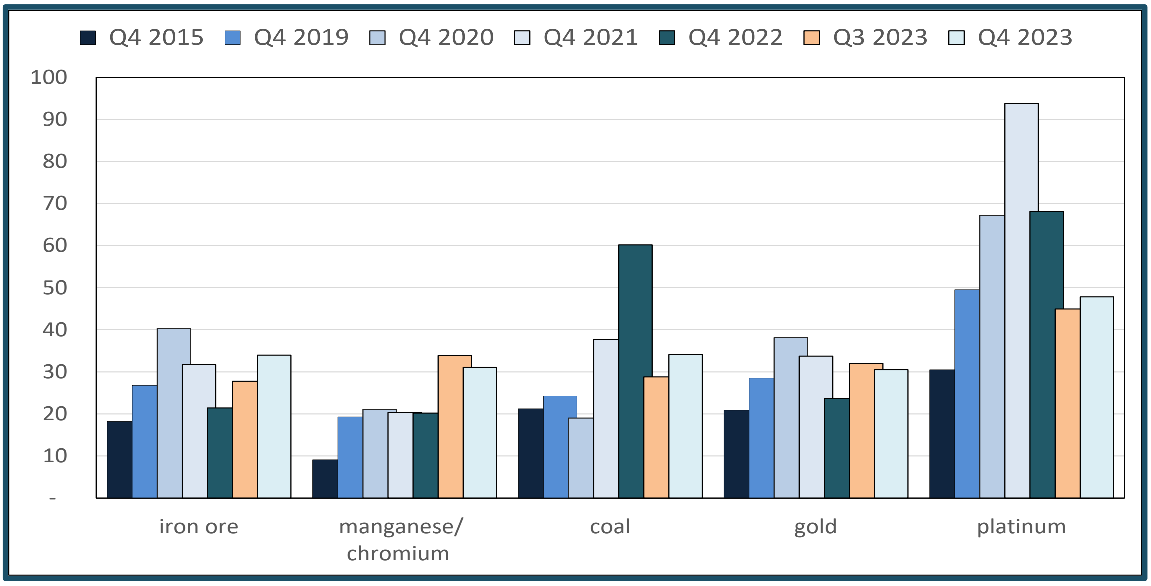
Graph 14. Goods exports in billions of constant (2023) rand (a), by sector, fourth quarter 2010 to 2023



Note: (a) Deflated with CPI. Source: Calculated from South African Revenue Service data.

Revenues from exports of South Africa's main mining products – platinum, coal, iron ore, gold, manganese and chrome – were 50% higher in the fourth quarter of 2020 and 2021 than they had been two years earlier, and twice as high as in 2015. Since then, they have dropped by almost 20%, but remain 20% above 2019 levels. As Graph 15 shows, the steepest spikes were in coal and platinum. Since then, these revenues have fallen substantially, although coal remains well above 2019 levels. As a share of total goods exports, crude mining products – that is, excluding most refined metals as well as coal-based electricity and chemicals – climbed from 35% in the fourth quarter of 2019 to 41% in 2021, but fell back to 34% in 2023.

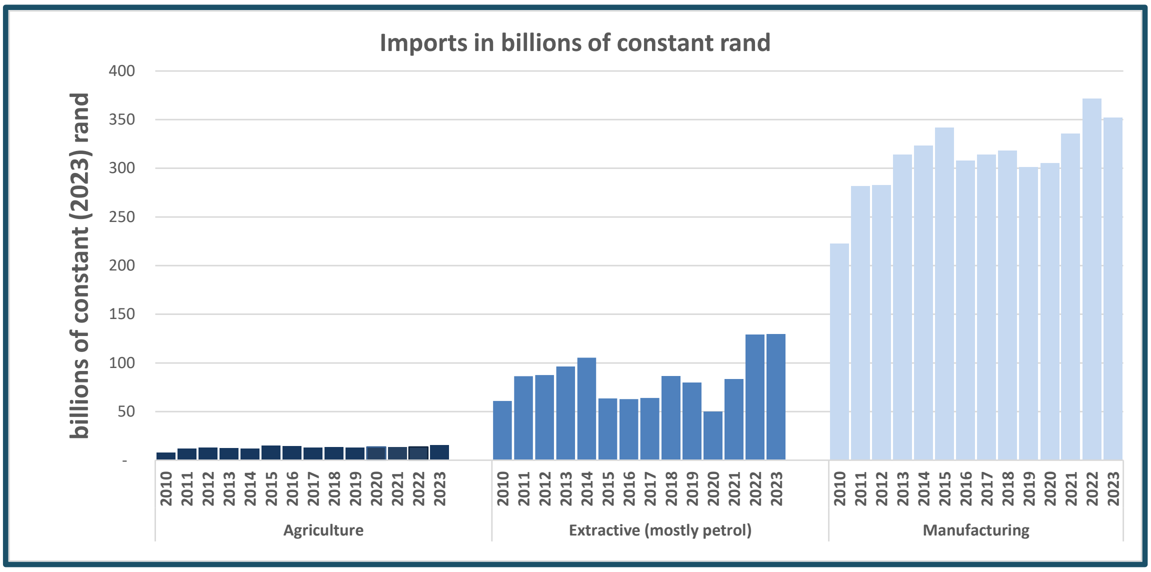
Graph 15. Revenues from minerals exports in billions of constant (2023) rand (a),fourth quarter 2015, 2019 to 2022, and third and fourth quarter 2023



Note: (a) Reflated with CPI rebased to fourth quarter 2023. Source: Calculated from Quantec EasyData. South African national trade at HS-6 level.

In constant rand, manufacturing imports at the end of 2023 were 5% down on a year earlier, but they were still much higher than in the late 2010s. On the extractive side, oil imports climbed only marginally in constant rand, rising in volume but with a falling unit price. From the third to the fourth quarter of 2023, imports of crude almost doubled in constant rand terms, reaching R33 billion, as the Astron refinery came back into production. Refined petroleum, which now makes up well over two thirds of liquid fuel imports, increased comparatively slowly, at 20% in constant rand terms. Agriculture imports rose 16% in the year to the fourth quarter of 2023, but remained a very small share of total imports. (Graph 16)

Graph 16: Fourth quarter goods imports in billions of constant (2023) rand (a), by sector, 2010 to 2023



Note: (a) Deflated with CPI. Source: Calculated from South African Revenue Service data.

In constant rand, auto exports climbed by over 25% in value in year-on-year terms, rising from R55 billion in the fourth quarter of 2022 to R70 billion in the fourth quarter of 2023. In unit terms, the increase mostly reflected increased exports of light commercial vehicles, mostly bakkies, in the second half of 2023. Personal cars remained relatively unchanged. In the year to the fourth quarter of 2023, food exports climbed over 16%, by R3.5 billion, and metals by 10%, or R5 billion. On the import side, virtually every manufacturing industry saw a decline compared to the fourth quarter of 2022, ranging between 13% for metals, glass and non-metallic minerals to 0.4% for food and beverages. (Table 1)

Table 1: Trade by manufacturing subsector

INDUSTRY	VALUE (BILLIONS)		% CHANGE FROM Q4 2022		CHANGE IN BILLIONS	
	USD	Rand	USD	Rand	USD	Rand
EXPORTS						
Food and beverages	1.35	25.3	15.0%	16.0%	0.18	3.47
Clothing and footwear	0.46	8.7	-0.6%	0.2%	-0.00	0.02

INDUSTRY	VALUE (BILLIONS)		% CHANGE FROM Q4 2022		CHANGE IN BILLIONS	
Wood products	0.13	2.4	-9.2%	-8.5%	-0.01	-0.22
Paper and publishing	0.48	9.0	-8.0%	-7.2%	-0.04	-0.70
Chemicals, rubber, plastic	2.15	40.3	-9.0%	-8.3%	-0.21	-3.62
Glass and non-metallic mineral products	0.10	2.0	-3.3%	-2.3%	-0.00	-0.05
Metals and metal products	2.92	54.7	9.0%	9.9%	0.24	4.92
Machinery and appliances	2.28	42.8	-2.0%	-1.1%	-0.05	-0.47
Transport equipment	3.76	70.5	26.4%	27.6%	0.78	15.25
IMPORTS						
Food and beverages	0.92	17.2	-1.3%	-0.4%	-0.01	-0.08
Clothing and footwear	1.10	20.7	-9.8%	-9.0%	-0.12	-2.05
Wood products	0.09	1.7	-9.3%	-8.6%	-0.01	-0.16
Paper and publishing	0.79	14.8	-1.3%	-0.4%	-0.01	-0.07
Chemicals, rubber, plastic	3.72	69.9	-7.8%	-7.1%	-0.32	-5.32
Glass and non-metallic mineral products	0.22	4.1	-13.1%	-12.3%	-0.03	-0.57
Metals and metal products	1.15	21.5	-13.7%	-13.1%	-0.18	-3.24
Machinery and appliances	6.37	119.5	-2.6%	-1.7%	-0.17	-2.02
Transport equipment	4.04	75.8	-8.2%	-7.2%	-0.36	-5.92

Source: SARS monthly data.

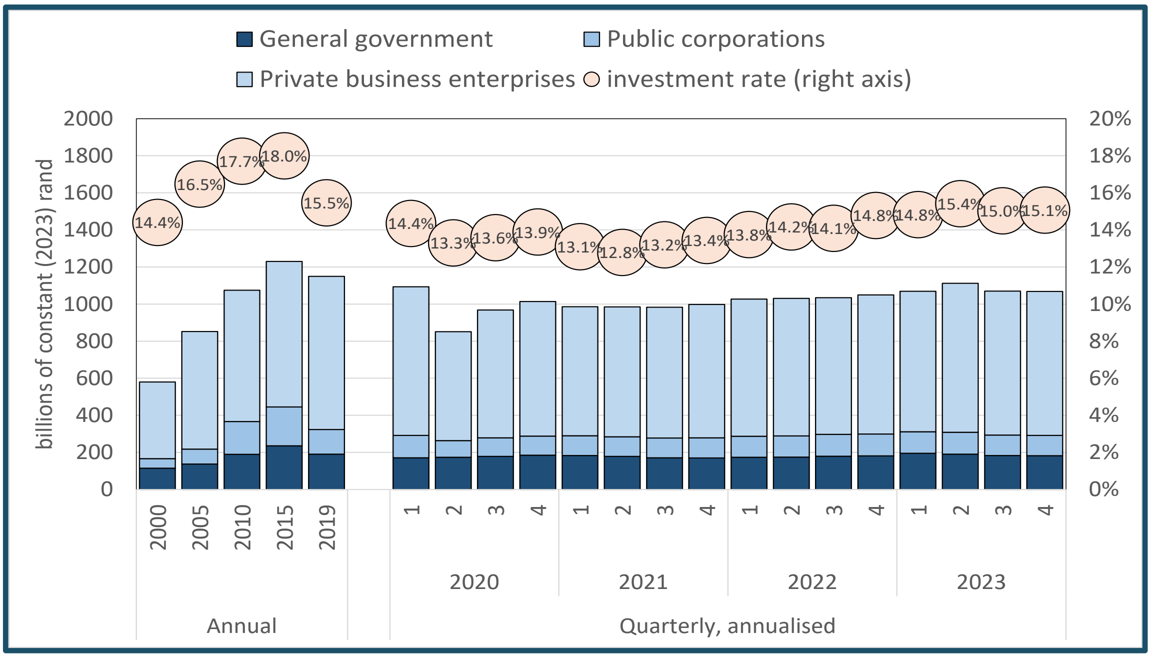
Investment and profitability

Investment climbed 4% in 2023, for the second year of growth since the pandemic downturn. It was still well below pre-pandemic levels, however. State-owned companies remain a weak point. At industry level, investment has climbed steadily in mining and manufacturing, as well as most other sectors, since 2021. It remains depressed in electricity and water, however.

Private and government investment climbed around 5% in 2023, but the state-owned companies saw a 1.8% drop. That marked the third year of investment growth for the private sector, and the second for government. Investment by state-owned companies has been more volatile, with the decline in 2023 following an average of 6% growth in the previous two years.

Although investment was higher in 2023 than in 2022, like GDP growth it slowed sharply in the second half of the year. Total investment rose 6% in the first half of 2023, but fell back by 4% in the second half. Private investment climbed 7% in the first half of 2023, but fell by 3% thereafter. Virtually all of the growth in general government investment occurred in the first quarter of 2023 – the final quarter in the state's financial year – with a 7% decline over the rest of the year. The state-owned companies reported flat investment in the first half but a decline in the second half of 2023. (Graph 17)

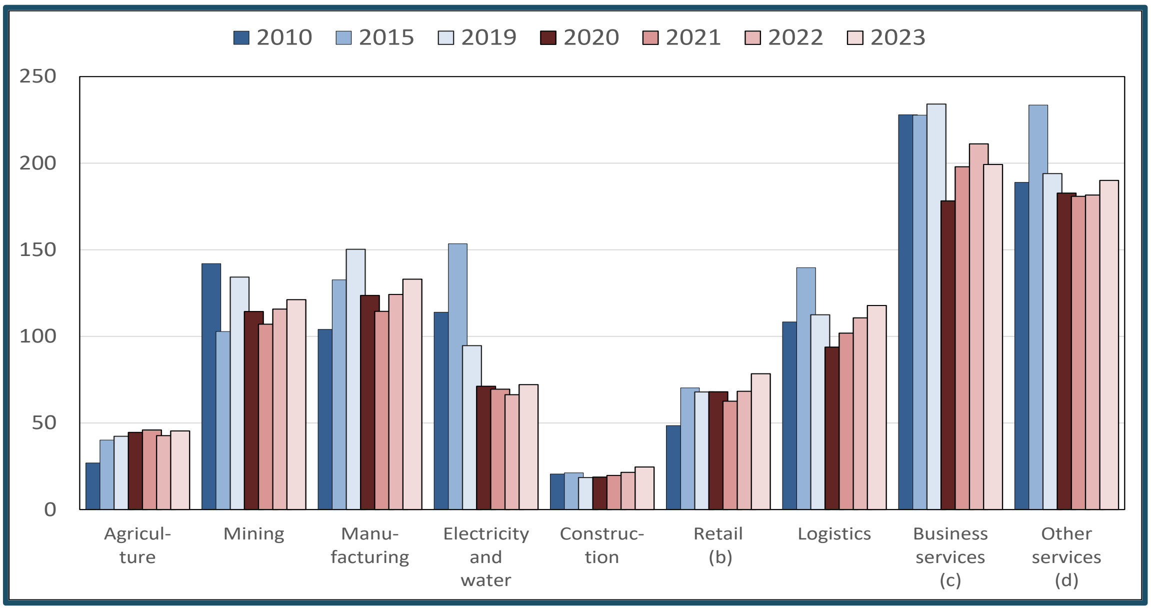
Graph 17: Investment by type of investor in constant 2023 rand and the investment rate (a), every five years from 2000 and quarterly from 2020 to the fourth quarter of 2023



Note: (a) Figures for investment are reflated with implicit deflator rebased to March 2023. The investment rate is gross fixed capital formation as a percentage of expenditure on the GDP. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2022Q4. Excel spreadsheet.

Manufacturing and mining investment recovered steadily from its low point in 2021, but remained significantly lower than before the pandemic. Most other sectors have also seen a degree of recovery. The exception is electricity and water, which despite a modest improvement in 2023 remained around half as high as in 2015. (Graph 18)

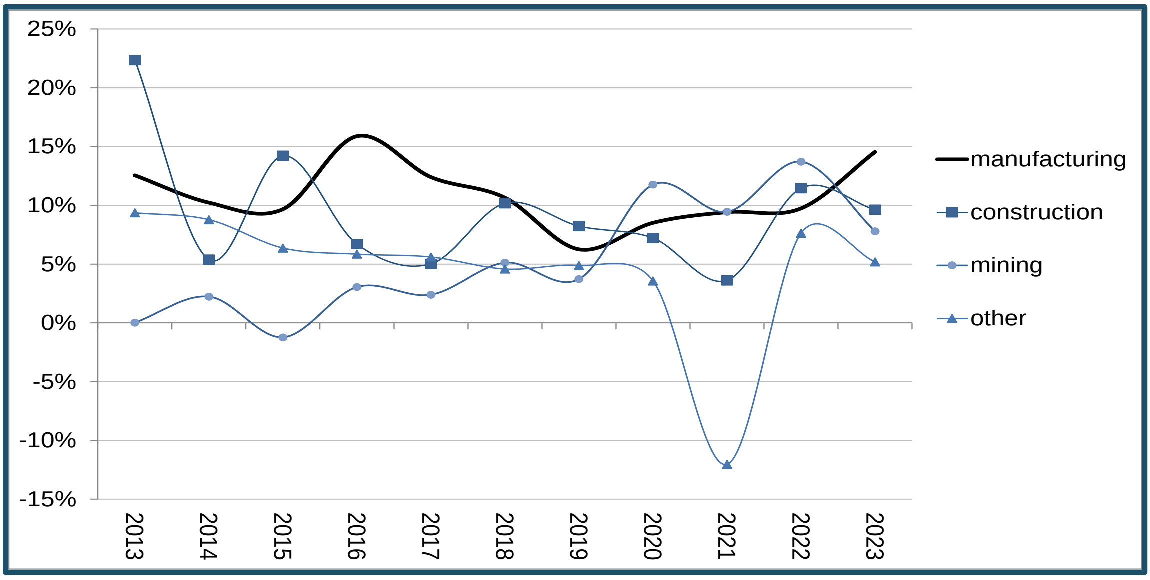
Graph 18: Investment by sector in constant 2023 rand (a), annual in 2010, 2015 and 2019 and quarterly from 2020 to the fourth quarter of 2023



Note: (a) Figures for investment are reflated with implicit deflator rebased to March 2023. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2022Q4. Excel spreadsheet.

Profitability in the manufacturing sector in South Africa improved in the third quarter of 2023 (the latest available information). Returns on assets increased from 9.7% in the third quarter of 2022 to 14.5% a year later. In contrast, both mining and construction experienced downturns in profits. Mining returns fell from 13.7% of assets in the third quarter of 2022 to 7.8% in 2023. Construction profits dropped from 11.5% to 9.6% (Graph 19).

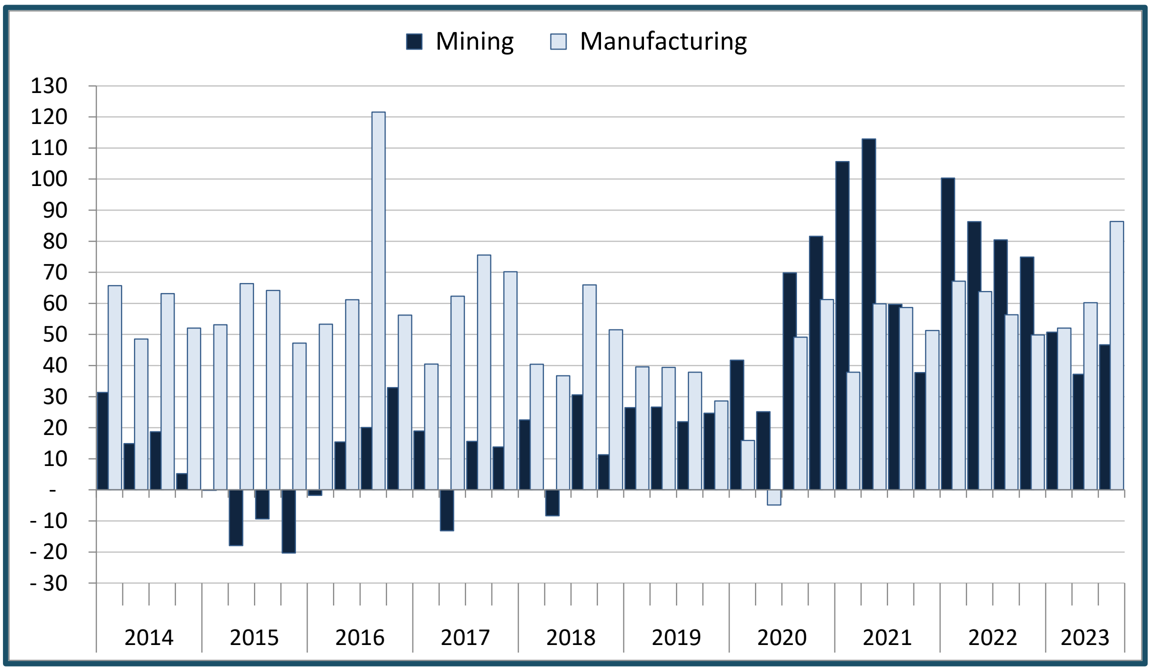
Graph 19: Return on assets by sector, third quarter, 2013 to 2023



Source: Calculated from Stats SA, Quarterly Financial Statistics. Excel spreadsheet

Manufacturing profits have grown continuously in constant rand terms since the first quarter of 2023, breaking the R80 billion mark. That came second only to the third quarter of 2016, when manufacturing profits spiked at R122 billion. (Graph 20)

Graph 20: Quarterly profits in manufacturing and mining in billions of constant 2022 rand (a), 2013 to third quarter of 2023



Note: (a) Reflated with CPI. Source: Calculated from Stats SA, Quarterly Financial Statistics. Excel spreadsheet.

Foreign direct investment projects

The TIPS Foreign Direct Investment Tracker monitors FDI projects on a quarterly basis, using published information. The Tracker added 23 projects in the fourth quarter of 2023. Projected investment for the quarter amounts to R476.7 billion, recorded from 10 projects. The other 13 projects have not yet reported the respective project values. The Tracker updated 27 existing projects this quarter.

New and existing projects

Investment announcements in the fourth quarter of 2023 were dominated in value by a proposal to build a sustainable smart city in an unspecified location in the eastern regions of South Africa, for a cost of US$20 billion (over R350 billion). The project has been publicised widely by URB, an architecture and design company from the United Arab Emirates (UAE) that has no other major projects outside of the Middle East. The other construction project is much smaller but more immediate, as Mercedes Benz plans to partner with Chargify to set up charging stations around South Africa – a critical step toward realising the aspirations of the recent electric vehicle white paper.

Manufacturing and electricity are virtually tied for a distant second to construction this quarter, at R56 billion each. All of the electricity generation projects build renewable off-grid capacity; four form part of the battery storage independent power producers scheme. Announced investments in the services come to R0.3 billion. That figure is a substantial underestimate, however, since most of the services projects did not publish their value. Under transport, an upgrade project for the Durban Container Terminal Pier 2 also did not report a value.

By province, the bulk of announced investments by value were destined for the Western Cape, Mpumalanga and the Northern Cape, while the Free State and North West were not mentioned. The huge, albeit highly amorphous, URB project makes the UAE the source of the largest announced investment this quarter. (Table 2)

Table 2: FDI projects captured in Q4, 2024

INVESTOR COMPANY	COUNTRY OF ORIGIN	VALUE (R BNS)	LOCATION	DESCRIPTION
Construction: R365 billion				
URB	UAE	365	n.a.	Mixed-use sustainable smart city, the Parks, in the "eastern regions"
Mercedes-Benz SA/ Chargify	Germany	0.04	National	Installing electric vehicle charging stations countrywide
Manufacturing: R56 billion				
Phelan Green Energy/ Solar Capital	France	47	Western Cape	Green hydrogen and ammonia production plant
Ford	USA	5.2	Gauteng	Expanding manufacturing plant to produce Ranger hybrid model
Gazprombank/ PetroSA	Russia	3.7	Western Cape	Refurbishment of the Mossel Bay gas-to-liquid (GTL) Refinery
Lactalis SA	Bermuda	0.14	Western Cape	Installed evaporator dryer powder plant in a new building
Electricity: R55.6 billion				
POWGEX-HYFI Joint Venture (JV)	US/ Australia	45.5	Mpuma-langa	1 gigawatt (GW) solar power facility
EDF Renewables/ Mulilo	France	6.9	Northern Cape	Developing three projects under the Battery Energy Storage Independent Power Producer Programme: Oasis Mookodi, Oasis Aggeneis, Oasis Nieuwhoop
Scatec/ Perpetua Holding	Norway	3.1	Northern Cape	Developing the Mogobe (Ferrum) under the Battery Energy Storage Independent Power Producer Programme
Mercedes-Benz South Africa	Germany	0.1	Eastern Cape	Adding 12.6 megawatts (MW) of energy with roof top solar panels
Voltalia	France	Not reported	Limpopo	148 MW solar photovoltaic (PV) power plant that will supply power to Richards Bay Minerals
CVE and Saint-Gobain	France	Not reported	Multiple locations	CVE will supply about 140 GW hours of solar electricity under 20-year power purchase agreement (PPA) to Saint-Gobain
Phelan Green Energy/ Solar Capital	Ireland	Not reported	Northern Cape	86 MW solar PV power plant
Samancor Chrome/ CGN Energy	China	Not reported	Limpopo	60 MW solar PV plant and battery storage system to power the Tubatse Ferrochrome smelter

INVESTOR COMPANY	COUNTRY OF ORIGIN	VALUE (R BNS)	LOCATION	DESCRIPTION
Services: R 300 million				
Amazon	US	Not reported	North West	Amazon digital marketplace platform
Mastercard	US	Not reported	Gauteng	Technological infrastructure for processing transactions and a data centre
Moove	Nether-lands	0.3	Multiple locations	Purchasing new vehicles in expanding the business
Open Access Data Centres	France	Not reported	Western Cape	Implement phase 2 of the Isando (data centre) hub expansion
Teraco	US	Not reported	KwaZulu-Natal	Expansion of DB1 data centre
Teraco	USA	Not reported	Western Cape	Expansion of CT2 data centre
Transport: Not reported				
Transnet/ International Container Terminal Services (ICTSI)	Philippines	Not reported	KwaZulu-Natal	Refurbishing Durban Container Terminal Pier 2

Source: TIPS FDI Tracker database

Note: Numbers may not always sum to the exact total investment amounts due to rounding.

Greenfield projects make up the majority of the announced investments by both value and number. Most projects have still not begun construction or operation.

Table 3: FDI value by investment stage and type Q4, 2023, in billions of rand

INVESTMENT STAGES		ANNOUNCED	PROJECT PREPAR-ATION	CONSTRUCTION/ IMPLEMEN-TATION	COMPLETE	TOTAL VALUE	NUMBER
Investment type	Greenfield	375	92.5	Not reported	Not reported	467.5	12
	Upgrade	8.9	-	0.04	-	8.9	4
	Expansion	0.3	-	-	Not reported	0.3	4
	Brownfield	0.1	-	-	0.14	0.24	2
	Not reported	Not reported	-	-	-	-	1
Value		384.3	92.5	0.04	0.14		
Number		13	3	3	4		

Source: TIPS FDI Tracker database

Note: Numbers may not always sum to the exact total investment amounts due to rounding.

Updates

Table 4 shows the 28 projects updated in the fourth quarter of 2023. Broadly, the Tracker noted progress across renewable energy generation projects as well as some investments announced at the 2023 South African Investment Conference.

Among the six investments completed in the fourth quarter 2023 are Scatec's three Kenhardt hybrid solar projects, under the 2020 Risk Mitigation Independent Power Producer Procurement

Programme (RMIPPPP). The Kenhardt facilities are the only operational projects – out of 11 – under the risk mitigation scheme. Another two are being rolled-out as of the fourth quarter 2023. Three additional completed projects, by Futurelife, South African Breweries and Moove, were announced at the 2023 South African Investment Conference.

Nine projects progressed to construction this quarter. In addition to the risk mitigation electricity projects already noted, they include investments by Defy, Ener-G-Africa and Procter and Gamble. These projects were all announced at the 2023 Investment Conference. The six projects that reached project preparation this quarter include investments under the Renewable Energy Independent Power Producer Programme. These projects that are nearing construction have received relevant authorisations and achieved financial closure.

Two Karpowership projects that fall under the risk mitigation for electricity scheme have begun to seek regulatory approvals, as noted in Table 4. This step is significant because the projects have been delayed by substantial legal challenges.

One project will no longer proceed following a decision by the competition authorities. That is the sale of Sasol's sodium cyanide business, which would have been accompanied by an investment to update the plant.

Table 4: Projects updated in Q4, 2023

PROJECT	COMPANY	ANNOUNCED VALUE (R BNS)	SECTOR	PROGRESS UPDATE
Complete				
RMIPPPP: Scatec Kenhardt (1 -3)	Scatec	14.8	Utilities	Commenced electricity supply to the national grid in the Northern Cape
FutureLife KZN investment	FutureLife/ PepsiCo	0.1	Manufacturing	Opened Futurelife factory at Dube TradePort
SAB 2023 investment programme	SAB/ AB Inbev	5.8	Manufacturing	Completed civil works and installation of new equipment for the Prospecton and Ibhayi breweries.
Moove mobility fintech expansion	Moove	0.3	Services	Invested in the purchase of more than 2 000 vehicles in Cape Town and Johannesburg
Paratus teleport	Paratus	Not reported	Services	"Goedehoop Teleport" facility has been launched, with a few aspects being finalised
Ardagh Glass Packaging - Africa expansion: N3 Furnace	Ardagh Glass Packaging – Africa	1.5	Manufacturing	New furnace named "N3", and four production lines added
Construction/implementation				
Pan African Resources Mintails Mogale Gold Project	Pan African Resources	2.2	Mining	Construction started in July 2023; funding closed. The commissioning of the project is expected in the latter half of 2025.

PROJECT	COMPANY	ANNOUNCED VALUE (R BNS)	SECTOR	PROGRESS UPDATE
Thaba JV: PGM's ore treatment	Sylvania Metals/ Limberg Mining Company	0.693	Mining	Early works construction started
Makhado hard coking coal project	MC Mining	0.4	Mining	Phase 2 early works construction has commenced, design of coal processing plant and related infrastructure ongoing, funding to expected to be completed in early 2024.
RMIPPPP: Umoyilanga hybrid renewable project	EDF Renewable/ Perpetua holdings	14.6	Utilities	Project achieved legal and financial close with early works and construction commencing; signed PPA with Eskom and implementation agreement with DMRE
RMIPPPP: Acwa Power Project DAO	ACWA Power	15.0	Utilities	The PPA has been signed with Eskom and the project is under construction.
Defy facilities investment	Defy/Arcelik	0.3	Manufacturing	Implementing investment to modernise infrastructure and upskill employees.
Ener-G-Afrika manufacturing operation	Ener-G-Africa	0.135	Manufacturing	Manufacturing line for energy-efficient cook-stoves started, planning to start expansion of solar plant at the end of 2024.
P&G facilities expansion	Procter and Gamble	0.130	Manufacturing	Launched new Pampers manufacturing line as part of bigger expansion project.
Teraco "JB4" data centre infrastructure expansion	Teraco	4.4	Services	Commenced phase 2 of the JB4 datacentre
Project-preparation				
RMIPPPP: Oya Energy hybrid facility	G7 Renewable Energy/ ENGIE	*[1]	Utilities	Achieved commercial close
RMIPPPP: Mulilo Total Hybrid renewable project	TotalEnergies/ Hydra Storage Holdings/ Reatile Renewables	1.8	Utilities	Signed 20-year PPA with Eskom and reached financial close in December. Mulilo is no longer listed as local partner, with Hydra Storage Holdings and Reatile added
Sumitomo Rubber South	Sumitomo	1.7	Manufacturing	Confirmed value of project and plans to upgrade and

[1] Value of the investment was reported in the media as one with the RMIPPPP: Umoyilanga hybrid renewable project.

PROJECT	COMPANY	ANNOUNCED VALUE (R BNS)	SECTOR	PROGRESS UPDATE
Africa: Dunlop capital expenditure				modernise the manufacturing facility
REIPPPP BW5: Grootspruit Solar PV Project	ENGIE Africa/Pele Green Energy	1.4	Utilities	Project achieved financial close
REIPPPP BW5: Graspan Solar PV Project	ENGIE Africa/Pele Green Energy	1.4	Utilities	Project achieved financial close
Sasol and Air Liquide renewable-energy project.	Mainstream Renewable Power	Not reported	Utilities	Sasol and Air Liquide signed a 20-year PPA with Mainstream Renewables Power for long-term supply of 97.5 MW capacity renewable energy for Sasol's Secunda site
Early stage developments: regulatory approvals, studies and exploration				
Sasol/ ArcelorMittal decarbonisation initiatives: Saldanha green hydrogen	ArcelorMittal/ Sasol/ Mainstream Renewables	12.0	Manufacturing	Initiated study into production of green hydrogen directly reduced iron at Saldanha Steel Works
Risk Mitigation IPP: Karpowership SA Saldanha	Karpowership SA	10.9	Utilities	Environmental impact authorisation approved after appeals against the project; plan to move towards financial closure
Risk Mitigation IPP: Karpowership SA Richards Bay	Karpowership SA	10.9	Utilities	EIA was approved; however, it is being appealed by civil society groups. Will be delayed pending the appeals process
HySHIFT hydrogen project	HySHiFT Consortium	0.3	Manufacturing	Feasibility study underway, project short listed to bid for offtake agreement under German H2Global platform
Envusa - Anglo American and EDF renewable energy business	Envusa/Anglo American/ EDF Renewables	Not reported	Utilities	NERSA issued electricity trading licence for the Envusa Energy. Three projects closed under Envusa Energy joint venture.
Cancelled				
Draslovka expansion and plant upgrades	Draslovka South Africa/ Sasol	0.797	Manufacturing	Competition Tribunal reaffirmed Competition Commission 2021 judgement to prohibit the proposed sale of Sasol's sodium cyanide business

Source: TIPS FDI Tracker database

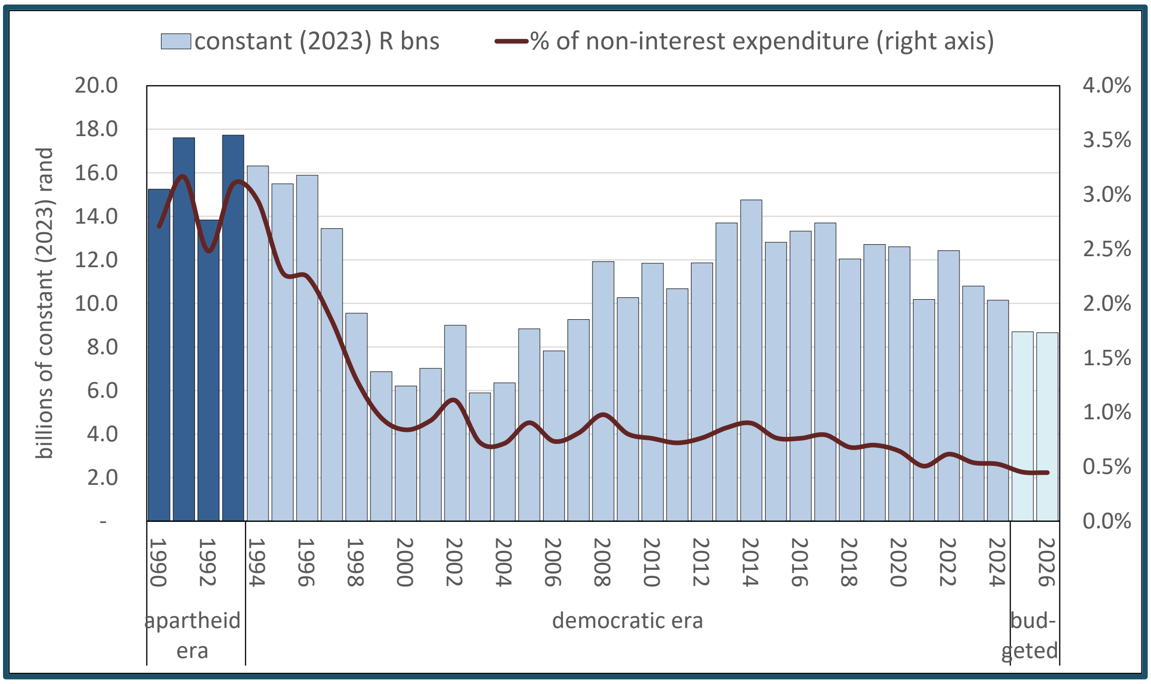
Briefing Note 1: The budget and industrial policy

Neva Makgetla

The recent budget was not good news for industrialisation. In particular, it brought deep cuts to funding for the Department of Trade, Industry and Competition (dtic), especially for industry-level incentives. More broadly, the economic vision that framed the national budget downplayed efforts to promote more inclusive industrialisation.

The 2024/25 budget reduces total dtic spending by 14% in constant terms. In 2023 rand, the dtic's budget will fall from R10.1 billion in 2023/24 to R8.7 billion in 2024/5. These cuts continue a sharp downward trend from 2022. The dtic budget shrank by 30% from 2021/22 to 2024/25. That followed a 9% decline from its peak in 2013 to 2021/22. As a result, the share of the dtic in the national budget excluding interest payments is expected to drop to 0.45% of non-interest expenditure this fiscal year, down from 0.62% in 2022 and 0.86% a decade before that. (Graph 21) According to its budget, the dtic has downsized by 14%, or almost 200 positions, since 2021.

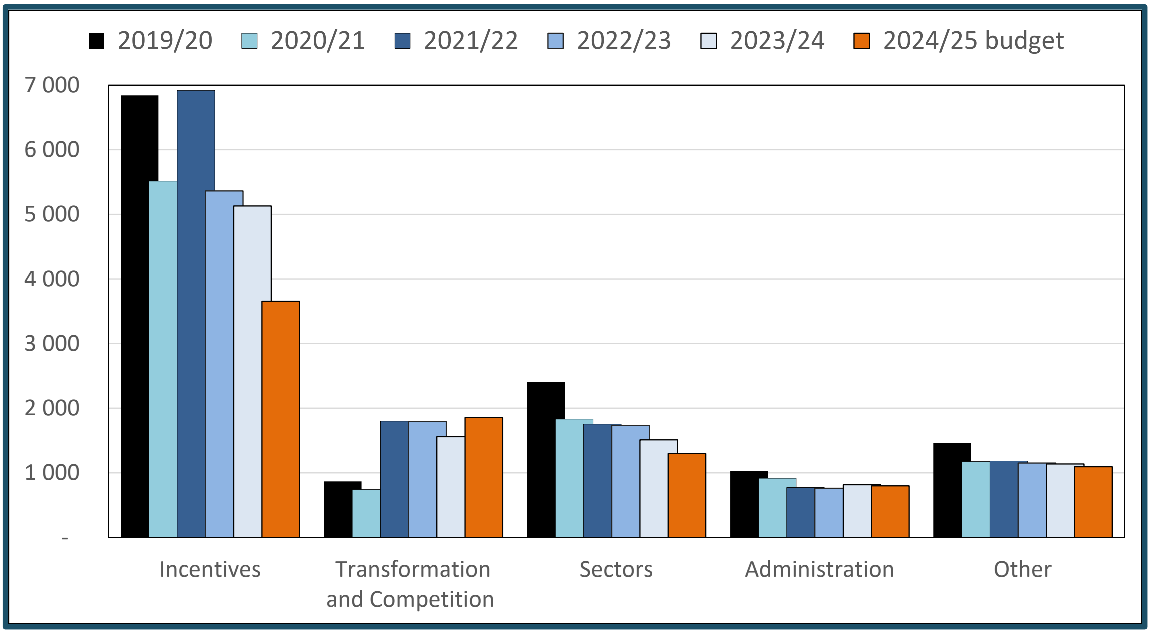
Graph 21: The dtic budget in billions of constant (2023) rand (a) and as percentage of total non-interest expenditure, year to March, 1990 to 2025



Note: (a) Reflated with average CPI to March rebased to 2023. Source: Calculated from National Treasury. Estimates of National Expenditure for the relevant years.

Budget cuts since 2021/22 have fallen most heavily on the dtic's incentive programmes. These measures aim to promote more competitive and innovative economic activities. They also affect its industry-level programmes, including the new master plans. As Graph 22 shows, the budget for the incentives division is expected to fall by 30% in the coming year, for a total decline of almost half since 2021/22. The sectors budget is facing a 14% cut this year, which means it will have shrunk by over a quarter since 2021/22. Other budgets have been less affected over the past four years, with modest growth in the budget for transformation and competition, only a small decline in administration, and an 8% cut in the aggregate budget for export promotion, trade and other regulation, and research.

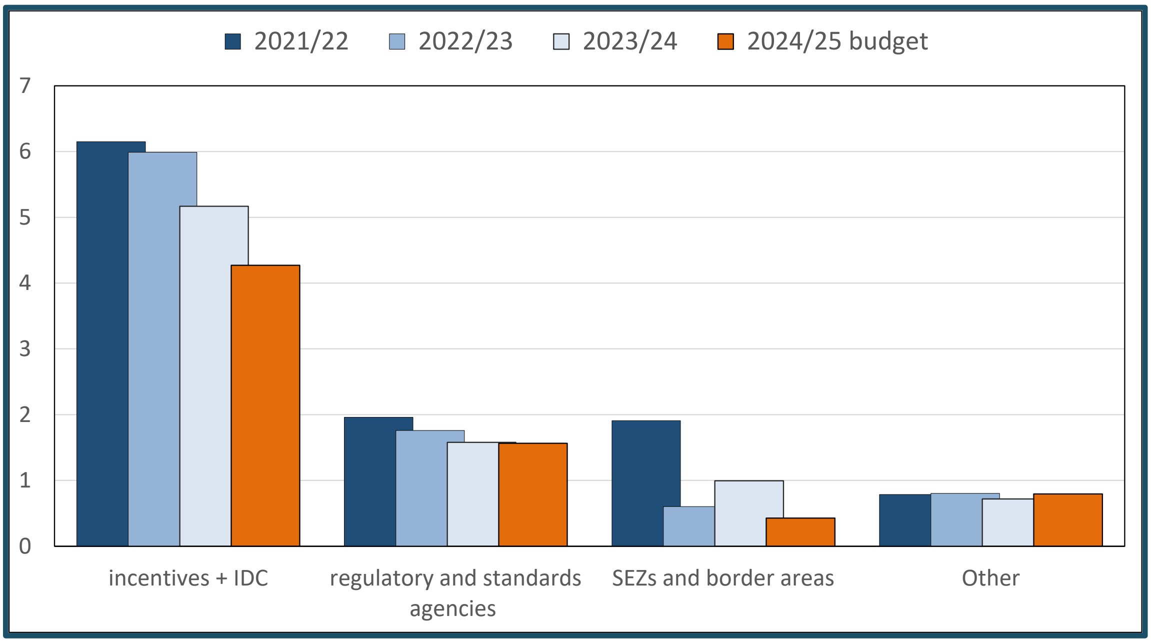
Graph 22: Expenditure by dtic administrative division, 2019/21 to 2024/25, in millions of constant (2023) rand (a)



Note: (a) Reflated with average CPI to March rebased to 2023. Figures for 2012/21 to 2023/24 are actuals; 2024/25 is budgeted. Source: Calculated from National Treasury. 2023 and 202 Estimates of National Expenditure.

Most of the dtic's budget goes for transfers, including incentives and support for its agencies, although the percentage has dropped from 87% in 2021/22 to 81% in the 2024/25 budget. Its array of incentives for manufacturing and services companies accounted for around half of the dtic budget from 2021/22 to 2023/24. Its share is, however, expected to fall to 43% in 2024/25. The Industrial Development Corporation (IDC) administered around 30% of these transfers in the past three years, while the dtic itself approved the remainder. Transfers to the dtic's host of regulatory and standard-setting agencies absorb 18% of its budget, up from 16% in 2021/22. Around half of that amount funds the competition authorities and the South African Bureau of Standards. The remaining transfers went to spatial initiatives (the special economic zones and industrial sites in the former so-called "border areas"); various comparatively small initiatives to promote particular industries or products; a range of non-profit organisations representing stakeholders; and research support. (Graph 23)

Graph 23: Expenditure on different types of transfer, 2019/21 to 2024/25, in billions of constant (2023) rand (a)



Note: (a) Reflated with average CPI to March rebased to 2023. Figures for 2021/22 to 2023/24 are actuals; 2024/25 is budgeted. Source: Calculated from National Treasury. 2024 Estimates of National Expenditure.

The dtic's on-budget expenditures are dwarfed by the less visible tax subsidies to the auto industry. The Treasury estimates that incentives to exporters, which take the form of reduced tariffs on imports of cars, cost around R30 billion a year – five to seven times the dtic's total on-budget incentives. Clothing and textiles get another R1 billion from a similar rebate programme.

The squeeze on the dtic budget reflected the Treasury's approach to economic policy. The Minister's Budget Speech started by calling on the government to focus on driving economic growth in order to generate resources for redistributive programmes. In contrast, industrial policy in South Africa has, for the past two decades, sought to promote a more equitable distribution of incomes from economic activity (that is, the primary distribution of income).

The Treasury's current stance inherently places initiatives to restructure the economy on the back burner. This reality is underscored by the language used. The budget speech mentions physical infrastructure 15 times, growth 14 times, but education just twice and industrialisation only once.

Briefing Note 2: CBAM and South African exports

Seutame Maimele

Although the European Union's Carbon Border Adjustment Mechanism (CBAM) is pursuing the critical aim of reducing carbon emissions and to avoid carbon leakage, arguably it throws unfair burdens on the Global South. In response, the South African government has begun to challenge CBAM in any form and at many forums. At the same time, government and exporters have to find ways to mitigate the impacts of CBAM by developing the required systems to report on greenhouse gas (GHG) emissions and finding ways to reduce the carbon intensity of exports.

South African exports are particularly vulnerable to CBAM because they are unusually emissions intensive. The carbon intensity of South Africa's metal exports stands at about 5000 tonnes of carbon dioxide equivalent (tCO2e) per million US dollars, far exceeding other metal-exporting countries. India, Russia, and China have carbon intensities of 3500, 2200 and 2500 tCO2e per million dollars, respectively. South African competitors oscillate between 200 and 1400.

South Africa's unusually high tCO2e levels mostly result from the comparatively heavy dependence on coal-fuelled electricity. Around 80% of South African energy derives from coal, compared to an average of under 15% in other upper middle income economies excluding China.

Based on the CBAM text adopted on 16 May 2023, a total of US$2.8 billion (about R52.4 billion) of South African exports (in 2022 value) are at risk in the short term. This is about 10% of South African exports to the EU, and approximately 2.2% of South African exports to the world. As CBAM increases to cover more products, the numbers will increase. Moreover, additional jurisdictions plan to introduce CBAM-like measures over time.

While the writing has been on the wall for a while, CBAM only came into practice recently and very quickly. The CBAM transition period kicked in from October 2023. During this time, exporters to the EU in specified sectors must report accurate GHG embedded emissions data to EU importers, which the CBAM texts refer to as EU declarants. The first CBAM report for the fourth quarter of 2023 was due by 31 January 2024. This deadline was extended by 30 days as the CBAM registry faced technical challenges. The transition period will end in December 2025. From January 2026, exporting firms will have to buy CBAM certificates – that is, pay a carbon tax at the EU border.

Despite the extension on the transition period, South African companies have argued that timelines do not allow time to set up the required monitoring and reporting systems. Furthermore, some players in the affected industries, both large and small, simply did not know about the new requirements, as some timelines accelerated from one draft to another.

Given these complexities, there is a risk that South African exporting firms will initially fail to adequately report GHG emissions required during the CBAM transition period. If they delay compliance, businesses may become liable for penalties. The sanction would be between €10 and €50 per tonne of unreported or incorrectly reported emissions. Even if they comply, exporters face significant costs, initially to set up reporting systems and ultimately to reduce emissions. The effects will be larger for smaller companies.

Ultimately, CBAM imposes European emissions targets on South Africa, even if those targets are not aligned with South Africa's own national commitments as an emerging economy. The new EU rules have further fragmented global trade rules, complicating the response of governments and industries in developing countries. In effect, the rules push the responsibility for dealing with the climate change back onto the Global South. In practical terms, CBAM increases the cost of accessing overseas markets for South African producers that rely on grid electricity, especially in the designated industries. The challenge is to find a way to engage with the EU to ensure more equitable implementation of CBAM while enabling South African producers to adapt as cost efficiently as possible.