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Little hope

South Africa: Economy dealt multiple blows as power crisis prevails

By **Ray Mwareya**

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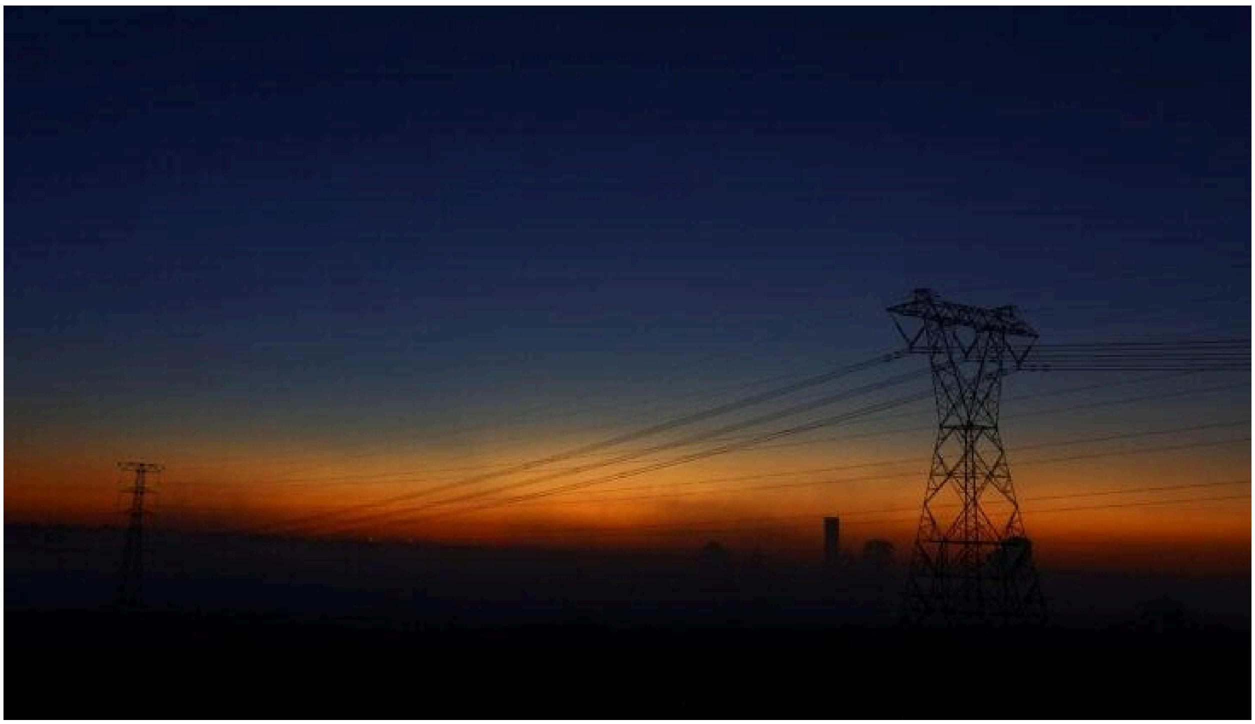

View of South African utility Eskom's electricity pylons during dawn as frequent power outages implemented by Eskom due to its aging coal-fired plants continue, in Johannesburg, South Africa, February 25, 2023. REUTERS

Fears abound over South Africa's economic downturn as Standard and Poor's (S&P) has lowered its credit ratings to 'stable' and forecasted a growth rate of a mere 1% – the lowest in almost three decades. A current account deficit was also reported for the first time in years in Africa's most industrialised nation, which has been plagued with a chronic power crisis ravaging numerous sectors.

"South Africa's rainbow effect from 1994 has surely been squandered. We have not done enough for nearly three decades to create an environment that encourages businesses," says Steven Koch, a senior economics professor at the University of Pretoria in the capital and a former director of the African Finance & Economics Association.

South Africa's President Cyril Ramaphosa was basking in his cabinet reshuffle and the appointment of a new electricity minister last week.

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Yet hours later, S&P ratings downgraded South Africa's outlook from 'positive' to just 'stable' and forecasted real GDP growth rate in 2023 to be just 1%. The following day, the South African Reserve Bank revealed another shocker: the country has suffered its first current account deficit in three years.

For S&P, the main reasons for the downgrade were the infrastructure decay and energy crisis, which have whipped down the earnings of retailers and agriculture in South Africa.

South Africa's real GDP projections in 2023 have tumbled from 1.5% to 1%, with a growth threshold of a lowly 1.7% in the 2024-2026 period, according to S&P.

The credit rating agency has affirmed South Africa's 'BB-/B' sovereign credit rating, but cautioned that it might also downgrade it if ongoing attempts to fix Eskom, the beleaguered state power utility, are to no avail.

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For its part, the South Africa Reserve Bank reported a current account deficit of 0.5% (R31.8bn/$1.7bn) compared with a 2021 surplus of 3.7%, expecting the country's vulnerability to worsen through 2024.

New phenomenon

Compared to South Africa's population growth, the country's foreseen economic growth is projected to be low. This means GDP per capita is falling and poverty is becoming more rampant.

"This is a relatively new phenomenon, which for decades had not been the trend following the country's transition from apartheid to democracy that started in 1994," says economics expert Kenneth Creamer, who teaches at the School of Economics and Finance at Wits University in Johannesburg.

South Africa has squandered a golden opportunity at a time of record high global copper, coal, platinum prices thanks to the real-time collapse in capacity of Eskom and Transnet

South Africa's electricity crisis and low growth rate pose "serious political and social challenges" to the country's relatively young democracy, adds Creamer.

The main reason for S&P's 'positive' outlook for South Africa a few months back was the continuation of prudent fiscal policies under Finance Minister Enoch Godongwana, prioritising a primary surplus in order to stabilise the country's debt position, explains Creamer.

'Squandered golden opportunity'

Godongwana was predicting a primary fiscal surplus of 0.7%, having successfully balanced all state expenditure with revenue.

Down the line, however, Eskom and Transnet (the flailing state rail operator) have doubly underperformed to instigate a rating downgrade, a shrinking GDP growth forecast, and a current account deficit, says independent economist Carter Mavhiza.

"It's astonishing. South Africa has squandered a golden opportunity at a time of record high global copper, coal, platinum prices thanks to the real-time collapse in capacity of Eskom and Transnet," Mavhiza tells *The Africa Report*.

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"S&P downgrading was surely coming. However, the sudden flip to a current account deficit from surpluses of the last three years is dramatic."

South Africa has surely **missed out on the opportunity to benefit optimally from higher commodity prices**, according to both Creamer and Koch.

Koch says the economic deterioration "certainly is not a shock, given how poor the leadership has been here in South Africa, and the terrible debt exposure South Africa has with respect to state-owned enterprises that – with a few exceptions – are not sustainable enterprises".

Reshuffle's limited impact

Ramaphosa's recent cabinet reshuffle was aimed at fixing South Africa's electricity problems by appointing an electricity minister deployed in the president's office.

The minister of electricity, Kgosientsho Ramokgopa, will be responsible for implementing South Africa's so-called Energy Action Plan, which includes several interventions aimed at restoring a stable electricity supply for the South African economy, according to Ramaphosa.

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Even so, all the personnel reshuffling is exceedingly lacklustre, says Stephen Chan, a professor at the University of London. **Ramaphosa ought to balance the factions of the ANC**, the ruling party, rather than seeking new appointments, he says. "My outlook is that the current economic atrophy of the country will in the short to medium term worsen."

The markets didn't see Ramaphosa's new appointees as a prelude to improvements, says Koch, adding that "the markets had fairly low expectations of the reshuffle".

Higher growth rates

For a country like South Africa, beset by world-record joblessness, far bigger growth rates would be the remedy.

"It depends on the goal. In order to absorb new youth into the labour market, growth probably needs to be 4-5%," Koch says. "**In order to make a serious dent in the unemployment rate**, I think 8% should be the lower limit."

For Creamer, to steady the ship, much greater policy emphasis is required to restructure and improve the performance of South Africa's "network industries", including electricity and rail systems.

Little consolation

One silver lining is the lucrative commodity export earnings garnered by South Africa's mining behemoths like Thungela and Glencore in 2022. "My understanding is that commodity companies did ok," Koch says.

Going into the 2023/2024 financial year, Mavhiza says, **South Africa should derive some comfort from its services sector,** specifically tourism whose performance has lately been impressive.

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With tourism earnings, the services account deficit got slightly tightened to R85bn ($4.6bn) in the fourth quarter from R108bn ($5.9bn) in the previous three-month period, according to central bank data.

"Tourism and services' improving deficit, though still in negative territory, is a good blueprint for specific sectors in South Africa's economy like mining, agriculture, infrastructure, and public debt going into 2024," says Mavhiza.

"However, across the table you have Eskom working overtime to sabotage the promising shoots of tourism."