

AFRICA RISK CONSULTING

South Africa Monthly Briefing September 2024

South Africa Summary 27 September 2024

The Government of National Unity (GNU) surpasses 100 days amid a climate of improving investor sentiment but still faces several challenges to its unity. The South African Reserve Bank (SARB) (central bank) Monetary Policy Committee (MPC) on 19 September cut South Africa's main lending rate to 8% amid continued low inflation rates. Police minister Senzo Mchunu on 30 August releases the latest quarterly crime statistics which once again highlight South Africa's high crime rate.

GNU marks 100 days in power

The **Government of National Unity (GNU)** recorded its first 100 days in power on 22 September, a period which has been marked by improved economic and political sentiment, including a measurable improvement in perceptions about **South Africa's** investment climate.

Illustrative of the extent to which the GNU is viewed as a business-friendly government, **Luxembourg**-headquartered steel manufacturer **ArcelorMittal** cancelled its plans to close two steel plants in South Africa within weeks of the GNU being announced.¹ Similarly, **Japanese** car manufacturer **Toyota** appears to have reversed its negative outlook on the country and has since opened a new \$70m auto parts facility while South African miner **Anglo American** has announced plans for a \$625m new iron ore investment in the country.

This improved investor sentiment is partly due to the political and economic uncertainty ahead of and immediately after the 29 May general election is over. The ruling **African National Congress (ANC)** was widely expected to lose its governing majority and there were fears that the party would seek a coalition with a radical party such as the **Economic Freedom Fighters (EFF)** or one comprised of corruption-implicated individuals such as the **uMkhonto weSizwe Party (MKP)**.

However, the fact that the government ended up comprising a centrist multi-party coalition including the centre-left ANC and the centre-right **Democratic Alliance (DA)** was widely welcomed by investors. Furthermore, the fact that **President Cyril Ramaphosa** (2018-present) and finance minister **Enoch Godongwana** remained in their positions also provided a sense of stability to the new government. In addition, the presence of so many parties, especially the DA, is a moderating force on the ANC and has enabled Ramaphosa to more easily sideline his critics within the party, especially those who advocate for more state control over the economy.

It should also be noted that the GNU has secured some early high-profile successes. For instance, the home affairs department, now led by the DA's **Leon Schreiber**, has successfully cleared its extensive identity document backlog of over 250,000 applications.² The presence of erstwhile opposition figures in the cabinet has created a sense of competition between cabinet ministers. Ministers from the DA as well as new sports minister, **Patriotic Alliance (PA)** leader **Gayton Mackenzie**, are particularly adept at promoting their successes and communicating their plans. As early as 31 July, it emerged that the ANC's **National Working Committee (NWC)** had begun exerting pressure on the party's ministers to improve their performance raising concerns that they were being 'outshone' by ministers from other parties.

¹ Bloomberg, 23 Sep 2024

² Business Day, 2024

However, the first 100 days of the GNU have also confirmed that the coalition government does face a series of challenges which could threaten its continued unity. This was best illustrated by the dispute over Ramaphosa signing the controversial **Basic Education Laws Amendment (BELA)** bill into law.³

This bill was passed by Parliament just before the legislature dissolved ahead of the 29 May general election. It is opposed by several GNU members, especially the DA, as the bill controversially centralises school admission and language policies. The BELA bill also makes school attendance compulsory from Grade R (age 5), which opposition parties claim is currently unaffordable.

Ramaphosa signed the bill without consulting the GNU partners in a move that the DA claimed violated the spirit and principle of the GNU agreement. The ANC argued that given that the bill was passed before the election, the matter was not negotiable. Highlighting the tensions within the GNU over this matter, basic education minister and DA member **Siviwe Gwarube** refused to attend the signing ceremony.⁴ This matter was eventually resolved after Ramaphosa agreed to suspend the implementation of the two most divisive aspects of the new law, namely those pertaining to admissions and language policy.

The spat over the BELA bill highlighted three important points. Firstly, there remain deep ideological differences within the GNU; secondly, the ANC is reluctant to compromise on major policy decisions; and finally, it confirmed Ramaphosa's skill at managing this team of rivals. Ramaphosa has also performed best under such circumstances.

Underscoring this final point, Ramaphosa sought to calm his GNU partners by indicating that he would delay the implementation of the **National Health Insurance (NHI)** for further consultation.⁵ This programme is deeply unpopular with the DA's core support base - middle class and urban - as it would essentially ban private medical insurance in South Africa. As such the DA strongly opposes the NHI and its implementation presents a threat to the longevity of the GNU. It would be politically difficult for the DA to remain in the GNU if the NHI is implemented in full.

The NHI is also opposed by South Africa's private sector who consider aspects of the bill to be unconstitutional and a threat to the country's business operating environment. By delaying the implementation of the bill Ramaphosa has soothed his GNU partners and given another indicator of the government's more business-friendly direction. It should be stressed that Ramaphosa himself is thought to have doubts about the NHI and the full implementation is believed to be opposed by Godongwana who views the programme as unaffordable.

Importantly, the GNU has also survived its respective parties competing at a local government level. Underscoring this was the successful campaign by the ANC in the **City of Tshwane (Pretoria)** to remove the DA's mayor **Cilliers Brink**. Brink was eventually ousted in a vote of no confidence on 26 September after the ANC allied with **ActionSA**.⁶ Although the DA condemned this prolonged effort to remove Brink and alleged that it was an effort by the ANC to seize access to the city's resources, at no point did this municipal-level battle threaten the continuity of the GNU. This will alleviate concerns that the upcoming 2026 local government elections could threaten the GNU's stability.

Rather, it is the ANC's December 2027 electoral conference that presents the most realistic threat to the GNU before the 2029 general election. Ramaphosa is unable to stand for re-election as ANC leader given that he is in his second term. Accordingly, whoever is elected as his successor will be instrumental in the government's survival, especially given that the ANC has a record of replacing sitting presidents with newly elected party leaders. Deputy president **Paul Mashatile** is currently perceived as Ramaphosa's most likely successor, and he is believed to favour an alliance with the EFF. As such, he may seek to collapse the GNU and form a coalition more favourable to himself and his political outlook in 2028. However, the GNU is expected to survive until 2028 at least and if it

³ SA News, 13 Sep 2024

⁴ ENCA, 13 Sep 2024

⁵ News24, 16 Sep 2024

⁶ Daily Maverick, 26 Sep 2024

continues to be credited for the country's economic improvement it will be more difficult for any new ANC leader to collapse.

Interest rates cut amid falling inflation

Lower global inflation rates and interest rate reductions in major economies have helped fuel global trade and economic growth. These macroeconomic conditions have also bolstered the GNU. South Africa has experienced similar trends and on 19 September the **South African Reserve Bank (SARB)** (central bank) **Monetary Policy Committee (MPC)** cut South Africa's main lending rate by 25 basis points from 8.25% to 8%.⁷ The MPC recommended this reduction in response to persistent falling inflation rates in the country. Consumer price inflation fell to 4.4% in August from 4.6% in July.⁸

The MPC's cut was smaller than expected given that inflation has been well within the SARB's target band of between 3% and 6% for much of the past year. This combatively cautious reduction indicates that the SARB is attempting to keep inflation around 4.5% rather than allow it to average nearer the upper end of the band.

Regardless, the interest rate reduction will be widely welcomed as it should facilitate increased credit in the economy which should bolster consumer spending and investment. However, the 8% interest rate will remain a weight on the economy and constrain potential economic growth. As such, if inflation remains at its current levels or lower, a further interest rate reduction is anticipated following the MPC's next meeting in November.

Optimism following the 19 September rate cut and the perception that future reductions are likely will fuel increased interest and investment in the country. The rate cut has played a major role in the rand strengthening against major currencies over the past two weeks – the rand strengthened from R17.53/\$1 on 18 September to R17.18/\$1 on 27 September.

Latest crime statistics released

Police minister **Senzo Mchunu** released the latest quarterly crime statistics for the first quarter of the 2024/2025 year (April to June) on 30 August, indicating that crime is generally increasing.⁹ Notably, four of the country's nine provinces recorded an increase in the number of reported murders. Although, there was a 0.5% decrease in murders countrywide compared with the same period in 2023. This was due to a slight decrease in murder rates in South Africa's two most populous provinces, **Gauteng** and **KwaZulu-Natal**. Furthermore, any optimism from the minor decline in number of murders recorded nationally is mitigated by the fact that the number of attempted murder cases increased by 15%. Overall contact crimes (including murder, assault, and sexual offences) increased by 2.6% with 153,637 contact crimes being reported during this period. Another concerning item in the quarterly crime statistics is that commercial crimes increased by 19.2% year-on-year.

Crime remains one of the most significant operational threats in South Africa and leading social concern. The **South African Police Service (SAPS)** remains under-resourced and negatively impacted by corruption. The country's capacity to effectively combat crime has been further undermined by the virtual collapse of the police's **Crime Intelligence Unit (CIU)** over the past decade. This unit was central to state capture corruption and was deeply undermined by corruption and political interference.

Mchunu seems cognisant of the issues facing SAPS, and in his address highlighted the need to rebuild the CIU and improve the service's wider intelligence-gathering capabilities. Furthermore, he announced that his ministry will prioritise the increased professionalisation of SAPS and boost investment in technologies to help combat crime.

⁷ Reuters, 19 Sep 2024

⁸ StatsSA, 18 Sep 2024

⁹ SAPS, 30 Aug 2024

This is the new police minister's first crime statistics report and, as such, will be used as the base against which his performance will be judged. Mchunu has a reputation as a hardworking technocrat, this is in sharp contrast with his predecessor **Bheki Cele** who was often accused of arrogance and was frequently accused of interfering in specific investigations as opposed to focusing on necessary policy implementation and management.

Addressing crime in South Africa needs to be one of the GNU's main priorities as the high crime rate is a core frustration for all South African voters and undermines investment and economic growth.

Planner

2025 **(South Africa) G20** Summit (details still to be confirmed)

Dec 2027 **(South Africa) African National Congress (ANC)** electoral conference

Chronology

25 Sep 2024 **Durban (South Africa) Business Day**. The **KwaZulu-Natal (KZN)** provincial department of transport reveals that it expects the wall being constructed along the province's border with **Mozambique** to be completed in 2025;

25 Sep 2024 **Johannesburg (South Africa) News24**. **Gauteng Province** finance Member of the Executive Council (MEC) **Lebogang Maile** warns that the provincial government could go bankrupt before the end of 2025 unless its dire financial state is addressed;

25 Sep 2024 **Johannesburg (South Africa) Times**. The **Electoral Commission of South Africa (IEC)** asks the **Electoral Court** to impose punitive costs on the **uMkhonto weSizwe Party (MKP)** concerning that party's false claims alleging electoral fraud in the 29 May general election;

25 Sep 2024 **Johannesburg (South Africa) EWN**. Finance minister **Enoch Godongwana** reveals that 1,156 individual taxpayers owe over R11.5 billion (\$669 million) in unpaid taxes;

24 Sep 2024 **New York (United States) Daily Maverick**. President **Cyril Ramaphosa** (2018-present) addresses the opening of the **United Nations (UN) General Assembly**;

23 Sep 2024 **Johannesburg (South Africa) Eskom**. State-owned electricity utility **Eskom** submits a request to the **National Energy Regulator of South Africa (NERSA)** to increase electricity tariffs by 36.15% between 2025 and 2028;

21 Sep 2024 **Durban (South Africa) France24**. South Africa's major **N3** highway connecting **Johannesburg (Gauteng Province)** to the port city of Durban (**Kwa-Zulu Natal Province**) experiences major disruption due to a major snowstorm;

20 Sep 2024 **Johannesburg (South Africa) Moneyweb**. Former construction sector executive **Mike Lomas** is successfully extradited from the **United Kingdom (UK)** to face charges of corruption related to a suspect contract with state-owned power utility **Eskom**;

18 Sep 2024 **Cape Town (South Africa) Daily Maverick**. Auditor-general's office reveals that the department of public works only met 20% of its targets in the 2022/2023 financial year;

16 Sep 2024 **Johannesburg (South Africa) News24**. Officials warn that Johannesburg faces water shortages due to the high rate of losses along the city's ageing water infrastructure;

14 Sep 2024 **Tzaneen (South Africa) News24**. Deputy President **Paul Mashatile** faints during a speech ostensibly due to dehydration and heat stroke;

13 Sep 2024 **Johannesburg (South Africa) Fitch Ratings**. **United States**-headquartered **Fitch Ratings** affirms South Africa's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB-' with a Stable Outlook;

11 Sep 2024 **Cape Town (South Africa)** *EWN*. Former Cape Town human settlements Member of the Mayoral Committee (MMC) **Malusi Booi** is charged with corruption for allegedly facilitating the corrupt awarding of city tenders;

10 Sep 2024 **Johannesburg (South Africa)** *EWN*. The justice department denies claims by the **National Prosecuting Authority (NPA)** that it is being denied access to the **State Capture Commission** database;

9 Sep 2024 **Pretoria (South Africa)** *EEAS*. The **European Union (EU)** commits R628m (\$36.55m) in funding to promote the development of green hydrogen in South Africa;

9 Sep 2024 **Johannesburg (South Africa)** *Business Tech*. New regulations governing financial transfers in the **Common Monetary Area (CMA)** which includes South Africa, Lesotho, **Swaziland** and **Namibia** come into effect;

6 Sep 2024 **Pretoria (South Africa)** *EWN*. **South African Local Government Association (SALGA)**, which represents the city's municipalities, reaches a five-year wage agreement with the **South African Municipal Workers' Union (SAMWU)** and the **Independent Municipal and Allied Trade Union (IMATU)**;

4 Sep 2024 **Beijing (China)** *DIRCO*. President **Cyril Ramaphosa** attends the **Forum on China-Africa Cooperation (FOCAC)**;

1 Sep 2024 **Johannesburg (South Africa)** *News24*. South Africa's new two-pot retirement system comes into effect triggering a wave of withdrawals from pension funds;

27 Aug 2024 **Pretoria (South Africa)** *The Presidency*. President **Cyril Rampahosa** enacts the **South African National Water Resources Infrastructure Agency SOC Ltd Bill** which establishes a new agency responsible for developing and managing national water infrastructure.

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Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

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