

→ **SOUTH AFRICA'S ROAD TO 2024:
POLITICS, ELECTIONS, SECURITY, AND
THE ECONOMY**

Sarah Lockwood, Patrick Curran, and Tanya Pollak

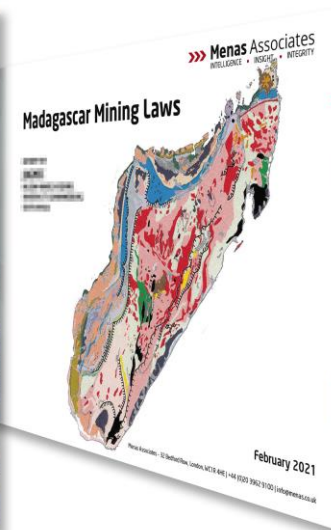
26 January 2021



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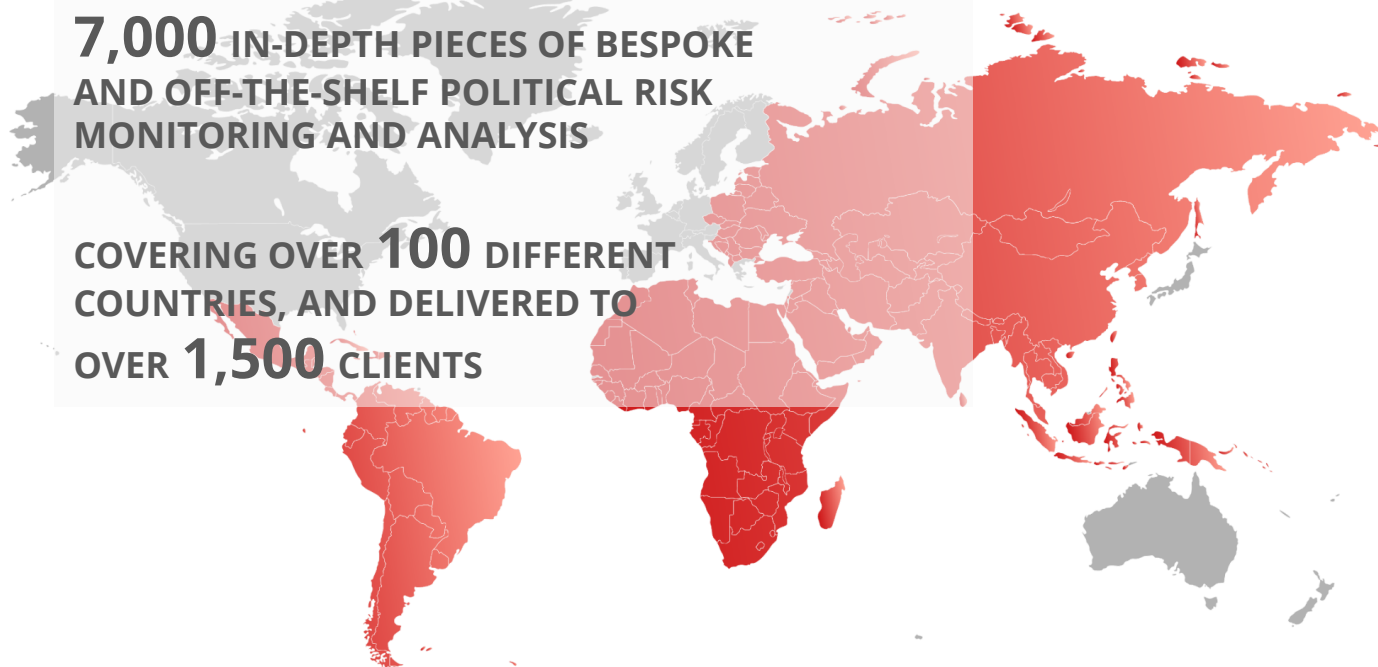




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9 FRAUD AND CORRUPTION INVESTIGATIONS

11 MARKET, SECTOR AND COMPETITOR ANALYSIS

8 STRATEGIC INTELLIGENCE GATHERING

10 CRISIS RESOLUTION

> STRATEGIC ADVICE

12 PARTNER SELECTION AND MATCHMAKING

13 ARBITRATION AND LITIGATION SUPPORT

14 COMPLIANCE AND SANCTIONS ADVISORY



SPEAKERS

Sarah Lockwood is an Assistant Professor in Politics and Development Studies at the University of Cambridge, where she specialises in accountability and development in Southern Africa. She has covered and analysed events in South Africa for over 15 years, first as a Cape Town based journalist, and subsequently as an academic. Her current work is primarily focused on the relationship between the government and civil society, and the ways in which this affects policy development and implementation.

She holds: a BA in Political Science from Columbia University; an MSc in African Studies from the University of Oxford; and an MA and PhD in Political Science and African Studies from Harvard University. She also has a research affiliation at the Institute for Democracy, Citizenship and Public Policy in Africa at the University of Cape Town, where she co-directs the Political Parties in Africa Project.

Patrick Curran is a Senior Economist at Tellimer, where he focuses on emerging market macro/sovereign research across Africa, the Middle East, and Asia. Prior to joining Tellimer, he worked at Eaton Vance in Boston conducting sovereign fixed income analysis and spent time at the South African Reserve Bank in Pretoria. He holds an MA in International Economics at the Johns Hopkins School of Advanced International Studies in Washington and is a CFA charterholder.

Tanya Pollak is a partner at Eversheds Sutherland Johannesburg and practices in the commercial group. She specialises in corporate and commercial law bringing her own unique brand of practising law with a personal touch. She offers a diverse cross section of services in many aspects of law. Her main areas of expertise comprise mergers and acquisitions, joint ventures, BEE transactions, cross border transactions, corporate structuring and restructuring, project finance, securitisations, insurance and reinsurance and advising on regulatory compliance.

→ **SOUTH AFRICA MACRO OVERVIEW**

Patrick Curran, Senior Economist at Tellimer

26 January 2021



Real GDP growth (%yoy)

5.2% rebound in 2021 after the 6.4% contraction in 2020, but potential growth will remain subdued at 1-1.5% (roughly flat in per capita terms)



Chart: Patrick Curran • Source: Haver, SARB, Tellimer Research • Created with Datawrapper

Unemployment rate (% of labour force)

At 35% of the total labour force (67% for youths), South Africa's unemployment rate is the highest in the world, and is expected to rise towards 40% over the next 5 years



Chart: Patrick Curran • Source: Haver, Tellimer Research • Created with Datawrapper



Inflation and inflation expectations (%yoy)

CPI ended the year at 5.9% (above the SARB's 5.3% November forecast) amid rising fuel & food prices, but core is subdued and expectations anchored near the mid-point of the 3-6% target

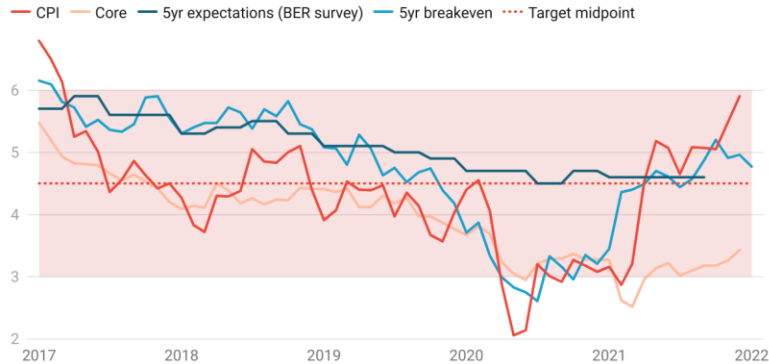


Chart: Patrick Curran • Source: Haver, Bloomberg, Tellimer Research • Created with Datawrapper

Inflation versus policy rate

Real interest rate has fallen to decade low of -2.2% versus neutral real rate of 2-2.5%, but output gap not expected to close until 2024 and inflation expected to moderate to 4.5% by year-end

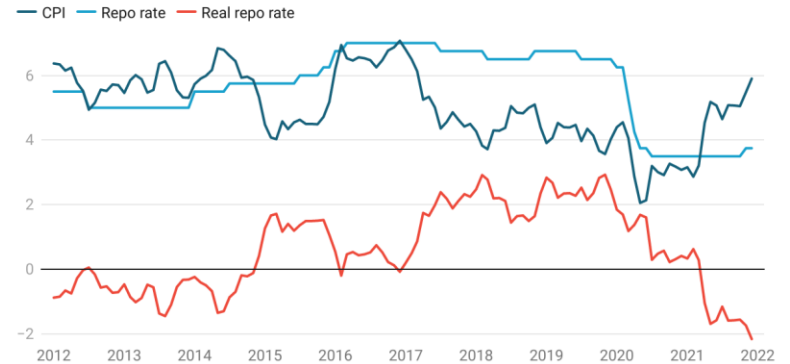


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Policy rate projections (%)

FRA market forecasts slightly more hawkish rate trajectory than SARB's Quarterly Projection Model (QPM), but both seem a bit too hawkish

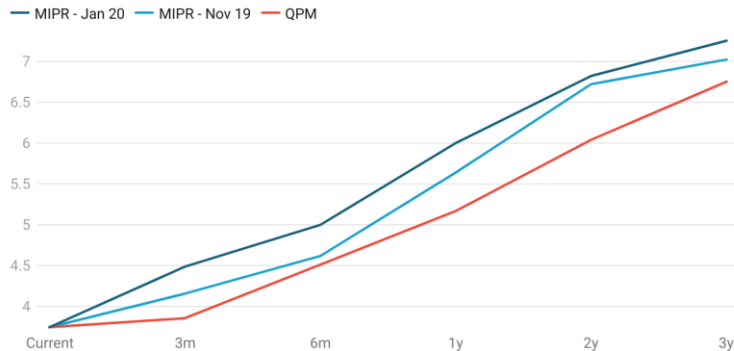
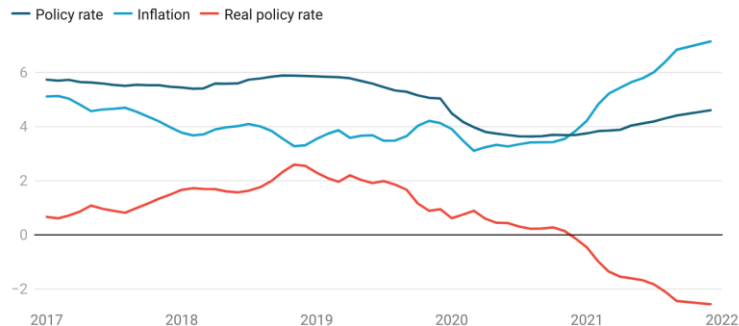


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EM inflation and policy rates (%)

EM central banks have hiked an average of 100bps since mid-2020 (with 28 of 66 banks hiking last year) versus 25bps for South Africa, but inflation has risen less in South Africa



*Unweighted average of 66 emerging and frontier markets

Chart: Patrick Curran • Source: Haver, Tellimer Research • Created with Datawrapper



Consolidated budget balance by vintage (% of GDP)

Commodity revenue windfalls and 11% GDP rebasing have improved fiscal numbers, with c1/2 of windfalls used to fund greater spending and c1/2 to reduce the deficit

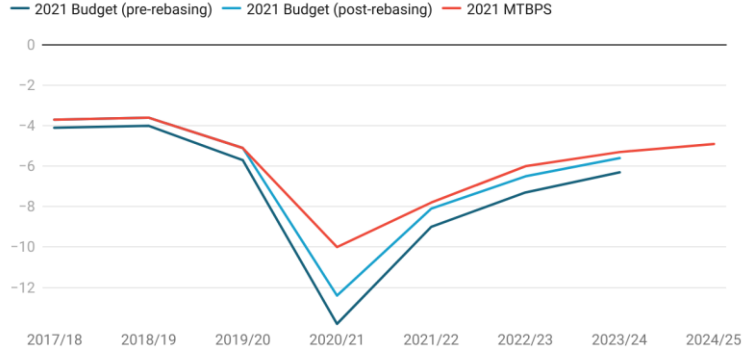


Chart: Patrick Curran • Source: National Treasury, Tellimer Research • Created with Datawrapper

Evolution of debt trajectory by budget vintage (% of GDP)

Debt projected to peak in 2025/26 at 78% of GDP, far less than 95% peak in 2020 MTBPS (largely due to rebasing) but still uncomfortably high

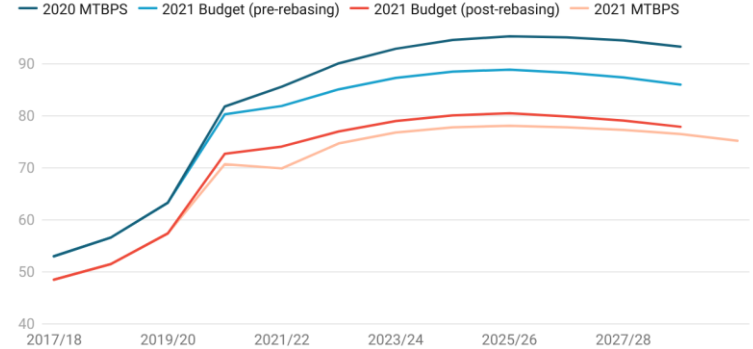


Chart: Patrick Curran • Source: National Treasury, Tellimer Research • Created with Datawrapper



Main budget balance (% of GDP)

Negative growth - interest rate differential means primary surplus is necessary to stabilize debt/GDP, while rise in debt service costs will increasingly crowd out pro-growth spending

Interest payments Primary deficit

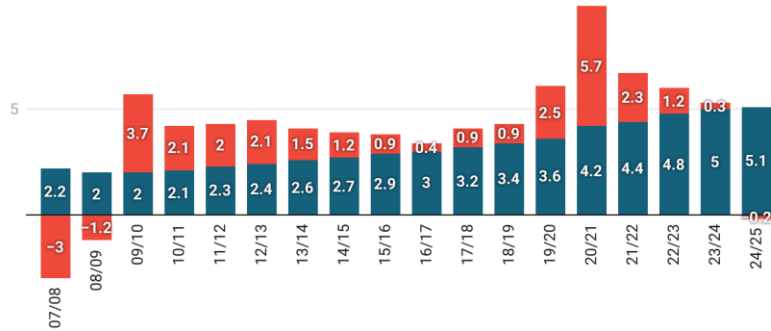


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Annual increases in compensation by component (%)

Wage agreement is biggest spending risk (caused 1.2% of GDP of slippage in 2021/22), alongside Basic Income Grant (with plans to be revealed in February Budget)

Change in personnel Inflation Real wage change

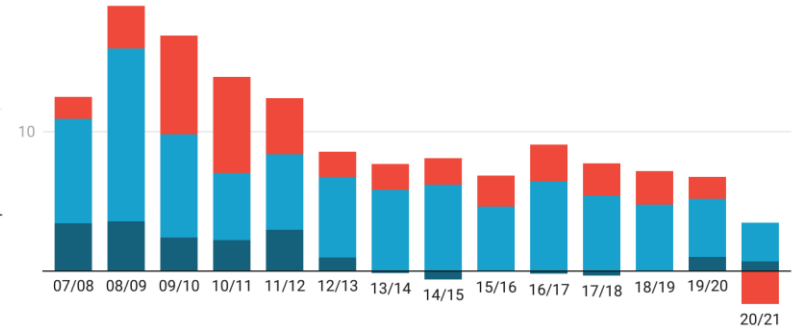


Chart: Patrick Curran • Source: National Treasury, Tellimer Research • Created with Datawrapper



Current account balance (% of GDP)

Current account surplus rose from 2% to 3.8% of GDP in 2021, but is expected to swing back to a slight deficit this year and a 2.5% of GDP deficit by 2024

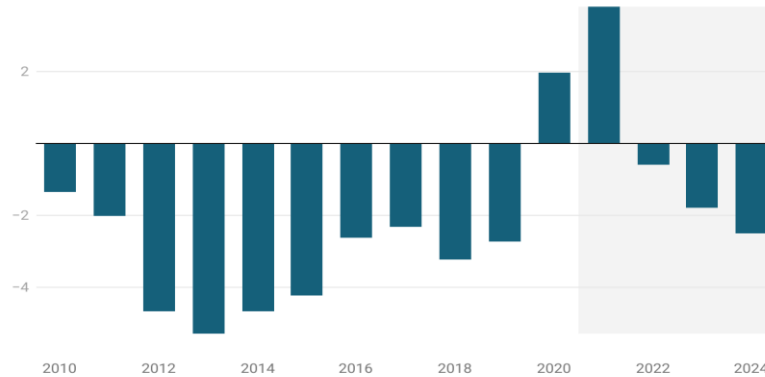


Chart: Patrick Curran • Source: Haver, SARB, Tellimer Research • Created with Datawrapper

Terms of trade (2015 = 100)

BOP improvement driven by rising terms of trade, which will begin to reverse moving forward due to high oil prices



Chart: Patrick Curran • Source: Haver, Tellimer Research • Created with Datawrapper



2021 was record year for loadshedding, but could be alleviated over medium-term by policy allowing private investors to build plants with up to 100MW capacity without a license



Delays to unbundling of Eskom units and uncertainty over how to deal with R392bn stock of debt (c75% guaranteed) have caused Eskom's spread over sovereign to widen





Emerging market currency performance (-1y = 100)

ZAR has outperformed peers amid high commodity prices, but remains vulnerable as Fed tightening nears

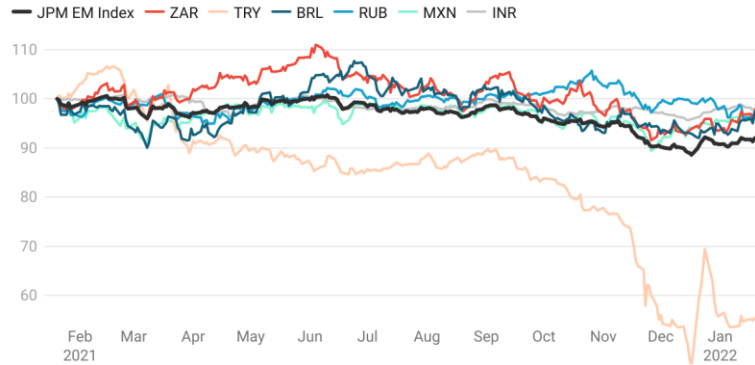
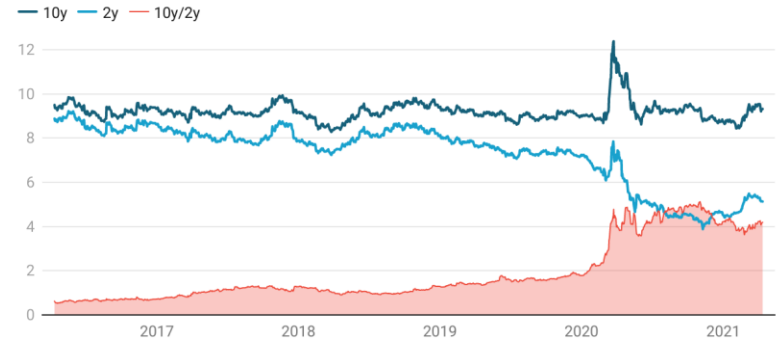


Chart: Patrick Curran • Source: Bloomberg, Tellimer Research • Created with Datawrapper

South African local government bonds (mid YTM)

10y2y remains steep due to elevated risk premium, but could flatten due to monetary tightening and lower supply risk



*Generic government bond yields

Chart: Patrick Curran • Source: Bloomberg, Tellimer Research • Created with Datawrapper



EMBI spread versus peers (bps)

South Africa has outperformed peers over past year, but weak economic outlook and fiscal risks have pushed it from premium to discount over EMBI since late-2019

— EMBI South Africa — EMBI Global — Spread

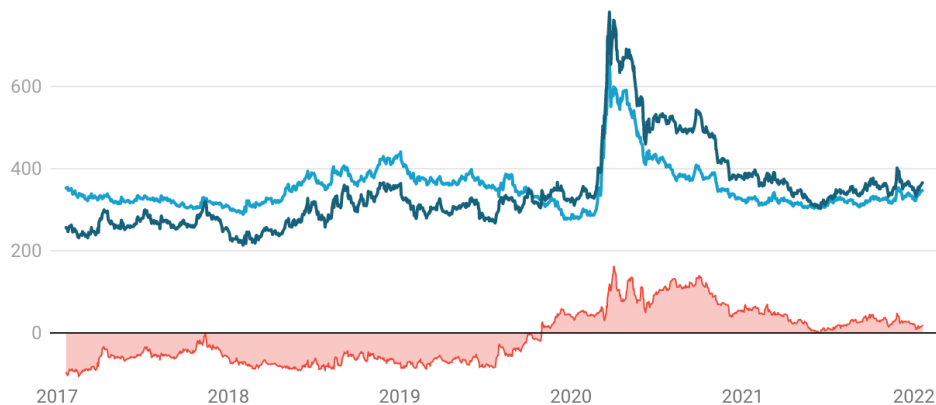


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POLITICS, ELECTIONS, SECURITY, AND
THE ECONOMY**

Sarah Lockwood, University of Cambridge

26 January 2021



OVERVIEW

- The 2021 Local Elections: Events and Implications
- The Road to 2024
 - Politics
 - Foreign Policy
 - Security
 - Economy
- The Road to 2024: Summary



THE 2021 LOCAL ELECTIONS





BACKGROUND TO THE 2021 LOCAL ELECTIONS

- COVID-19
- Confusion over changing election dates
- Violence
 - 9-18 July
 - Candidate lists



ELECTION RESULTS

- Local elections were held 1 November 2021
- Key trends:
 - Significant decline in voter turnout
 - ANC support fell below 50% for the first time
 - Other major opposition parties also struggled
 - Increased support for some smaller parties and the rise of new ones



IMMEDIATE IMPLICATIONS OF THE LOCAL ELECTIONS FOR 2024

- Low turnout
- Decline in ANC support
- Weakness of existing opposition parties
- Uncertain rise of new parties
- Unprecedented number of hung councils and coalitions



THE ROAD TO 2024





THE ROAD TO 2024: POLITICS

Expect to see:

- Some increased attention to rural issues
- Increasing chaos in local government
- Increased corruption and looting
- Increased factional in-fighting within the ANC, and especially in the run up to the 55th National Conference in December
- Increased policy uncertainty
- Challenges to President Ramaphosa's leadership?



THE ROAD TO 2024: FOREIGN POLICY

- Little substantive change in foreign policy is expected
- Increased attention to domestic problems is likely to continue the trend of somewhat reduced activity abroad
- Commercial engagement with Africa will probably increase
- And some increased focus on South-South relations



THE ROAD TO 2024: SECURITY

- We are likely to see increased political violence in the run-up to 2024
 - Factional in-fighting within the ANC
 - Fighting between parties
 - Increased protests
 - Violent displays of mass frustration and looting



THE ROAD TO 2024: ECONOMY

- More to come shortly from Patrick and Tanya
- Key political factors influencing the economy in 2022 include:
 - Political in-fighting and uncertainty
 - Potential COVID-19 restrictions (nationally and globally)
 - Municipal coalitions
 - Corruption
 - Significant pressures to expand the grant system



THE ROAD TO 2024: SUMMARY

- The next couple of years are likely to be a period of increased political instability
 - Factional in-fighting
 - Policy uncertainty
 - Increased corruption
 - Unstable coalition governments

- In the long-run the ANC's demise seems inevitable, but the party is likely to continue to dominate South African politics in 2024

IMPORTANT LEGAL CONSIDERATIONS WHEN DOING BUSINESS IN SOUTH AFRICA

26 January 2022

Tanya Pollak

Partner, Commercial





IMPORTANT LEGAL CONSIDERATIONS WHEN DOING BUSINESS IN SOUTH AFRICA

- 1. BROAD-BASED BLACK ECONOMIC EMPOWERMENT**
- 2. ANTI-TRUST / COMPETITION**
- 3. EXCHANGE CONTROL**
- 4. DATA PROTECTION**



IMPORTANT LEGAL CONSIDERATIONS WHEN DOING BUSINESS IN SOUTH AFRICA

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

- ❑ Government's economic transformation strategy
- ❑ Foreign companies doing business in South Africa to adapt to B-BBEE policies
- ❑ Scorecard
 - **equity ownership**
 - **management control**
 - **skills development**
 - **socio-economic development**



IMPORTANT LEGAL CONSIDERATIONS WHEN DOING BUSINESS IN SOUTH AFRICA

Amendment to B-BBEE Act:

- Penalty for fronting
- B-BBEE Commission established
- Reporting obligations for South African companies
- Codes of Good Practice amended



IMPORTANT LEGAL CONSIDERATIONS WHEN DOING BUSINESS IN SOUTH AFRICA

ANTI TRUST /COMPETITON

- Directly or indirectly fixing a purchase or selling price or any other trading condition.
- Dividing markets by allocating customers, suppliers, territories or specific types of goods or services.
- Collusive tendering.





IMPORTANT LEGAL CONSIDERATIONS WHEN DOING BUSINESS IN SOUTH AFRICA

ANTI TRUST /COMPETITON

- **Abuse of dominance**
- **"dominant" –**
 - market share of 45% or greater
 - market share of 35% or more, unless absence of market power.
 - market share of less than 35% but has market power.



IMPORTANT LEGAL CONSIDERATIONS WHEN DOING BUSINESS IN SOUTH AFRICA

▪ DOMINANT FIRM PROHIBITIONS:

CHARGE AN EXCESSIVE PRICE TO THE DETRIMENT OF CONSUMERS.

ENGAGE IN AN EXCLUSIONARY ACT, IF ANTI-COMPETITIVE EFFECT OF ACT OUTWEIGHS THE TECHNOLOGICAL, EFFICIENCY OR OTHER PRO-COMPETITIVE GAINS

REFUSE TO GIVE A COMPETITOR ACCESS TO AN ESSENTIAL FACILITY WHEN IT IS ECONOMICALLY FEASIBLE TO DO SO.

ENGAGE IN PRICE DISCRIMINATION





IMPORTANT LEGAL CONSIDERATIONS WHEN DOING BUSINESS IN SOUTH AFRICA

COMPETITION AMENDMENT ACT

- **Buyer power**
- **Price discrimination**
- **Mergers**
- **Foreign mergers and national security**
- **Market inquiries**
- **Penalties**

IMPORTANT LEGAL CONSIDERATIONS WHEN DOING BUSINESS IN SOUTH AFRICA

EXCHANGE CONTROL

- Limits on transfer funds abroad
- Approval of the South African Reserve Bank (SARB)
- Authorised dealers
- Gradually liberalised

IMPORTANT LEGAL CONSIDERATIONS WHEN DOING BUSINESS IN SOUTH AFRICA

DATA PROTECTION

❑ **Personal information**

- race, gender, sex, pregnancy, marital status, national, ethnic or social origin, colour, sexual orientation, age, physical or mental health, well-being, disability, religion, conscience, belief, culture, language and birth of the person.
- education or the medical, financial, criminal or employment history of the person.
- identifying number, symbol, email address, physical address, telephone number, location information, online identifier.
- Correspondence sent of a private or confidential nature.

❑ **Lawful processing of personal information**



Tanya Pollak

Partner, Commercial

T: +27 (0)10 003 1444

tanyapollak@eversheds-sutherland.co.za

Melrose Arch

3rd Floor, 54 Melrose Boulevard

Melrose Arch, Melrose North

2196- Johannesburg

T: +27 87 358 9857

eversheds-sutherland.com

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Q&A



For more information, contact
info@menas.co.uk

32 Bedford Row, London WC1R 4HE, UK
www.menas.co.uk | +44 (0)20 3962 9100