CONSUMERS UNDER PRESSURE FROM BLACKOUTS & FUEL PRICES

By Dr Roelof Botha, Joint Managing Director, GOPA Group SA (11 July 2022)

All around the globe, July will be remembered as a winter of particular discontent (a phrase coined by Shakespeare).

The list of frustrations that plague people in virtually all countries is headed by rising inflation, (especially prices of energy commodities), rising interest rates and a slowdown in economic growth. In South Africa's case, the list is expanded by the worst ever period of electricity load-shedding, decaying road & rail infrastructure and the existence of dozens of dysfunctional municipalities (outside of the Western Cape).

Concern also exists over the sharp depreciation of the rand exchange rate in recent months, but this is a universal phenomenon, driven by the inordinate strength of the US dollar. Currency weakness is not a serious problem yet, as it provides welcome dividends to exporters, but a persistent depreciation will make it more difficult to contain inflation.

Apart from the sharp increases in fuel prices, the most immediate issue threatening the financial resilience of businesses and households is the electricity blackouts. As expected, the reaction amongst the full spectrum of representative organisations in the country has been pronounced and society at large is piling pressure on government to address the energy crisis as a matter of urgency.

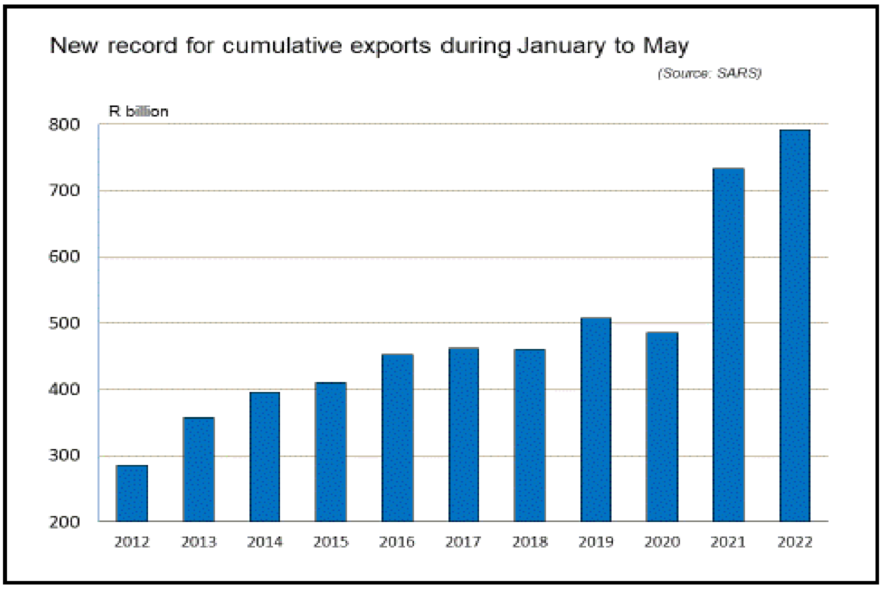
Deregulation urgently required

Most notably, the National Planning Commission (which functions within the presidency), has recommended that the electricity supply shortage should be viewed as an emergency and that steps be taken post haste to deregulate the whole energy supply chain. This could include the removal of the 100MW limit for private power generation licensing, simplify the registration process and streamline environmental impact assessments.

Eskom's new executive leadership has been pushing for reforms to the regulatory and institutional framework for energy and recently confirmed that 18 companies have been selected from the bids received for the lease of Eskom-owned land in Mpumalanga. This land has been earmarked for independent renewable energy generation and these 18 projects will add 1,800 MW of generation capacity to the grid, either through solar or wind energy.

Fortunately, the macro-economy remains on a solid grounding, with South Africa's international trade performance going from strength to strength and continuing to break records, most notably the cumulative value of exports during the first five months of the year, which amounted to R791 billion. Furthermore, new vehicle sales in the domestic market increased by more than 7% in June and export sales by 18% (year-on-year).

Many foreign companies remain positive about South Africa's prospects for securing sustainable growth, despite daunting challenges. This is reflected in the solid performance of foreign direct investment (FDI) inflows, which recorded an impressive R27 billion during the first quarter of the year.



Unequivocal proof of the renewed faith in the country's economic future since the gradual implementation of market-friendly reforms under Pres. Ramaphosa is provided by the five-fold increase in the average quarterly FDI inflows since 2018 (compared to the state capture era).

Hopefully, a swift end to the war in Ukraine and the demise of lockdown regulations will soon remove much of the current geo-political and socio-economic volatility. In the meantime, however, most consumers are facing a tough second half of the year.