



## External trade trends: Current account deficit narrowed significantly in Q3 2023

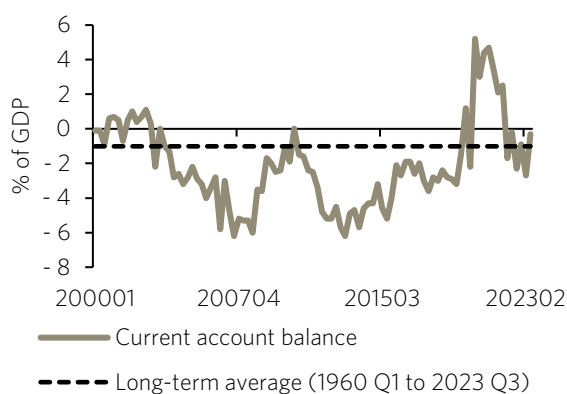
### Highlights

- The South African Reserve Bank (SARB) reported a marginal current account deficit at 0.3% of gross domestic product (GDP) in the third quarter of 2023 from a 2.7% deficit of GDP (revised from 2.3% of GDP) in the second quarter. This was materially better than the Reuters median consensus of a 1.9% deficit of GDP. The improvement was mostly due to a larger goods trade surplus (2.7% of GDP) as the value of imports fell sharply.
- The SARB lowered its current account deficit projection for 2023 to 1.3% of GDP (from 2% of GDP) in the November 2023 Monetary Policy Committee (MPC) statement due to higher-than-anticipated exports reported by the SA Revenue Services (SARS) in the third quarter.
- The deterioration in the logistics network is one of the biggest risks to SA's trade performance and current account balance because rail and port inefficiencies have restricted the flow of SA's essential mined products and raised costs as producers migrate to road transport.
- Three of SA's ports (including Durban) were ranked as the 10 worst-performing ports out of 348 ports in the World Bank's 2022 Container Port Performance Index. Ongoing congestion at the Durban port threatens trade and production activity. On a longer-term horizon, these inefficiencies result in lower market share, less competitive exports, and prolonged weak economic growth.
- Government's efforts to address operational issues at Transnet include the development of the Freight Logistics Roadmap, the establishment of the National Logistics Crisis Committee (NLCC) and a R47 billion guarantee facility for Transnet which will help with the implementation of its turnaround plan.
- In addition to idiosyncratic factors, subdued global growth, particularly for SA's top trading partners; softer commodity prices and the volatile domestic currency are additional factors expected to weigh on SA's trade.
- Foreign policy risks were a significant feature in the SA context during the first half of 2023 but a lot of these risks have since decreased and the SARB has consequently removed the risk of secondary sanctions from its Risk and Vulnerability Matrix published in the November 2023 Financial Stability Review (FSR). However, SA remains vulnerable to elevated geopolitical tension.
- SA successfully hosted the 20<sup>th</sup> African Growth and Opportunity Act (AGOA) forum. This may have abated fears of SA's exclusion from AGOA, but the possibility of an exclusion cannot be ruled out.
- We estimate a deterioration of the current account balance from an average surplus of 1.7% of GDP over the past three years (2020 to 2022) to an average deficit of 2.5% of GDP between 2023 and 2025. Nevertheless, SA's current account deficit is not regarded as unsustainable yet but could potentially weaken the rand.

## Goods trade surplus rebounds in Q3 2023 and drives down the current account deficit

SA's current account deficit narrowed significantly from a revised R185.2 billion (previously R160.7 billion) in the second quarter of 2023 to R19.3 billion in the third quarter. As a percentage of GDP, the deficit improved from 2.7% of GDP (revised from negative 2.3% of GDP) to a marginal deficit of 0.3% of GDP in the third quarter, positively surprising the Reuters median consensus of a 1.9% deficit of GDP.

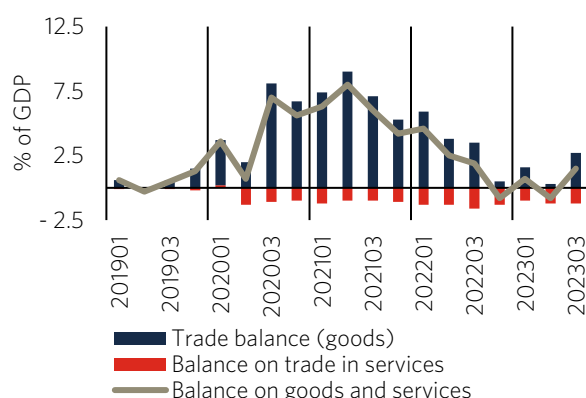
Chart 1: Sharp improvement in current account deficit



Source: SARB, Momentum Investments  
Data until third quarter of 2023

The main driver of the narrower current account deficit was the larger-than-anticipated goods trade surplus from 0.3% of GDP (revised from 0.4% of GDP) in the second quarter to 2.7% of GDP in the third quarter. This resulted in the balance on goods and services switching back from a deficit (0.8% of GDP) in the second quarter to a surplus (1.5% of GDP) in the third quarter as shown in chart 2.

Chart 2: Balance on goods and services rebounded



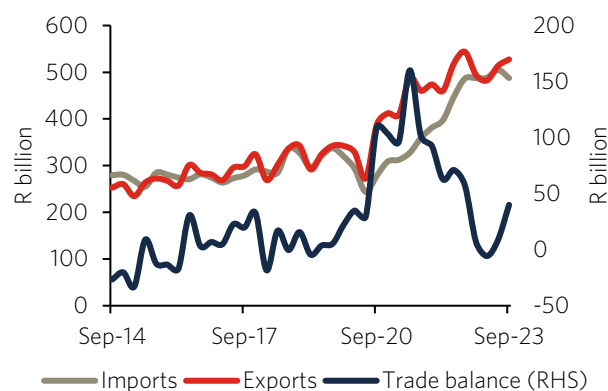
Source: SARB, Momentum Investments

The balance on services, income and current transfers remained largely unchanged at negative 3% of GDP but was revised wider in the second quarter from the initial estimate of negative 2.8%.

The rise in the goods trade surplus was due to a 10% quarter-on-quarter (q/q) drop in the value of imports between the second and third quarters which overshadowed the 1% decrease in the value of exports. The lower value of imports was driven by lower volumes and the lower value of exports was due to a drop in prices because volumes were up 0.6% q/q.

Merchandise trade statistics published by SARS recorded a higher trade surplus of R40 billion in the third quarter of 2023 compared to R8.8 billion in the second quarter (see chart 3). The uptick in the trade surplus was due to a rise in exports and a drop in imports.

Chart 3: Larger trade surplus recorded in Q3 2023



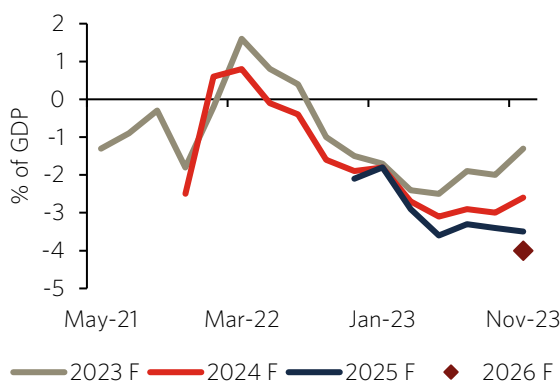
Source: Global Insight, SARS, J.P. Morgan, Momentum Investments

The drop in imports was mostly due to a partial reversal of machinery and electronics imports (negative 17.6% q./q) in the third quarter following a robust increase of 23.6% q/q in the second quarter.

In terms of exports, products that recorded the largest increases in the third quarter relative to the second quarter were vehicles and transport equipment (33.2% q/q) as well as vegetables. The SARB cited better-than-expected exports of agricultural products, vehicles and parts as the driver for a narrower current account deficit

projection of 1.3% of GDP (previously 2% of GDP) in the November 2023 MPC statement. The SARB's projected current account deficit for 2023 is wider than the outcome in 2022 (0.5% of GDP) and is projected to progressively widen to 2.6% of GDP in 2024, 3.5% of GDP in 2025 and reach 4% of GDP in 2026 (see chart 4). The projected deficit from 2024 onwards is wider than the average deficit of 1.9% of GDP recorded since the advent of democracy (1994 to 2022) when the economy became more open. The last time the current account deficit breached the 3% mark was in 2015.

**Chart 4: SARB expects a wider current account deficit over the medium term**



Source: SARB November MPC, Momentum Investments

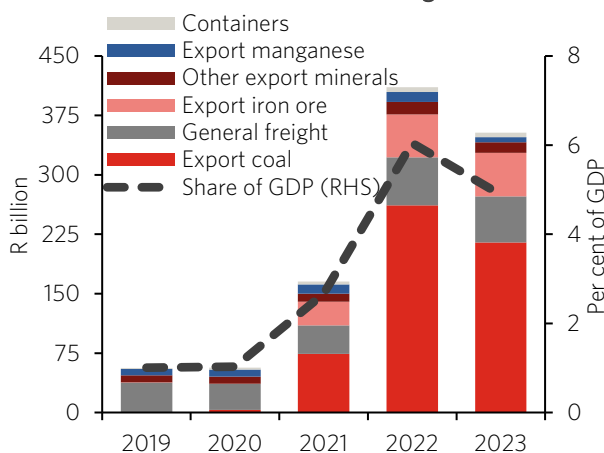
The World Bank notes that “although a current account deficit in itself is neither good nor bad, it is likely to be unsustainable and lead to harmful consequences when it is persistently large, fuels consumption rather than investment, occurs alongside excessive domestic credit growth, follows an overvalued exchange rate, or accompanies unrestrained fiscal deficits”. SA’s current account deficit is not regarded as unsustainable yet.

The fourth quarter of 2023 started with a surprising preliminary trade deficit of R12.7 billion in October. This was due to higher imports (13.3% month-on-month (m/m)) on the back of a surge in mineral product imports (42.1% m/m). The increase in vehicles and transport equipment (12.1% m/m) and machinery and electrical equipment (11.9% m/m) also contributed to higher imports in October. On the other hand, exports were 1.8% m/m lower in October compared to September.

## Deterioration in the logistics network has wide-ranging costs

Constraints in the logistics space are one of the biggest risks to SA’s trade performance and current account balance.

**Chart 5: Cost of rail inefficiencies surged in 2022**

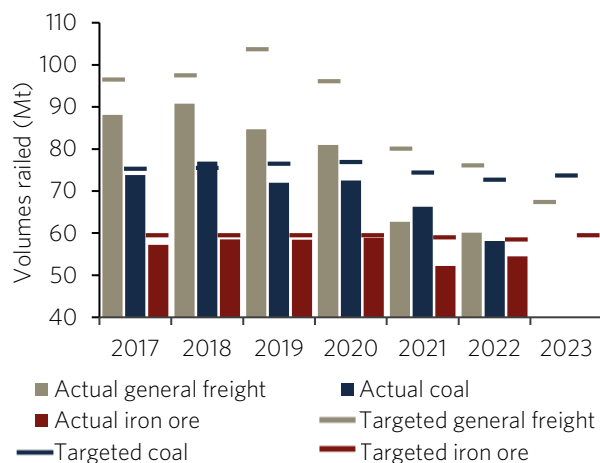


Source: National Treasury, Momentum Investments

According to the National Treasury, SA could have achieved a current account surplus in 2022 had there been no disruptions in the logistics network. The cost of rail inefficiencies is estimated to be 6% of GDP (mostly from coal) in 2022 and 4.9% of GDP in 2023 as seen in chart 5. Rising economic costs are correlated with the lower freight rail volumes shown in chart 6. The targets for general freight have dropped significantly since 2019 and this has been accompanied by a widening gap between actual and targeted volumes. Coal and iron ore targets have remained relatively the same since 2017 but the coal line has experienced a widening gap between target and actual volumes since 2019, while iron ore only started recording a sizeable gap from 2021. A continuation of lower freight rail volumes of coal and iron ore may result in a wider current account deficit because these minerals are part of SA’s top export category (mineral products). In 2022, the value

of mineral products exported accounted for 28% of total exports.

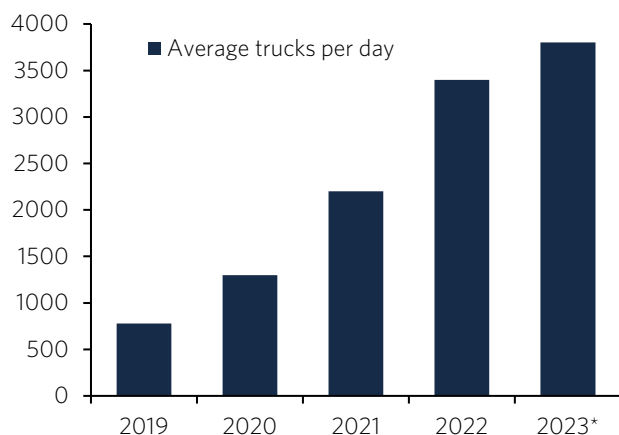
**Chart 6: Lower freight volumes over the years**



Source: National Treasury, Momentum Investments

The decline in coal transported by rail has necessitated a redirection to road transport along with other mined products (see chart 7). The average number of trucks per day in the first quarter of 2023 surpassed the average in 2022. This indicates the increasing dependence on roads as rail performance continues to deteriorate. While the use of road transport reduces the impact of rail inefficiencies, it is 40% more costly according to *Bloomberg*.

**Chart 7: Mined products increasingly transported by road**



Source: Bloomberg, Momentum Investments

\*Includes only first quarter data

Transnet inefficiencies extend from the rail network to ports. Transnet manages eight commercial seaports in SA, located in Cape Town, Durban (largest port), East London, Mossel Bay, Ngqura, Port Elizabeth, Richards Bay and Saldanha. The World Bank's 2022 Container Port Performance Index included only four of the eight SA ports in its comparable assessment. Of the four ports included, Cape Town, Durban and Ngqura were ranked as some of the worst performing ports (bottom 10 of 348 ports) and Port Elizabeth was slightly better at position 291.

The Durban port is currently gridlocked with approximately 63 vessels reported to be stuck during the fourth week of November 2023. According to *Bloomberg*, the backlog extends to around 100 vessels including Richards Bay, Cape Town and Gqeberha. This congestion has prompted MSC, the world's largest container line, to impose a surcharge of US\$210 per 20-foot container of dry cargo from 3 December 2023. Inclusive of the surcharge, the direct costs of the delay are estimated to amount to R98 million a day. Apart from costs, the ongoing congestion is resulting in losses of much-needed revenue for Transnet and the fiscus. The longer-term impact could be subdued economic growth, declining competitiveness of SA exports and lower market share as importers and exporters opt for more efficient ports or alternative forms of transport. *Mining Weekly* recently reported that SA mineral producers are increasingly using Mozambique ports as an alternative given the mounting challenges in SA's ports and rails. While some neighbouring countries may benefit, neighbouring countries that depend on SA as a point of entry may face difficulties.

The impact of the port congestion will likely be reflected negatively in the fourth quarter current account balance and GDP growth.

Although weather is cited as one of the reasons for the ongoing port congestions, operational inefficiencies are a consequence of a multitude of factors that have been worsening over the years. The Office of the Presidency attributes the inefficient port and rail network to historical underinvestment in maintenance, security issues (e.g. cable theft and sabotage), idle equipment,

underfunding for infrastructure, lack of governance, inefficient competition facilitation and slow procurement.

Transnet has implemented a truck booking system as a way to create order but this system is reported to be causing further delays. The entity is engaged in other short-term measures to clear the congestion. The implementation of the Freight Logistics Roadmap could potentially help address challenges in the logistics space. The roadmap aims to improve operations and performance in the short term and transform the logistics system in the long term. An important aspect of the roadmap is the intention to improve efficiency

through private sector participation while government maintains ownership. The implementation of the roadmap will be coordinated by the recently established NLCC tasked with addressing challenges in the rail network and ports.

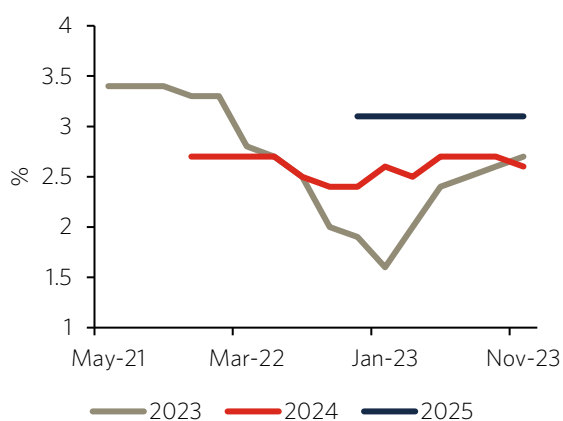
To complement the roadmap, Transnet has developed a turnaround plan that “outlines operational and financial initiatives which must be implemented in the next six, 12 and 18 months to stabilise the business and position it for growth”. Of the R100 billion requested by Transnet to implement the turnaround plan, National Treasury agreed to provide Transnet with a R47 billion loan guarantee facility.

## Global environment not supportive of SA's trade performance

In addition to idiosyncratic factors (logistics and loadshedding), subdued global growth, softer commodity prices and the volatile domestic currency are additional factors expected to weigh on SA's trade in 2024.

The IMF revised its global growth forecast for 2024 down to 2.9% (previously 3%). Furthermore, the SARB's forecast for real GDP growth in SA's major trading partners was revised down to 2.6% for 2024 (previously 2.7%). Lower growth estimates for SA's major trading partners signal weaker demand for SA goods in 2024.

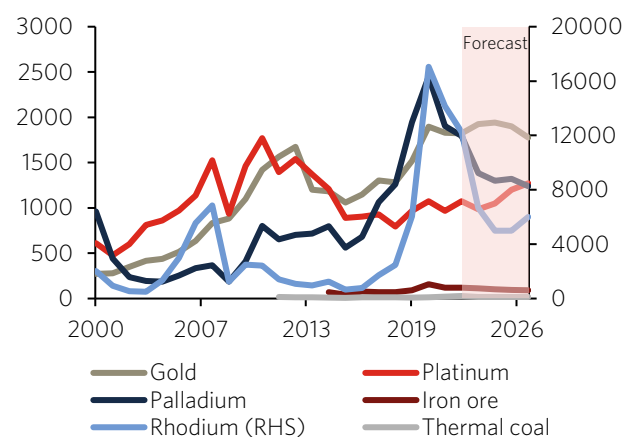
Chart 8: Lower real GDP growth estimated for SA's major trading partners in 2024



Source: SARB November MPC, Momentum Investments

The Institute of International Finance has an above-consensus forecast for China's growth at 4.8% in 2024 (Bloomberg consensus: 4.5%). This is largely driven by an anticipation of the fiscal support implemented in the fourth quarter of 2023 spilling over and boosting growth in 2024. Furthermore, the property market is expected to stabilise but remain below pre-pandemic levels. Better economic prospects in China could support global demand and commodity prices but this is unlikely to be substantial because expected growth is still well below the long-term (1980 to 2022) average growth rate of 9%.

Chart 9: SA's key commodity export prices (US \$)



Source: Bloomberg, Momentum Investments  
Forecasts are Bloomberg consensus at 7 December 2023



The expectation of lower commodity prices through to 2026 (see chart 9) is an important consideration for the performance of SA's trade because almost 50% of the total value of exports in 2022 was derived from mineral products (ores, crude, coal, petroleum and electricity)

and precious metals (gold, platinum, diamonds, jewellery and other precious metals). A lower value of exports will spill over to lower tax revenues, complicate government's fiscal consolidation path and discourage investments.

Foreign affairs are on a better footing compared to recent months

In the November 2023 FSR, the SARB indicated that the risk of secondary sanctions has decreased since the May 2023 FSR. The risk of sanctions was first flagged in the May 2023 FSR when SA's neutral stance on the Russia-Ukraine war came into question. Since then, SA successfully hosted the BRICS summit and the positive outcome from the Lady R inquiry contributed to lower foreign policy risks.

The 20<sup>th</sup> AGOA forum was hosted in SA from 2 to 4 November 2023. Hosting the forum abated fears of SA being excluded from AGOA benefits due to foreign policy turbulence prior to the summit (uncertainty about SA's stance on the Russia-Ukraine war, the Lady R inquiry and the possible attendance of President Vladimir Putin at the BRICS summit).

Outcomes from the AGOA forum:

- Support for the renewal of the Act from key US officials including President Joe Biden (see previous renewals of the Act in table 1.).
- Africa plans to address underutilisation of AGOA and ensure the promotion of value-addition and beneficiation.
- Discussions to complement AGOA with the African Continental Free Trade Area (AfCFTA).
- Possible extension of the benefits to more countries. This follows the exclusion of Niger and Gabon from 1 January 2024 as well as Uganda and Central African Republic which takes member countries down to 31.

According to the Department of Trade, Industry and Competition (DTIC), Africa benefits from AGOA through market access but the US also benefits through job gains (mutually beneficial).

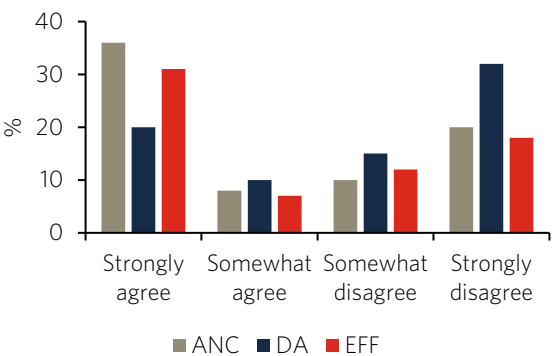
Table 1: AGOA renewed twice since 2000

Date	Details
October 2000	AGOA was originally implemented for eight years (2000 to 2008)
July 2004	President George Bush extends AGOA to 2015 before the initial period lapses
June 2015	AGOA was extended to 2025
September 2023	Senator John Kennedy introduced a bill calling for the Act to be extended to September 2045

Source: AGOA.info, DTIC, Momentum Investments

BusinessDay notes that extending the benefits of AGOA for a longer duration (20 years) as proposed by Senator Kennedy is intended to prevent China's growing influence in Africa. Nevertheless, Africa could benefit from a longer extension because this would create more certainty needed for longer-term investments. There is uncertainty about SA's continued inclusion in AGOA especially with the US elections in 2024 and the possibility of a Republican win. This is a risk because recently, Republicans have lobbied for SA to be excluded from AGOA and for the summit to be hosted in another country.

Chart 10: Voter perception if the Israeli government is practicing apartheid policies against Palestinians



Source: Social Research Foundation, Momentum Investments  
\* Data is based on 1 412 registered voters polled in October 2023

SA's approach to the Israel-Palestine war is direct and clearer, unlike its position on the Russia-Ukraine war where SA's actions were viewed as contradictory to its non-alliance stance. The condemning of Israel is consistent and more aligned with the international community and this reduces the risk of backlash from international partners. However, support for Palestine

has created a divide domestically. As seen in chart 10, a relatively high share of ANC voters does not agree that Israel is practicing apartheid government policies against the people of Palestine. This introduces a risk of the ruling party losing voter support in the 2024 elections.

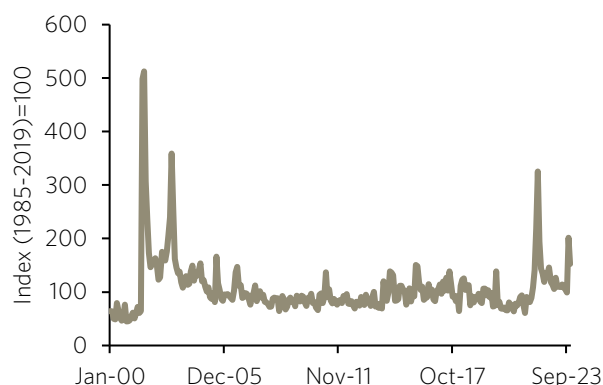
## SA's current account balance expected to deteriorate amid elevated risks

A narrower current account deficit in 2023 would be supportive of the rand but the dim prospects of the current account from 2024 onwards do not bode well for the exchange rate. Nevertheless, the projected level of the current account deficit over the next two years is not yet concerning. We estimate the current account balance to deteriorate from an average surplus of 1.7% of GDP over the past three years (2020 to 2022) to an average deficit of 2.5% of GDP between 2023 and 2025. The swing from a surplus to a deficit is due to softer commodity prices, the logistics crisis in SA as well as weak global growth prospects. Elevated geopolitical tensions (see chart 11) and intensifying logistical challenges are potential risks for a wider current account deficit. The weak domestic economic growth rate is partly arresting the deficit from widening further by constraining import demand.

Government's announcement of fiscal support to Transnet and efforts in consolidating reforms and establishing structures to drive the reforms is an

indication of commitment to try and address the logistics crisis. This is likely in recognition that slow progress in addressing operational issues at Transnet on top of challenges faced in the energy space would exacerbate the vulnerable state of the domestic economy.

Chart 11: Geopolitical risk index remains elevated



Source: Dario Caldara and Matteo Iacoviello  
Data until November 2023