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Energy crisis in South Africa – a barrier to higher economic growth

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One Pager

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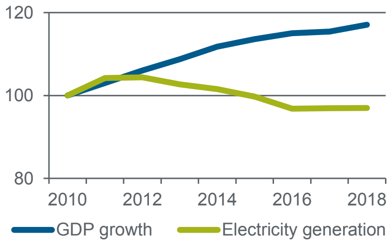
Power outages are again part of everyday life in South Africa

Power scarcity and blackouts have become increasingly common again in Africa's largest economy since the beginning of the year. Shortages in the electricity market have even brought industrial production and mines to a standstill for several hours a day. The reasons for the renewed energy supply problems are mostly structural. But in February and March the situation worsened as the impact of cyclone Idai exacerbated the power outages. The storm had damaged power lines in the north and disrupted energy imports from Mozambique.

Figure 1: Power supply and GDP growth are drifting apart

Index value 2010=100

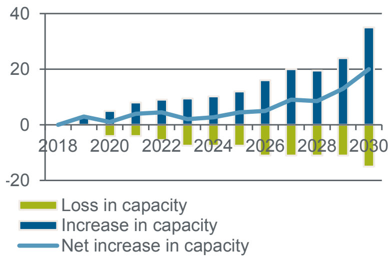


Source: Reuters Eikon, own calculations

The gap between power supply and economic growth illustrated in Figure 1 cannot be explained by efficiency gains alone. The cause of the declining power supply is an extremely outdated stock of power plants (35 years on average) which has also been poorly maintained. Delays in the construction of two new power plants, Medupi and Kusile, are further aggravating the situation. As a result of these delays, Moody's estimates that generation capacity will not rise again until they have been completed in 2023 (Figure 2). Power supply will therefore remain tight for some time to come. In the short term, the situation may even worsen as the heating season is nearing its peak and creating additional power demand.

Figure 2: Power supply will decline until 2020

In gigawatts



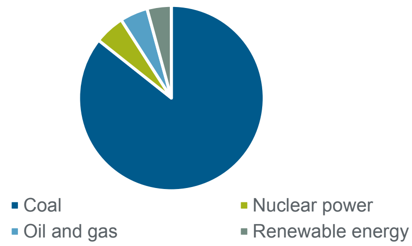
Source: Moody's, own rendition

An over-politicised power market

The national power utility ESKOM, which supplies around 90% of the country's energy, was plagued by massive political influence and mismanagement under Jacob Zuma, who was the country's president from 2009 to 2018. Electricity prices were capped during his tenure for political reasons. ESKOM's debt rose as a result of this policy but also because of delays in power plant projects. It is now at around 8.5% of GDP and poses a burden for the already tight national budget. The excessive politicisation of the power market has also meant that renewables, for which the local climate provides good potential, have hardly played a role in electricity generation in South Africa so far, despite a successful tender programme. The share of renewables in total energy generation is at a very low 4% (Figure 3). In order to secure jobs in the coalmining industry, the take-up of more cost-efficient and decentralised electricity generation from renewables has been deliberately stalled. The influence of the mining industry and power plant operators, as well as mining unions, on the country's energy policy cannot be denied.

Figure 3: South Africa's energy mix in 2018

In per cent



Source: South African Department of Energy

Problems in the energy sector are hampering economic development

The renewed energy crisis has put a dampener on business and household sentiment. As a result, the business confidence index of the Chamber of Commerce and Industry fell to a seven-month low in April. Without resolving the energy crisis, South Africa will not emerge from its phase of weak economic growth, which was 0.8% in 2018 and is estimated by the IMF to rise to 1.4% in 2019. This is much too low to bring down the high unemployment and national debt. Cyril Ramaphosa, the new president, appears to have recognised the problems in the energy sector. However, both he and the newly elected parliament appear to lack the courage for radical reforms. But a modern energy market would be an important condition for South Africa to return to dynamic growth. Germany and its businesses also have a keen interest in this. Nowhere else in Africa have German enterprises invested more. Under the Compact with Africa, both countries are partners that aim to improve investment conditions in Africa. The ongoing problems have weakened South Africa's position in this project. ■