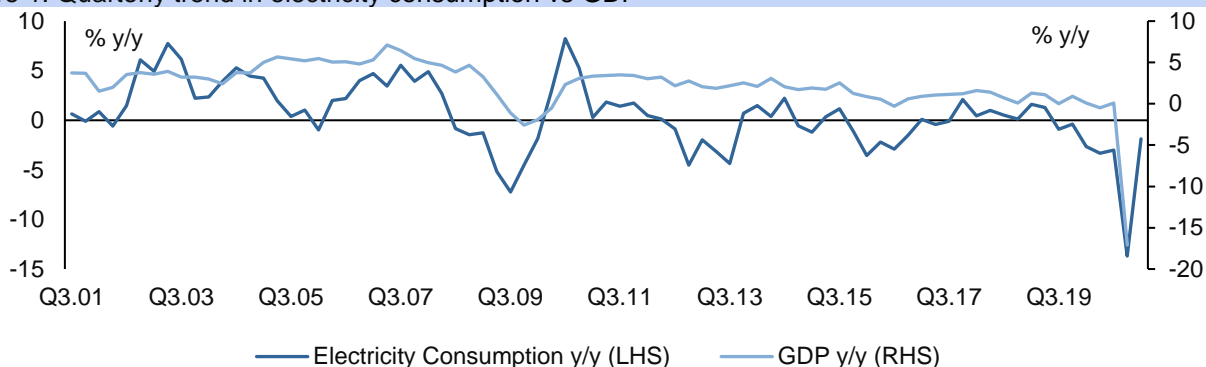


## Electricity update: Electricity generation and consumption fell by a further -3.1% y/y and -2.1% y/y respectively in September, underpinned by the subdued demand environment

Thursday 5 November 2020



Figure 1: Quarterly trend in electricity consumption vs GDP



Source: Stats SA

- Electricity generation and consumption continued to contract in September, when compared to the same period last year, however levels have recovered markedly from those experienced in Q2.20, when stringent lockdown containment measures largely impeded economic activity. Specifically, production fell by -3.1% y/y in September, following August's -2.4% y/y slide (-22.8% y/y was recorded in April), while consumption dipped by -2.1% y/y, following August's marginal -0.4% y/y decline (a -23.3% y/y decrease was recorded in April).
- While some green shoots of recovery in the economy are evident, as evinced by recent high frequency data indicators, activity is unlikely to return to pre Covid-19 levels for some time, impeded by supply side constraints and subdued demand.
- State owned entities, particularly Eskom continue to weigh on government finances, which have been placed under further strain, owing to the necessary provision for Covid-19 relief. Indeed, according to the MTBPS recently tabled by Treasury, government debt is expected to peak at 95.3% in 2025/2026, before retreating.
- Eskom's financial results for the year ending March 2020, reveal the extent of its unsustainable debt burden. Specifically, finance costs of R31.2 billion led to the utility reporting a net loss of R20.5 billion.
- Significant reforms have been made at the utility, in an attempt to prevent further financial and operational deterioration, including "assertive collection strategies against the largest municipal defaulters" and prioritizing the maintenance of its aging fleet. However Eskom's CEO Andre de Ruyter has conceded that in order to deal with company's legacy debt, either tax-payer bailouts or "cost-reflective tariffs" agreed by Nersa are necessary, with the latter "best for Eskom and South Africa."
- The secure and reliable supply of energy is a "pre-requisite for economic recovery," according to Government, thus they have earmarked energy security as one of their primary areas of intervention in the Economic Reconstruction and Recovery Plan for the country. Indeed, investing in a "diversified energy mix can be achieved within a short time horizon, while alleviating a crippling energy crisis and facilitating a necessary transition to a less carbon-intensive economy."

Figure 2: Electricity production and consumption (%)

% y/y	2015	2016	2017	2018	2019	YTD
Production	-1.9	1.0	1.0	0.3	-1.5	-6.4
Consumption	-1.3	-1.0	0.5	0.9	-1.9	-6.3

Source: Investec, Stats SA

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