

South Africa Business Forecast Report Q1 2015

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Abstracts

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Core Views

The South African economy will grow at a tepid rate over the medium term, with real GDP expanding by just 1.5% in 2014 and 2.1% in 2015. Our view is predicated on several factors, including weak investment sentiment and the ongoing retrenchment in the gold and platinum mining sectors.

The appointment of Lesetja Kganyago as incoming governor of South Africa's central bank means that monetary policy will continue in the same vein. Although inflation is above-target, the South African Reserve Bank will hold off from hiking rates over the coming 12 months in a bid to support ailing economic growth.

Our core scenario is for economic reforms to move at a slow pace owing to the different political leanings in the tripartite alliance comprising the ruling African National Congress, the South African Communist Party and the trade union Cosatu, which tend to result in indecision and sclerotic implementation of policy.

Major Forecast Changes

We have changed our interest rate outlook and now expect rates to remain on hold over the coming 12 months. Previously we expected small rate hikes. The change in our view was precipitated by a deterioration in the outlook for economic growth, and a more benign picture for inflation.

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CHAPTER 1: POLITICAL OUTLOOK

SWOT Analysis

BMI Political Risk Index

Domestic Politics

On The Ground: Downbeat Outlook, Sluggish Reforms

A research trip to South Africa in early October revealed that our downbeat outlook on the country is widely shared. We expect slow economic growth and sluggish reform momentum. On a positive note, we anticipate that prudent fiscal and monetary policy will continue.

Table: Political Overview

Long-Term Political Outlook

Political Trials And Tribulations Over The Coming Decade

Many issues threaten South Africa's political stability over the long term, not least the inequalities still stemming from the apartheid era and the foreign policy challenge of Zimbabwe. Although our core scenario envisages no major change to the political backdrop, we present a number of alternative scenarios.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Index

Economic Activity

Weak Consumption Will Weigh On Growth

South Africa will post economic growth of just 1.5% in 2014 and 2.1% in 2015 as the consumer sector struggles amid high unemployment and elevated interest rates. Intermittent industrial action and power shortages will also take their toll on growth.

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New Governor, Same Story: Accommodative MonPol

The appointment of Lesetja Kganyago as incoming governor of South Africa's central bank means that monetary policy will continue in the same vein. Although inflation is above-target, the South African Reserve Bank will hold off from hiking rates over the coming months in a bid to support ailing economic growth.

Table: Monetary Policy

Exchange Rate Policy

ZAR: Locked Into Depreciation

The South African rand looks weak from a technical perspective and will depreciate over the coming two years. Our view is predicated on tepid economic growth, a sustained current account deficit and subdued foreign direct investment.

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Banking Sector

Banking: Sluggish Growth, Pockets Of Opportunity

South Africa's banking sector will see tepid asset and loan growth over the coming years due to sluggish growth in the wider economy and a beleaguered consumer sector in particular. However, there will be opportunities for expansion in the wider Africa region and also through tapping into the domestic lower-middle income market via mobile banking.

CHAPTER 3: 10-YEAR FORECAST

The South African Economy To 2023

Underperformance Among EM Peers Ahead

The South African economy will grow at a slow pace of around 3% annually over the coming 10 years. Power shortages, industrial action and divestment in the mining sector will weigh on economic expansion, resulting in long-term economic underperformance versus emerging market peers.

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