

South Africa Business Forecast Report Q3 2014

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Abstracts

Core Views

BMI sees the South African economy posting tepid growth over the medium term, with real GDP expanding by just 2.2% in 2014. Our below-consensus view is predicated on several factors including tepid investment sentiment and the ongoing retrenchment in the domestic gold mining sector.

South Africa's current account deficit will remain sizeable over the coming years, with BMI predicting that it will remain over 5.0% of GDP in 2014. Inflows to the capital and financial account have propped up the balance of payments in recent years, but with investor appetite for South African bonds waning, this trend can no longer be assured. The ANC's dominant position is coming under threat ahead of legislative polls in April 2014. Dissatisfaction is rising among poor black South Africans who form the majority of the population. Nevertheless, we expect the ANC to win the election.

Major Forecast Changes

We are now forecasting 50 basis points of interest rate hikes for the remainder of the year, while previously we expect rates to remain on hold. This view is predicated on increased inflation risks which the South African Reserve Bank is seeking to contain.

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Key Risks To Outlook

CHAPTER 1: POLITICAL OUTLOOK

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On The Ground: Election Outlook

During a research trip to South Africa in early April, we concluded that although there is widespread dissatisfaction with the ANC, the party will likely maintain its dominance in government given that the opposition is weak and fragmented. We expect that once the polls are over, the ANC will force President Jacob Zuma to step down.

Table: Political I 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

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We are below consensus on South Africa, forecasting real GDP growth of 2.2% in 2014. Our projection is predicated on the Chinese economic slowdown, the troubled domestic mining industry and rising interest rates which will bite the consumer.

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We expect the South African Reserve Bank to hike the repo rate by 50bps over the

remainder of 2014. However, our view is predicated on our expectations of a modestly appreciating rand, contained food price pressures and weak domestic growth - all of which are subject to risk.

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The South African National Treasury's latest budget signals a continuation of prudent policy whereby the fiscal deficit is gradually reined in. We forecast a shortfall equating 4.4% of GDP in fiscal year 2014/2015, which is higher than the Treasury's 4.0% projection primarily due to our lower forecast for real GDP growth.

Table: FISCAL POLICY

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Opportunities And Risks For African Banks

We are optimistic about the prospects for Sub-Saharan Africa banking sectors believing that asset growth will be strong in the years ahead, particularly in those countries where sector penetration remains low. However, asset expansion will not be without its challenges. High interest rates will continue to exclude many would-be borrowers and banks will continue to face difficulties in assessing credit-worthiness. The informal nature of many SSA economies as well as corporate governance weaknesses also present challenges.

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