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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. T he 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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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.

Table: MONETARY POLICY

Fiscal Policy

Fiscal Policy To Remain Prudent And Predictable

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 equaling 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

Regional Economic Outlook

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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The South African Economy To 2023

Structural Constraints To Curb

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While we forecast relatively stable real GDP growth rates over the coming 10 years, ongoing structural shortcomings will continue to limit South Africa's long-term growth potential. High unemployment and powerful trade unions present key challenges to the authorities.

Table: Long-Term Macroeconomic Forecasts

CHAPTER 4: BUSINESS ENVIRONMENT

SWOT Analysis

BMI Business Environment Risk Ratings

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