



## Risk update: will the market optimism on the outcome of the ANC elections be sustained, and meaningfully feed through into the economy?

12<sup>th</sup> January 2018

Figure 1: Economic Scenarios – base case or scenario 3

		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
Base line case 34%	Rand/USD (average)	12.65	12.40	12.40	12.50	12.30	12.10	11.90	11.80
	Repo rate (end rate)	6.75	6.75	6.75	6.75	6.75	6.75	6.75	7.00
Global risk-on and good global growth. SA growth reaches 3.0% y/y by 2023. SA debt generally on high tier of sub-investment grade but improved prospects for the regaining of uniform low tier (BBB) investment grade credit ratings eventually. Sedate pace of global monetary policy normalisation, and sedate pace of SA monetary policy normalisation.									
Q4.17 post MTBPS Base line case 33%	Rand/USD (average)	15.05	15.00	14.75	14.45	14.30	14.15	14.10	14.10
	Repo rate (end rate)	6.75	6.75	7.00	7.25	7.25	7.25	7.25	7.25
Global risk-on and good global growth. SA weak growth, 2.0% y/y reached by 2023. SA debt high tier of sub-investment grade, rand structurally weak. Sedate pace of global monetary policy normalisation, SA repo rate hikes on higher CPI inflation and credit rating downgrades.									
Q3.17 Base line case 35%	Rand/USD (average)	13.60	13.40	13.00	12.70	12.30	12.00	12.05	12.20
	Repo rate (end rate)	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75
Subdued business confidence, growth of 2.0% y/y by 2022. At least one investment grade (IG) local currency (LC) credit rating on long-term sovereign debt. Rand slow return to PPP. Moderate global monetary policy normalisation, global growth returns to long term trend.									
Q2.17 Base line case 35%	Rand/USD (average)	13.20	13.00	12.60	12.25	11.90	11.55	11.65	11.80
	Repo rate (end rate)	7.00	7.00	7.00	7.25	7.25	7.25	7.25	7.25
Trend growth of 2.0% y/y by 2022. SA retains two investment grade ratings on its local currency long-term sovereign debt. Sedate global monetary policy normalisation, neutral to risk-on modestly strengthening global demand. Rand structurally weaker, returns to PPP (by 2020).									

**Note:** Event risk begins Q1.18, historical scenario runs aligned with approved processes

After late December/early January's marked appreciation the rand, and SA's other financial market indicators, have not seen the rally continue, but have not meaningfully lost ground either. Some vacillation has occurred on market rumours of an early Presidential step down from Jacob Zuma, but nothing has been formally communicated yet in this regard, and to date remain market rumours. The risk is seen to have receded slightly for South Africa's outlook, specifically the risk to the downside is assessed to have lessened somewhat, as the extreme down case's probability has dropped from 26% to 22% and the up case has risen from 8% to 10%, while the expected or base

Figure 2: Baseline or expected case exchange rate forecasts

Base line case	Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
USD/ZAR (Av)	12.65	12.40	12.40	12.50	12.30	12.10	11.90	11.80
GBP/ZAR (Av)	17.08	16.96	17.17	17.46	17.10	16.94	16.66	16.52
EUR/ZAR (Av)	14.99	14.76	14.94	15.19	15.01	14.76	14.52	14.40
ZAR/JPY (Av)	8.77	8.79	8.63	8.44	8.70	8.93	9.08	9.15

Source: Investec



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Figure 3: Economic Scenarios – down case or scenario 4

Q1.18		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
Down case	Rand/USD (average)	13.50	14.90	15.80	16.90	17.80	18.50	19.50	17.90
33%	Repo rate (end rate)	7.00	7.50	7.50	7.50	8.00	8.50	8.50	9.00
Global risk-off (market correction), commodity price slump, global economic slowdown. SA's debt sub-investment grade, possibility of further credit rating downgrades. Rand weakness, confidence and investment measures depressed, SA V shaped recession. Government's capacity for expenditure dwindles over the period, including social grants.									
Q4.17 post MTBPS		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
Down case	Rand/USD (average)	16.00	18.00	19.00	19.50	18.50	17.80	16.90	17.00
32%	Repo rate (end rate)	7.00	7.50	8.25	9.00	10.00	10.50	10.50	10.75
Global risk-off (market correction), commodity price slump, global economic slowdown. SA's debt sub-investment grade, increased chance of further credit rating downgrades. Rand weakness, confidence and investment measures depressed, SA V shaped recession. Government's capacity for expenditure reduced, including social grants.									
Q3.17		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
Down case	Rand/USD (average)	18.00	19.00	19.50	18.90	19.00	18.50	18.00	17.70
35%	Repo rate (end rate)	8.00	9.00	9.50	10.00	10.50	10.50	10.75	10.75
SA's foreign and local currency long-term debt is sub-investment grade, increased chance of further credit downgrades. Rand weakness, depressed sentiment. Government's capacity for expenditure reduced. Commodity slump, global sharp slowdown (SA V shaped recession).									
Q2.17		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
Down case	Rand/USD (average)	18.90	19.20	18.60	17.50	16.40	16.20	16.00	15.90
35%	Repo rate (end rate)	8.50	9.00	9.50	10.00	10.50	10.50	10.50	10.75
Foreign and local currency long-term debt sub-investment grade. Higher borrowing costs, risk of further downgrades. Rand weakness, inflation shock, capital exits, business confidence and investment depressed. Government's capacity for expenditure reduced. Strike action.									

**Note:** Event risk begins Q1.18

line case now sees a probability of 34%, from previously 33%. The extreme up case maintains a probability of 1%. The slight changes in these probabilities (see figures 1, 3, 5, 7 and 9) are supported by the Cyril Ramaphosa win at the ANC elective conference, and so the fact that he is likely to become president of SA. In particular, his proposed policies (see "Macro-economic outlook 2018–2023: Global growth is expected to strengthen somewhat further; for SA's growth free market policies are key", 5<sup>th</sup> January 2018, website address below) have improved market confidence,

Figure 4: Down case exchange rate forecasts

Down case	Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
USD/ZAR (Av)	13.50	14.90	15.80	16.90	17.80	18.50	19.50	17.90
GBP/ZAR (Av)	18.23	20.38	21.88	23.60	24.74	25.90	27.30	25.06
EUR/ZAR (Av)	16.00	17.73	19.04	20.53	21.72	22.57	23.79	21.84
ZAR/JPY (Av)	8.22	7.32	6.77	6.24	6.01	5.84	5.54	6.03

Source: Investec



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Figure 5: Economic Scenarios – extreme down case or scenario 5

Q1.18		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
Extreme	Rand/USD (average)	15.00	17.00	19.00	21.00	22.80	24.00	25.50	26.00
down case	Repo rate (end rate)	7.50	8.50	10.50	14.00	16.50	18.00	21.00	21.50
22%	A failed state (state bankruptcy). Credit ratings junk, sovereign debt default & restructure. Lack of funds to pay public sector employees' wages and social grants, persistent government services outages, civil unrest/war. Partial loss of private sector property rights under state custodianship. SA economic depression, global recession.								
Q4.17 post		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
MTBPS	Rand/USD (average)	17.00	19.00	21.00	22.80	24.00	25.50	26.00	26.10
Extreme	Repo rate (end rate)	8.00	10.00	13.00	15.50	17.00	19.00	22.00	22.00
down case	The path to a failed state (state bankruptcy). Credit ratings junk, sovereign debt default & restructure. Lack of funds to pay public sector employees' wages and social grants, persistent government services outages, civil unrest/war. Partial loss of commercial private sector property rights. SA economic depression, global recession.								
26%		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
Q3.17	Rand/USD (average)	21.00	22.30	24.00	25.50	27.00	27.50	27.75	28.30
Extreme	Repo rate (end rate)	10.50	14.00	16.50	18.00	21.00	21.00	21.50	21.50
Down case	State bankruptcy, the path to a failed state. Credit ratings junk, sovereign debt default, debt restructure. Lack of funds to pay social grants and civil servants wages, civil unrest/war, persistent government services outages. Partial loss of commercial private sector property rights under state custodianship. SA economic depression, global recession.								
19%		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
Q2.17	Rand/USD (average)	18.50	20.00	21.20	22.30	23.50	24.10	25.00	25.40
Extreme	Repo rate (end rate)	9.50	10.50	11.00	12.00	13.00	15.00	17.00	19.00
down case	State bankruptcy (failed state). Debt trap, debt default, sovereign debt restructure and haircuts on sovereign debt. Lack of funds to pay social grants, civil servants wages, civil unrest/war. Electricity, water, government services outages. Loss of private sector property rights under nationalization, capital exits. Business confidence record low. Economic depression.								
19%									

**Note:** Event risk begins Q1.18

and are likely to result in some lift in the next BER business confidence index reading as well (Q1.18). Indeed, with Moody's seeing Ramaphosa as ANC president as credit positive, the likelihood of SA losing its remaining key investment grade ratings has certainly not increased, and may even have declined somewhat. Fitch has delivered a marginally more positive verdict as well

Figure 6: Extreme down case exchange rate forecasts

Extreme Down	Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
USD/ZAR (Av)	15.00	17.00	19.00	21.00	22.80	24.00	25.50	26.00
GBP/ZAR (Av)	20.25	23.25	26.32	29.33	31.69	33.60	35.70	36.40
EUR/ZAR (Av)	17.78	20.23	22.90	25.52	27.82	29.28	31.11	31.72
ZAR/JPY (Av)	7.40	6.41	5.63	5.02	4.69	4.50	4.24	4.15

Source: Investec



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Figure 7: Economic Scenarios – up case or scenario 2

		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
Up case 10%	Rand/USD (average)	11.70	11.15	10.70	10.50	10.55	10.30	10.40	10.55
	Repo rate (end rate)	6.25	6.00	5.50	5.50	5.25	5.25	5.25	5.25
<p>Persistent economic growth of 3-5%, with growing probability of extreme up case thereafter. Good governance, growth creating economic reforms in line with global norms (structural constraints are overcome) and greater socio-economic stability. High business confidence and private sector fixed investment growth, fiscal consolidation. Strong global growth and commodity cycle. Stabilisation of credit ratings, then upgrades back into the BBB category.</p>									
Q4.17 post MTBPS Up case 8%	Rand/USD (average)	12.60	12.20	11.80	11.50	11.20	10.50	10.55	10.65
	Repo rate (end rate)	6.50	6.25	6.25	6.00	5.50	5.50	5.50	5.50
<p>Persistent economic growth of 3-5%, with growing probability of extreme up case thereafter. Good governance, growth creating economic reforms in line with global norms (structural constraints are overcome) and greater socio-economic stability. High business confidence and private sector fixed investment growth, fiscal consolidation. Strong global growth and commodity cycle. Stabilisation of credit ratings, then upgrades.</p>									
Q3.17 Up case 10%	Rand/USD (average)	12.50	12.40	11.90	11.50	11.20	10.90	11.00	11.10
	Repo rate (end rate)	6.50	6.50	6.00	6.00	5.50	5.50	5.50	5.50
<p>Persistent economic growth of 3-5%, with extreme up case thereafter. Better governance, growth creating economic reforms in line with global norms (structural constraints overcome) - this lifts business confidence and so private sector fixed investment growth rises to double digits, fixed investment inflows occur, resulting in faster GDP growth and fiscal consolidation. Strong global growth and commodity cycle. Stabilisation of credit ratings, then upgrades.</p>									
Q2.17 Up case 15%	Rand/USD (average)	12.40	11.90	11.50	11.20	10.90	10.55	10.80	10.90
	Repo rate (end rate)	6.50	6.50	6.00	6.00	5.50	5.50	5.50	5.00
<p>Persistent economic growth of 3-5% on domestic economic reforms, strong global growth and upwards commodity cycle. Better governance, retreat from the threat to private sector property rights. Fiscal consolidation stabilises credit ratings. Rand achieves PPP by 2020.</p>									

**Note:** Event risk begins Q1.18

compared to its country review in late 2017, stating that the 2018 Budget could deliver moderate fiscal consolidation on both the revenue and expenditure side. However, it warned that political

Figure 8: Up case exchange rate forecasts

Up case	Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
USD/ZAR (Av)	11.70	11.15	10.70	10.50	10.55	10.30	10.40	10.55
GBP/ZAR (Av)	15.80	15.25	14.82	14.66	14.66	14.42	14.56	14.77
EUR/ZAR (Av)	13.86	13.27	12.89	12.76	12.87	12.57	12.69	12.87
ZAR/JPY (Av)	9.49	9.78	10.00	10.05	10.14	10.49	10.38	10.24

Source: Investec



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Figure 9: Economic Scenarios – extreme up case or scenario 1

Q1.18		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
Extreme	Rand/USD (average)	10.75	10.00	9.50	9.00	8.60	7.90	7.60	7.40
Up case	Repo rate (end rate)	6.00	5.75	5.50	5.25	5.00	5.00	5.00	4.50
1%	Sustainable growth of 5.0-7.0% y/y plus. Change in political will sees growth creating reforms, in line with global norms, that structurally lift private sector investor confidence and so fixed investment. Global growth boom (including commodities), SA export and domestic growth boom lifts employment and incomes to the degree that poverty is ultimately eliminated. Fiscal consolidation, credit rating upgrades to A grade eventually, interest rate cuts.								
Q4.17 post		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
MTBPS	Rand/USD (average)	11.70	10.60	9.50	8.60	7.90	7.60	7.40	7.50
Extreme	Repo rate (end rate)	6.50	6.00	5.50	5.00	5.00	5.00	5.00	5.00
up case	Sustainable growth of 5.0-7.0% y/y plus. Change in political will sees growth creating reforms, in line with global norms, that structurally lift private sector investor confidence and so fixed investment. Global growth boom (including commodities), SA export and domestic growth boom lifts employment and incomes to the degree that poverty is ultimately eliminated. Fiscal consolidation, credit rating upgrades to A grade eventually, interest rate cuts.								
1%									
Q3.17		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
Extreme	Rand/USD (average)	10.60	9.50	8.70	8.20	7.90	7.70	7.75	7.85
up case	Repo rate (end rate)	6.50	6.00	5.50	5.00	5.00	5.00	5.00	5.00
1%	Fast, sustainable economic growth of 5.0-7.0% y/y plus. SA sees change in political will that structurally lifts investor confidence, fixed investment, growth creating economic reforms in line with global norms. Global growth boom (including commodities). Fiscal consolidation, credit rating upgrades with potential for A grade ultimately, interest rate cuts.								
Q2.17		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
Extreme	Rand/USD (average)	9.50	8.70	8.20	7.90	7.70	7.45	7.60	7.65
up case	Repo rate (end rate)	5.50	5.00	5.00	5.00	4.50	4.50	4.50	4.50
1%	Fast, sustainable growth of 5-7% y/y plus. End of threat to private sector property rights, pro private sector business (capitalist) policies bring certainty to investor climate, business confidence booms, employment rises markedly. Global growth (including commodity boom). Credit rating upgrades occur, interest rate cuts. Currency appreciation shock.								

**Note:** Event risk begins Q1.18

uncertainty will likely persist this year. The rating agencies will closely review the 2018 Budget, which is now hoped to deliver the fiscal consolidation, particularly on the expenditure side that was

Figure 10: Extreme up case exchange rate forecasts

Extreme up	Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
USD/ZAR (Av)	10.75	10.00	9.50	9.00	8.60	7.90	7.60	7.40
GBP/ZAR (Av)	14.51	13.68	13.16	12.57	11.95	11.06	10.64	10.36
EUR/ZAR (Av)	12.74	11.90	11.45	10.94	10.49	9.64	9.27	9.03
ZAR/JPY (Av)	10.33	10.90	11.26	11.72	12.44	13.67	14.21	14.59

Source: Investec





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Figure 11: Down and extreme case scenarios

	2018	2019	2020	2021	2022	2023
<b>Down case</b>						
GDP (real, %)	0.2	-1.7	0.8	1.1	1.1	1.3
Unemployment rate (%)	28.3	29.3	30.4	30.6	30.6	31.3
USD/ZAR (Average)	15.28	18.43	17.25	17.39	17.82	18.38
Repo rate (% , end period)	7.50	9.00	9.00	8.25	8.25	8.50
SA rand bond (% , end period)	11.53	12.01	11.71	10.60	10.19	10.09
Consumer Inflation (Average, %)	4.8	6.3	6.3	6.2	5.9	5.8
<b>Extreme down case</b>						
GDP (real, %)	-0.9	-5.0	-2.4	-0.1	1.1	1.2
Unemployment rate (%)	28.3	30.8	33.8	35.6	36.0	35.9
USD/ZAR (Average)	18.00	24.58	25.05	25.26	25.89	26.70
Repo rate (% , end period)	16.50	22.00	18.00	17.00	15.50	15.00
SA rand bond (% , end period)	13.41	16.60	17.18	15.10	13.34	12.32
Consumer Inflation (Average, %)	4.9	6.8	7.1	7.0	6.5	6.5

**Note:** Event risk begins Q1.18

lacking in 2017's MTBPS. Jacob Zuma is expected to deliver the State of the Nation Address (SONA) in February and is likely to stick largely to the ANC party line. The speech will be scrutinised for spending pressure on public finances, but the detail will be in the Budget. In the 2018 Budget upwards pressure is expected to be announced on the taxation of high net worth individuals and high income brackets, sin taxes and the petrol levy, and other areas identified by the Davis Tax commission previously. With a downgrade from Moody's still on the cards unless the 2018 Budget

Figure 12: Up and extreme up case scenarios

	2018	2019	2020	2021	2022	2023
<b>Up case</b>						
GDP (real, %)	1.2	2.7	4.0	4.1	5.0	5.4
Unemployment rate (%)	28.2	28.3	27.3	25.9	24.2	23.6
USD/ZAR (Average)	11.01	10.45	9.94	10.07	10.48	11.00
Repo rate (% , end period)	5.50	5.25	5.25	5.00	5.00	5.00
SA rand bond (% , end period)	8.55	8.16	7.65	7.49	7.59	7.61
Consumer Inflation (Average, %)	4.6	5.3	5.2	5.3	5.2	5.3
<b>Extreme up case</b>						
GDP (real, %)	1.6	4.1	5.7	6.3	7.0	7.2
Unemployment rate (%)	28.2	27.9	26.2	23.7	21.6	21.1
USD/ZAR (Average)	9.81	7.88	7.03	7.16	7.58	8.11
Repo rate (% , end period)	5.25	4.50	4.50	4.50	4.50	4.50
SA rand bond (% , end period)	8.17	7.68	7.19	6.91	6.68	6.54
Consumer Inflation (Average, %)	4.5	5.0	4.8	4.8	4.7	4.8

**Note:** Event risk begins Q1.18



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Figure 13: the risk to the downside has lessened slightly compared to the outlook in Q4.17

		Q1.18	Q2.18	Q3.18	Q4.18	Q1.19	Q2.19	Q3.19	Q4.19
<b>Q1.18</b>									
Extreme	Rand/USD (average)	10.75	10.00	9.50	9.00	8.60	7.90	7.60	7.40
Up case	Repo rate (end rate)	6.00	5.75	5.50	5.25	5.00	5.00	5.00	4.50
<b>1%</b>	Sustainable growth of 5.0-7.0% y/y plus. Change in political will sees growth creating reforms, in line with global norms, that structurally lift private sector investor confidence and so fixed investment. Global growth boom (including commodities), SA export and domestic growth boom lifts employment and incomes to the degree that poverty is ultimately eliminated. Fiscal consolidation, credit rating upgrades to A grade eventually, interest rate cuts.								
<b>Q1.18</b>									
Up case	Rand/USD (average)	11.70	11.15	10.70	10.50	10.55	10.30	10.40	10.55
<b>10%</b>	Repo rate (end rate)	6.25	6.00	5.50	5.50	5.25	5.25	5.25	5.25
	Persistent economic growth of 3-5%, with growing probability of extreme up case thereafter. Good governance, growth creating economic reforms in line with global norms (structural constraints are overcome) and greater socio-economic stability. High business confidence and private sector fixed investment growth, fiscal consolidation. Strong global growth and commodity cycle. Stabilisation of credit ratings, then upgrades back into the BBB category.								
<b>Q1.18</b>									
Base line case	Rand/USD (average)	12.65	12.40	12.40	12.50	12.30	12.10	11.90	11.80
<b>34%</b>	Repo rate (end rate)	6.75	6.75	6.75	6.75	6.75	6.75	6.75	7.00
	Global risk-on and good global growth. SA growth reaches 3.0% y/y by 2023. SA debt generally on high tier of sub-investment grade but improved prospects for the regaining of uniform low tier (BBB) investment grade credit ratings eventually. Sedate pace of global monetary policy normalisation, and sedate pace of SA monetary policy normalisation.								
<b>Q1.18</b>									
Down case	Rand/USD (average)	13.50	14.90	15.80	16.90	17.80	18.50	19.50	17.90
<b>33%</b>	Repo rate (end rate)	7.00	7.50	7.50	7.50	8.00	8.50	8.50	9.00
	Global risk-off (market correction), commodity price slump, global economic slowdown. SA's debt sub-investment grade, possibility of further credit rating downgrades. Rand weakness, confidence and investment measures depressed, SA V shaped recession. Government's capacity for expenditure dwindles over the period, including social grants.								
<b>Q1.18</b>									
Extreme down case	Rand/USD (average)	15.00	17.00	19.00	21.00	22.80	24.00	25.50	26.00
<b>22%</b>	Repo rate (end rate)	7.50	8.50	10.50	14.00	16.50	18.00	21.00	21.50
	A failed state (state bankruptcy). Credit ratings junk, sovereign debt default & restructure. Lack of funds to pay public sector employees' wages and social grants, persistent government services outages, civil unrest/war. Partial loss of private sector property rights under state custodianship. SA economic depression, global recession.								

Note: Event risk begins Q1.18. Source: Investec, IRESS

provides meaningful fiscal consolidation, particularly on borrowings and expenditure, the rand could weaken in Q1.18. Despite a likely lift in Q1.18 business confidence, and possibly for the year, it is unlikely to be sufficient to feed through into substantially higher fixed investment levels to the extent that drive economic growth towards 5.0% (up case), as little is expected to change the governance of the country this year. The Budget cannot deliver substantial fiscal consolidation (via substantial



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Figure 14: Macro forecasts, real growth rates %	2017	2018	2019	2020	2021	2022	2023
GDP (real, %)	0.9	1.3	1.7	2.2	2.3	2.7	3.0
HCE (real, %)	1.3	1.5	2.3	2.4	2.5	2.6	2.5
GCE (real, %)	0.3	0.7	1.0	1.0	1.1	1.1	1.2
GFCF (real, %)	0.3	1.0	1.2	3.2	3.7	4.2	4.9
GDE (real, %)	1.2	1.3	1.7	2.3	2.5	2.7	2.8
Export (goods & non-factor services) - (real, %)	2.0	3.9	5.4	6.0	6.0	5.7	5.6
Imports (goods & non-factor services) - (real, %)	2.6	3.8	4.5	6.0	5.5	5.6	6.2
Balance: Current Account - (% of GDP)	-2.4	-2.8	-2.8	-2.7	-3.0	-3.1	-3.1
Imports as % of GDP	30.8	31.6	32.4	33.7	34.7	35.7	36.8
Exports as % of GDP	30.0	30.7	31.9	33.1	34.3	35.3	36.2

Note: Forecasts for base line /expected case

Figure 15: Consumption Expenditure forecasts	2017	2018	2019	2020	2021	2022	2023
HCE, total (real, %)	1.3	1.5	2.3	2.4	2.5	2.6	2.5
HCE as % of GDP	60.9	61.0	61.3	61.6	61.6	61.6	61.3
Unemployment rate (%)	27.7	28.1	28.4	28.1	27.5	27.0	26.6
Population (million)	56.7	57.4	58.1	58.7	59.4	60.0	60.6
Employment growth rate (%)	2.7	1.1	0.6	1.3	1.6	1.6	1.5
Compensation of employees (%)	7.5	9.4	9.4	9.5	9.4	9.5	9.6
GCE as % of GDP	20.4	20.3	20.2	20.0	19.7	19.4	19.1

Note: Forecasts for base line /expected case

Figure 16: Fixed Investment forecasts	2017	2018	2019	2020	2021	2022	2023
GFCF, total (real, %)	0.3	1.0	1.2	3.2	3.7	4.2	4.9
GFCF as % of GDP	19.9	19.8	19.7	20.0	20.2	20.5	20.9
Private sector (real, %)	-1.4	1.0	3.6	4.5	4.2	4.4	5.0
Government (real, %)	2.9	0.9	-2.2	1.1	2.9	3.9	4.7
Non-residential GFCF (real, %)	-1.6	1.6	3.5	4.8	4.4	4.5	5.0
Residential buildings (real, %)	0.0	-2.3	3.9	2.9	2.9	4.0	4.7

Note: Forecasts for base line /expected case

tax hikes) without plunging the country into austerity measures that cause SA to fall into recession, with unemployment above 30%. Fitch highlights that its forecast for SA's GDP growth this year and next, at 1.6% and 2.0% are "still lower than the 'BB' rating category median", indicating that the rating pressure from this source is negative (SA's economic growth rate is likely to still be too low). Long-term, austerity measures would cause unemployment in South Africa to climb towards 40%, greatly increasing civil unrest and causing political instability. Austerity measures traditionally include severe cuts to civil servant remuneration, including pensions, lifting retirement ages, reducing working hours and so salaries, and also retrenchments. Focus is needed on those SOE'S with marked contingent liabilities for cost cutting. Public sector wages in general have seen very





## Risk update: will the market optimism on the outcome of the ANC elections be sustained, and meaningfully feed through into the economy?

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Figure 17: Monetary Sector forecasts	2017	2018	2019	2020	2021	2022	2023
Repo Rate (year-end: %)	6.75	6.75	7.00	7.00	7.00	7.00	7.00
Prime Overdraft Rate (year-end: %)	10.25	10.25	10.50	10.50	10.50	10.50	10.50
SA rand bond (year-end: %)	9.02	9.00	9.05	8.80	8.60	8.50	8.30

Note: Forecasts for base line /expected case

Figure 18: Inflation forecasts	2017	2018	2019	2020	2021	2022	2023
Consumer Inflation (Av: %)	5.3	4.8	5.3	5.5	5.4	5.5	5.4
(year-end: %)	4.5	5.0	6.0	5.0	5.7	5.2	5.6
Producer Inflation (Av: %)	4.9	4.3	4.4	5.1	5.4	5.5	5.5
(year-end: %)	5.2	2.9	5.4	4.9	5.4	5.5	5.5
Salary & wage increases (%)	6.7	6.5	6.6	7.0	6.9	7.2	7.3

Note: Forecasts for base line /expected case

Figure 19: exchange rate forecasts: averages	2017	2018	2019	2020	2021	2022	2023
USD/ZAR	13.30	12.49	12.03	11.14	11.26	11.73	12.33
GBP/ZAR	17.15	17.17	16.80	15.59	15.77	16.42	17.26
EUR/ZAR	15.01	14.97	14.67	13.59	13.80	14.48	15.31
ZAR/JPY	8.43	8.66	8.96	9.61	9.50	9.13	8.68
GBP/USD	1.29	1.37	1.40	1.40	1.40	1.40	1.40
EUR/USD	1.13	1.20	1.22	1.22	1.23	1.24	1.24
USD/JPY	112	108	108	107	107	107	107

Note: Forecasts for base line /expected case

substantial increases since 2009, a pace which has now largely been rendered unaffordable if SA wants to avoid downgrades of its last key investment grade sovereign credit ratings to sub-investment grade; and the trajectory then points lower - to a decline through the high tier of investment grade into the mid to low tiers. Past government attempts at pulling in the pace of public sector and SOE employees' remuneration increases have been insufficient to allow for fiscal consolidation, as has attempts at containing other current expenditure, with the number of civil servants and departments also proliferating since 2009. SA's current expenditure needs to persistently match or fall short of SA's current revenue for fiscal consolidation, and its borrowings to reduce.

Eskom has heavy funding needs, and was unsuccessful in its high tariff application, which means it will either need to sharply cut down on its expenditure, privatise or place additional burden on the public purse for funding, likely some of each. With government providing guarantees for Eskom debt, failure by the utility to roll over or meet its debt obligations would mean government is liable, but SA's public finances cannot repay Eskom's debt without issuing substantially more SA government debt – which would put further downwards pressure on SA credit ratings. Fitch highlights that "(c)ontingent liabilities from state-owned enterprises are also a risk to public debt levels", and its "forecasts assume moderate fiscal consolidation in the February budget, incorporating revenue and spending measures under discussion by the presidential fiscal committee but that were not factored into October's Medium-Term Budget Policy Statement".



## Risk update: will the market optimism on the outcome of the ANC elections be sustained, and meaningfully feed through into the economy?

12<sup>th</sup> January 2018

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