Q1.20 Macro-economic outlook 2020–2025: South Africa sees its growth outlook sag further on lack of sufficient regulatory reforms and repair

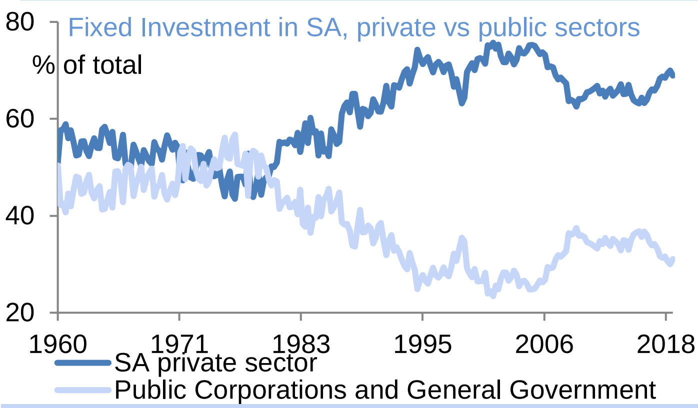
10th January 2020

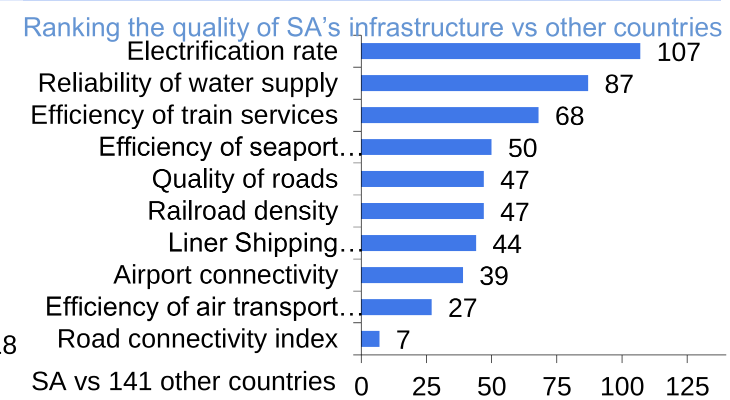
Figure 1: Summary, % real growth rates	2018	2019	2020	2021	2022	2023	2024	2025
GDP	0.8	0.2	0.8	1.6	2.0	2.3	2.6	3.0
HCE	1.8	1.0	1.2	1.6	2.0	2.2	2.5	2.9
GCE	1.9	1.5	1.0	1.1	1.1	1.1	1.2	1.2
GFCF	-1.4	-0.3	2.3	2.6	3.2	3.9	4.3	4.9
GDE	0.9	1.1	1.2	1.6	2.1	2.4	2.8	3.0
Exports (goods & non-factor services)	2.6	-3.2	1.7	4.5	4.1	4.4	4.5	4.9
Imports (goods & non-factor services)	3.3	0.1	2.2	4.7	4.4	4.6	4.7	5.0
Balance: Current Account - (% of GDP)	-3.6	-3.7	-3.8	-3.7	-3.7	-3.5	-3.4	-3.4

Source: SARB, Investec

South Africa is at risk of seeing an economic growth rate of below 1.0% y/y this year as a number of structural problems remain unresolved. This comes after a growth rate of likely below 0.5% y/y in 2019, not least due to substantial, periodic losses of electricity supply. Not all areas of South Africa's economy performed poorly in 2019, the private sector made a substantial contribution to capital expenditure in the middle two quarters, likely returned further investment in Q4.19 and is expected to do so through 2020, providing support to GDP as the investment drive continues to gain traction. The private sector accounts for 70% of fixed investment in South Arica, while government accounts for only 16% and public corporations below 15%. Private business enterprises saw capital expenditure growth rates of 15.8% qqsaa in the second quarter of 2019, and 10.8% qqsaa in the third quarter, with a positive outturn likely for private sector corporates' fixed investment growth in Q4.19 as well. However, Government likely returned negative rates on fixed investment in 2019, with public sector capex down -16.3% qqsaa in Q2.19, and -17.8% qqsaa in Q3.19, after contracting by -2.1% qqsaa in Q1.19. 2020 would see further contraction in government fixed investment if projects budgeted for do not go ahead, while this is also an area that risks budget cuts as government seeks to reduce expenditure to avoid a Moody's credit rating downgrade. Moody's is scheduled to deliver its country review on 27th March (with the Budget in February). The

Figure 2: Private sector continues to invest more than double the public sector in SA





Source: SARB, WEF Global Competitiveness Report

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Figure 3: Summary, % real growth rates (incl. residual)	**2019 Q1**	**2019 Q2**	**2019 Q3**	**2019 Q4**	**2020 Q1**	**2020 Q2**	**2020 Q3**	**2020 Q4**	**2021 Q1**	**2021 Q2**	**2021 Q3**	**2021 Q4**
GDP (real, y/y %)	0.1	1.0	0.2	-0.5	0.1	0.0	0.9	2.0	2.2	1.9	1.4	1.0
HCE (real, y/y %)	0.8	1.4	1.3	0.6	1.0	0.8	1.3	1.7	1.7	1.7	1.6	1.6
GCE (real, y/y %)	1.3	1.5	1.7	1.4	1.0	0.6	0.8	1.7	1.6	1.4	0.9	0.3
GFCF (real, y/y %)	-2.8	-0.5	0.8	1.4	3.1	1.9	1.6	2.6	2.8	2.9	2.4	2.4
GDE (real, y/y %)	-0.6	1.8	0.6	2.6	1.5	-0.1	1.4	2.0	1.9	1.8	1.5	1.2
Export (goods & non-factor services) - (real, y/y %)	1.5	0.1	-4.7	-9.2	-0.9	1.0	1.6	5.0	5.2	4.7	4.2	4.0
Imports (goods & non-factor services) - (real, y/y %)	-0.4	3.7	-3.2	0.6	2.9	-0.4	2.4	4.0	4.2	4.5	4.7	5.1
Current Account – (% GDP)	-2.9	-4.1	-3.7	-4.2	-4.0	-3.8	-3.8	-3.7	-3.6	-3.7	-3.8	-3.7
Imports as % of GDP	30.3	31.3	30.8	30.8	31.1	31.2	31.3	31.4	31.7	32.0	32.3	32.6
Exports as % of GDP	28.8	28.5	28.8	28.2	28.5	28.8	29.0	29.1	29.3	29.5	29.7	29.9

Note: The GDP figures are from the expenditure side and so include the residual. Source: SARB, Investec

Figure 4: Summary, % real growth rates (incl. residual)	**2022 Q1**	**2022 Q2**	**2022 Q3**	**2022 Q4**	**2023 Q1**	**2023 Q2**	**2023 Q3**	**2023 Q4**	**2024 Q1**	**2024 Q2**	**2024 Q3**	**2024 Q4**
GDP (real, y/y %)	1.4	1.8	2.2	2.5	2.5	2.4	2.3	2.1	2.3	2.5	2.7	2.9
HCE (real, y/y %)	1.8	2.0	2.1	2.2	2.3	2.2	2.2	2.2	2.3	2.4	2.5	2.8
GCE (real, y/y %)	0.6	0.9	1.3	1.5	1.3	1.2	1.0	1.0	1.1	1.2	1.3	1.2
GFCF (real, y/y %)	2.7	3.1	3.5	3.6	3.8	3.9	4.1	4.0	4.1	4.3	4.4	4.6
GDE (real, y/y %)	1.8	2.0	2.2	2.3	2.6	2.4	2.3	2.3	2.5	2.8	3.0	3.1
Export (goods & non-factor services) - (real, y/y %)	4.0	4.0	4.1	4.3	4.3	4.3	4.4	4.6	4.4	4.4	4.5	4.5
Imports (goods & non-factor services) - (real, y/y %)	5.0	4.6	4.1	3.8	3.9	4.4	4.8	5.3	5.1	5.0	4.6	4.1
Current Account – (% of GDP)	-3.7	-3.8	-3.7	-3.5	-3.5	-3.5	-3.5	-3.4	-3.4	-3.5	-3.5	-3.3
Imports as % of GDP	32.8	32.9	32.9	33.0	33.3	33.5	33.7	34.1	34.2	34.4	34.4	34.4
Exports as % of GDP	30.1	30.2	30.3	30.4	30.6	30.8	30.9	31.2	31.2	31.3	31.5	31.6

Note: The GDP figures are from the expenditure side and so include the residual. Source: SARB, Investec

Figure 5: Summary, % real growth rates (incl. residual)	**2025 Q1**	**2025 Q2**	**2025 Q3**	**2025 Q4**
GDP (real, y/y %)	3.0	3.0	3.0	3.0
HCE (real, y/y %)	2.8	2.9	3.0	3.0
GCE (real, y/y %)	1.2	1.2	1.1	1.4
GFCF (real, y/y %)	4.7	4.9	4.9	5.0
GDE (real, y/y %)	2.9	3.0	3.0	3.1
Export (goods & non-factor services) - (real, y/y %)	4.9	4.9	5.0	4.9
Imports (goods & non-factor services) - (real, y/y %)	4.5	4.6	5.2	5.8
Current Account – (% of GDP)	-3.3	-3.4	-3.4	-3.4
Imports as % of GDP	34.7	34.9	35.1	35.4
Exports as % of GDP	31.8	31.9	32.1	32.2

Note: The GDP figures are from the expenditure side and so include the residual. Source: SARB, Investec

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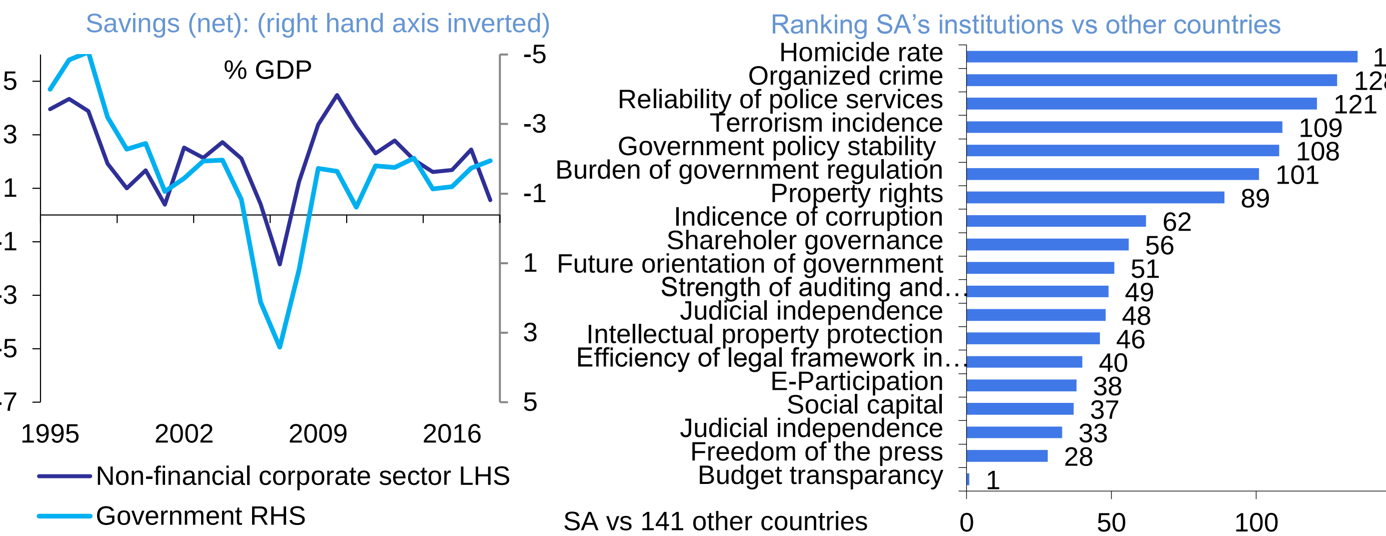
Figure 6: Gross Fixed Capital Formation	2018	2019	2020	2021	2022	2023	2024	2025
GFCF, total (real, %)	-1.4	-0.3	2.3	2.6	3.2	3.9	4.3	4.9
GFCF as % of GDP	19.4	19.3	19.6	19.8	20.0	20.3	20.7	21.1
Private sector (real, %)	2.1	1.8	3.0	3.5	4.2	5.0	5.6	6.2
Government (real, %)	-8.4	-4.8	0.6	0.5	0.8	1.1	1.1	1.2
Non-residential GFCF (real, %)	3.0	2.4	3.2	3.7	4.3	5.1	5.7	6.3
Residential buildings (real, %)	-3.2	-2.7	1.4	2.4	3.3	4.7	4.6	5.3

Source: Investec, SARB

agency has already placed SA's long-term sovereign debt on a negative outlook towards the end of last year, indicating that it plans to downgrade SA to sub-investment grade, from its rating on the last rung of investment grade, if SA does not make the necessary changes that would allow its rating to return to stable. Specifically Moody's has said SA would avoid a downgrade "if the government's efforts to rein in spending, improve tax compliance and lift potential growth became increasingly likely to successfully stabilize debt ratios. "National treasury has put forward key areas where expenditure cuts need to be made to consolidate government's finances materially, which specifically includes cutting above inflation civil servants' remuneration growth. If unsuccessful SA will likely see a rating downgrade.

Consumption expenditure by government grew in each of the first three quarters available for 2019, while government debt levels rose notably. Borrowings have been used to top up current expenditure, resulting in the current fiscal balance being in deficit (difference between revenue and current expenditure, and current expenditure includes civil servants compensation). Government consequently continued to make

Figure 7: Corporate savings assist in funding government debt, ranking SA's institutions



Source: SARB, WEF World Competitiveness Report

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Figure 8: Gross Fixed Capital Formation	**2019 Q1**	**2019 Q2**	**2019 Q3**	**2019 Q4**	**2020 Q1**	**2020 Q2**	**2020 Q3**	**2020 Q4**	**2021 Q1**	**2021 Q2**	**2021 Q3**	**2021 Q4**
GFCF, total (real, y/y %)	-2.8	-0.5	0.8	1.4	3.1	1.9	1.6	2.6	2.8	2.9	2.4	2.4
GFCF as % of GDP	19.1	19.2	19.4	19.5	19.6	19.6	19.6	19.6	19.7	19.7	19.8	19.9
Private sector (real, y/y %)	-1.8	2.2	4.1	2.6	5.3	2.3	1.8	2.6	3.0	3.4	3.7	4.0
Government (real, y/y %)	-4.9	-6.3	-6.5	-1.4	-2.1	0.8	1.1	2.7	2.4	1.7	-0.7	-1.3
Non-residential GFCF (real, y/y %)	-1.1	2.7	5.4	2.8	5.8	2.8	1.6	2.9	3.2	3.5	3.8	4.2
Residential buildings (real, y/y %)	-6.2	-1.1	-4.6	1.1	2.4	-0.9	3.3	0.9	1.3	2.6	3.1	2.6

Source: SARB, Investec

Figure 9: Gross Fixed Capital Formation	**2022 Q1**	**2022 Q2**	**2022 Q3**	**2022 Q4**	**2023 Q1**	**2023 Q2**	**2023 Q3**	**2023 Q4**	**2024 Q1**	**2024 Q2**	**2024 Q3**	**2024 Q4**
GFCF, total (real, y/y %)	2.7	3.1	3.5	3.6	3.8	3.9	4.1	4.0	4.1	4.3	4.4	4.6
GFCF as % of GDP	20.0	20.0	20.0	20.1	20.2	20.3	20.4	20.5	20.6	20.7	20.7	20.8
Private sector (real, y/y %)	4.0	4.2	4.3	4.4	4.6	4.9	5.2	5.4	5.6	5.6	5.5	5.6
Government (real, y/y %)	-0.3	0.7	1.3	1.5	1.5	1.4	1.2	0.4	0.5	0.8	1.3	1.9
Non-residential GFCF (real, y/y %)	4.2	4.3	4.4	4.4	4.6	4.9	5.3	5.6	5.7	5.7	5.7	5.7
Residential buildings (real, y/y %)	2.2	2.9	3.8	4.6	4.9	4.8	4.7	4.3	4.6	4.7	4.4	4.6

Source: SARB, Investec

Figure 10: Gross Fixed Capital Formation	**2025 Q1**	**2025 Q2**	**2025 Q3**	**2025 Q4**
GFCF, total (real, y/y %)	4.7	4.9	4.9	5.0
GFCF as % of GDP	20.9	21.0	21.1	21.2
Private sector (real, y/y %)	5.8	6.1	6.3	6.6
Government (real, y/y %)	1.8	1.4	1.0	0.4
Non-residential GFCF (real, y/y %)	5.9	6.2	6.4	6.8
Residential buildings (real, y/y %)	5.0	5.3	5.3	5.4

Source: SARB, Investec

a negative contribution to national savings, and continued to borrow the bulk of its new issuance of debt in the local market. (Current government expenditure also includes rent, maintenance and interest payments and expenditure on goods and services). When the current fiscal balance is in surplus, government is able to fund its consumption from its own revenue, and not from others via borrowings. With foreign investors funding just under 40% of South Africa's government debt, and government a dissaver while household savings are relatively low, corporate savings have been a key contributor to funding the

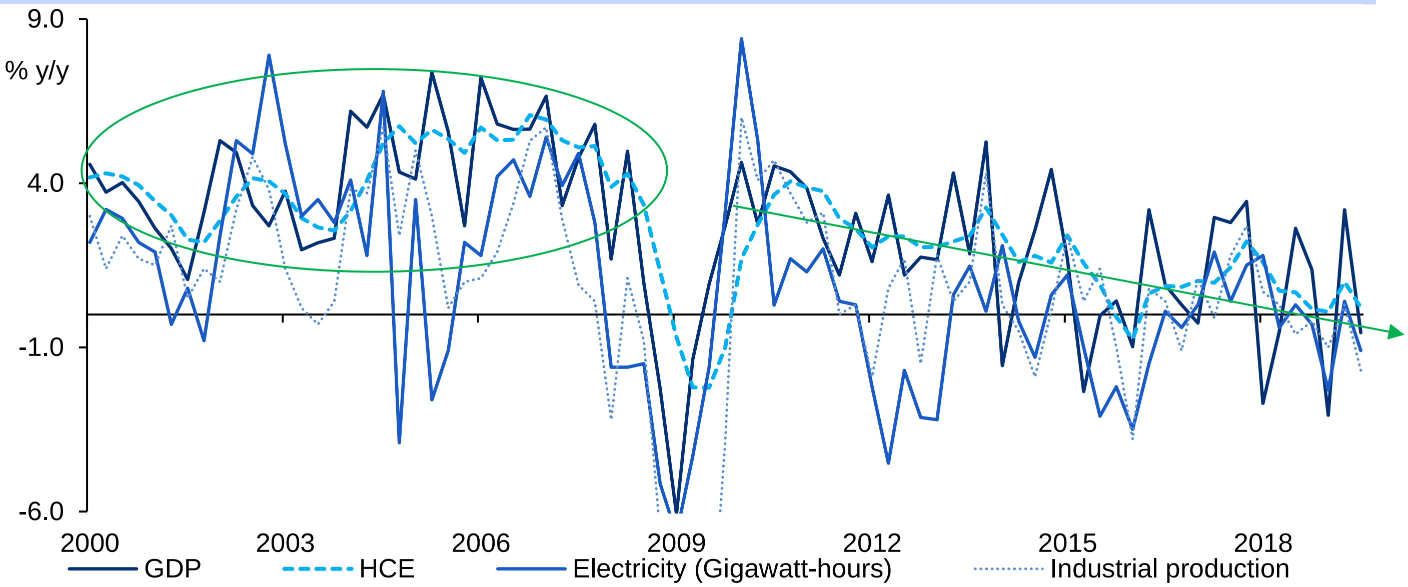
Figure 11: Consumption Expenditure	2018	2019	2020	2021	2022	2023	2024	2025
HCE, total (real, %)	1.8	1.0	1.2	1.6	2.0	2.2	2.5	2.9
HCE as % of GDP	61.6	62.1	62.4	62.4	62.5	62.4	62.4	62.3
Unemployment rate (%)	27.1	28.4	29.0	28.6	28.0	27.2	26.8	26.4
Population (million)	57.8	58.6	59.3	60.0	60.8	61.5	62.1	62.8
Employment growth rate (%)	0.6	-0.1	0.5	1.5	1.6	2.0	1.4	1.4
GCE as % of GDP	20.4	20.7	20.7	20.6	20.4	20.2	19.9	19.6

Source: Investec, SARB

rapid expansion of government debt and expenditure that has occurred over the course of this decade (see "Fixed investment outlook: High government borrowings have contributed to suppressing private sector fixed investment, with regulations also aiding the shift in funding away from the private sector to government, elevating the cost of credit, 19th July 2019, website address below). Expenditure cuts in government fixed investment instead, would detract from economic growth, with previously unspent funds allocated to government infrastructure also holding the potential to contribute meaningfully to economic activity in 2020 if spent. Many of government's infrastructure projects are small enough to easily be undertaken by small to medium size contractors and it is crucial these are undertaken to support growth and employment creation.

Household savings remain low, at -0.1% of disposable income (after tax income) through 2019, while household debt to disposable income is relatively high, above 72% of take home pay (disposable income). Unemployment rates are high in SA, 29% in Q2.19 and Q3.19, while consumer confidence is low, turning negative in Q3.19 last year. Real disposable income growth slowed in Q3.19, to 0.1% qqsaa, leading HCE

Figure 12: Household Consumption Expenditure growth (HCE), GDP vs electricity production



Source: SARB

Figure 13: Consumption Expenditure	**2019 Q1**	**2019 Q2**	**2019 Q3**	**2019 Q4**	**2020 Q1**	**2020 Q2**	**2020 Q3**	**2020 Q4**	**2021 Q1**	**2021 Q2**	**2021 Q3**	**2021 Q4**
HCE, total (real, y/y %)	0.8	1.4	1.3	0.6	1.0	0.8	1.3	1.7	1.7	1.7	1.6	1.6
HCE as % of GDP	62.1	62.0	62.1	62.4	62.6	62.5	62.4	62.2	62.3	62.4	62.5	62.5
Unemployment rate (%)	27.3	28.7	28.9	28.8	29.1	29.2	29.1	28.8	28.7	28.7	28.5	28.3
Population (million)	58.3	58.5	58.7	58.8	59.0	59.2	59.4	59.6	59.8	60.0	60.1	60.3
Employment growth rate (y/y %)	-0.5	0.2	0.0	0.0	0.7	0.1	0.4	0.8	1.3	1.5	1.6	1.6
Compensation employees (y/y %)	4.5	4.6	4.0	4.2	4.7	4.3	5.1	5.1	5.5	5.4	5.5	5.6
GCE as % of GDP	20.6	20.6	20.7	20.7	20.8	20.7	20.7	20.7	20.7	20.6	20.6	20.5

Source: SARB, Investec

Figure 14: Consumption Expenditure	**2022 Q1**	**2022 Q2**	**2022 Q3**	**2022 Q4**	**2023 Q1**	**2023 Q2**	**2023 Q3**	**2023 Q4**	**2024 Q1**	**2024 Q2**	**2024 Q3**	**2024 Q4**
HCE, total (real, y/y %)	1.8	2.0	2.1	2.2	2.3	2.2	2.2	2.2	2.3	2.4	2.5	2.8
HCE as % of GDP	62.5	62.5	62.4	62.4	62.4	62.4	62.4	62.4	62.4	62.4	62.3	62.3
Unemployment rate (%)	28.3	28.3	28.1	27.5	27.3	27.1	27.1	27.2	27.0	26.8	26.7	26.6
Population (million)	60.5	60.7	60.8	61.0	61.2	61.4	61.5	61.7	61.9	62.1	62.2	62.4
Employment growth rate (y/y %)	1.5	1.4	1.5	1.9	2.2	2.4	2.1	1.3	1.3	1.3	1.4	1.7
Compensation employees (y/y %)	5.9	5.9	5.9	6.0	6.1	6.2	6.2	6.2	6.3	6.4	6.5	6.5
GCE as % of GDP	20.5	20.4	20.4	20.3	20.3	20.2	20.1	20.1	20.0	20.0	19.9	19.8

Source: SARB, Investec

Figure 15: Consumption Expenditure	**2025 Q1**	**2025 Q2**	**2025 Q3**	**2025 Q4**
HCE, total (real, y/y %)	2.8	2.9	3.0	3.0
HCE as % of GDP	62.3	62.3	62.3	62.3
Unemployment rate (%)	26.5	26.5	26.4	26.3
Population (million)	62.6	62.7	62.9	63.1
Employment growth rate (y/y %)	1.5	1.4	1.3	1.3
Compensation employees (y/y %)	6.6	6.7	6.7	6.8
GCE as % of GDP	19.7	19.6	19.5	19.4

Source: SARB, Investec

growth lower, to 0.2% qqsaa, and contributing to the weak GDP growth outturn in Q3.19. Spending on semi-durable and non-durable goods contracted, and slowed in the durable and services categories on the back of weaker confidence and real disposable income growth. CPI inflation dropped in Q4.19's first monthly readings, to below 4.0% y/y, which will have a negative impact on real disposable income growth in that quarter. Bank lending conditions remain relatively tight.

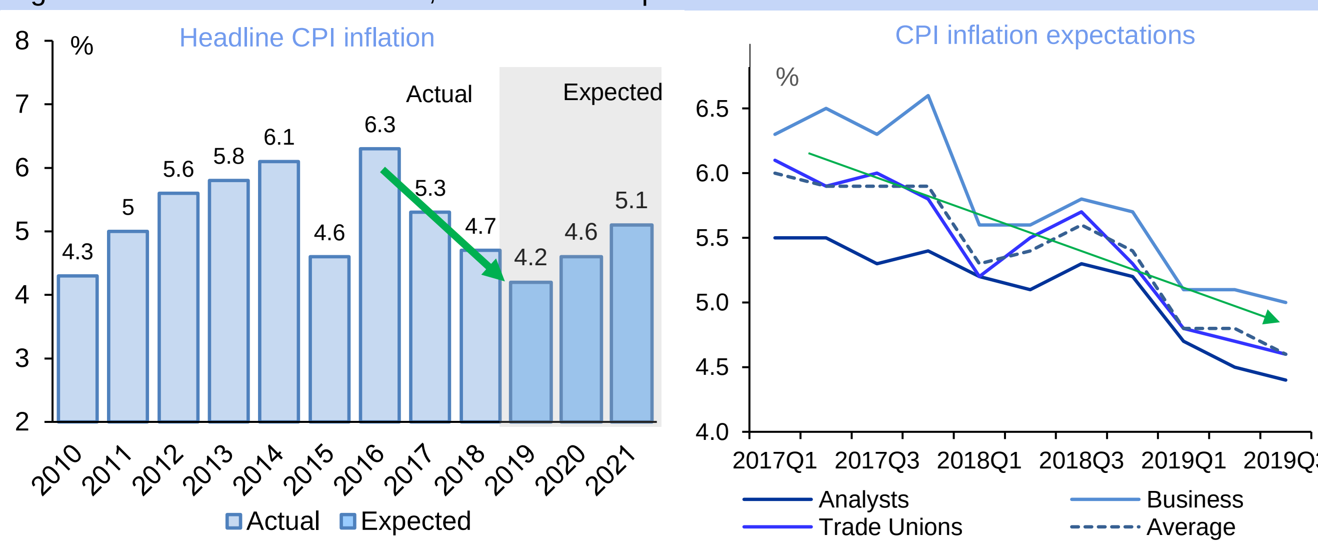
Figure 16: Inflation forecasts	2018	2019	2020	2021	2022	2023	2024	2025
Consumer Inflation (Av: %)	4.7	4.1	4.4	4.9	5.0	5.3	5.3	5.1
(year-end: %)	*4.5*	*4.0*	*4.7*	*4.9*	*5.1*	*5.3*	*5.1*	*5.1*
Producer Inflation (Av: %)	5.5	4.6	4.4	5.0	5.0	5.1	5.1	5.1
(year-end: %)	*5.2*	*3.4*	*5.4*	*4.9*	*4.8*	*5.1*	*5.1*	*5.0*
Salary & wage increases (%)	4.8	4.4	4.5	5.5	6.2	6.3	6.4	6.5

Source: Investec

Load shedding, which has escalated through the stages towards the end of this decade, has contributed to weakening GDP growth. Load shedding has negatively impacted economic growth, and so incomes and employment, with retailers without generators (typically small retailers) experiencing stock and trading losses, reducing growth and earnings potential. Stage six load shedding was reached towards the end of last year, taking businesses off the grid for longer, with heavy industry negatively affected by the power fluctuations. The World Bank has cut its growth forecast for SA to 0.9% y/y for 2020, from 1.5% forecast previously, and for 2021 to 1.3% y/y, from 1.7% y/y previously. The Bank stated "(i)n South Africa, power cuts and financial stress constrained growth and worsened fiscal deficits." "The outlook is …markedly weaker than previous projections. Increasingly binding infrastructure constraints—notably in electricity supply—are expected to inhibit domestic growth, while export momentum will be hindered by weak external demand." The Bank added that from its current economic growth estimate of 0.4% for 2019 "South Africa, growth is expected to firm to 0.9 percent in 2020, before strengthening to an average of 1.4 percent in 2021-22. This assumes that the new administration's structural reform agenda gathers pace, that policy uncertainty wanes, and that investment—both public and private—gradually recovers."

South Africa has seen close to three years of materially declining consumer price inflation, chiefly caused by

Figure 17: Headline CPI inflation; CPI inflation expectations 2019



Source: Investec, BER

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Figure 18: Inflation forecasts	**2019 Q1**	**2019 Q2**	**2019 Q3**	**2019 Q4**	**2020 Q1**	**2020 Q2**	**2020 Q3**	**2020 Q4**	**2021 Q1**	**2021 Q2**	**2021 Q3**	**2021 Q4**
Consumer Inflation (Av: y/y %)	4.2	4.5	4.2	3.7	4.4	4.0	4.4	4.7	5.0	5.0	4.8	4.9
Producer Inflation (Av: y/y %)	5.0	6.2	4.5	2.9	4.5	3.5	4.3	5.1	5.3	4.9	4.8	4.9
Salary & wage increases (y/y %)	3.3	5.6	4.5	4.0	4.5	4.1	4.7	4.8	4.5	5.4	5.9	5.8

Source: Statistics SA, SARB, Investec

Figure 19: Inflation forecasts	**2022 Q1**	**2022 Q2**	**2022 Q3**	**2022 Q4**	**2023 Q1**	**2023 Q2**	**2023 Q3**	**2023 Q4**	**2024 Q1**	**2024 Q2**	**2024 Q3**	**2024 Q4**
Consumer Inflation (Av: y/y %)	5.0	5.0	5.0	5.1	5.1	5.1	5.5	5.3	5.3	5.5	5.2	5.0
Producer Inflation (Av: y/y %)	5.0	5.0	5.0	4.9	5.0	5.1	5.2	5.2	5.2	5.1	5.1	5.1
Salary & wage increases (y/y %)	5.9	6.1	6.3	6.4	6.4	6.2	6.2	6.4	6.4	6.3	6.5	6.5

Source: Statistics SA, SARB, Investec

Figure 20: Inflation forecasts	**2025 Q1**	**2025 Q2**	**2025 Q3**	**2025 Q4**
Consumer Inflation (Av: y/y %)	5.3	5.0	5.0	5.1
Producer Inflation (Av: y/y %)	5.1	5.1	5.1	5.0
Salary & wage increases (y/y %)	6.5	6.6	6.5	6.4

Source: Statistics SA, SARB, Investec

Figure 21: Monetary Sector % year-end	**2019 Q1**	**2019 Q2**	**2019 Q3**	**2019 Q4**	**2020 Q1**	**2020 Q2**	**2020 Q3**	**2020 Q4**	**2021 Q1**	**2021 Q2**	**2021 Q3**	**2021 Q4**
Repo Rate (year-end: %)	6.75	6.75	6.50	6.50	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Prime Overdraft Rate (year-end: %)	10.25	10.25	10.00	10.00	10.00	9.75	9.75	9.75	9.75	9.75	9.75	9.75
SA rand bond (Av: %)	9.27	9.07	8.90	8.90	8.90	9.15	9.15	9.10	9.10	9.20	9.15	9.15

Note: *% quarter-end.* Source: SARB, Investec

Figure 22: Monetary Sector % year-end	**2022 Q1**	**2022 Q2**	**2022 Q3**	**2022 Q4**	**2023 Q1**	**2023 Q2**	**2023 Q3**	**2023 Q4**	**2024 Q1**	**2024 Q2**	**2024 Q3**	**2024 Q4**
Repo Rate (year-end: %)	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Prime Overdraft Rate (year-end: %)	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
SA rand bond (Av: %)	9.15	9.10	9.10	9.10	9.10	8.90	8.85	8.80	8.80	8.70	8.60	8.50

Note: % quarter-end. Source: SARB, Investec

Figure 23: Monetary Sector % year-end	**2025 Q1**	**2025 Q2**	**2025 Q3**	**2025 Q4**
Repo Rate (year-end: %)	6.50	6.50	6.50	6.50
Prime Overdraft Rate (year-end: %)	10.00	10.00	10.00	10.00
SA rand bond (Av: %)	8.50	8.40	8.35	8.20

Note: % quarter-end. Source: SARB, Investec

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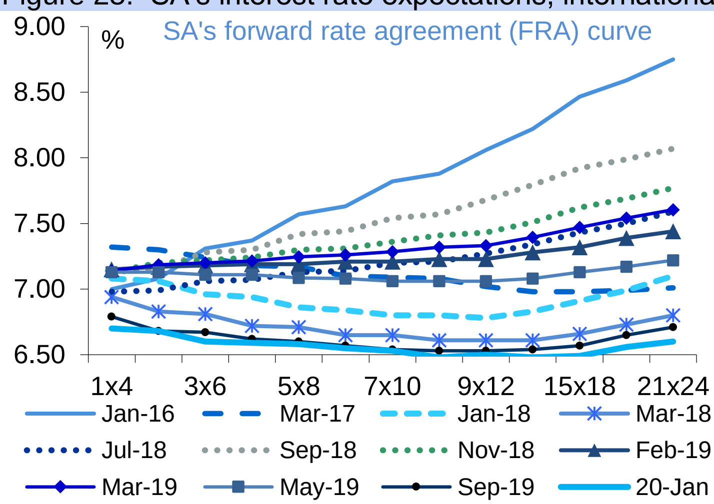
Figure 24: Monetary Sector	2018	2019	2020	2021	2022	2023	2024	2025
Repo Rate	6.75	6.50	6.25	6.25	6.50	6.50	6.50	6.50
Prime Overdraft Rate	10.25	10.00	9.75	9.75	10.00	10.00	10.00	10.00
SA rand bond	9.50	8.90	9.10	9.15	9.10	8.80	8.50	8.20
US Fed funds rate	2.25-2.50	1.50-1.75	1.50-1.75	1.75-2.00	2.00-2.25	2.25-2.50	2.25-2.50	2.25-2.50
UK Bank rate	0.75	0.75	0.75	1.00	1.25	1.50	1.75	2.00

Note: *% year-end.* Source: Investec, SARB, IRESS

food price inflation falling from double digits in 2016 on the back of the severe drought in that period, to below 3.0% y/y. However, this trend cannot be relied on to continue, and so moderate or even maintain CPI inflation going forward. Volatility in South Africa's long-term inflation trajectory is likely, due to the water scarce country's high propensity for drought. Food prices have a significant effect on the overall CPI, as food (and non-alcoholic beverages) price inflation accounts for close to 20% of the CPI. Climate change exacerbates the problem of water scarcity in SA, with higher mean temperatures compounding the difficulty in raising agricultural productivity. The increased frequency of extreme weather events is also linked to climate change, including cyclones and tornados as well as droughts, negatively affecting agriculture. SA's deteriorated government finances, including rapidly rising debt projections, make sufficient assistance from the state unlikely for farmers, particularly as the country's infrastructure is already weak in a number of key areas, with indications that climate change will increase this decade. SA also lags in the transition to clean energy, with Eskom's financial battles already indicating the utility's pressure for double-digit tariff increases that would place upwards pressure on CPI inflation.

Low inflation does not signal an interest rate cut in Q1.20, as the potential for a rating downgrade hangs over SA. Moody's expects SA's GDP at 1.0% y/y to 1.5% y/y, with around 0.8% y/y likely instead this year, while SA risks potential GDP growth continuing to drop to 0%, and then below, without drastic action to repair the productivity of public services and infrastructure, including consistent electricity supply.

Figure 25: SA's interest rate expectations; international interest rate forecasts



Key official interest rates (%, end quarter)

	US Fed funds	Eurozone refi rate	Eurozone deposit rate	UK Bank rate	Australia cash rate
Current	1.50-1.75	0.00	-0.50	0.75	0.75
2019					
Q1	2.25-2.50	0.00	-0.40	0.75	1.50
Q2	2.25-2.50	0.00	-0.40	0.75	1.25
Q3	1.75-2.00	0.00	-0.50	0.75	1.00
Q4	1.50-1.75	0.00	-0.50	0.75	0.75
2020					
Q1	1.25-1.50	0.00	-0.60	0.75	0.50
Q2	1.25-1.50	0.00	-0.60	0.75	0.25
Q3	1.25-1.50	0.00	-0.60	0.75	0.25
Q4	1.25-1.50	0.00	-0.60	0.75	0.25

Source: Reuters, IRESS, Macrobond, Investec UK

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Q1.20 Macro-economic outlook 2020–2025: South Africa sees its growth outlook sag further on lack of sufficient regulatory reforms and repair

10th January 2020

Figure 26: Economic Scenarios: note downside currency updates

Extreme Up case 1%

	Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21
Rand/USD (average)	11.50	10.30	9.50	8.60	7.90	7.60	7.40	7.10
Repo rate (end rate)	6.00	6.00	5.75	5.75	5.50	5.50	5.25	5.25

Fast, sustainable economic growth of 5-7% y/y. Change in political will with growth creating economic reforms that structurally lift private sector investor confidence and fixed investment. Global growth boom (including commodities), Trump protectionism removed, SA export and domestic growth boom lifts employment and incomes, poverty eventually eliminated. Property rights strengthened, individuals obtain title deeds in EWC without disruption to economy. Fiscal consolidation, credit rating upgrades to A grade.

Up case 7%

	Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21
Rand/USD (average)	13.00	11.50	10.00	9.95	9.90	9.70	9.65	9.45
Repo rate (end rate)	6.25	6.25	6.25	6.00	6.00	6.00	6.00	6.00

Persistent growth of 3–5%, higher probability of extreme up case. Better governance, growth-creating reforms (structural constraints overcome), greater socio-economic stability, strengthening in property rights, individuals obtain title deeds in EWC without disruption to economy and can leverage and obtain credit. High business confidence and fixed investment growth, substantial FDI inflows, fiscal consolidation. Strong global growth and commodity cycle, 'trade war' subsides. Stabilisation of credit ratings, with ultimately credit rating upgrades.

Base case 39%

	Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21
Rand/USD (average)	14.30	14.60	14.80	14.45	13.90	14.05	14.55	14.15
Repo rate (end rate)	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25

Annual growth approaches 2.0% y/y by 2021. Rising confidence and investment levels over the five-year forecast period. SA retains one investment grade (Moody's) rating on its local currency long-term sovereign debt in 2019 and 2020 on a negative outlook. Avoids severe global risk-off environment, neutral to global risk-on. Modestly strengthening global demand to trend growth. Limited impact of EWC (expropriation without compensation) to abandoned, unused, labour tenets and government land (individuals are new owners and receive title deeds) does not have a negative effect on economy.

Lite (domestic) Down case 38%

	Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21
Rand/USD (average)	15.50	16.50	16.80	16.10	15.80	15.90	15.70	15.30
Repo rate (end rate)	6.75	7.25	7.25	7.25	7.25	7.25	7.25	7.25

SA is rated sub-investment grade by Moody's but substantial repair avoids further marked downgrades. Business confidence depressed, rand weakness, significant load shedding and weak investment growth until substantial repair effected. V shaped, credit-rating-downgrade related recession. However, a neutral to risk-on global financial market environment (the international environment is that of the base case) lessens the impact of the rating downgrade. Potentially combined with a modest expropriation of some private commercial sector property without compensation, with modest negative impact on economy.

Severe down case 15%

	Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21
Rand/USD (average)	16.00	17.50	18.50	19.80	19.50	18.90	18.50	18.00
Repo rate (end rate)	7.00	7.75	8.50	9.25	10.00	10.00	9.50	9.00

Continued global sharp economic slowdown resulting in a global recession, on a marked escalation of the US-China trade war – may include a global financial crisis. May also include severe escalation of US Middle East military conflict. A significantly more severe recession occurs in SA than in the lite down case, marked rand weakness, may eventually include widespread services load shedding and strike action. Potentially combined with expropriation of private sector property (title deeds not transferred to individuals) without compensation – severe negative impact on economy. SA rated sub-investment grade from all three key agencies, with further rating downgrades occurring.

Note: Event risk begins Q1.20. Source: Investec, Iress historical data

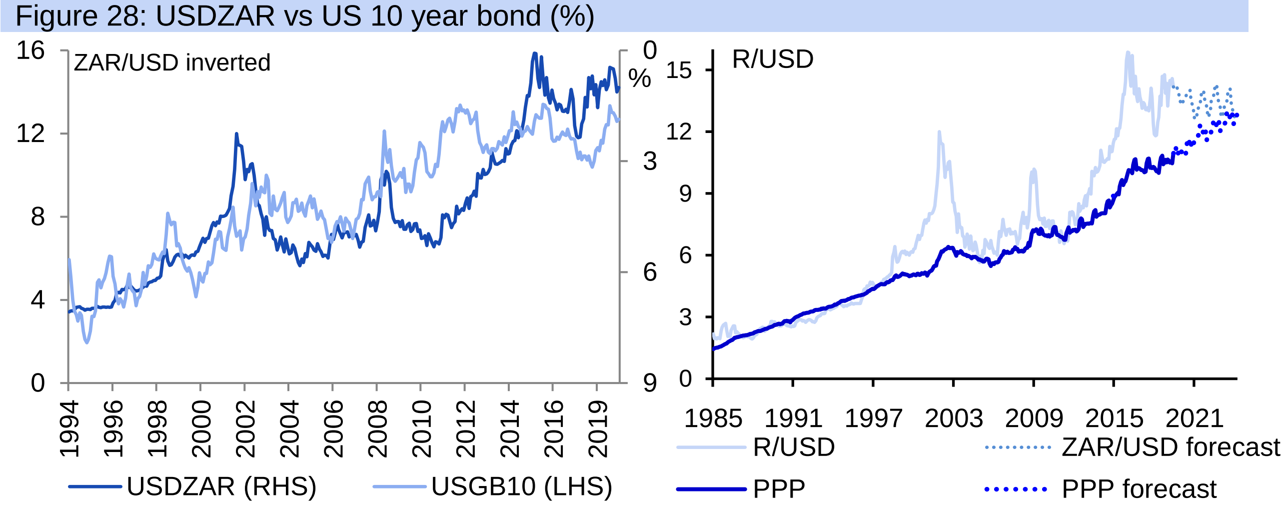
Figure 27: Exchange Rates:	2018	2019	2020	2021	2022	2023	2024	2025
USD/ZAR	13.24	14.44	14.54	14.16	14.21	13.99	14.01	14.49
GBP/ZAR	17.64	18.44	19.08	19.51	19.82	19.58	19.62	20.28
EUR/ZAR	15.61	16.17	16.48	17.21	17.77	17.48	17.52	18.11
ZAR/JPY	8.38	7.55	7.27	7.49	7.52	7.66	7.64	7.39
GBP/USD	1.33	1.28	1.31	1.38	1.39	1.40	1.40	1.40
EUR/USD	1.18	1.12	1.13	1.22	1.25	1.25	1.25	1.25
USD/JPY	110	109	106	106	107	107	107	107

Note: averages, Source: SARB, Investec

Structural reforms continue to lag in SA, as lack of political will sees failure to rapidly adopt National Treasury's economic growth plan, risking supply-side recessions in SA as the growth rate in SA's productive capacity dwindles, if not productive capacity itself. Private sector electricity production is key to plug the deficit in electricity supply capacity in SA.

SA's growth has also been afflicted by the slowing global economy. The US is expected to sign a substantial trade deal with China this year, post the first phase trade deal in January, allowing global growth to improve. However, a declining likelihood of this would see slowing global growth, where SA's economic performance has already been impacted by weakening global demand, along with policy uncertainty domestically and particularly the failure to implement the structural reforms needed this decade. The rand will continue to be volatile, driven by global events, and structurally weakened by SA's poor fundamentals. A 25bp interest rate cut will become increasingly likely if SA's Moody's rating outlook returns to stable. The probability of this happening has diminished (see figure 26), and could fall further, pushing SA into the lite down case and so reducing the prospects for stronger economic growth, fiscal accommodation, a more supportive borrowing environment and sustained economic growth of above 3.0% in the medium-term.

Figure 28: USDZAR vs US 10 year bond (%)



Source: Iress

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Figure 29: Exchange Rates, averages	**2019 Q1**	**2019 Q2**	**2019 Q3**	**2019 Q4**	**2020 Q1**	**2020 Q2**	**2020 Q3**	**2020 Q4**	**2021 Q1**	**2021 Q2**	**2021 Q3**	**2021 Q4**
USD/ZAR	14.01	14.38	14.69	14.70	14.30	14.60	14.80	14.45	13.90	14.05	14.55	14.15
GBP/ZAR	18.25	18.48	18.10	18.93	18.78	19.07	19.26	19.21	18.77	19.25	20.29	19.73
EUR/ZAR	15.92	16.16	16.33	16.28	15.87	16.50	16.95	16.62	16.40	16.86	17.90	17.69
ZAR/JPY	7.86	7.65	7.31	7.39	7.45	7.26	7.13	7.23	7.63	7.54	7.29	7.49
GBP/USD	1.30	1.29	1.23	1.29	1.31	1.31	1.30	1.33	1.35	1.37	1.39	1.39
EUR/USD	1.14	1.12	1.11	1.11	1.11	1.13	1.15	1.15	1.18	1.20	1.23	1.25
USD/JPY	110	110	107	109	107	106	106	105	106	106	106	106

Note: averages, Source: IRESS, Investec

Figure 30: Exchange Rates, averages	**2022 Q1**	**2022 Q2**	**2022 Q3**	**2022 Q4**	**2023 Q1**	**2023 Q2**	**2023 Q3**	**2023 Q4**	**2024 Q1**	**2024 Q2**	**2024 Q3**	**2024 Q4**
USD/ZAR	13.75	14.40	14.70	14.00	13.65	14.00	14.60	13.70	13.50	14.00	14.50	14.05
GBP/ZAR	19.17	20.08	20.50	19.52	19.11	19.60	20.44	19.18	18.90	19.60	20.30	19.67
EUR/ZAR	17.19	18.00	18.38	17.50	17.06	17.50	18.25	17.13	16.88	17.50	18.13	17.56
ZAR/JPY	7.71	7.43	7.28	7.64	7.84	7.64	7.33	7.81	7.93	7.64	7.38	7.62
GBP/USD	1.39	1.39	1.39	1.39	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
EUR/USD	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
USD/JPY	106	107	107	107	107	107	107	107	107	107	107	107

Note: averages, Source: IRESS, Investec

Figure 31: Exchange Rates, averages	**2025 Q1**	**2025 Q2**	**2025 Q3**	**2025 Q4**
USD/ZAR	13.95	14.65	14.90	14.45
GBP/ZAR	19.53	20.51	20.86	20.23
EUR/ZAR	17.44	18.31	18.63	18.06
ZAR/JPY	7.67	7.30	7.18	7.40
GBP/USD	1.40	1.40	1.40	1.40
EUR/USD	1.25	1.25	1.25	1.25
USD/JPY	107	107	107	107

Note: averages, Source: IRESS, Investec

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Figure 32: Exchange Rates:	2018	2019	2020	2021	2022	2023	2024	2025
Oil price, Brent USD/barrel	72	64	66	64	64	64	63	61
World GDP (real, %)	3.0	2.4	2.3	2.4	2.5	2.6	2.7	2.8
US CPI (Av, %)	2.5	1.8	1.9	1.8	2.2	2.2	2.2	2.2
US GDP (Av, %)	2.9	2.3	1.8	2.1	1.7	1.8	1.8	2.1

Note: averages, Source: SARB, Investec

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