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Q2.20 Macro-economic outlook 2020–2025: Covid-19's global impact aids SA deeper into its recession, H2.20 is likely to see recovery

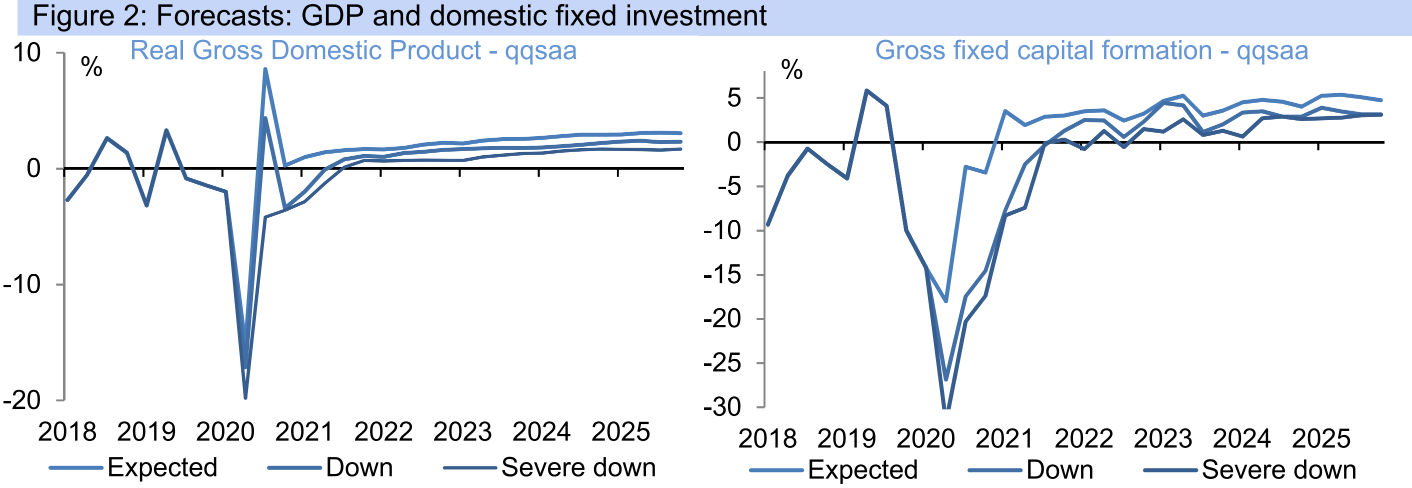
1st April 2020

Figure 1: Summary, % real growth rates	2019	2020	2021	2022	2023	2024	2025
GDP	0.2	-2.7	0.9	1.8	2.3	2.7	3.0
HCE	1.0	0.1	0.7	1.6	2.2	2.6	2.9
GCE	1.5	1.1	2.3	1.1	1.0	1.0	1.2
GFCF	-0.9	-8.8	-0.5	3.1	3.9	4.2	4.9
GDE	0.6	-1.8	1.0	1.8	2.4	2.7	3.0
Exports (goods & non-factor services)	-2.5	-9.8	1.6	3.9	4.4	4.8	5.1
Imports (goods & non-factor services)	-0.5	-7.0	2.0	4.0	4.7	4.6	5.1
Balance: Current Account - (% of GDP)	-3.0	-1.6	-2.7	-3.5	-3.6	-3.5	-3.4

Source: SARB, Investec

South Africa is likely to see GDP contract by -2.7% y/y this year, following on from the recession in the second half of last year. Risk is currently seen to be tilted to the downside however, on both the degree and extent of disruption to domestic, and global, economic activity from the Covid-19 pandemic. The global economy is widely believed to fall into a recession this year, with a U shaped recovery (not a V shaped or immediate bounce back). Consensus expectations are currently for the global economy to recover in 2021, and indeed for this to begin in the second half of 2020. Financial market turmoil has fed off uncertainty ahead of the shutdown measures in most economies, as well as on institution (of these measures) as many large and small corporates face severe weakening of balance sheets. Policy support measures announced have been very substantial globally, bringing some stabilization to the financial markets, but the economic shutdowns are having negative effects on incomes, employment and output globally. South Africa's economic shutdown is expected to see the economy contract by around -15% qqsaa in Q2.20, and a bounce in Q3.20 towards 10% qqsaa, with an extension to the current lockdown not unlikely. The Moody's downgrade has added to the weakened metrics for South Africa, with the remaining negative outlook heralding a further credit rating downgrade from Moody's, as early as 20th November.

Figure 2: Forecasts: GDP and domestic fixed investment



Source: Investec

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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 %)	0.0	1.0	0.1	-0.6	-0.3	-5.1	-2.9	-2.5	-1.7	2.8	1.1	1.4
HCE (real, y/y %)	0.7	1.3	1.3	0.8	0.9	-0.1	-0.3	-0.2	0.1	0.7	1.0	0.8
GCE (real, y/y %)	1.3	1.5	1.7	1.5	0.9	0.7	1.0	1.6	2.8	2.4	2.1	1.8
GFCF (real, y/y %)	-2.8	-0.4	0.8	-1.2	-4.0	-9.9	-11.4	-9.9	-5.5	-0.2	1.2	2.8
GDE (real, y/y %)	-0.6	1.8	0.4	1.0	0.1	-3.9	-2.3	-1.2	-0.9	1.8	1.5	1.8
Export (goods & non-factor services) - (real, y/y %)	1.5	0.2	-4.6	-6.6	-4.3	-13.1	-11.2	-10.7	-5.2	5.4	3.4	3.6
Imports (goods & non-factor services) - (real, y/y %)	-0.3	3.7	-3.6	-1.6	-3.3	-9.2	-9.0	-6.2	-2.1	1.2	4.4	4.6
Current Account – (% GDP)	-3.0	-4.1	-3.7	-1.3	-0.7	-1.7	-1.9	-2.2	-2.5	-2.8	-2.8	-2.8
Imports as % of GDP	30.3	31.3	30.7	30.1	29.4	30.0	28.8	29.0	29.3	29.5	29.7	29.9
Exports as % of GDP	28.8	28.5	28.8	29.1	27.6	26.1	26.3	26.6	26.7	26.7	26.9	27.2

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 %)	1.6	1.7	1.8	1.9	2.1	2.2	2.3	2.4	2.5	2.6	2.7	2.8
HCE (real, y/y %)	1.1	1.4	1.8	2.0	2.2	2.2	2.2	2.3	2.3	2.5	2.6	2.8
GCE (real, y/y %)	0.9	1.1	1.2	1.2	1.2	1.1	0.9	0.9	1.0	1.0	1.1	1.0
GFCF (real, y/y %)	2.8	3.2	3.1	3.2	3.5	3.9	4.0	4.1	4.1	4.0	4.4	4.5
GDE (real, y/y %)	1.8	1.7	1.9	2.1	2.2	2.4	2.3	2.5	2.6	2.6	2.8	2.7
Export (goods & non-factor services) - (real, y/y %)	3.9	4.0	4.0	3.7	4.0	4.4	4.6	4.8	4.7	4.8	4.7	4.8
Imports (goods & non-factor services) - (real, y/y %)	4.3	3.9	3.8	4.0	4.2	4.7	4.8	5.0	4.8	4.8	4.7	4.3
Current Account – (% of GDP)	-3.4	-3.4	-3.5	-3.5	-3.6	-3.6	-3.6	-3.4	-3.4	-3.5	-3.5	-3.3
Imports as % of GDP	30.0	30.1	30.3	30.5	30.7	30.9	31.0	31.2	31.4	31.5	31.6	31.7
Exports as % of GDP	27.3	27.4	27.5	27.6	27.8	27.9	28.1	28.3	28.4	28.5	28.7	28.8

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 %)	2.9	3.0	3.0	3.0
HCE (real, y/y %)	2.9	2.9	2.9	2.8
GCE (real, y/y %)	1.2	1.2	1.2	1.3
GFCF (real, y/y %)	4.7	4.8	4.9	5.1
GDE (real, y/y %)	2.8	2.9	3.0	3.2
Export (goods & non-factor services) - (real, y/y %)	5.1	5.1	5.2	5.1
Imports (goods & non-factor services) - (real, y/y %)	4.7	4.8	5.3	5.6
Current Account – (% of GDP)	-3.3	-3.6	-3.5	-3.2
Imports as % of GDP	31.9	32.1	32.3	32.4
Exports as % of GDP	29.0	29.1	29.3	29.4

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

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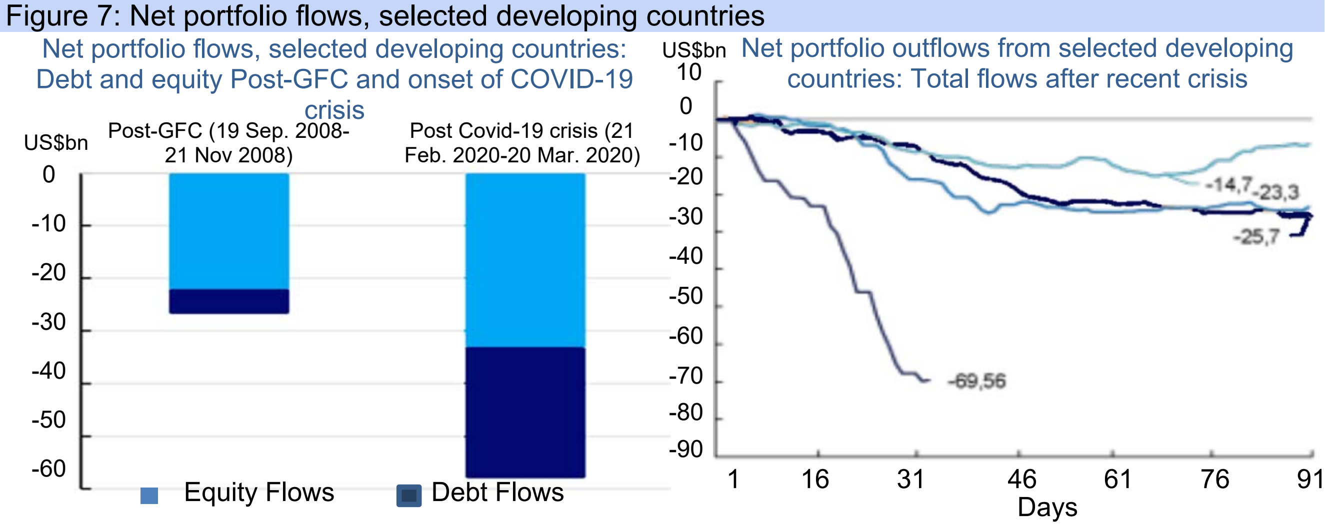
Figure 6: Gross Fixed Capital Formation	2019	2020	2021	2022	2023	2024	2025
GFCF, total (real, %)	-0.9	-8.8	-0.5	3.1	3.9	4.2	4.9
GFCF as % of GDP	19.2	18.0	17.7	18.0	18.2	18.5	18.9
Private sector (real, %)	1.1	-9.9	0.7	3.8	5.0	5.4	6.2
Government (real, %)	-5.5	-6.2	-3.2	1.4	1.2	1.1	1.3
Non-residential GFCF (real, %)	1.8	-10.5	1.3	3.7	4.9	5.4	6.3
Residential buildings (real, %)	-3.8	-5.9	-3.8	4.5	5.4	5.3	5.7

Source: Investec, SARB

The additional expenditure measures government seeks to institute in South Africa to provide some support in the face of Covid-19 will worsen government finances, and so risk elevating debt metrics as Moody's fears, as will the contraction in GDP and so negative impact to corporate and household incomes on the shutdown. However, breaking the spread of Covid-19 is paramount, and the costs will be even more substantial if it is not. A number of structural problems for South Africa are still unresolved as well, limiting the economic growth potential for the country, key for economic production in particular being the periodic losses of electricity supply. Finance Minister Mboweni has already identified IMF support for South Africa to aid in health care expenditure for Covid-19, as well as from the World Bank. Many governments are already putting drastic measures in place internally, but multilateral support is also key in fighting the Covid-19 crisis, particularly for poorer countries, with the United Nations identifying the need to "create the conditions and mobilize the resources necessary to ensure that developing countries have equal opportunities to respond to this crisis in their communities and economies". Urging "G-20 leaders to commit to ban tariffs, quotas or non-tariff measures, and remove restrictions on cross border trade that affect the deployment of medical equipment, medicines and other essential goods to fight the epidemic, also

Figure 7: Net portfolio flows, selected developing countries



Source: IIF and UNCTAD

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	-0.4	0.8	-1.2	-0.5	-9.9	-11.4	-9.9	-5.5	-0.2	1.2	2.8
GFCF as % of GDP	19.1	19.2	19.4	19.0	19.2	18.2	17.7	17.6	17.7	17.7	17.7	17.8
Private sector (real, y/y %)	-2.1	1.9	3.5	1.1	2.5	-12.1	-13.7	-11.0	-5.3	2.3	2.5	3.5
Government (real, y/y %)	-4.2	-5.6	-5.5	-6.6	-6.3	-4.5	-5.8	-7.0	-6.0	-5.9	-2.0	1.2
Non-residential GFCF (real, y/y %)	-1.5	2.4	4.7	1.7	3.2	-13.0	-14.7	-11.4	-4.8	3.6	3.3	3.7
Residential buildings (real, y/y %)	-6.4	-1.3	-4.5	-2.9	-3.1	-6.7	-6.0	-8.5	-8.8	-5.9	-2.2	2.1

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 %)	2.8	3.2	3.1	3.2	3.5	3.9	4.0	4.1	4.1	4.0	4.4	4.5
GFCF as % of GDP	17.9	18.0	18.0	18.0	18.1	18.3	18.3	18.3	18.4	18.5	18.6	18.6
Private sector (real, y/y %)	3.6	3.7	3.9	4.0	4.3	5.0	5.2	5.4	5.6	5.3	5.4	5.4
Government (real, y/y %)	1.0	2.2	1.3	1.2	1.5	1.2	1.1	0.9	0.3	0.5	1.6	2.1
Non-residential GFCF (real, y/y %)	3.7	3.6	3.7	3.8	4.1	4.9	5.2	5.4	5.5	5.3	5.5	5.4
Residential buildings (real, y/y %)	3.3	4.2	5.3	5.3	5.4	5.3	5.3	5.5	5.9	5.4	5.0	5.1

Source: SARB, Investec

Figure 10: Gross Fixed Capital Formation	2025 Q1	2025 Q2	2025 Q3	2025 Q4
GFCF, total (real, y/y %)	4.7	4.8	4.9	5.1
GFCF as % of GDP	18.7	18.8	18.9	19.0
Private sector (real, y/y %)	5.7	6.1	6.3	6.7
Government (real, y/y %)	2.0	1.4	1.1	0.9
Non-residential GFCF (real, y/y %)	5.7	6.2	6.5	6.8
Residential buildings (real, y/y %)	5.2	5.6	5.6	6.2

Source: SARB, Investec

encouraging the waiving of sanctions imposed on countries to ensure access to food, essential health supplies, and COVID-19 medical support." "This is the time for solidarity not exclusion".

Large stimulus packages have already been launched by many countries, but many can do more via solidarity approaches led by governments (who have not yet done so) to foster voluntary contributions from those that can make them in the private sector. This is key to create funds for assisting the vulnerable, as well as rescues for (particularly SMME) companies in distress with the intention of keeping money

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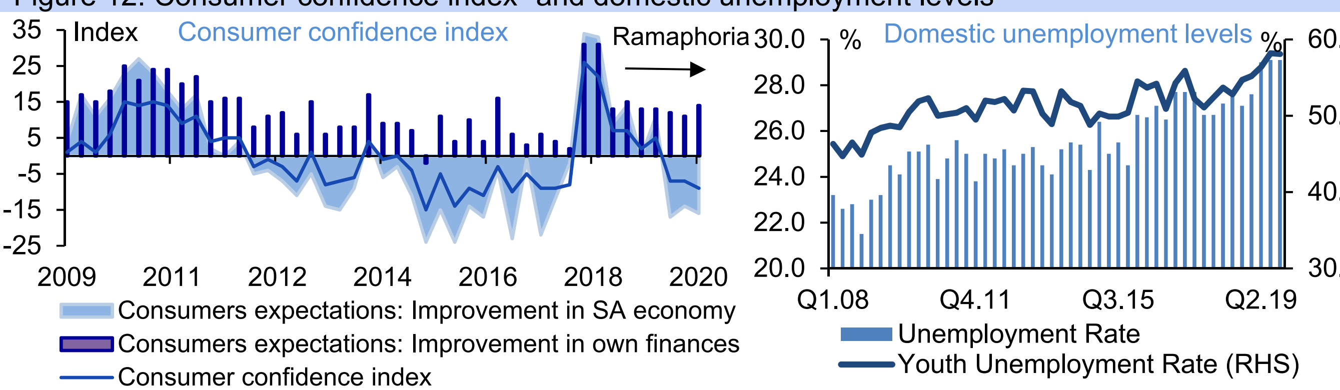
Figure 11: Consumption Expenditure	2019	2020	2021	2022	2023	2024	2025
HCE, total (real, %)	1.0	0.1	0.7	1.6	2.2	2.6	2.9
HCE as % of GDP	62.2	63.9	63.8	63.7	63.7	63.6	63.5
Unemployment rate (%)	28.7	32.1	32.6	31.7	30.9	30.5	30.1
Population (million)	58.6	59.3	60.0	60.8	61.5	62.1	62.8
Employment growth rate (%)	-0.3	-3.7	0.1	2.2	1.9	1.4	1.4
Compensation of employees (%)	4.3	4.7	4.5	5.6	5.8	6.2	6.6
GCE as % of GDP	20.7	21.5	21.8	21.6	21.4	21.0	20.7

Source: Investec, SARB

flowing through the system and reducing the economic shock. The loss of economic output from the Covid-19 economic crisis will not be regained, nor will the loss of incomes that large numbers of people/companies face globally without substantial support measures. Not all countries have put in place measures to support these vulnerable individuals (and SMME companies), while even the measures some countries that have put in place are not sufficient to reach all individuals or companies.

The UN further highlights that "it is critical to minimize the social and economic impact of COVID-19 for everyone and stimulate a faster recovery everywhere, noting that by the end of this year, the cost of this pandemic is likely to be measured in the trillions of dollars." The "urgent launch of a large-scale, coordinated stimulus package in the trillions of dollars … (is needed) to target the direct provision of resources to businesses, workers and households in those countries unable to do so alone. This would include scaling up cash transfer measures, social protection, tax abatement, fiscal stimulus, low interest rates, access to credit, insurance and wage support schemes." "The G-20 can help provide immediate liquidity relief to the private and financial sector in the developing world in the form of trade credits, liquidity lines and guarantee schemes. Working with international financial institutions, the G-20 can help significantly increase access by developing countries to concessional financing." "I am convinced that only international coordination can avoid a worst-case scenario,".

Figure 12: Consumer confidence index[1] and domestic unemployment levels



Source: BER, Stats SA

1. The consumer confidence index is expressed as a net balance between optimistic and pessimistic consumers. According to the Bureau for Economic Research, the index can vary between -100 for 'extreme pessimism' and 100 for 'extreme optimism', with 0 being 'neutral'

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 %)	0.7	1.3	1.3	0.8	0.9	-0.1	-0.3	-0.2	0.1	0.7	1.0	0.8
HCE as % of GDP	62.1	61.9	62.1	62.5	62.8	65.2	63.7	64.0	64.0	63.8	63.7	63.6
Unemployment rate (%)	27.3	28.8	29.0	29.6	28.4	32.1	33.0	33.0	32.9	32.8	32.5	32.1
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	-0.7	-0.1	-4.0	-5.0	-4.6	-2.9	-0.2	1.6	2.1
Compensation employees (y/y %)	4.5	4.6	4.0	4.0	4.7	4.8	4.3	4.5	4.4	4.2	4.5	4.8
GCE as % of GDP	20.6	20.6	20.7	20.8	20.9	21.9	21.5	21.6	21.8	21.8	21.8	21.7

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 %)	1.1	1.4	1.8	2.0	2.2	2.2	2.2	2.3	2.3	2.5	2.6	2.8
HCE as % of GDP	63.7	63.7	63.7	63.7	63.7	63.7	63.6	63.6	63.6	63.6	63.5	63.6
Unemployment rate (%)	32.0	31.9	31.7	31.2	31.0	30.9	30.8	30.9	30.7	30.6	30.4	30.3
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 %)	2.2	2.2	1.9	2.2	2.3	2.3	2.0	1.2	1.3	1.3	1.5	1.7
Compensation employees (y/y %)	5.4	5.6	5.7	5.7	5.8	5.8	5.8	5.9	6.0	6.2	6.4	6.4
GCE as % of GDP	21.7	21.7	21.6	21.6	21.5	21.4	21.3	21.3	21.2	21.1	21.0	20.9

Source: SARB, Investec

Figure 15: Consumption Expenditure	2025 Q1	2025 Q2	2025 Q3	2025 Q4
HCE, total (real, y/y %)	2.9	2.9	2.9	2.8
HCE as % of GDP	63.6	63.5	63.5	63.5
Unemployment rate (%)	30.2	30.2	30.1	30.1
Population (million)	62.6	62.7	62.9	63.1
Employment growth rate (y/y %)	1.6	1.4	1.3	1.2
Compensation employees (y/y %)	6.5	6.5	6.6	6.7
GCE as % of GDP	20.8	20.7	20.6	20.5

Source: SARB, Investec

The World Bank and the IMF has jointly called on all official bilateral creditors to suspend debt payments from borrowing countries that request forbearance, stating that "(i)t is imperative at this moment to provide a global sense of relief for developing countries as well as a strong signal to financial markets". The IMF is making about "$50 billion available through its rapid-disbursing emergency financing facilities for low income and emerging

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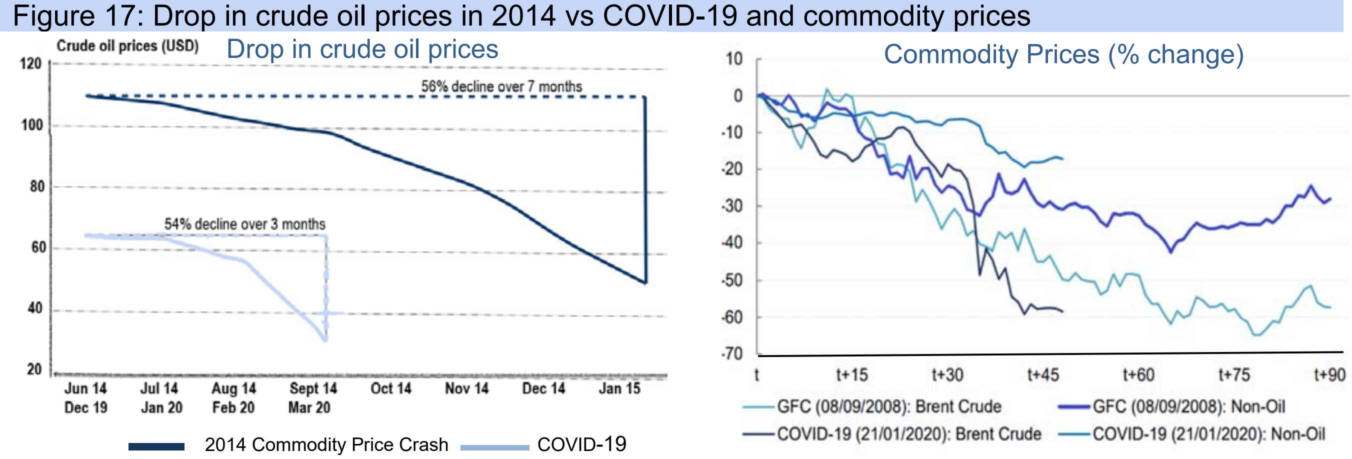
Figure 16: Inflation forecasts	2019	2020	2021	2022	2023	2024	2025
Consumer Inflation (Av: %)	4.1	3.5	4.1	5.1	5.4	5.5	5.3
(year-end: %)	*4.0*	*3.2*	*4.7*	*5.3*	*5.4*	*5.3*	*5.3*
Producer Inflation (Av: %)	4.6	3.2	4.0	5.1	5.3	5.3	5.1
(year-end: %)	*3.4*	*3.7*	*4.2*	*5.9*	*4.7*	*5.3*	*5.0*
Salary & wage increases (%)	4.0	3.9	4.0	6.6	6.2	6.6	6.7
							Source: Investec

market countries that could potentially seek support in their fight against the coronavirus" and the World Bank Group has "approved an increased $14 billion package of fast-track financing to assist companies and countries in their efforts to prevent, detect and respond to the rapid spread of COVID-19." In the private sector a number of philanthropists are already active in the fight against COVID-19. The foundation created by Jack Ma, "a United Nations advocate for sustainable development goals and the co-founder of Alibaba Group Holding, is donating protective masks and test kits around the world. The Bill & Melinda Gates Foundation, Wellcome, and Mastercard partnered to contribute up to $125 million in seed funding to speed-up the response to the COVID-19 pandemic by identifying, assessing, developing, and scaling-up treatments." The UN concludes that only international coordination can avoid a worst-case scenario".

Indeed, only once it looks likely that the Covid-19 curve has flattened globally and financial market sentiment turned, will economic forecast become clearer. South Africa's recession this year is expected to be greater than its recession at the time of the global financial crisis just over a decade ago. In 2020 peak to trough a contraction of -4.0% is estimated, versus -2.5% in SA's recession that stretched over H2.08 and Q1.09. South Africa, already in a recession beginning in Q2.20 and in the position of severely deteriorated government finances due to severe instances of corruption, mismanagement and other forms of state capture over the bulk of the past decade through, will now be in a more severely weakened position on the impact of Covid-19. However, an actual IMF programme to access more funding, where South Africa is placed under adjustment, would likely face

Figure 17: Drop in crude oil prices in 2014 vs COVID-19 and commodity prices



Source: IMF and UNCTAD

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	4.4	4.1	3.7	4.5	3.3	3.0	3.2	3.3	4.0	4.5	4.6
Producer Inflation (Av: y/y %)	5.0	6.2	4.5	2.9	4.2	2.4	2.9	3.4	3.8	3.9	4.1	4.2
Salary & wage increases (y/y %)	3.3	5.6	3.0	4.0	4.5	4.0	3.9	3.1	2.5	3.2	4.5	5.6

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 %)	4.9	5.0	5.1	5.3	5.3	5.3	5.6	5.4	5.5	5.7	5.5	5.3
Producer Inflation (Av: y/y %)	4.3	4.9	5.4	5.8	5.7	5.4	5.3	4.9	5.4	5.4	5.2	5.2
Salary & wage increases (y/y %)	6.6	6.4	6.6	6.6	6.3	6.1	6.0	6.2	6.5	6.5	6.8	6.8

Source: Statistics SA, SARB, Investec

Figure 20: Inflation forecasts	2025 Q1	2025 Q2	2025 Q3	2025 Q4
Consumer Inflation (Av: y/y %)	5.4	5.2	5.2	5.3
Producer Inflation (Av: y/y %)	5.3	5.1	5.0	5.0
Salary & wage increases (y/y %)	6.7	6.7	6.7	6.5

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	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.50
Prime Overdraft Rate (year-end: %)	10.25	10.25	10.00	10.00	8.75	8.75	8.75	8.75	8.75	8.75	8.75	9.00
SA rand bond (Av: %)	9.27	9.07	8.90	9.07	9.15	11.80	11.30	11.00	10.70	10.70	10.60	10.10

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: %)	6.00	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Prime Overdraft Rate (year-end: %)	9.50	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75
SA rand bond (Av: %)	9.50	9.75	10.00	9.50	9.10	9.50	9.75	9.50	9.10	9.50	9.75	9.30

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

Figure 23: Monetary Sector % year-end	2025 Q1	2025 Q2	2025 Q3	2025 Q4
Repo Rate (year-end: %)	6.25	6.25	6.25	6.25
Prime Overdraft Rate (year-end: %)	9.75	9.75	9.75	9.75
SA rand bond (Av: %)	9.10	9.09	9.09	9.09

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

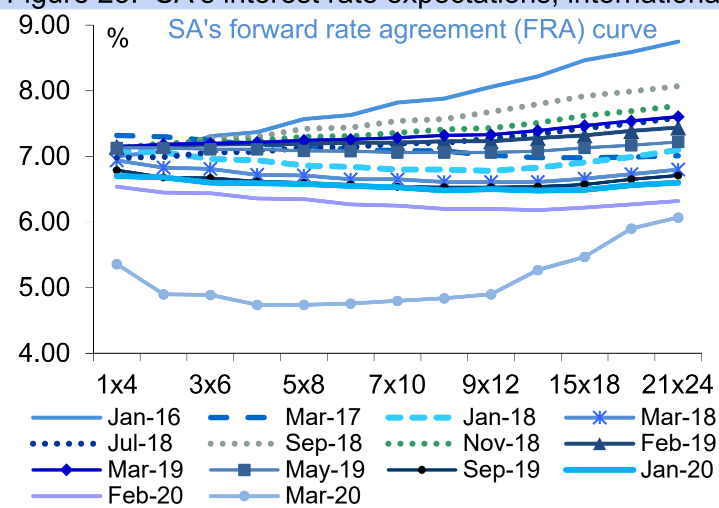
Figure 24: Monetary Sector	2019	2020	2021	2022	2023	2024	2025
Repo Rate	6.50	5.25	5.50	6.25	6.25	6.25	6.25
Prime Overdraft Rate	10.00	8.75	9.00	9.75	9.75	9.75	9.75
SA rand bond	9.10	11.00	10.1	9.50	9.50	9.30	9.10
US Fed funds rate	1.50-1.75	0-0.25	0-0.25	0.5-0.75	1.00-1.25	1.25-1.50	1.25-1.50
UK Bank rate	0.75	0.10	0.10	0.25	0.50	0.75	0.75

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

ideological opposition from South Africa's governing tri-partite alliance. Furthermore, SA is in the BB credit ratings category from all three of the key rating agencies, Fitch, S&P and Moody's, not the C grade categories, and South Africa is not at risk of default (D). Indeed, South Africa is not even at risk currently of entering the C grade categories yet. Finance Minister Mboweni has said there are no plans yet to revise the Budget, and that reprioritising and adjustments will occur in the current budget. The Finance Minister has been specific that SA may approach the IMF for Covid-19 health relief. SA's credit ratings face further downgrades, and it is imperative that government spending be contained to prevent further slippage down the rating ladder, and so eventual application to the IMF to come under its adjustment programme in order to access funding. Failure to turn the escalating debt trajectory (as a % of GDP) around for South Africa, and bring it down substantially (as opposed to allowing it to continue escalating) lower will result in further credit rating downgrades for South Africa, and so eventually the C grade basket, and then an escalation down through the C grade towards D.

The severe elevation in financial markets' risk aversion levels due to the uncertainties around, and likely severity of, the Covid-19 induced economic slump has seen substantial (monetary, fiscal and other) policy support globally. Market turmoil has reflected the crisis of confidence, and the real risk is that the uncertainty persists, prolonging the crisis many economies in emerging markets are experiencing - with the risks that this prolongs in their financial markets. Oil prices are at very low levels, with the Brent crude oil price at

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	0.00-0.25	0.00	-0.50	0.10	0.25
2020					
Q1	0.00-0.25	0.00	-0.50	0.10	0.25
Q2	0.00-0.25	0.00	-0.60	0.10	0.25
Q3	0.00-0.25	0.00	-0.60	0.10	0.25
Q4	0.00-0.25	0.00	-0.60	0.10	0.25
2021					
Q1	0.00-0.25	0.00	-0.60	0.10	0.25
Q2	0.00-0.25	0.00	-0.60	0.10	0.25
Q3	0.00-0.25	0.00	-0.60	0.10	0.25
Q4	0.00-0.25	0.00	-0.60	0.10	0.25

Source: Reuters, IRESS, Macrobond, Investec UK

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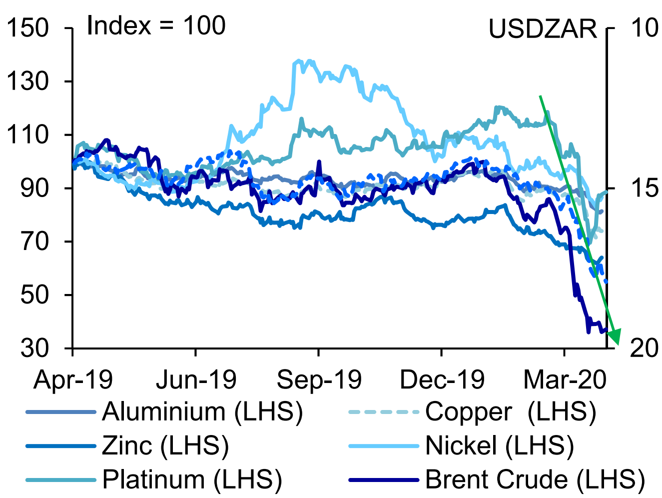
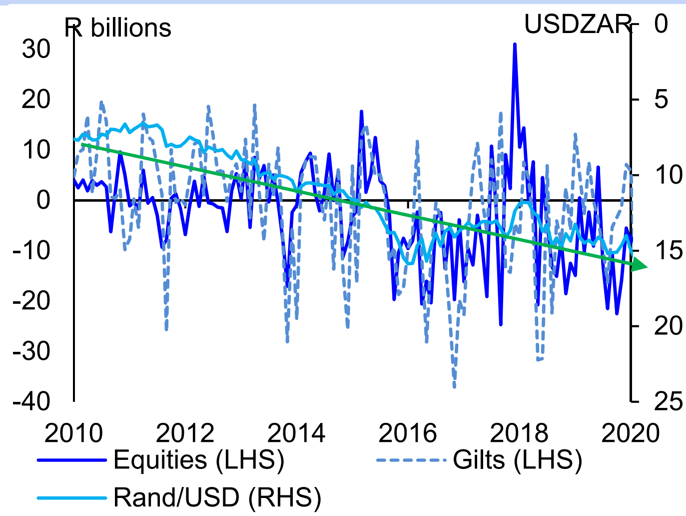
Figure 26: Exchange Rates:	2019	2020	2021	2022	2023	2024	2025
USD/ZAR	14.44	16.61	14.65	14.63	14.18	14.21	14.59
GBP/ZAR	18.44	19.93	18.67	19.81	19.74	19.90	20.42
EUR/ZAR	16.17	17.92	16.22	16.74	16.94	17.56	18.23
ZAR/JPY	7.55	6.64	7.32	7.25	7.48	7.52	7.34
GBP/USD	1.28	1.20	1.28	1.36	1.39	1.40	1.40
EUR/USD	1.12	1.08	1.11	1.15	1.20	1.24	1.25
USD/JPY	109	110	107	106	106	107	107

Note: averages, Source: SARB, Investec

US$25/bbl, while the rand has exceeded R18.00/USD. The price war between Russia and Saudi Arabia continues, but the extreme weakness in the oil price has counteracted the rand's depreciation, with just under a R2/litre fall in the petrol price in April, and more than a R1.50/litre cut in the diesel price. This will provide some relief to consumers, but higher prices in the shops for some goods are likely on the currency depreciation, although for domestically produced foods and non-alcoholic beverages consumers could gain from some slowing in price inflation given an expected improvement in agricultural production. However, some basic food items like wheat and rice are imported so will be affected by the currency, should its current bout of weakness persist. HCE (Household Consumption Expenditure) growth is expected to essentially stall this year versus last year's outcome on the impact on incomes and spending from the crisis, while capital expenditure plans have been put on hold and indeed fixed investment (GFCF or Gross Fixed Capital Formation) is expected to contract in the private sector. Government will also likely divert some monies previously earmarked for capital expenditure as it seeks to increase its current expenditure, with our GCE (Government Consumption Expenditure) projections higher than previously. The South African Reserve Bank has instituted significant liquidity measures in South Africa, and the spread between South Africa's

Figure 27: USDZAR vs precious metals and equities and bonds flows





Source: Bloomberg, Iress, Investec

Figure 28: 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	15.45	17.50	17.00	16.50	15.50	14.60	14.50	14.00
GBP/ZAR	18.25	18.48	18.10	18.93	19.60	20.46	19.99	19.66	18.84	18.35	18.82	18.67
EUR/ZAR	15.92	16.16	16.33	16.28	16.78	18.73	18.19	17.99	17.05	16.06	16.10	15.68
ZAR/JPY	7.86	7.65	7.31	7.39	7.20	6.28	6.41	6.67	7.03	7.36	7.31	7.57
GBP/USD	1.30	1.29	1.23	1.29	1.24	1.17	1.18	1.19	1.22	1.26	1.30	1.33
EUR/USD	1.14	1.12	1.11	1.11	1.10	1.07	1.07	1.09	1.10	1.10	1.11	1.12
USD/JPY	110	110	107	109	110	110	109	110	109	108	106	106

Note: averages, Source: IRESS, Investec

Figure 29: 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	14.90	14.55	14.85	14.20	13.80	14.20	14.80	13.90	13.70	14.20	14.70	14.25
GBP/ZAR	19.97	19.64	20.20	19.45	19.04	19.74	20.72	19.46	19.18	19.88	20.58	19.95
EUR/ZAR	16.84	16.59	17.08	16.47	16.28	16.90	17.76	16.82	16.71	17.47	18.23	17.81
ZAR/JPY	7.11	7.29	7.14	7.46	7.68	7.46	7.16	7.63	7.74	7.54	7.28	7.51
GBP/USD	1.34	1.35	1.36	1.37	1.38	1.39	1.40	1.40	1.40	1.40	1.40	1.40
EUR/USD	1.13	1.14	1.15	1.16	1.18	1.19	1.20	1.21	1.22	1.23	1.24	1.25
USD/JPY	106	106	106	106	106	106	106	106	106	107	107	107

Note: averages, Source: IRESS, Investec

Figure 30: Exchange Rates, averages	**2025 Q1**	**2025 Q2**	**2025 Q3**	**2025 Q4**
USD/ZAR	14.15	14.85	14.90	14.45
GBP/ZAR	19.81	20.79	20.86	20.23
EUR/ZAR	17.69	18.56	18.63	18.06
ZAR/JPY	7.56	7.21	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

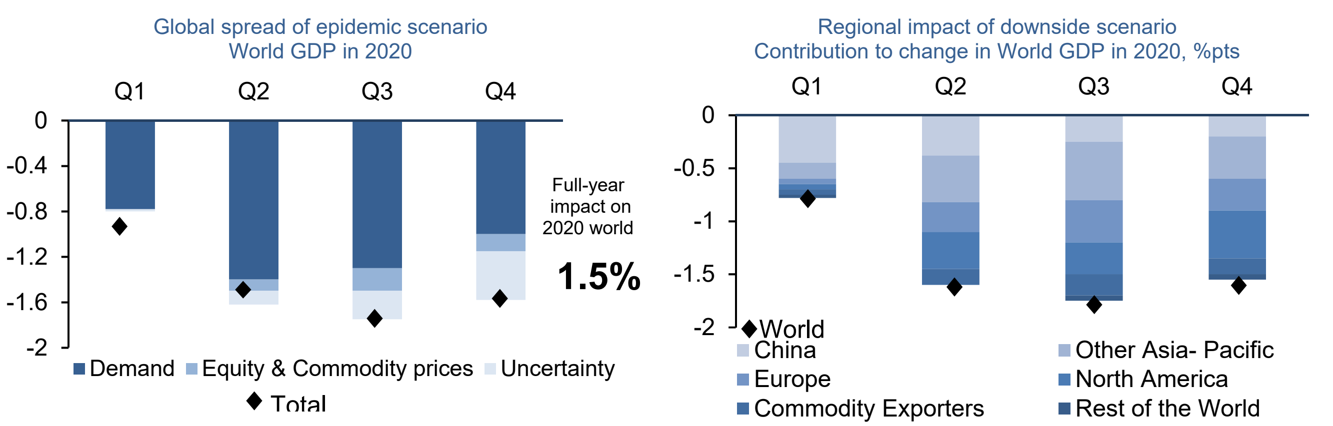
Figure 31: Exchange Rates:	2019	2020	2021	2022	2023	2024	2025
Oil price, Brent USD/barrel	64.1	42.8	50.2	54.2	58.2	61.2	61.1
World GDP (real, %)	2.4	-1.5	1.1	2.1	2.5	2.7	2.7
US CPI (Av, %)	1.8	1.4	1.8	2.1	2.1	2.3	2.4
US GDP (Av, %)	2.4	-0.9	1.4	2.6	2.8	2.7	2.6

Note: averages, Source: SARB, Investec

repo (Bank) rate and its three month money market rate (the Jibar or Johannesburg Interbank Average Rate) has normalised, after some dislocation. Moody's downgrade placed some upwards pressure on South Africa's borrowing rates in the long-end, but before the latest Moody's downgrade the SARB had already instituted substantial liquidity measures – purchasing longer-term government bonds and extracting liquidity in the short end of the market to neutralise the impact (and neutralise the inflation and growth impact). There is not a market need for lower interest rates, and the country risk has clearly risen. While the SARB may choose to lower rates again to provide debt relief, there are significant mechanisms incoming, and recently in existence already, looking to assist households and corporates with debt holidays for those that qualify and numerous other measures.

While better understandings of Covid-19 has been gained over the last month from the experiences in other countries (particularly China), uncertainty is still high and it as it is not yet certain how long it will take to contain the virus (flatten the curve globally), and how long the global economy will be negatively affected, with some growing concerns that the negative impact of Covid-19 could drag on into 2021. Reducing market risk aversion (uncertainty) from still high levels will be key in driving some recovery of the rand.

Figure 32: Global Impact of Covid-19 if epidemic spreads through Asia-Pacific and the Northern Hemisphere



Source: OECD

Note: This simulation shows the impact of a 4% fall in domestic demand in China and Hong Kong-China - in 2020Q1 and a 2% decline in 2020Q2, plus a 2% domestic demand fall in most other Asia Pacific countries and advanced Northern hemisphere countries in 2020Q2 and 2020Q3, plus declines of 20% in global equity and non-food commodity prices in 2020, and a 50 bps rise in investment risk premia in all countries in 2020. These shocks are assumed to decline gradually through 2021. Commodity exporters include Argentina, Brazil, Chile, Russia, South Africa and other non-OECD oil producing economies. Source: OECD calculations using the NiGEM global macroeconomic model.

Figure 33: Economic Scenarios: note updated probabilities – the probability of the severe down case rises

		Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21
Extreme	USD/Rand (average)	15.00	13.50	12.00	11.00	10.50	10.00	9.00	8.50
Up case	Repo rate (end rate)	5.25	5.25	5.00	5.00	500	5.00	5.00	5.00
1%									

Impact of Covid-19 pandemic very rapidly resolved- economic growth of 3–5%, then 5-7% for SA. Good governance, growth-creating reforms (structural constraints overcome), strengthening of property rights - individuals obtain title deeds in EWC – no nationalisation. High business confidence and fixed investment growth, substantial FDI inflows, strong fiscal consolidation. Strong global growth, commodity boom. Stabilisation of credit ratings, ultimately credit rating upgrades.

Up case		Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21
9%	USD/Rand (average)	15.30	14.80	14.50	13.90	13.20	12.00	11.50	11.00
	Repo rate (end rate)	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25

Quick rebound from Covid-19 pandemic, rising confidence and investment levels - structural problems worked down. SA obtains stable outlooks on its key credit ratings, strong fiscal consolidation. Global risk-on, global demand quickly returns to trend growth, growth 3.0% y/y 2021 in SA. Limited impact of 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.

		Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21
Base	USD/Rand (average)	15.45	17.50	17.00	16.50	15.50	14.60	14.50	14.00
case	Repo rate (end rate)	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.50
40%									

Temporary sharp global economic slowdown and global financial turmoil/crisis from Covid-19 pandemic (severe currency depreciation, low interest rates for South Africa) – eventually sufficient global and domestic monetary and other policy supports to growth and financial markets occur and risk sentiment stabilises. South Africa experiences a V shaped recession. Market unfriendly policies like expropriation of private sector property put on hold in the crisis. SA remains BB+ from Moody's, Fitch & S&P.

		Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21
Lite	USD/Rand (average)	15.55	19.50	22.00	20.00	18.50	17.00	16.50	16.00
(domestic)	Repo rate (end rate)	5.25	5.75	6.00	6.25	6.25	6.25	6.25	6.25
Down case **35%**									

The international risk sentiment and economic environment is that of the base case. Interest rates rise to eventually reverse March cut, QE insufficient as is control over government expenditure. SA falls to uniform downgrades to BB, risks B. U shaped recession in SA over 2020, potentially combined with expropriation of some private commercial sector property without compensation, with some negative impact on the economy. Business confidence depressed even further, significant rand weakness, significant load shedding and weak investment growth until substantial fiscal repair effected.

		Q1.20	Q2.20	Q3.20	Q4.20	Q1.21	Q2.21	Q3.21	Q4.21
Severe	USD/Rand (average)	15.60	22.00	24.00	21.00	20.00	19.00	18.00	16.50
down	Repo rate (end rate)	5.25	6.25	6.75	7.75	8.50	9.00	9.50	9.00
case **15%**									

Global sharp economic slowdown resulting in a recession on impact of Covid-19 – global financial crisis – insufficient monetary and other policy supports to growth domestically and internationally. A severe, lengthy recession occurs in SA (around 7 quarters), unprecedented rand weakness. Potentially combined with expropriation of private sector property (title deeds not transferred to individuals) without compensation for SA with severe negative impact on economy. SA rated sub-investment grade from all three key agencies, with further rating downgrades occurring as government finances deteriorate, eventually include widespread services load shedding and strike action.

Note: Event risk begins Q2.20. Source: Investec

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