Q3.19 Macro-economic outlook 2019–2025: SA markets, rand follow global, ignores GDP which stutters on structural (regulatory) impediments to growth

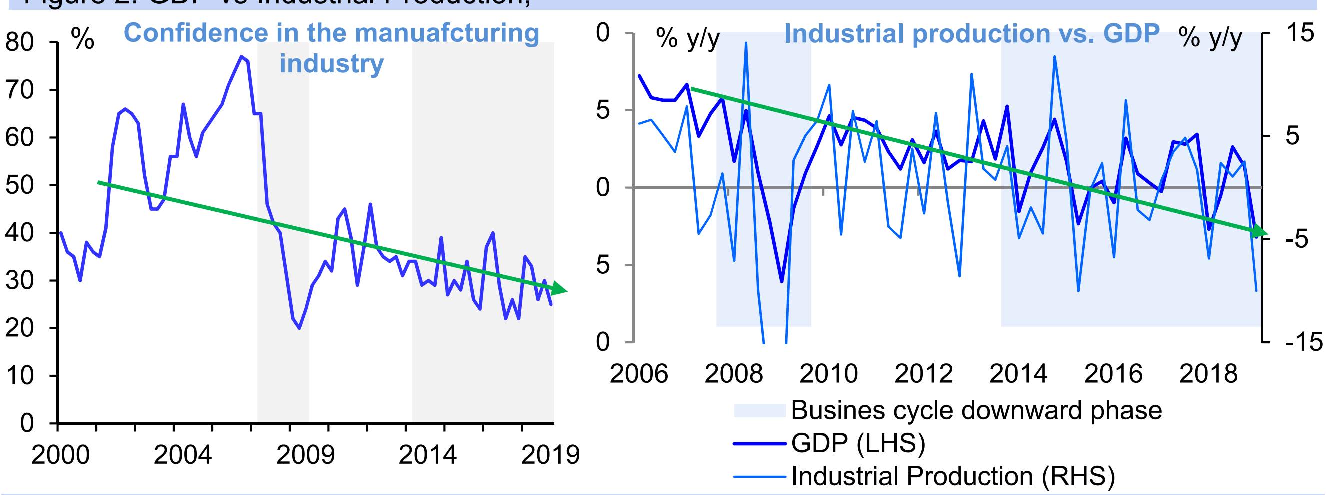
1st July 2019

Figure 1: Summary, % real growth rates	2018	2019	2020	2021	2022	2023	2024	2025
GDP	0.8	0.8	1.9	2.2	2.5	2.8	3.0	3.1
HCE	1.8	1.4	2.2	2.2	2.7	2.9	2.9	2.9
GCE	1.9	1.3	1.2	1.4	1.5	1.4	1.4	1.4
GFCF	-1.4	-1.0	3.4	3.3	4.0	4.8	4.9	5.3
GDE	0.9	0.8	1.9	2.2	2.6	2.9	3.0	3.1
Exports (goods & non-factor services)	2.6	3.0	5.0	5.3	5.1	5.0	5.0	5.1
Imports (goods & non-factor services)	3.3	3.1	5.0	5.1	5.1	5.1	5.0	5.0
Balance: Current Account - (% of GDP)	-3.6	-3.2	-3.2	-3.3	-3.3	-3.2	-3.2	-3.3

Source: SARB, Investec

With once again a lower real GDP outturn in Q1 (-3.2% qqsaa for Q1.19), South Africa's economic growth outlook for the rest of the year has dimmed, again, and consensus for 2019 now ranges between 0.6% y/y to 0.8% y/y, from closer to 1.5% y/y at the start of the year. Such persistent mild growth (2018 0.8% y/y) does not necessarily absorb all incoming labour market entrants, and risks the unemployment rate ticking up towards 30%, if it persists. The IMF recently concluded "South Africa's subdued economic growth could be reignited if the pace of structural reform implementation accelerates. Robust actions are needed to reduce the fiscal deficit and reverse the increase in public debt. The government has a renewed opportunity to press ahead with policies to further strengthen governance, encourage competition, increase labour market flexibility, and, more generally, reduce the cost of doing business." With regulatory blockages, specifically the ease of doing business hampered by a relatively onerous regulatory burden that is suppressing economic activity, government cannot move fast enough to unlock these impediments to economic growth, marked reindustrialisation and job creation. Such structural reforms are urgently needed to boost confidence and so production and output, with economic growth unlikely to lift sustainably

Figure 2: GDP vs Industrial Production,



Source: SARB, Investec, BER ABSA manufacturing survey, Stats SA

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Q3.19 Macro-economic outlook 2019–2025: SA markets, rand follow global, ignores GDP which stutters on structural (regulatory) impediments to growth

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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	0.9	1.0	2.1	1.7	1.8	1.8	2.1	2.3	2.3	2.3
HCE (real, y/y %)	0.7	1.4	1.8	1.6	2.2	2.1	2.2	2.2	2.3	2.2	2.2	2.1
GCE (real, y/y %)	1.1	1.4	1.4	1.4	1.3	0.8	1.2	1.3	1.3	1.4	1.4	1.5
GFCF (real, y/y %)	-2.9	-1.3	-0.6	1.0	2.9	3.2	3.8	3.7	3.7	3.3	3.1	3.1
GDE (real, y/y %)	-0.7	0.3	0.5	3.1	2.4	2.0	1.8	1.4	1.7	2.2	2.5	2.5
Export (goods & non-factor services) - (real, y/y %)	1.7	6.4	2.4	1.6	9.9	4.7	3.5	2.4	3.8	4.7	5.8	6.7
Imports (goods & non-factor services) - (real, y/y %)	-0.3	3.8	0.9	8.3	10.2	5.6	3.6	1.2	2.4	4.5	6.3	7.1
Current Account – (% GDP)	-2.9	-3.2	-3.2	-3.3	-3.3	-3.2	-3.0	-3.1	-3.1	-3.2	-3.5	-3.3
Imports as % of GDP	30.3	31.3	31.9	32.6	32.7	32.5	32.5	32.4	32.8	33.3	33.7	33.9
Exports as % of GDP	28.9	30.2	30.7	31.1	31.1	31.1	31.2	31.3	31.6	31.9	32.3	32.6

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 %)	2.4	2.5	2.6	2.6	2.7	2.8	2.9	2.9	3.0	3.0	3.0	3.0
HCE (real, y/y %)	2.3	2.6	2.9	3.1	3.1	3.0	2.8	2.7	2.7	2.8	2.9	3.0
GCE (real, y/y %)	1.6	1.5	1.5	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.5	1.3
GFCF (real, y/y %)	3.5	4.0	4.1	4.3	4.5	4.7	5.0	5.0	5.0	4.9	4.9	5.0
GDE (real, y/y %)	2.7	2.7	2.3	2.5	2.7	2.8	3.0	3.1	3.0	3.0	3.0	3.1
Export (goods & non-factor services) - (real, y/y %)	5.8	5.1	4.9	4.7	4.7	4.9	5.0	5.3	5.3	5.1	4.9	4.6
Imports (goods & non-factor services) - (real, y/y %)	6.7	5.5	4.2	4.1	4.5	4.8	5.3	5.7	5.3	5.0	4.8	4.7
Current Account – (% of GDP)	-3.3	-3.4	-3.4	-3.2	-3.2	-3.3	-3.2	-3.0	-3.1	-3.2	-3.3	-3.1
Imports as % of GDP	34.2	34.3	34.3	34.4	34.7	34.9	35.1	35.3	35.5	35.6	35.7	35.9
Exports as % of GDP	32.6	32.7	33.0	33.2	33.3	33.4	33.7	34.0	34.0	34.0	34.3	34.5

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	3.1	3.1	3.2
HCE (real, y/y %)	3.0	2.9	2.9	2.8
GCE (real, y/y %)	1.4	1.4	1.3	1.4
GFCF (real, y/y %)	5.1	5.2	5.3	5.4
GDE (real, y/y %)	3.1	3.1	3.1	3.1
Export (goods & non-factor services) - (real, y/y %)	4.6	5.0	5.3	5.5
Imports (goods & non-factor services) - (real, y/y %)	4.9	5.0	5.1	5.2
Current Account – (% of GDP)	-3.2	-3.4	-3.4	-3.2
Imports as % of GDP	36.1	36.3	36.4	36.6
Exports as % of GDP	34.5	34.7	35.0	35.3

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

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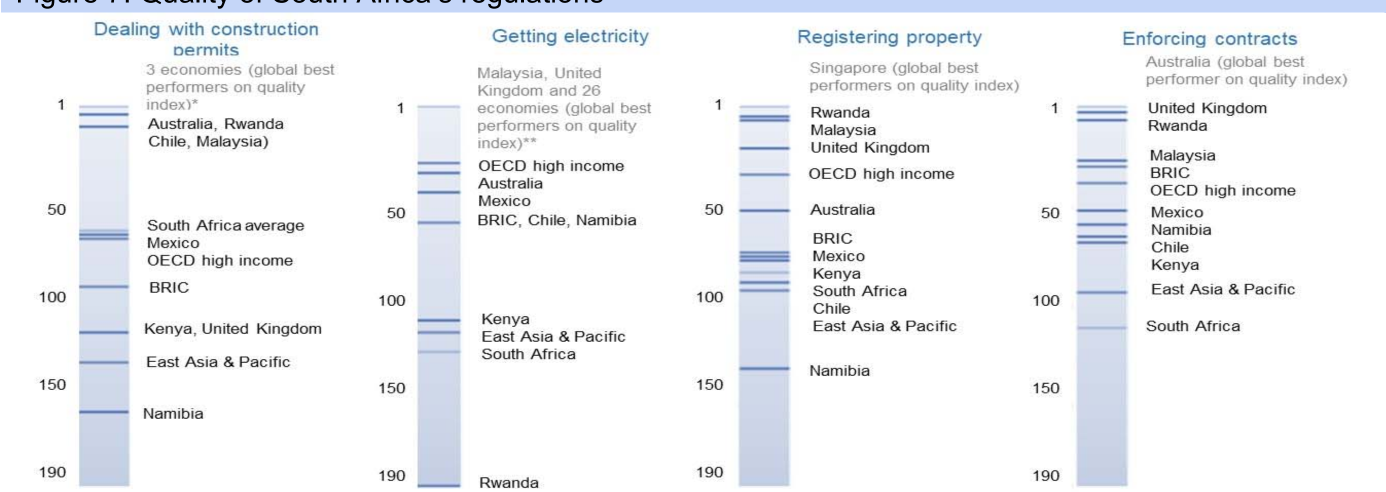
Figure 6: Gross Fixed Capital Formation	2018	2019	2020	2021	2022	2023	2024	2025
GFCF, total (real, %)	-1.4	-1.0	3.4	3.3	4.0	4.8	4.9	5.3
GFCF as % of GDP	19.4	19.1	19.3	19.5	19.8	20.2	20.6	21.0
Private sector (real, %)	2.1	-0.3	4.1	4.2	5.2	6.2	6.4	6.7
Government (real, %)	-8.5	-2.5	1.7	1.1	1.1	1.2	1.1	1.1
Non-residential GFCF (real, %)	2.9	-0.2	4.2	4.3	5.3	6.5	6.7	7.0
Residential buildings (real, %)	20.4	20.5	20.4	20.2	20.0	19.7	19.4	19.1

Source: Investec, SARB

to 3.0% y/y in the absence of this. The IMF additionally warns “(a)mid challenging global economic conditions, (SA’s) growth outlook will depend critically on the pace of implementation of reforms that address long-standing structural constraints. If reform implementation accelerates sufficiently to lift business confidence and jump-start private investment, growth would be reignited. However, if reforms are delayed, investment would fail to pick up, economic growth would remain weak in the medium term, and per-capita income would continue to decline.” President Ramaphosa recently identified the need to “reimagine our industrial strategy, to unleash private investment and energise the state to boost economic inclusion. It requires the State to effectively play its role as … a regulator that sets rules that create equitable opportunities for all players”. However, the South African economy can no longer afford to wait for the longer-term adjustments to improve its ease of doing business, a World Bank ranking where a high ease of doing business means the regulatory environment is more conducive to the starting and operation of a local firm compared to other countries in the world, and a low ranking means the regulatory environment is comparatively more obstructive. The ranking is determined by a number of factors including the cost, time and procedures to start a business, deal with construction permits, get electricity, register property, get credit, pay taxes, export, import, enforce contracts and resolve insolvency.

Figure 7: Quality of South Africa’s regulations



Note: see note on page 4. Source: World Bank

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 %)	-2.9	-1.3	-0.6	1.0	2.9	3.2	3.8	3.7	3.7	3.3	3.1	3.1
GFCF as % of GDP	19.1	19.0	19.0	19.1	19.2	19.3	19.4	19.5	19.5	19.5	19.6	19.6
Private sector (real, y/y %)	-2.5	-0.2	-0.1	1.6	5.1	3.9	4.0	3.6	3.9	4.1	4.3	4.5
Government (real, y/y %)	-3.7	-3.9	-1.8	-0.4	-2.1	1.8	3.2	4.0	3.2	1.5	0.2	-0.4
Non-residential GFCF (real, y/y %)	-2.0	0.3	-0.2	1.0	4.8	3.5	4.1	4.2	4.4	4.3	4.3	4.4
Residential buildings (real, y/y %)	-6.0	-3.0	0.0	5.9	7.1	6.2	3.3	-0.1	0.6	2.6	4.5	5.6

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 %)	3.5	4.0	4.1	4.3	4.5	4.7	5.0	5.0	5.0	4.9	4.9	5.0
GFCF as % of GDP	19.7	19.8	19.9	19.9	20.1	20.2	20.3	20.3	20.4	20.5	20.6	20.7
Private sector (real, y/y %)	4.8	5.1	5.2	5.5	5.8	6.1	6.5	6.6	6.5	6.4	6.4	6.4
Government (real, y/y %)	0.5	1.2	1.5	1.5	1.3	1.2	1.1	1.0	1.0	1.0	1.1	1.2
Non-residential GFCF (real, y/y %)	4.8	5.2	5.4	5.8	6.1	6.4	6.7	6.7	6.7	6.6	6.6	6.7
Residential buildings (real, y/y %)	5.4	5.0	4.2	3.6	3.7	4.1	5.1	5.8	5.2	5.1	4.4	4.4

Source: SARB, Investec

Figure 10: Gross Fixed Capital Formation	2025 Q1	2025 Q2	2025 Q3	2025 Q4
GFCF, total (real, y/y %)	5.1	5.2	5.3	5.4
GFCF as % of GDP	20.9	20.9	21.1	21.2
Private sector (real, y/y %)	6.6	6.7	6.8	6.9
Government (real, y/y %)	1.2	1.2	1.1	1.0
Non-residential GFCF (real, y/y %)	6.8	6.9	7.0	7.2
Residential buildings (real, y/y %)	5.3	5.1	5.2	5.1

Source: SARB, Investec

Note from figure 7: The figure illustrates sample rankings among 190 Doing Business economies. Rankings are based on the distance to frontier score (DTF), which shows how far a location is from the best performance achieved by any economy on each Doing Business indicator. The score is normalized to range from 0 to 100, with 100 representing the frontier of best practices (the higher the score, the better). For more information, see the chapter “About Doing Business and Doing Business in South Africa 2018” and the data notes. In this figure, the ranking is determined by sorting the DTF scores for the corresponding indicator’s quality index. The OECD averages are based on economy-level data for the 33 OECD high-income economies. The East Asia & Pacific averages are based on economy-level data for the 25 economies of East Asia and the Pacific. The BRIC averages are based on economy-level data for Brazil, Russia, India and China. *These are Luxembourg, New Zealand and the United Arab Emirates.
**These are Belarus; Belgium; Costa Rica; Cyprus; Czech Republic; Estonia; Finland; France; Germany; Hong Kong SAR, China; Ireland; Japan; Kazakhstan; Republic of Korea; Lithuania; the Netherlands; Panama; Portugal; Russia; the Slovak Republic; Slovenia; Spain; Sweden; Taiwan, China; the United Arab Emirates; and Uzbekistan.

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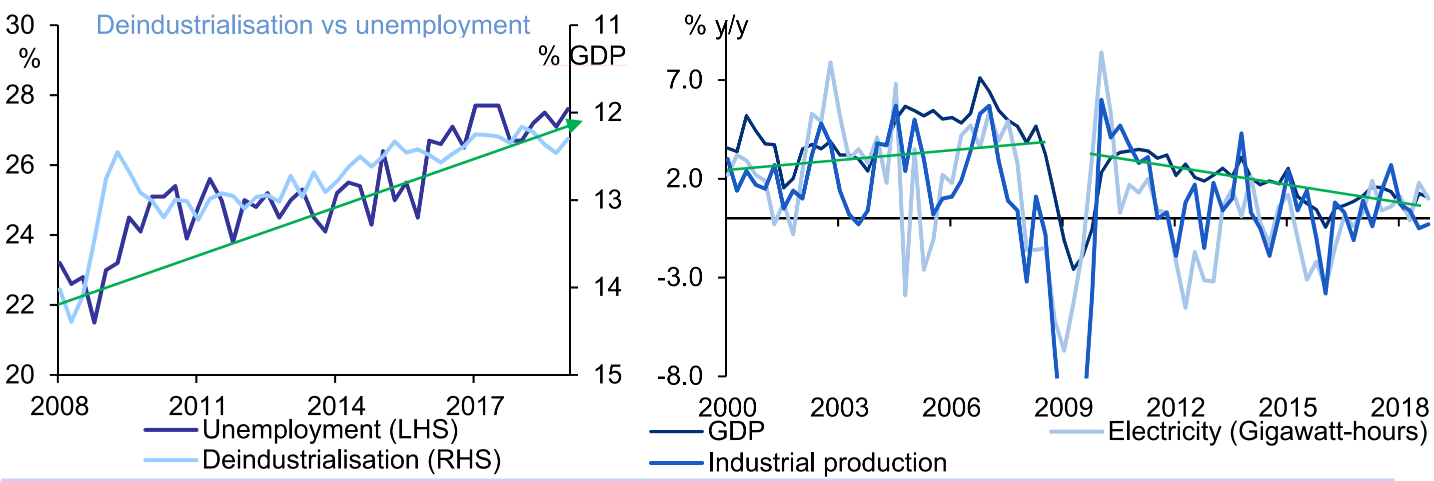
Figure 11: Consumption Expenditure	2018	2019	2020	2021	2022	2023	2024	2025
HCE, total (real, %)	1.8	1.4	2.2	2.2	2.7	2.9	2.9	2.9
HCE as % of GDP	61.6	62.0	62.2	62.2	62.3	62.3	62.2	62.1
Unemployment rate (%)	27.1	27.7	28.1	27.8	27.3	26.6	26.0	25.6
Population (million)	57.4	58.1	58.7	59.4	60.0	60.6	61.2	61.8
Employment growth rate (%)	1.4	0.8	0.9	1.3	1.5	1.9	1.7	1.6
GCE as % of GDP	4.2	4.6	5.8	6.7	7.0	7.5	7.3	7.1

Source: Investec, SARB

On a regional basis the World Bank finds that South Africa's ease of doing business would improve significantly, versus other countries in the world if Johannesburg adopted a lot of the good practices found in the rest of the country, particularly Cape Town where "Cape Town performs as well as Belgium and outperforms the average for OECD high-income economies. Conversely, Tshwane's score places it in the bottom half of global economies, behind Eswatini and just ahead of Namibia. This gap is mostly because of differences in procedural complexity and the time to obtain approval of a building plan. Municipalities with fewer preconstruction approvals and better internal coordination among the relevant departments perform better."

"The gap is even wider for getting electricity. The South African average performance … places the country among the 40% of lowest performers globally." Furthermore, "the national building code has significant influence over local regulatory quality for dealing with construction permits. South Africa's average performance lags behind that of the BRIC economies (Brazil, the Russian Federation, India and China) and OECD high-income economies for all the quality indices, save for dealing with construction permits." With the ease of doing business also examining the complexity and cost of regulatory processes and the strength of legal institutions in a country, boosting this ranking tends to result in higher growth.

Figure 12: Deindustrialisation and the rising trend of unemployment, industrial production and GDP



Source: Stats SA, Investec,

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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	1.4	1.8	1.6	2.2	2.1	2.2	2.2	2.3	2.2	2.2	2.1
HCE as % of GDP	62.1	62.0	62.0	62.0	62.1	62.2	62.2	62.2	62.2	62.2	62.1	62.1
Unemployment rate (%)	27.2	27.9	27.9	27.7	28.0	28.2	28.2	28.0	27.9	27.8	27.8	27.7
Population (million)	57.8	58.0	58.1	58.3	58.5	58.6	58.8	59.0	59.1	59.3	59.4	59.6
Employment growth rate (y/y %)	-0.5	1.0	1.3	1.5	2.4	0.5	0.4	0.4	1.0	1.4	1.5	1.4
GCE as % of GDP	20.6	20.6	20.5	20.4	20.4	20.4	20.4	20.3	20.3	20.2	20.2	20.2

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 %)	2.3	2.6	2.9	3.1	3.1	3.0	2.8	2.7	2.7	2.8	2.9	3.0
HCE as % of GDP	62.2	62.3	62.3	62.4	62.4	62.4	62.3	62.2	62.2	62.2	62.2	62.2
Unemployment rate (%)	27.6	27.5	27.4	26.8	26.8	26.6	26.5	26.5	26.3	26.1	26.0	25.8
Population (million)	59.8	59.9	60.1	60.2	60.4	60.5	60.7	60.8	61.0	61.1	61.3	61.4
Employment growth rate (y/y %)	1.3	1.3	1.4	2.0	2.0	2.1	2.0	1.3	1.5	1.6	1.7	1.8
GCE as % of GDP	20.1	20.0	20.0	19.9	19.9	19.8	19.7	19.6	19.5	19.5	19.4	19.3

Source: SARB, Investec

Figure 15: Consumption Expenditure	2025 Q1	2025 Q2	2025 Q3	2025 Q4
HCE, total (real, y/y %)	3.0	3.0	2.9	2.9
HCE as % of GDP	62.1	62.1	62.1	62.0
Unemployment rate (%)	25.9	25.8	25.7	25.6
Population (million)	61.6	61.7	61.9	62.0
Employment growth rate (y/y %)	1.7	1.6	1.5	1.5
GCE as % of GDP	19.1	19.0	18.9	18.8

Source: SARB, Investec

With South Africa achieving little in reducing unemployment over the past ten years on a sustainable basis, households are constrained financially, and household expenditure growth in real terms is weak, resulting in low GDP growth, as household consumption expenditure accounts for two thirds of GDP. Indeed, demand is weak in South Africa, and is also influencing inflation outcomes, with CPI inflation modest at 4.5% y/y, well below its historic average since 2009 of 5.4% y/y. With the services sector accounting for over 70% of the economy, up from 62% in 1993, a heady deindustrialisation trend has occurred in SA's economy, while the economy has also matured. Reindustrialisation of SA will do much to boost economic growth and job creation in South Africa, while SA's mature, sophisticated services sector can be leveraged

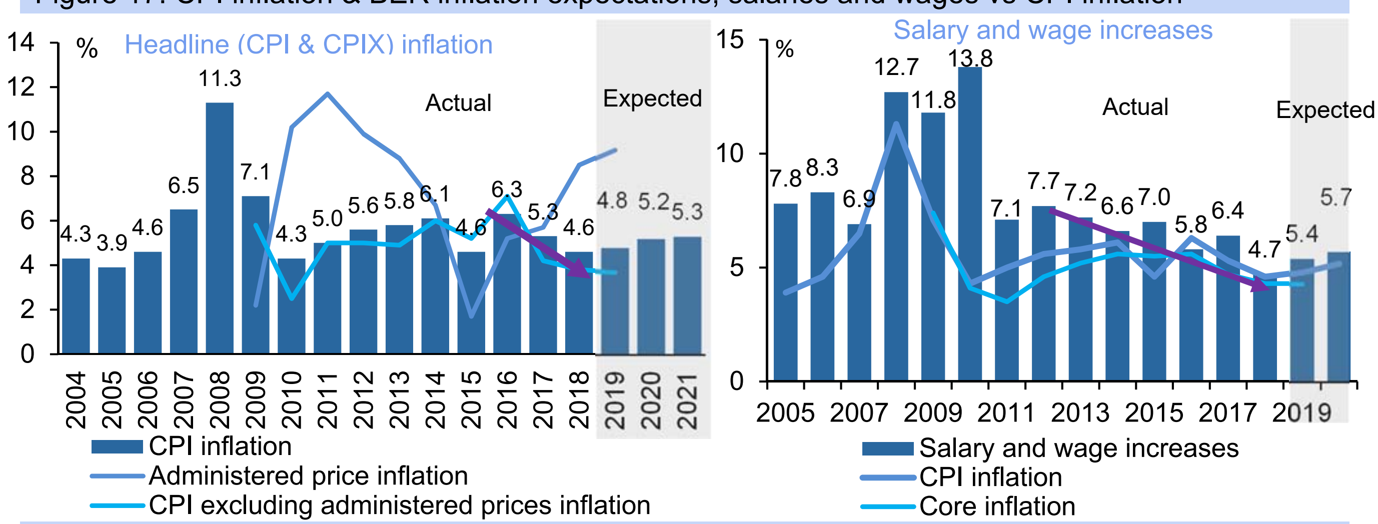
Figure 16: Inflation forecasts	2018	2019	2020	2021	2022	2023	2024	2025
Consumer Inflation (Av: %)	4.7	4.6	5.6	5.5	5.8	5.5	5.3	5.1
(year-end: %)	*4.5*	*5.2*	*5.4*	*5.6*	*5.7*	*5.3*	*5.1*	*5.0*
Producer Inflation (Av: %)	5.5	5.5	5.9	5.6	5.6	5.3	5.2	5.1
(year-end: %)	*5.2*	*5.7*	*5.6*	*5.2*	*5.2*	*5.2*	*5.2*	*5.0*
Salary & wage increases (%)	4.7	5.1	5.8	6.0	6.3	6.2	6.3	6.4

Source: Investec

to make this happen if government severely reduces its regulatory burden placed on business activity, particularly in the manufacturing and mining sectors. Demand is weak in South Africa, with high administered price inflation of 8.2% y/y severely eating into disposable incomes and so weakening household consumption expenditure and economic growth. Administered price inflation is elevated, partly as a reflection of the pressure SOEs have been under to provide a ramp up in services, and partly due to deteriorated finances in a number of instances. While improvement in governance at some of these institutions has been key this year and last, Eskom remains of concern to the credit rating agencies and SA's security of electricity supply. With SA on track to split the entity into three separate corporates, providing an early partial bailout to its debt, much can be done to turn the entity around.

CPI inflation in SA excluding administered prices is 3.7% y/y, evidencing the weakness of demand side price pressures in SA. Households have seen the pace of growth in debt rise, to 6.5% y/y from around 3.5% y/y in early 2017 as they have increasingly resorted to debt in a constrained environment (household debt has reached 72.5% of disposable income from 71.3% in 2017). Growth in disposable income has slowed materially over this period, from 11.3% y/y at the beginning of 2017, to 4.0% y/y currently, while compensation of employees has seen growth falter too, down to 4.4% y/y from around 7.0% y/y at the beginning of 2017, with the historic average since 1994 of around 10% y/y. Indeed, even in real terms,

Figure 17: CPI inflation & BER inflation expectations; salaries and wages vs CPI inflation



Source: Stats SA, 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	4.4	4.9	4.9	5.9	5.5	5.4	5.4	5.5	5.5	5.4	5.6
Producer Inflation (Av: y/y %)	5.0	6.3	5.6	5.0	6.8	5.6	5.7	5.5	5.7	5.9	5.6	5.1
Salary & wage increases (y/y %)	4.5	4.9	5.4	5.6	6.0	5.8	5.7	5.8	6.0	6.0	6.1	5.9

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

Source: Statistics SA, SARB, Investec

Figure 20: Inflation forecasts	**2025 Q1**	**2025 Q2**	**2025 Q3**	**2025 Q4**
Consumer Inflation (Av: y/y %)	5.3	5.2	4.9	5.0
Producer Inflation (Av: y/y %)	5.3	5.1	5.0	5.0
Salary & wage increases (y/y %)	6.4	6.5	6.4	6.3

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	6.50	6.50	6.50	6.75	6.75	6.75	6.75
Prime Overdraft Rate (year-end: %)	10.25	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.25	10.25	10.25	10.25
SA rand bond (Av: %)	9.26	9.00	8.95	8.90	8.95	9.00	9.00	9.00	9.25	9.25	9.25	9.25

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: %)	6.75	6.75	7.00	7.00	7.00	7.00	7.00	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	10.50	10.50	10.50	10.50	10.50
SA rand bond (Av: %)	9.30	9.35	9.40	9.40	9.35	9.30	9.35	9.20	9.10	9.05	9.00	9.00

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

Figure 23: Monetary Sector % year-end	**2025 Q1**	**2025 Q2**	**2025 Q3**	**2025 Q4**
Repo Rate (year-end: %)	7.00	7.00	7.00	7.00
Prime Overdraft Rate (year-end: %)	10.50	10.50	10.50	10.50
SA rand bond (Av: %)	9.00	8.90	8.90	8.90

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

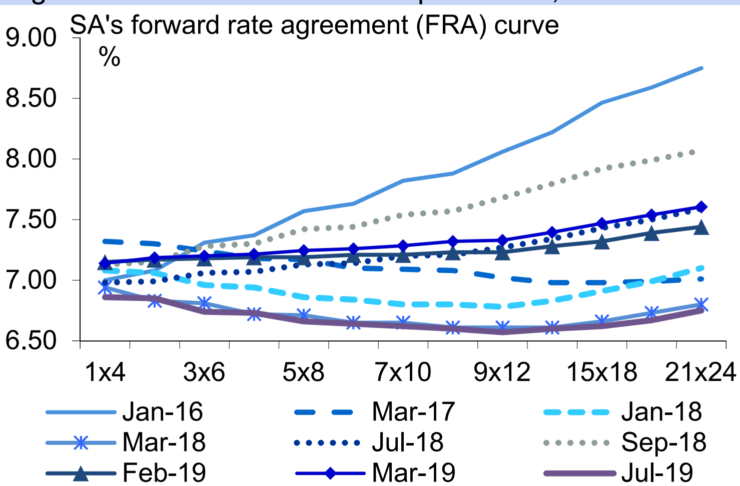
Figure 24: Monetary Sector	2018	2019	2020	2021	2022	2023	2024	2025
Repo Rate	6.75	6.50	6.50	6.75	7.00	7.00	7.00	7.00
Prime Overdraft Rate	10.25	10.00	10.00	10.25	10.50	10.50	10.50	10.50
SA rand bond	9.57	8.90	9.00	9.25	9.40	9.20	9.00	8.90
US Fed funds rate	2.25-2.50	1.75-2.00	1.50-1.75	1.75-2.00	1.75-2.00	1.75-2.00	1.75-2.00	1.75-2.00
UK Bank rate	0.75	0.75	1.00	1.25	1.25	1.25	1.25	1.25

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

disposable income growth has slowed, to 0.8% qqsaa in Q1.19, from around 3.0% qqsaa in Q1.17. Households' net wealth improved in Q1.19, to 366% of disposable income, from 356% of disposable income in Q4.18 as equity prices improved, although debt did increase. Household savings as a % of disposable income is negative, while the cost of servicing debt as a percentage of disposable income remained at 9.3% in Q1.19, with the SARB widely expected to cut interest rates in SA this year. Indeed, many forecast a 25bp cut in the repo rate this month, at the MPC meeting on 18th July, with two members of the committee already voting at its last meeting for a 25bp cut, and three against. The SARB (South African Reserve Bank) shows a forecast for CPI inflation of 4.5% y/y in 2020 and that "(t)he overall risks to the inflation outlook are assessed to be more or less evenly balanced." The SARB has also warned that the "current challenges facing the economy are primarily structural in nature and cannot be resolved by monetary policy alone." With political pressure escalating and disruptive in SA, the recent reemergence of threats to SARB independence has been damaging, causing marked rand weakness. Globally, concerns over economic growth persist, and monetary policy has become dovish, resulting in the US expected to cut its interest rates by 50bp this year, likely resulting in a weaker US dollar and underpinning the rand. Markets are factoring in a 25bp interest rate cut this year for SA.

The rand, and other emerging market currencies, have benefitted from financial market expectations that the US will cut its interest rates this year by 50bp, while expectations that the ECB could ease policy are

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	2.25-2.50	0.00	-0.40	0.75	1.25
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	2.00-2.25	0.00	-0.40	0.75	1.00
Q4	1.75-2.00	0.00	-0.40	0.75	0.75
2020					
Q1	1.50-1.75	0.00	-0.20	0.75	0.75
Q2	1.50-1.75	0.00	-0.20	0.75	0.75
Q3	1.50-1.75	0.00	0.00	0.75	0.75
Q4	1.50-1.75	0.00	0.00	1.00	0.75

ECB asset purchases ceased at the end of 2018. The Fed's current maximum monthly pace of QE roll off stands at $35bn. Run-off ceases at the end of September.

Source: Reuters, IRESS, Macrobond, Investec UK

Figure 26: Economic Scenarios:

		Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20
Extreme	Rand/USD (average)	14.01	14.38	11.50	10.30	9.50	8.60	7.90	7.60
Up case	Repo rate (end rate)	6.75	6.75	6.00	6.00	5.75	5.75	5.50	5.50

1% Fast, sustainable economic growth of 5.0-7.0% y/y plus. SA sees change in political will with growth creating economic reforms in line with global norms that structurally lift private sector investor confidence and so fixed investment. Global growth boom (including commodities), Trump protectionism removed, SA export and domestic growth boom lifts employment and incomes to the degree that poverty is eliminated. Property rights strengthened, individuals obtain title deeds in EWC without disruption to economy. Fiscal consolidation, credit rating upgrades to A grade.

		Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20
Up case									
10%	Rand/USD (average)	14.01	14.38	13.00	11.50	10.00	9.95	9.90	9.70
	Repo rate (end rate)	6.75	6.75	6.25	6.25	6.25	6.00	6.00	6.00

Persistent growth of 3.0 – 5.0%, higher probability of extreme up case. Better governance, growth creating reforms in line with global norms (structural constraints are overcome) and greater socio-economic stability, some strengthening in property rights, individuals obtain title deeds in EWC without disruption to economy. 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.

		Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20
Base	Rand/USD (average)	14.01	14.38	14.30	13.90	13.40	13.70	13.90	13.30
case **47%**	Repo rate (end rate)	6.75	6.75	6.50	6.50	6.50	6.50	6.50	6.50

Annual growth rate of 2.0% y/y reached by 2020, 3.0% y/y by 2024. Higher confidence and investment levels than past decade, limited impact of EWC/expropriation without compensation (to abandoned and unused land of government and agricultural sector – individuals are new owners and receive title deeds). Rand structurally stronger nears PPP by 2021. SA retains one investment grade (Moody's) rating on its local currency long-term sovereign debt in 2019. Sedate global monetary policy normalisation – avoid severe global risk-off environment, neutral to global risk-on. Modestly strengthening global demand.

		Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20
Down	Rand/USD (average)	14.01	14.38	15.80	17.00	18.50	18.90	17.50	16.50
case	Repo rate (end rate)	6.75	6.75	7.25	8.00	8.50	8.50	8.50	8.50

37% Partial expropriation of (certain groups') private commercial sector property (including productive land) without compensation, plus wide scale land grabs, title deeds not transferred to individuals under semi-nationalisation. Confidence and investment depressed, marked rand weakness, significant strike action and widespread load shedding. SA sub-investment grade (loses Moody's rating), increased chance of further credit downgrades. Faster than expected global (US) monetary policy normalisation, general market risk-off, global sharp economic slowdown (commodity slump), marked escalation of US-China trade war, short global financial crisis (SA V shaped recession).

		Q1.19	Q2.19	Q3.19	Q4.19	Q1.20	Q2.20	Q3.20	Q4.20
Extreme	Rand/USD (average)	14.01	14.38	17.00	19.00	22.00	24.00	25.50	26.00
down	Repo rate (end rate)	6.75	6.75	9.50	13.00	16.50	18.00	21.00	21.50

case **5%** Wide scale expropriation of private sector property (assets and land) rights without compensation with state as custodian - nationalisation. Credit ratings junk & sovereign debt default - state bankruptcy/failed state. Partial to no payment of public sector employees' wages and social grants, persistent government services outages and rolling mass strike action, civil unrest/war. Global economy falls into recession, severe global trade war, severe lengthy global financial crisis, SA economic depression.

Note: Event risk begins Q3.19. Source: Investec, Iress historical data

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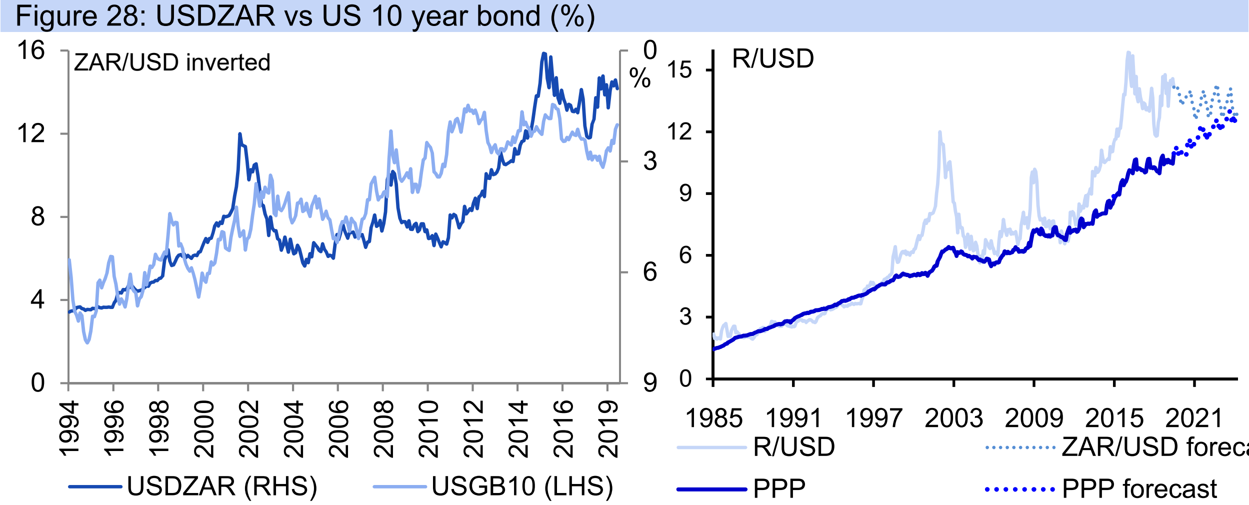
Figure 27: Exchange Rates:	2018	2019	2020	2021	2022	2023	2024	2025
USD/ZAR	13.24	14.15	13.58	13.30	13.50	13.33	13.55	13.88
GBP/ZAR	17.64	18.01	17.78	18.50	18.83	18.66	18.97	19.43
EUR/ZAR	15.61	16.01	15.83	16.56	16.88	16.66	16.94	17.34
ZAR/JPY	8.38	7.71	7.79	7.98	7.92	8.04	7.91	7.72
GBP/USD	1.33	1.27	1.31	1.39	1.39	1.40	1.40	1.40
EUR/USD	1.18	1.13	1.17	1.25	1.25	1.25	1.25	1.25
USD/JPY	110	109	106	106	107	107	107	107

Note: averages, Source: SARB, Investec

rising, and SA is likely to join the dovish direction.

The rand is likely to continue to gain from perceptions, and particularly the occurrence, of global monetary policy easing. We have revised our forecast for world GDP growth down again, to 2.6% y/y for 2019, versus the forecast we made in Q2.19 of 2.9% y/y in line with the World Bank which highlights that "(g)lobal growth has continued to weaken and momentum remains fragile. … Downside risks to growth predominate, including rising trade barriers, a build-up of government debt, and deeper-than expected slowdowns in several major economies." "U.S. growth is expected to slow to 2.5 percent in 2019 and further decelerate to 1.7 percent in 2020 and 1.6 percent in 2021, as the effects of recent fiscal stimulus wane." While the rand could see further strength this year, this may be more likely to be sustained in the last quarter, as global financial markets tend to be less risk averse in that period (the last and first quarters of the year), while the third quarter tends be a quarter in which financial markets often experience risk-off. Longer-term the rand is expected to return to its purchasing power parity valuation (in the expected case), absent a further escalation in trade tensions between the US and China, and absent also a Moody's credit rating downgrade and a prolonged global financial markets risk-off environment.

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



Source: Iress

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	14.30	13.90	13.40	13.70	13.90	13.30	12.70	13.20	13.90	13.40
GBP/ZAR	18.25	18.48	17.87	17.46	17.05	17.76	18.48	17.83	17.53	18.41	19.38	18.69
EUR/ZAR	15.92	16.15	16.12	15.85	15.48	15.89	16.26	15.69	15.62	16.50	17.38	16.75
ZAR/JPY	7.87	7.65	7.55	7.77	7.99	7.74	7.59	7.86	8.35	8.03	7.63	7.91
GBP/USD	1.30	1.29	1.25	1.26	1.27	1.30	1.33	1.34	1.38	1.39	1.39	1.39
EUR/USD	1.14	1.12	1.13	1.14	1.16	1.16	1.17	1.18	1.23	1.25	1.25	1.25
USD/JPY	110	110	108	108	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	12.80	13.60	14.20	13.40	12.80	13.40	14.00	13.10	12.90	13.60	14.30	13.40
GBP/ZAR	17.85	18.96	19.80	18.69	17.92	18.76	19.60	18.34	18.06	19.04	20.02	18.76
EUR/ZAR	16.00	17.00	17.75	16.75	16.00	16.75	17.50	16.38	16.13	17.00	17.88	16.75
ZAR/JPY	8.28	7.87	7.54	7.99	8.36	7.99	7.64	8.17	8.29	7.87	7.48	7.99
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	13.30	14.00	14.60	13.60
GBP/ZAR	18.62	19.60	20.44	19.04
EUR/ZAR	16.63	17.50	18.25	17.00
ZAR/JPY	8.05	7.64	7.33	7.87
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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