



South African Outlook 2024 and Beyond

A YEAR OF TWO HALVES AND FAT TAILS

Isaah Mhlanga
Chief Economist

April 2024

RMB a division of FirstRand Bank Limited, is an Authorised Financial Services and Credit Provider NCRCP20.

In partnership with  FNB  WesBank  ASHBURTON INVESTMENTS

Outline

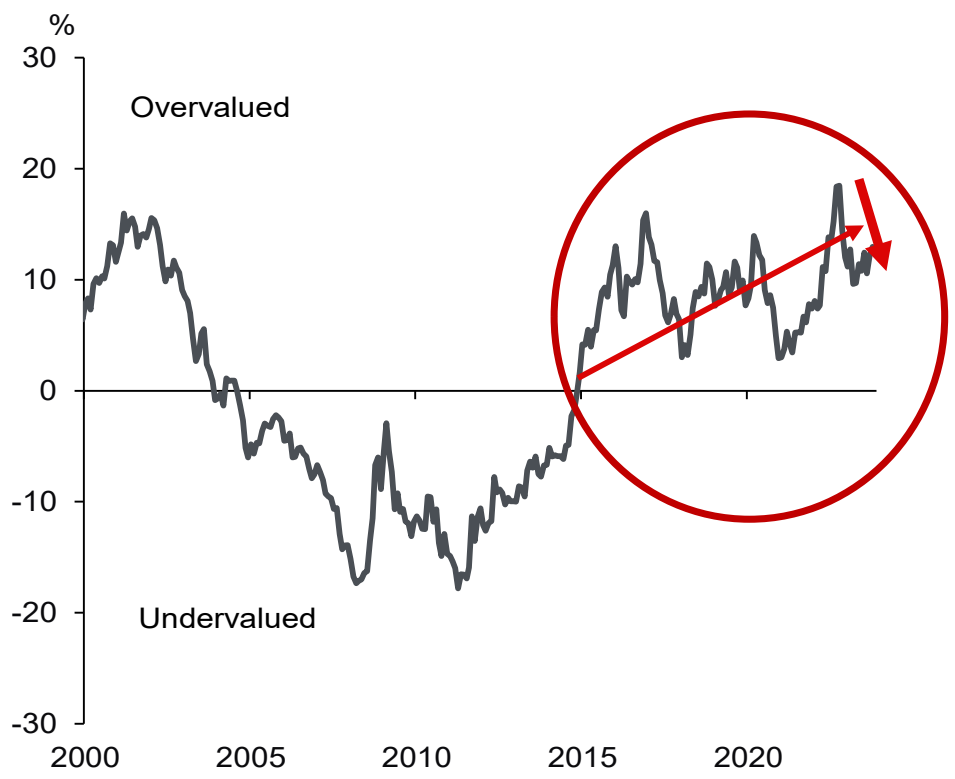


- **South Africa macroeconomic outlook**
- **Cyclical SA themes: elections, politics, policy and markets**
- **A plausible bullish case for South Africa's future: the irreversibility of economic reforms**

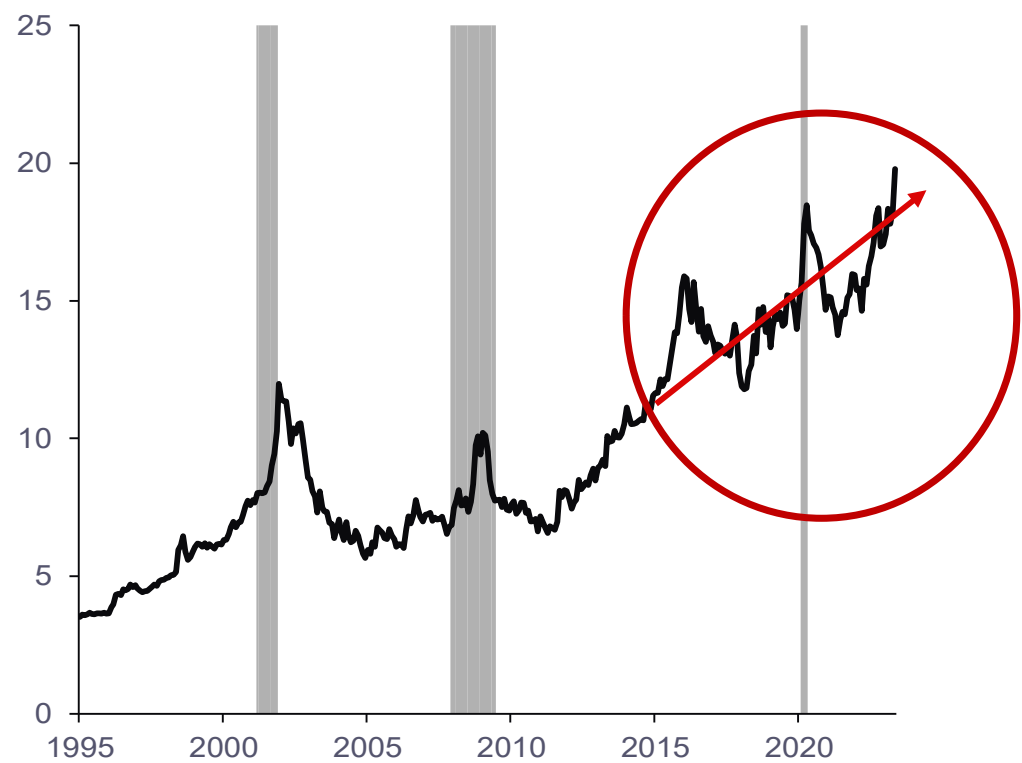
US dollar gains are reversing while a soft landing is expected for the US economy



USD deviations from trend



US recessions and USD/ZAR



Source: Bloomberg and RMB Markets Research
Strictly Private and Confidential | Page 3

The rand remain undervalued but not too bad adjusted for inflation and trade weighted



USD/ZAR and historic recoveries



ZAR in inflation adjusted and trade weighted terms



- Fed rate cuts and weaker USD always drives ZAR (and other EM currencies) weaker
 - Election risk premium will unwind in 2H24

Source: Bloomberg and RMB Markets Research

Strictly Private and Confidential | Page 4

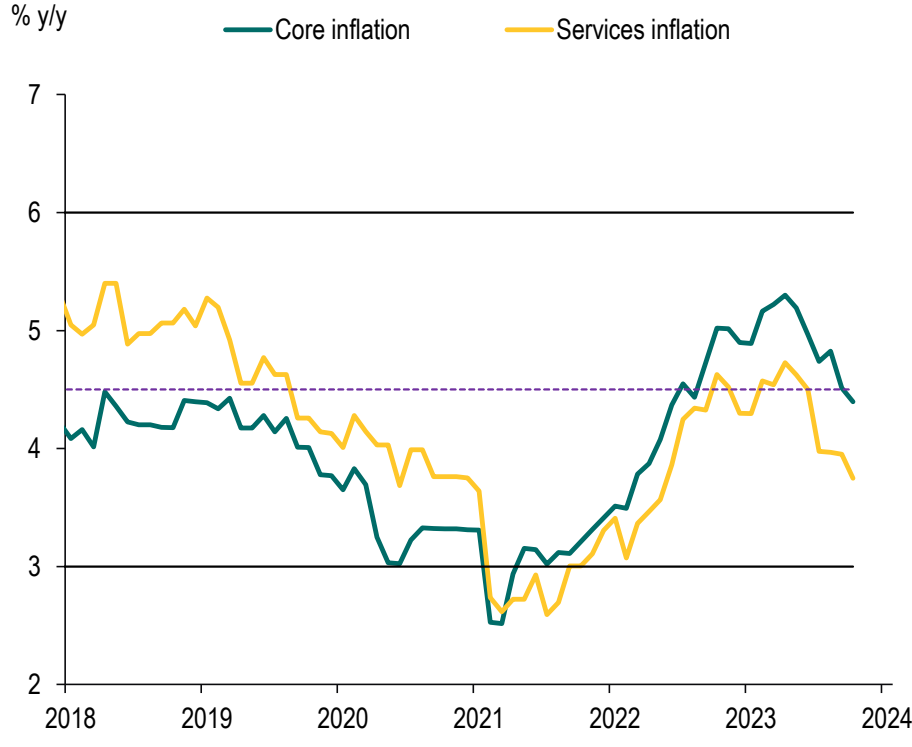
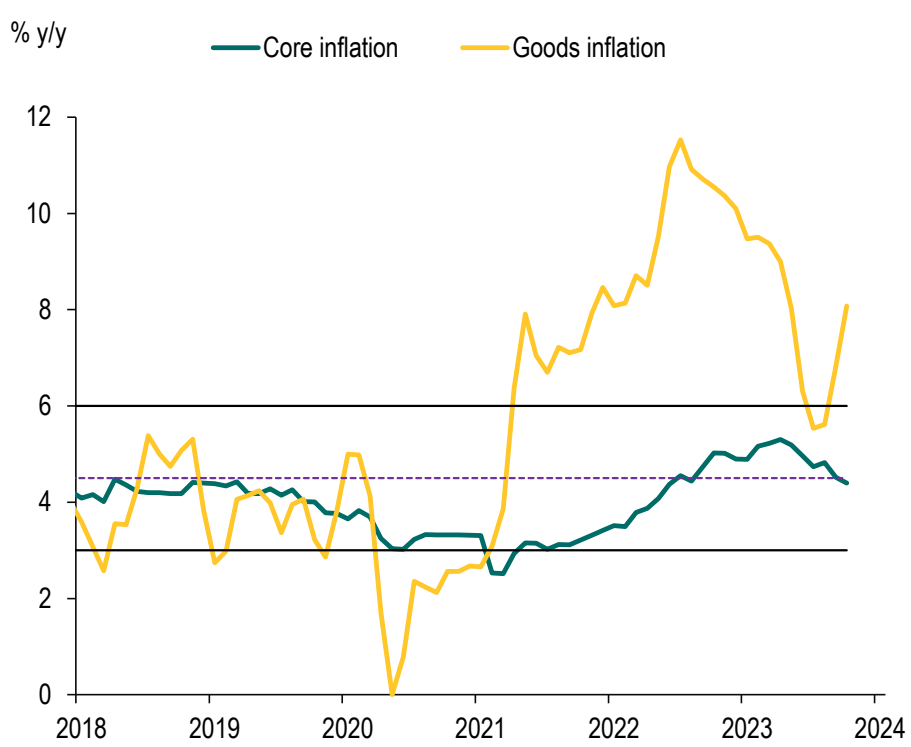
In partnership with  FNB  WesBank  ASHBURTON INVESTMENTS

Most CPI inflation components have been trending lower



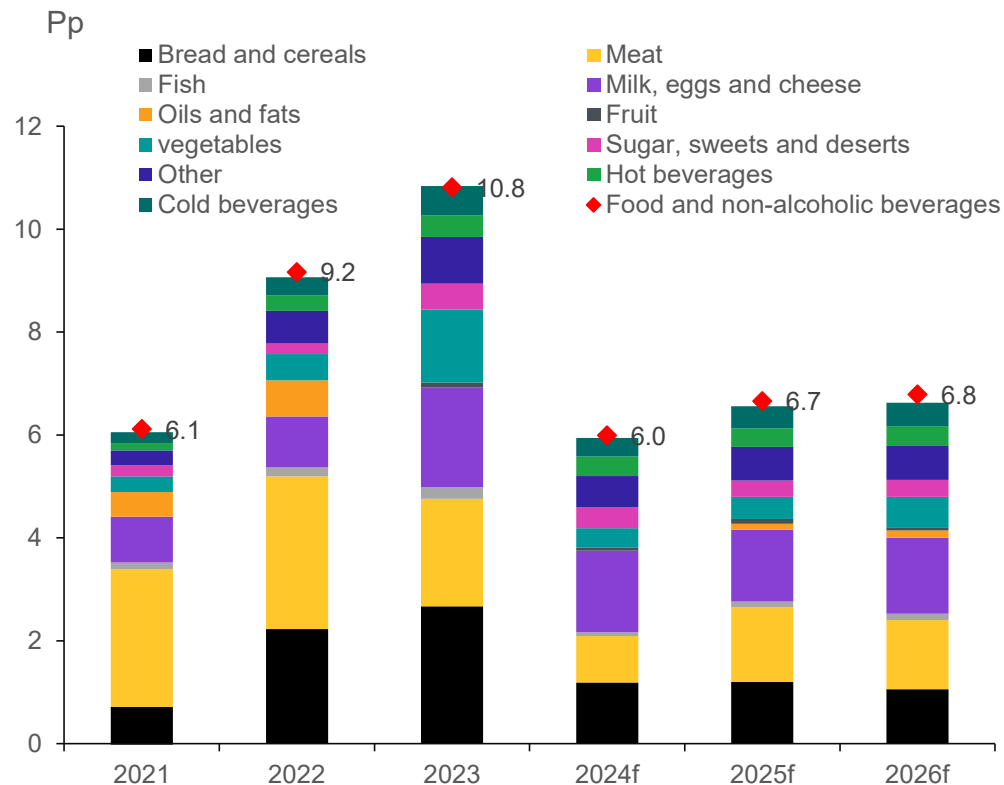
Wrong way trend in goods inflation with upside risks from food prices

Services driving core inflation lower



Source: Stats SA, SARB and RMB Markets Research

The major global inflation drivers that drove SA inflation have compressed



- **Trump trade war with China and global geopolitical realignment** brought **nearshoring** or **friend-shoring** that is inflationary
- **Covid-19 lockdowns** disrupted supply chains
- **Russia-Ukraine war** reinforced supply chain disruptions especially food and energy sectors
- **Israel-Hamas war** creates risks for the broader Middle East and energy sector
- **El-Nino** in Southern Hemisphere another risks to food price inflation
- **Load shedding** drove the **ZAR weaker** but that is now receding

Source: Stats SA and RMB Markets Research

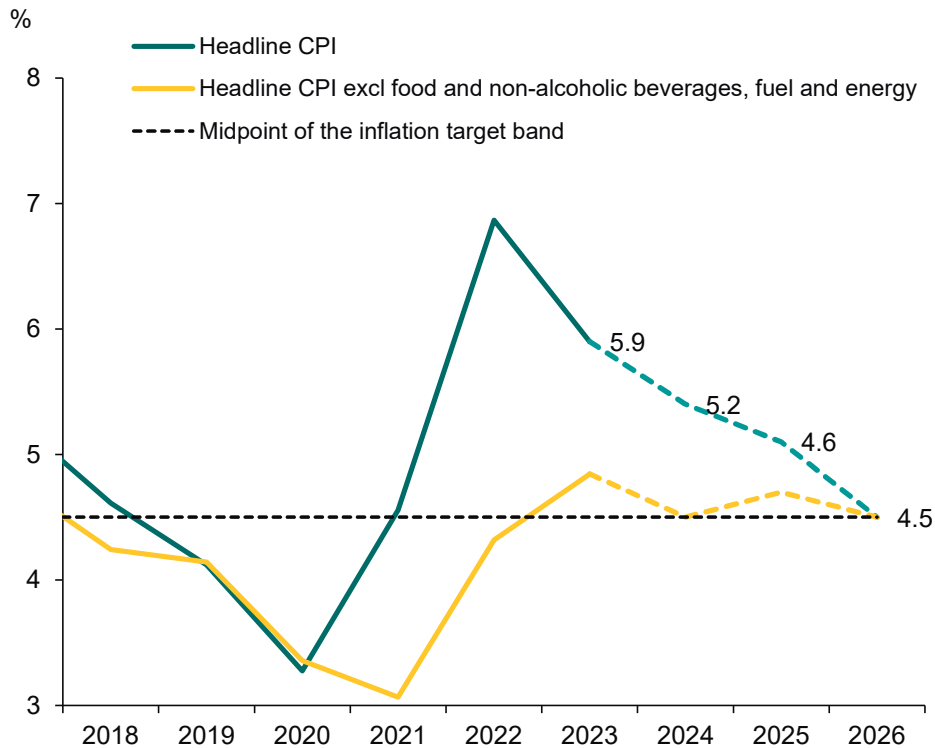
Strictly Private and Confidential | Page 6

In partnership with  FNB  WesBank  ASHBURTON INVESTMENTS

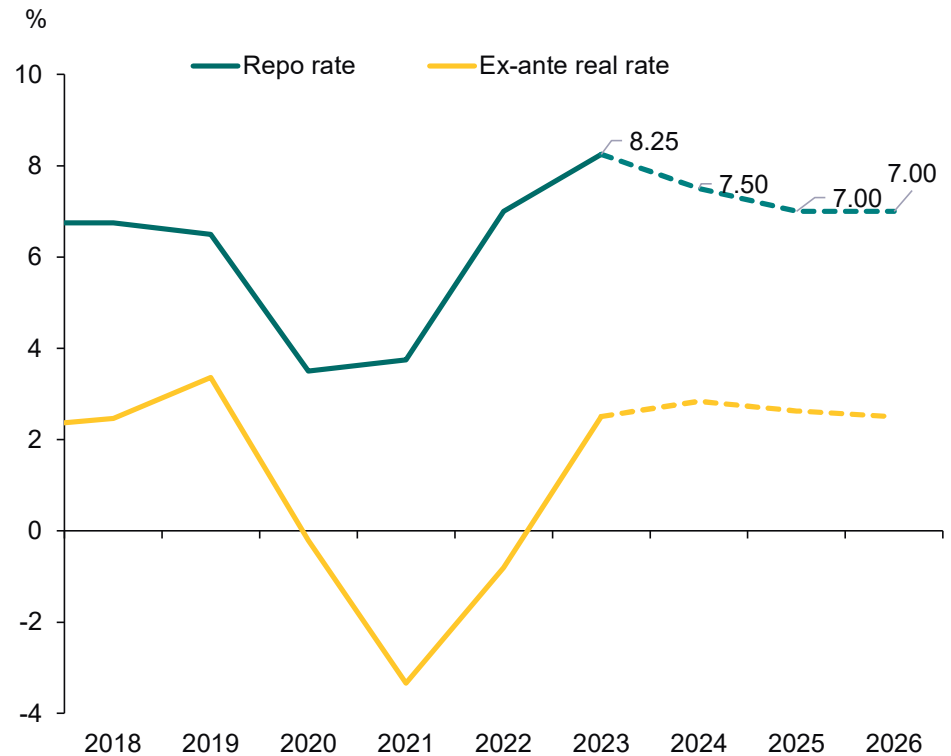
Interest rates normalisation as inflation moderate to the target mid-point



Inflation to moderate with slowing food and fuel prices



Repo outlook: 75bp of cuts in 2024

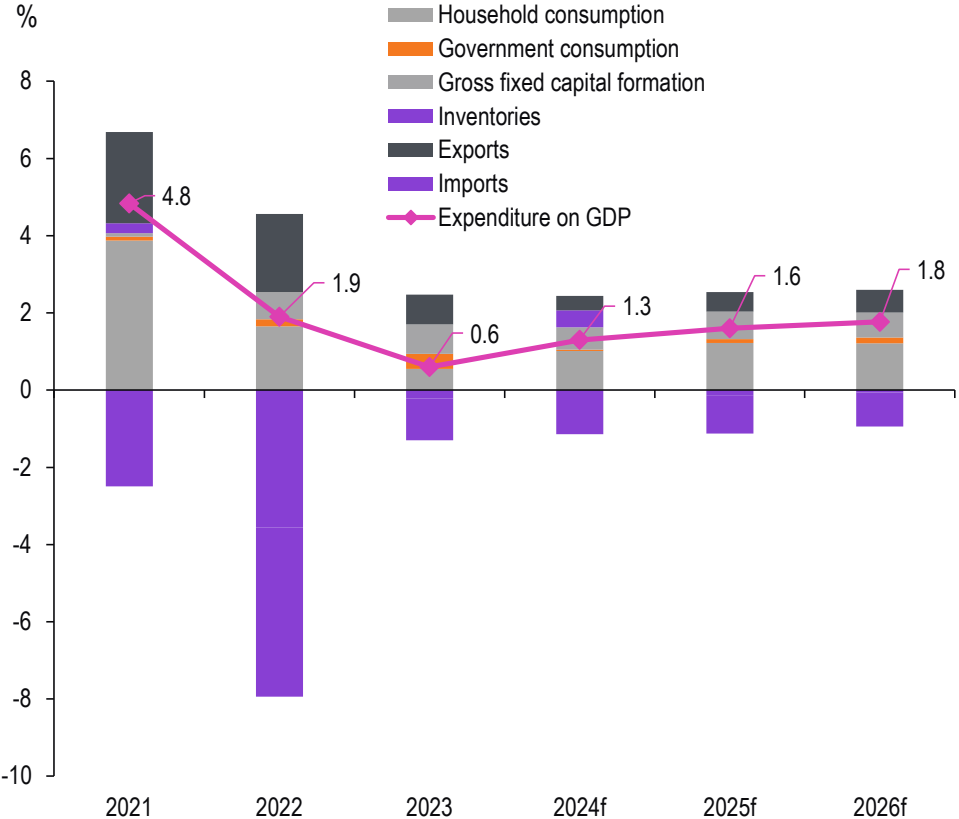


Note: Dotted lines represent forecasts. Source: SARB; Stats SA; RMB Markets Research

South Africa's modest growth prospects



Growth to recover in 2024



What will drive growth in 2024:

- **Household expenditure** slowed in 2023 due to higher debt repayments and rising inflation but expected to recover in 2H24 with easing inflation and potential interest rate cuts.
- **Gross fixed capital formation** growth to moderate in 2024, reflecting public sector fiscal pressures and governance issues, as well as private sector uncertainty ahead of elections, leading to a pullback in major capital expenditure.
- **Bleak external outlook** with projected slow export growth due to slowdown in main trading partners, logistical hurdles impacting commodity exports.

Source: Stats SA and RMB Markets Research

Source: StatsSA; RMB Markets Research

A summary of South Africa's macroeconomic forecasts



	2022	2023	2024	2025	2026
GDP growth (average)	1.9%	0.6%	1.3%	1.6%	1.8
Inflation (average)	6.7%	5.9%	5.2%	4.6%	4.5%
Repo rate (end)	7.00%	8.25%	7.50%	7.00%	7.00%
USD/ZAR (end)	17.03	18.36	17.75	17.00	17.75

Source: Stats SA, SARB and RMB Markets Research

Strictly Private and Confidential | Page 9

In partnership with  FNB  WesBank  ASHBURTON INVESTMENTS

Fiscal balances appear better in 2024 budget relative to 2023 MTBPS



	2023/24	2024/25	2025/26
Fiscal Deficit (% of GDP)	-4.3% (-4.3%)	-3.9% (-4.1%)	-3.4% (-3.7%)
Primary Balance (%)	0.8% (0.9%)	1.3% (1.5%)	1.8% (2.2%)
Debt-to-GDP Ratio (% of GDP)	74% (76%)	75% (78%)	75% (77.5%)
Debt service cost to revenue (%)	21% (21%)	21% (22%)	21% (22.1%)

Source: Stats SA, SARB and RMB Markets Research

Strictly Private and Confidential | Page 10

In partnership with  FNB  WesBank  ASHBURTON INVESTMENTS



3. Cyclical themes: Elections, Politics and Policy

Isaah Mhlanga
Chief Economist

April 2024

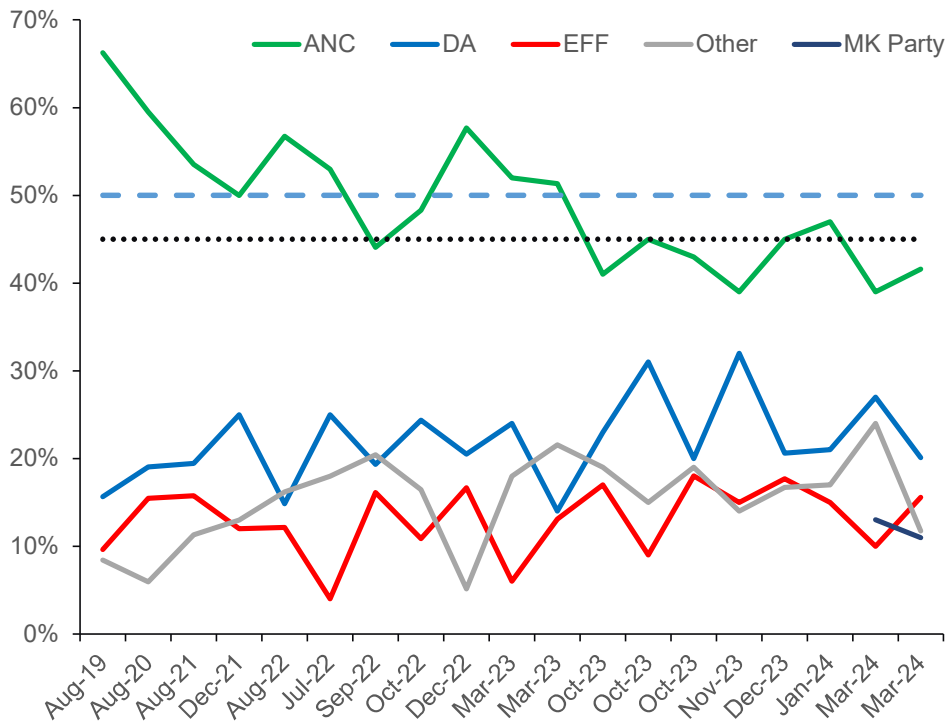
RMB a division of FirstRand Bank Limited, is an Authorised Financial Services and Credit Provider NCRCP20.

In partnership with  FNB  WesBank  ASHBURTON INVESTMENTS

The polling so far



Polls that have been published so far



- Election will be held on 29 May 2024
- Recent polls have suggested ANC is at risk of not getting enough of the vote to form a government (45% would be enough as they could join with smaller parties)
- But polls are unreliable in SA and vary greatly
- Some polls show DA growing sharply
- But others show EFF on verge of surpassing DA as the official opposition

Polling has been problematic historically



2019 election polling

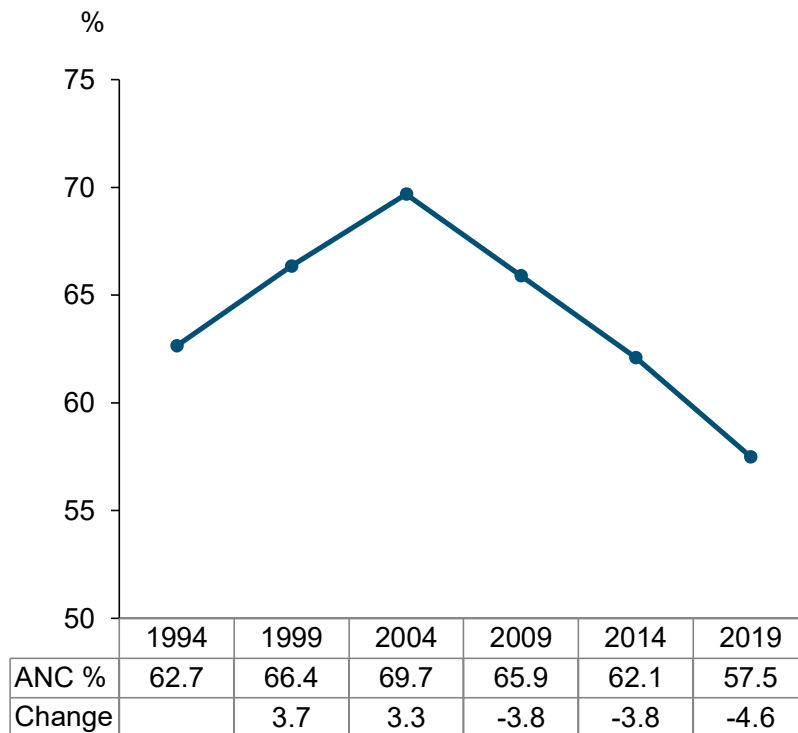
	Min	Max	Average	Actual
ANC	51.0%	68.3%	57.0%	57.5%
DA	14.1%	24.0%	21.5%	20.8%
EFF	9.3%	21.0%	12.0%	10.8%
Other	2.7%	15.3%	9.6%	10.9%
None/error	0.0%	0.0%	0.0%	0.0%

- Not great polling in SA
- Numbers vary massively between polls
- Particularly for smaller parties
- Huge inconsistency in how polls are conducted
- Not all data is necessarily published
- But average of polls in 2019 proved accurate

Change in anc share by election



Vote share by party and election



Lessons from history

- Lost ~4% each election in 2011, 2015, 2019
- Biggest loss was 4.6%
- Share in 2019 was 57.5%
- A decline of 8% would be unprecedented

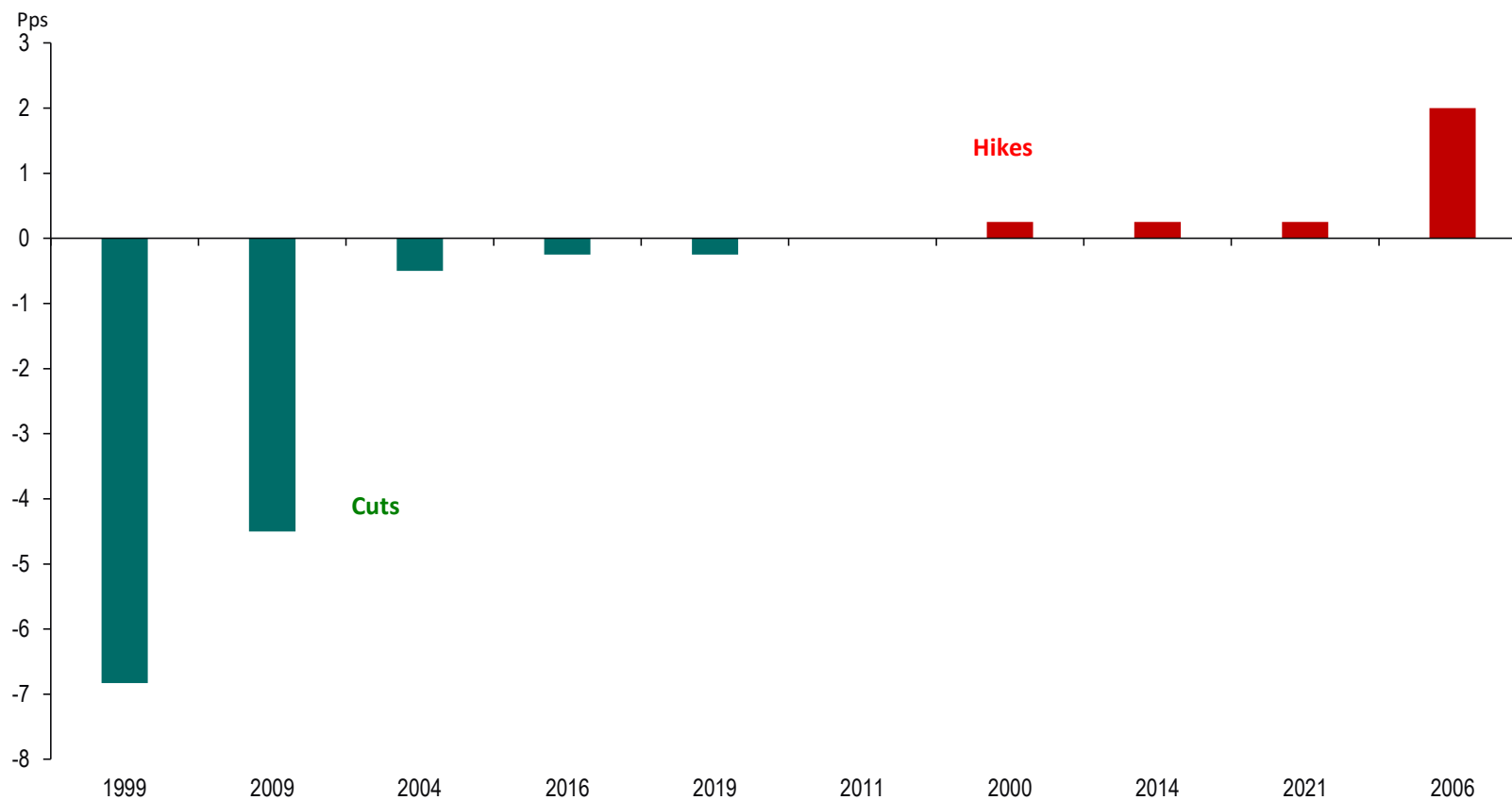
Core expectation

- The ANC will be in government, either by itself or with smaller parties
- Realistically ANC is on track for 45-50% of the vote, maybe more
- Would be a huge surprise if the ANC vote fell so far as to lead to real coalition politics
- But ANC to lose control in Gauteng, W Cape, KZN

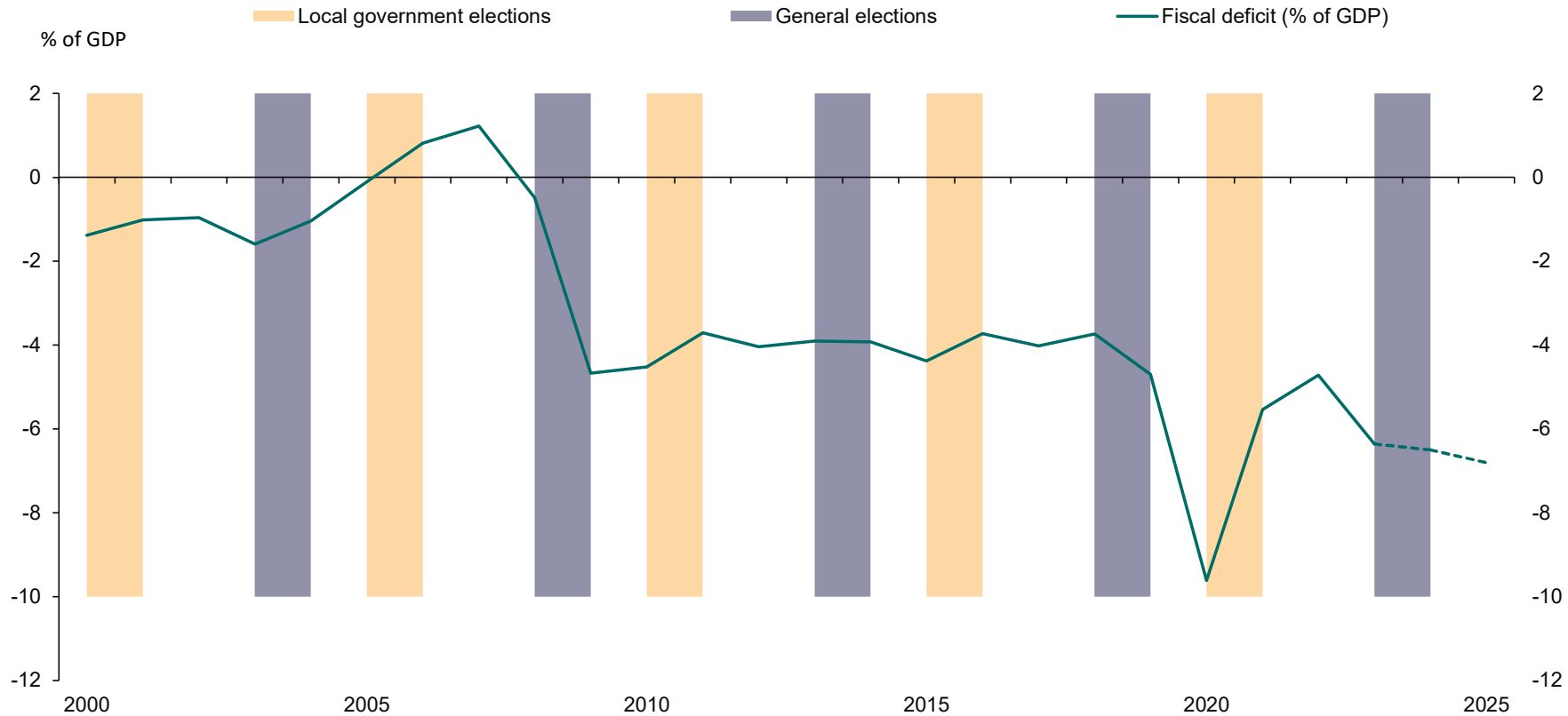
Wild cards

- Low voter turnout could hurt the ANC more than assumed
- Available polls may be correct
- Economy will still be struggling going into the election

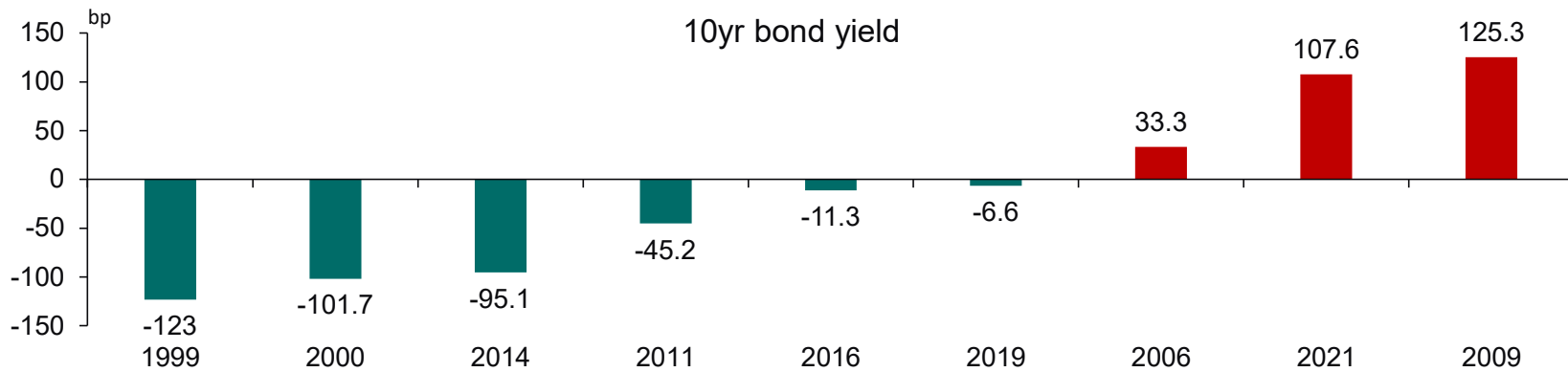
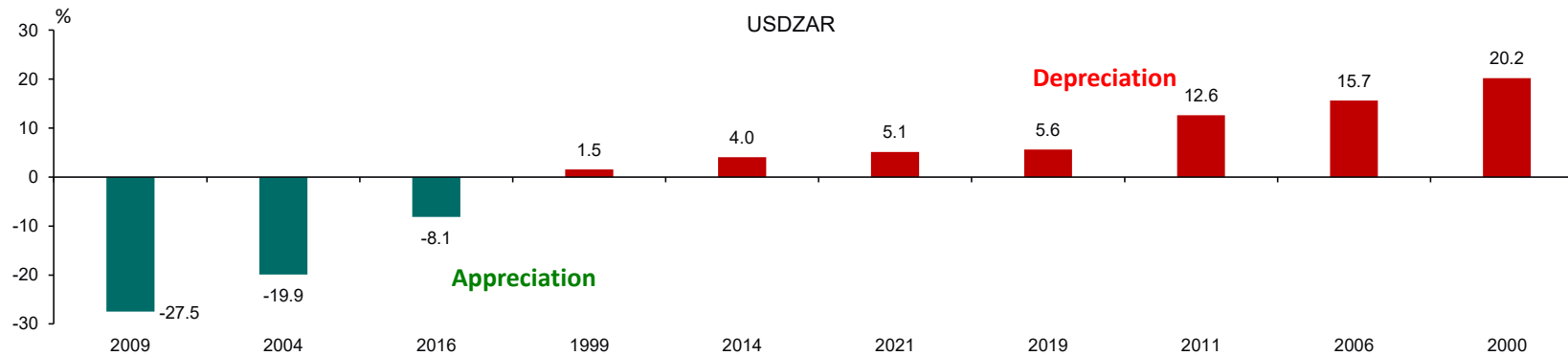
Do elections influence monetary policy in South Africa



Do elections influence fiscal policy in South Africa?



Do elections matter for markets?



In partnership with  FNB  WesBank  ASHBURTON INVESTMENTS



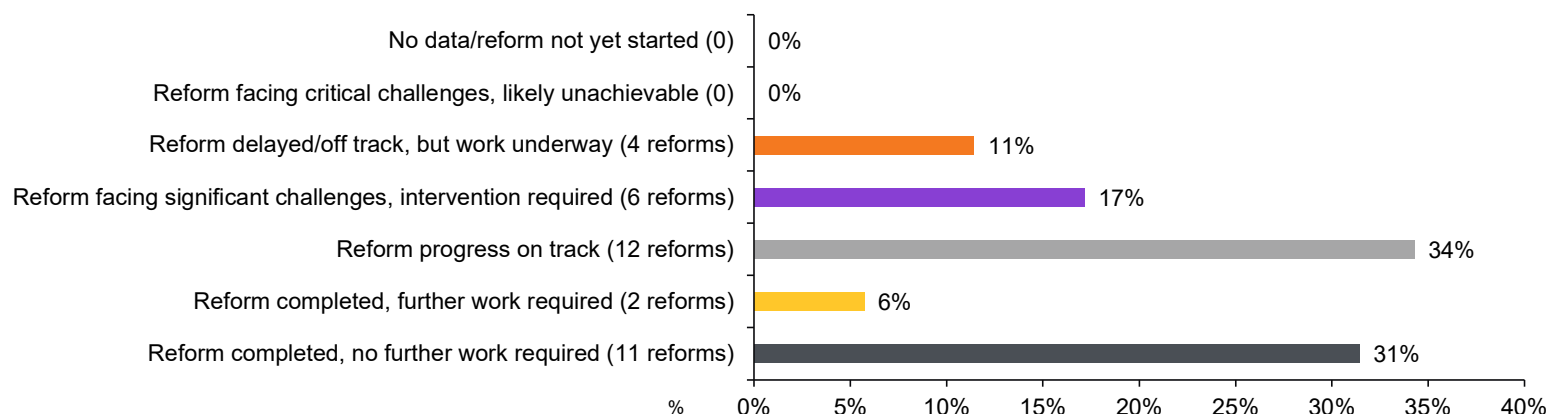
4. A bullish case for South Africa

The irreversibility of economic reforms currently under way

Operation Vulindlela Progress so far



The 35 reforms and respective stages of implementation



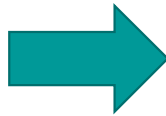
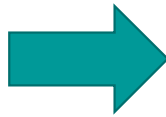
Progress Status: 71% success from 2Q23's 57% (where success is measured as activities completed — with or without further work — and on track)

Eleven of the 35 reforms identified since Operation Vulindlela was initiated **have been fully completed**. A further **14 reforms are on track or progressing well**. The latter compares to the nine reforms (on track or progressing well) outlined during the previous quarter.

The development of a fit-for-purpose procurement regime for state-owned entities reform moved from the “reform not yet started” stage to that of “reform progress on track.”

The history of the private sector in providing public goods

Public goods dysfunctional

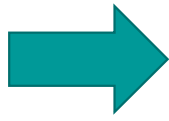


Private sector stepped in



The history of the private sector in providing public goods

Public goods dysfunctional



Private sector stepped in



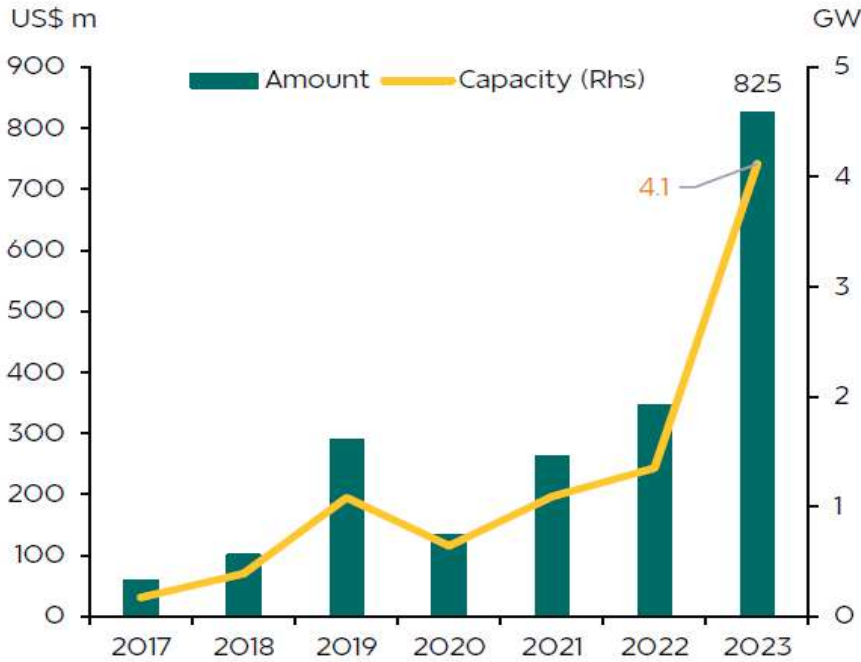
Why should we doubt?



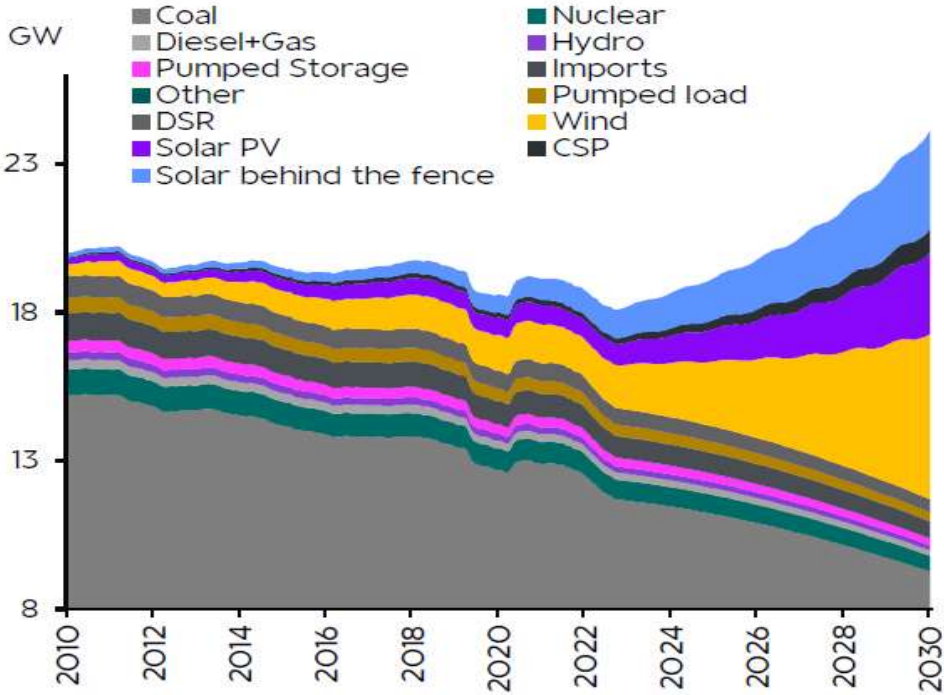
Energy – the best progress so far on the reform front



Solar panel imports from China



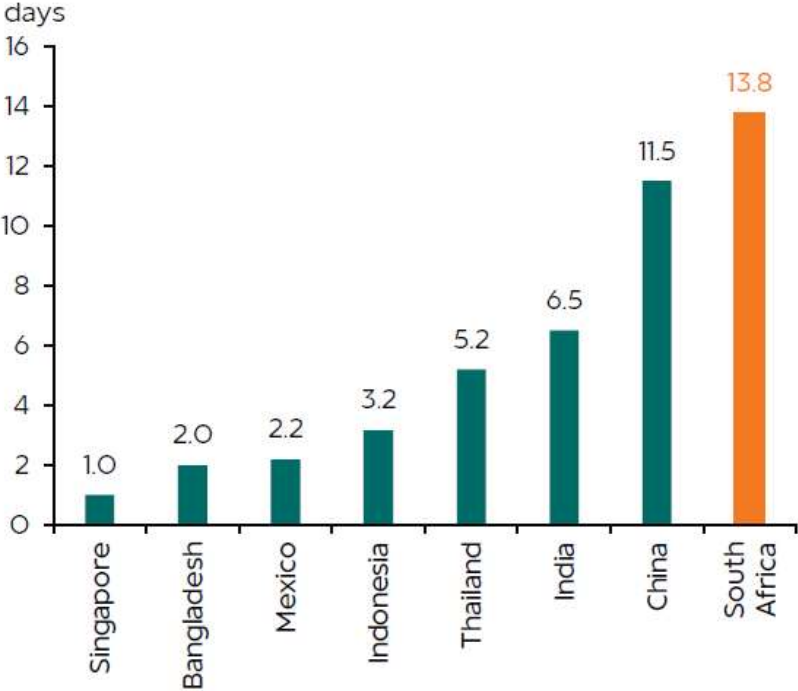
Energy mix forecast



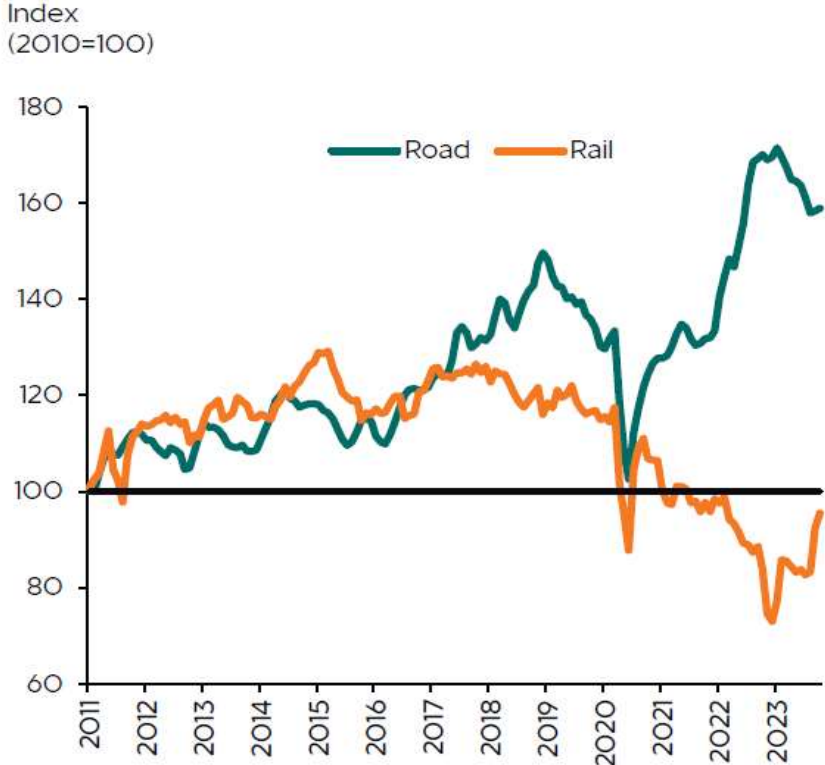
Ports and rail – the slowest reform but signs of change ahead



PORT DELAYS



RAIL AND ROAD VOLUMES (INDICES)



Progress on ports: Durban Pier 2 Pivatised

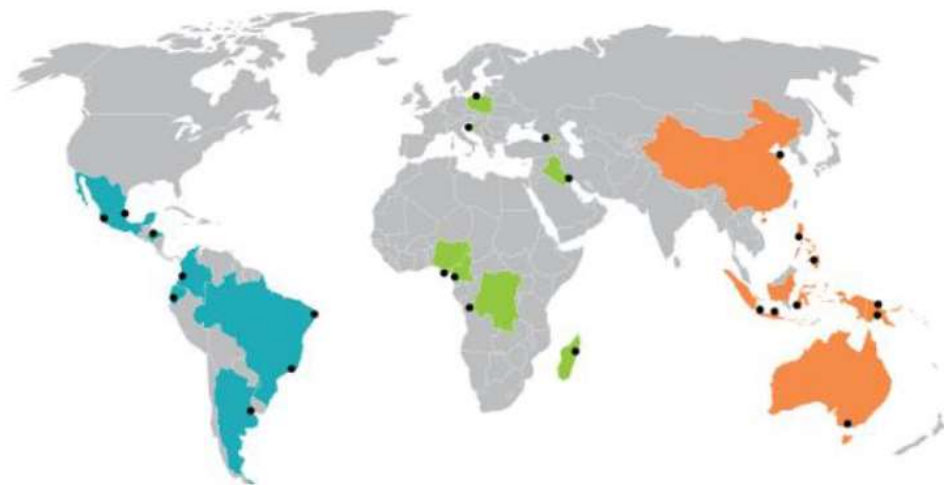


DCT Pier 2 is the state-owned logistics utility's biggest container terminal, handling **72%** of the port's throughput and **46%** of South Africa's port traffic.

The largest port in South Africa now will have greater capacity

Shipping lines will bring bigger vessels because of turnaround time.

This is aligned with Transnet National Ports Authority's (TNPA) plan to increase the current container capacity in Durban from 3.3 million TEUs to an envisaged capacity of 11.4 million TEUs.



Business's partnership with Government is making progress



ENERGY
National Energy Crisis Committee

TRANSPORT & LOGISTICS
National Logistics Crisis Committee

CRIME & CORRUPTION
Joint Initiative on Crime and Corruption

Impact

Impact

Impact

61%*
Less loadshedding

80%*
for stage 4 & above

Over 6GW
new generation added

36%
Reduction in
waiting time
to anchor for container vessels

45%
fewer vessels anchored
outside the Port of Durban

65%
Reduction in
criminal incidents
on **Northern Corridor**
which enables national
coal supply

Modernisation
of the Gauteng
10111 command centre



LEGAL DISCLAIMER – GENERAL COMMUNICATIONS.

The information contained in this communication is confidential, and is intended solely for the addressee. This communication may contain information proprietary to FirstRand Bank Limited (acting through its Rand Merchant Bank division) ("RMB"), and may not be reproduced or disseminated in whole or in part without RMB's written consent. RMB does not warrant that any information contained herein is complete or correct. This communication is not an offer or agreement to enter into any transaction, and is not a confirmation of any transaction described herein unless the context clearly indicates the contrary. RMB is not acting as your adviser in any transaction that may be proposed herein, and this communication does not constitute a recommendation, guidance or proposal to enter into any transaction. RMB does not guarantee or otherwise assure the expected results of any transaction. This communication may contain views or opinions that are not necessarily those of RMB. You shall not be entitled to place any reliance on the information contained in this communication for the purposes of entering into any proposed transaction or otherwise.

Rand Merchant Bank, a division of FirstRand Bank Limited, is an Authorised Financial Services Provider.