

SOUTH AFRICA

Johannesburg (gtai) – The new president, Cyril Ramaphosa, has changed the mood of the South African economy. The former entrepreneur is trusted for his expertise to tackle much-needed reforms and corruption. Although the investment climate is likely to improve, someone must still foot the bill for the policies of his predecessor, Jacob Zuma. Large gaps in the state budget leave little breathing room.

ECONOMIC PROSPECTS

The growth path of the South African economy is finally turning upward again. According to forecasts by the South African Reserve Bank (SARB), gross domestic product (GDP) growth in 2017 is likely to miss the 1% mark for the second year running at 0.9%. For 2018, however, acceleration to 1.4% is expected. Analysts such as the Economist Intelligence Unit (EIU) and the local Investec Bank are confident that the upward trend will continue and that growth rates exceeding 2% are possible after 2020.

Hopes for economic recovery are pinned on Cyril Ramaphosa, elected president in February 2018 after he emerged victorious at the national convention of the ruling party, the African National Congress (ANC) in December 2017 and pushed out former president, Jacob Zuma, amid countless corruption scandals and inconsistent governance. The country had fallen into a protracted economic depression – average GDP growth between 2009 and 2016 was only 1.6%.

Ramaphosa's present priority is to combat corruption and strengthen state institutions like the judiciary damaged under Zuma. Ramaphosa's New Deal plans to increase growth to 5% by 2023. However, room to manoeuvre is limited. Owing to weak growth, tax revenue for the financial year 2017/18 was equivalent to 4.7 billion USD.

To get a grip on the recent sharp rise in government debt, savings of around 7.3 billion USD are planned over the next three years. In 2017/18, the budget deficit was 4.3% of GDP. The main victims are provinces and municipalities whose subsidies are being cut; measures are also likely to have a negative impact on many smaller infrastructure projects. The inflated cabinet of 35 ministries is to be reduced.

A big burden on the budget is the mismanagement of state-owned companies such as Eskom and South African Airways which lack liquidity and threaten the fiscal position of the country. In total, the government has issued state guarantees of around 38 billion USD. Ramaphosa has announced major reforms, for example, in the form of partial privatisation.

INVESTMENT

The willingness of private companies to invest is likely to rise as a result of political changes. In January 2018, the Business Climate Index of the South African Chamber of Commerce and Industry (SACCI) reached its highest level since the end of 2015. It is hoped that the Ramaphosa presidency will bring targeted government action and eliminate the political uncertainty of recent years. Legal issues that have kept some projects in limbo for years could be concluded. For example, investment-friendly reform of mining legislation and digital migration of the broadcast network are likely to trigger long-delayed investment.

Expansion of special economic zones and incentive programmes for industry are also planned. Overall, Ramaphosa's programme is aligned with the 2012 National Development Plan (NDP), which has been praised by business. The NDP was passed by government but never implemented. In spite of tight budgets, infrastructure development should play an important role.

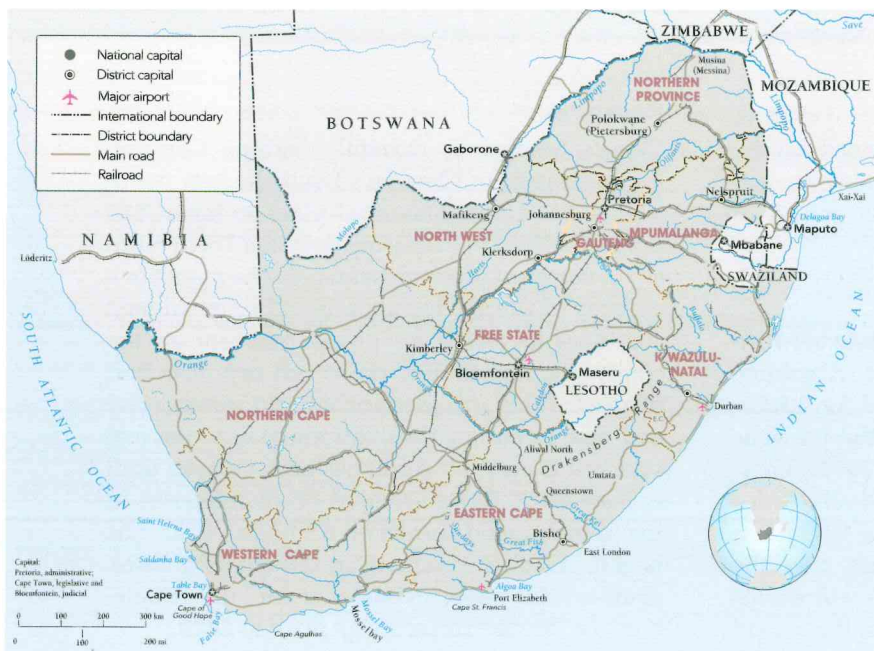
Ramaphosa's main objective is to set clear priorities. According to the 2018/19 budget, 64 major projects of national importance and investment volumes of around 12 billion USD are to be accelerated.

CONSUMPTION

Prospects for private consumption are mixed. Post-Zuma optimism should increase consumer confidence which until recently was at its lowest since 1985 when the country was in a state of emergency because of apartheid conflict.

Private households will be burdened with 3 billion USD in tax hikes in the 2018/19 fiscal year due to the empty state coffers and sales tax has been increased by one point to 15%. In addition, excise duties are increasing, including for gasoline and luxury goods such as cars or mobile phones.

For 2018, in collective bargaining in the public service, the government needs to press for restraint after regular increases in the past have been well above the rate of inflation. The public sector, with 1.3 million employees, is one of the country's most



Area	1 219 912 km ²
Population	56,72 million (2017)
Population growth	1.2%
Official languages	isiZulu, isiXhosa, Afrikaans, Sepedi, Setswana, English, Sesotho, Xitsonga, Siswati, Tshivenda and isiNdebele
Capital	Pretoria
GDP growth	1.3% (2017)
President	Cyril Ramaphosa
Ease of doing business	82/190 (2017)
Currency	South African rand (ZAR)

Sources: World Bank, World Fact Book

KEY ECONOMIC DATA

Indicator	2016	2017 (estimates)	Comparative data, Germany 2016
GDP (nominal, billions of US dollars)	294.9	344.1	3 686.7
GDP per capita (nominal, US dollars)	5 302	6 089	44 595
Population (millions)	55.6	56.5	82.7
Exchange rate (1USD = rand)	14.847	-	

Sources: IMF, German Federal Bureau of Statistics

FOREIGN TRADE (USD MILLIONS)

	2016	2017	% change
Imports	74 166	81 801	10.3
Exports	75 155	82 429	9.7
Balance of trade	989	628	

Source: EIU

SWOT ANALYSIS

Strengths	Weaknesses
<ul style="list-style-type: none"> Large retail market with almost 57 million inhabitants and high purchasing power. Good infrastructure. Broad industrial base enables entry into other markets in the continent. Highly developed financial sector and independent justice system. Stable political situation. 	<ul style="list-style-type: none"> Lack of skilled workers. Lack of administrative skills. High crime rate. Corruption and inconsistent government policies under Jacob Zuma harmed the investment climate. Long-term growth weakness.
Opportunities	Threats
<ul style="list-style-type: none"> Large state infrastructure programmes. High demand for imports, esp. machinery & equipment, high-tech products. Consumption-oriented growing middle class. Good natural conditions for renewable energies. Abundant natural resources. 	<ul style="list-style-type: none"> Increasing fiscal difficulties and the threat of further devaluation of credit ratings Water shortages, esp. in the Western Cape region. Plans for radical land reform involving expropriation without compensation. Social imbalances and growing protests. Highly volatile currency values.

SELECTED MAJOR PROJECTS

Project Description	Investment (rand)	Project Status	Comments
PRASA Rail passenger transport	12,7 billion	Completion until 2030, Part 1 of the order for rail fleet went to Alstom	Renewal of the rail fleet with the construction of a 74 million USD production facility, new construction and renewal of railway tracks and signal systems
Transnet Rail and Ports	16 billion	Completion by 2024	Construction or expansion of ports and railway lines, rail fleet
Clean Fuels 2 Programme	7 billion	Planning, implementation delayed, not before 2022	Investments by refineries to produce fuels according to Euro V standard, including Sasol 0.9 billion and BP / Shell 0.4 billion USD
Swazilink Railway	1.4 billion	Feasibility planning	Construction of a rail link from the Mpumalanga province to the ports in Richards Bay and Maputo via Swaziland
Liquefied Natural Gas Independent Power Producer (IPP)-Programme	3.5 billion	Start of the tender process is still uncertain	Procurement of 3,000 MW through IPP
Solar Park-Project	Up to 14 billion	Feasibility planning	Construction of 1.5 GW solar power generation in the Northern Cape, expanding to 5 GW
Lesotho Highlands Water Project	1.7 billion	Planning, Completion 2024	Phase 2, construction of a new dam
Zendai Modderfontein	6 billion	First project under construction, completion until 2024	Mixed area between Johannesburg and OR Tambo Airport with 70,000 residential units
Mangan Export Corridor	1.6 billion	Feasibility planning	Expansion of the railway connection from Hotazel to Nqura with a shipping terminal

Sources: gta research, press reports

important employers. Average unemployment of 27.5% in 2017 has had a negative impact on the consumer climate. The retail sector, however, can further increase its sales (2017: Real growth of 3%).

FOREIGN TRADE

Despite a weak economy, bilateral trade between Germany and South Africa is robust. A volume of about 17 billion euros is expected for 2017 – a significant increase compared to the previous record of 15.5 billion euros in 2015 (2016: almost 15 billion euros). German exports to South Africa are likely to have amounted to about 9.6 billion euros in 2017, a noticeable increase over the 2016 result of 8.8 billion euros. This will enable Germany to consolidate its position as the second most important supplier after the PR China.

German suppliers are finding sales opportunities, especially for motor vehicle parts and machinery. South Africa has a broad industrial base in areas such as automotive manufacturing, chemicals, and food and metal processing. Equipment is therefore in constant demand. However, a problem for trade with South Africa is the volatile exchange rate of the rand. The national currency has been exposed to strong fluctuations against the US dollar and the euro over the past two years, making it difficult to calculate.

SECTOR SURVEY

Demand for inputs to the automotive industry is likely to increase due to increased production and various expansion plans. Companies in the energy sector are waiting for clarity on the future direction of government policy, but long-blocked renewable energy projects should be implemented. Good opportunities exist in the water sector. Cape Town has been battling a severe drought. Food manufacturers rely on water saving.

MACHINERY AND EQUIPMENT

South Africa has a relatively small engineering industry with a focus on mining and construction machinery with some companies active in areas such as pumps and valves, agricultural machinery and food and packaging machinery. In 2017, the industry generated sales of about 6.5 billion USD – in local currency, an increase of about 4.3%. Production indices are pointing up again: for general machinery the increase in 2017 was 3.4% and for specialised machinery, 7.5%. Utilisation of the engineering works is only 80.1%, so there is likely to be little demand for expansion investments.

CHEMICALS

China's Sinopec is currently battling Glencore for acquisition of Chevron's South African petro-business and has announced plans to invest 515 million USD in modernising the Cape Town refinery in the event of a successful bid. The plant has a capacity of 100,000 barrels a day. The government continues to search for private partners for the construction of the Mthombo refinery near Port Elizabeth. This will produce 400,000 barrels a day and cost 10 billion USD. Introduction of the fuel standard Euro V, however, has been delayed until at least 2022. Refurbishment of all refineries in the country could cost about 8.5 billion USD. The largest chemical company in the country, Sasol, plans to limit major investments until the completion of a Fischer-Tropsch wax plant in 2020.

ENERGY

After being blocked by state utility Eskom since 2015 the long-awaited electricity purchase agreements for 27 renewable energy projects with investment volumes of about 60 billion USD are due to be signed in early 2018. Although it is unclear when the Renewable Energy Independent Power Producer Procurement (REIPPP) programme will be used for further rounds of tenders, President Ramaphosa is considered a proponent of regenerative production. Suspension of a nuclear programme planned under former president Zuma is likely. The KfW Development Bank and Rand Merchant Bank launched the FIRST financing programme for small-scale renewable energy projects with a volume of 120 million USD.

CONSTRUCTION

2017 was a difficult year for the South African construction industry. In the first three quarters, the sector gained only 0.4% in real terms but in 2018, according to industry analysts, there will be growth of just under 2%.

Larger projects are planned for the rail infrastructure. State-owned Transnet completed feasibility studies for a 1.4 billion USD rail link to the port in Richards Bay. Studies for expansion of the Gautrain express train in Greater Johannesburg were also done.

There is an investment backlog of 16 billion USD in road construction. By contrast, Investec forecasts that investment in construction will decline by 2.3% in 2018 before picking up by 3.9% in 2019.

MEDICINE

According to the BMI forecast, the South African market for medical technology will grow by around 9% in 2018, to reach 1.4 billion USD.

The South African Health Products Regulatory Authority, currently being established, will determine registrations for medical devices in the future, which should improve standards.

The parliamentary procedure for introduction of a National Health Insurance will be launched in 2018. Government spending on health will increase by an average of 7.8% over the next three years. By 2021, approximately 2.8 billion USD has been earmarked for the modernisation of public health facilities.

AGRICULTURE

Tractor sales increased 5% in 2017 to 6,363 units. The industry association South African Agricultural Machinery Association expects that sales in 2018 will level out to the 2017 level. Maize prices are currently low; after a record harvest of 16.7 million tons in 2017 there is a huge surfeit. Overall, the South African market for agricultural machinery is pursuing a longer-term trend towards larger and heavier machines. Average machine power of tractors currently stands at 120 kilowatts. With a minimum wage planned for 2018, labour costs in the agricultural sector will increase by 17%. Incentives to increase mechanisation should result from this.

MINING

The mining sector has suffered recently because of a toxic investment climate caused by regulatory uncertainty due to mining legislation reform delayed since 2012, allegations of corruption in licensing and plans for a massive tightening of Black Economic Empowerment legislation. Exploration activity almost completely collapsed, mining corporations increasingly withdrew from South Africa. President Ramaphosa hopes to approach the sector and improve framework conditions. According to industry insiders, mine operators have plans for 19 billion USD worth of investment projects in the pipeline.

FOOD

There is a limited need for capacity expansion in the food industry; production increased by 1.9% in 2017, but factory utilisation was only 82%. Investment is focussed on increasing efficiency and reducing costs. Many companies are taking measures to reduce water use and recycle industrial wastewater. The largest local manufacturer, Tiger Brands, plans to reduce its water demand by 20% per ton by 2022. Due to rising electricity prices, energy efficiency is also in demand. Overall, the South African food industry is already highly automated, with a steady demand for advanced equipment.

METALS

South Africa's metals industry is optimistic about the future. The industry association Steel and Engineering Federation of South Africa expects growth of 1.1% for 2018, after already climbing by 2.7% in 2017. Between 2013 and 2016, the sector collapsed by a total of 6%. However, the companies continue to struggle with high imports, outdated equipment and rising costs. Local steel consumption was 4.8 million tonnes in 2017, with imports accounting for around 20%. In mid-2017, the Department of Trade & Industry launched a special 130 million USD funding programme to help metalworkers renew their equipment. So far, 37 million USD of this has been utilised. Overall, there is still a great potential for automation in the metal industry.

AUTOMOTIVE

Motor vehicle production fell in 2017 by 2% to 588,000 units. However, the outlook for 2018 is positive. The National Association of Automobile Manufacturers of South Africa expects production to increase by 8% to 635,000 vehicles. Volkswagen hopes to get the contract for the construction of a third model in Port Elizabeth. The new Polo and Polo Vivo are already being built there. By 2019, the plant is expected to fully utilise its capacity of 160,000 vehicles per year. Ford plans to build the new Ranger Raptor in South Africa by 2019, increasing the Pretoria plant's capacity from 100,000 to 167,000 a year. Nissan has also announced an investment decision for the construction of new vehicles in South Africa for 2018. The government plans to introduce a new funding programme for the motor vehicle industry in 2018.

ENVIRONMENT

The metropolis Cape Town suffers from an acute water shortage. Due to a drought, the levels in the dams are so low that there is a real risk of water supply disruptions. The city is building modular desalination technology and plans to build a large-scale plant in the longer term. Even shopping malls and hotel operators like Tsogo Sun want to build their own desalination plants. The municipal sewage treatment plants will be upgraded so that by 2021, around 230 mega litres of wastewater can be recycled per day. Real estate companies such as Hyprop invest in water-saving building technology such as the use of process water. There is also a great need for action nationwide, with a total investment backlog of more than 70 billion USD in the water sector. ■