cutting through complexity

South Africa

High Growth Markets country profile

South Africa is a middle-income, emerging market with an abundant supply of natural resources, well-developed financial, legal, communications, energy and transport sectors and a stock exchange that is the 15th largest in the world. Real gross domestic product (GDP) growth is expected to quicken to 2.5 percent in 2014, helped by a modest global recovery. Growth should then accelerate in 2015–2017, spurred by consumption and investment, before tailing off in 2018 as global and local interest rates rise.

Country overview

Geography and climate

- **Location:** southern Africa, at the southern tip of the continent of Africa
- **Climate:** mostly semiarid; subtropical along the east coast; sunny days, cool nights
- **Regions:** 9 provinces
- **Major cities:** Johannesburg (3.6 million); Cape Town (3.3 million); Ekurhuleni (East Rand) (3.1 million); Durban (2.8 million); Pretoria (1.4 million) (2009)

Political system

- **Type of government:** republic
- **Capital:** Pretoria

Population, language and religion

- **Population:** 52.8 million
- **Urban population:** 62%
- **Demographics:** 0–14 years: 28.3%, 15–64 years: 64.7%; 65 years and over: 6.1%
- **Median annual household income:** 14,641 US dollars (US$)
- **Official language:** IsiZulu, IsiXhosa, Afrikaans, English, Sepedi, Setswana, Sesotho, Xitsonga, siSwati, Tshivenda, isiNdebele
- **Prominant religions:** Protestant, Catholic and Muslim

Currency and central banking

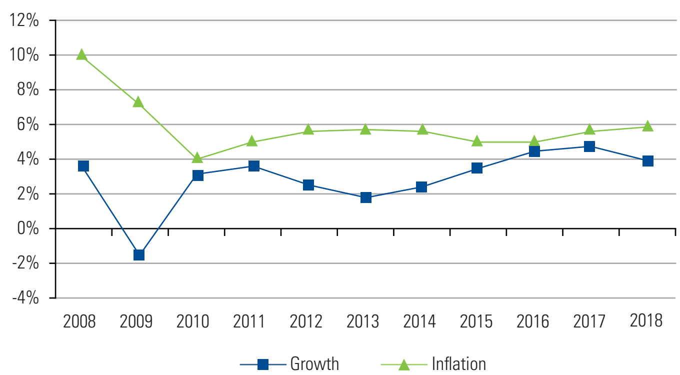
- **Local currency:** South African Rand (ZAR)
- **Exchange rate:** 1 ZAR = US$0.0946 (1 April 2014)
- **Interest rate (average annual rate):** 4.8% (2013); 5.1% (2012); 5.3% (2011); 6.2% (2010); 8.2% (2009)
- **Foreign exchange reserves:** US$48.46 billion
- **Total debt (2013):** external: US$139 billion; internal public debt: 45.4% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$602.7 billion.** Real GDP growth should rise to 2.5 percent in 2014, helped by a modest global recovery. Growth is then likely to accelerate between 2015–2017, spurred by consumption and investment, before tailing off in 2018 as global and local interest rates rise. The median household income is expected to increase to US$17,056 by 2017.
- **Foreign direct investment (FDI) (billions):** inbound: US$9.9 (2008); US$7.9 (2013); US$7.2 (2018 forecast); outbound: US$2.1 (2008); US$4.9 (2013); US$4.0 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$99.3 (2012); US$97.2 (2013); US$103.2 (2018 forecast)
- **Imports FOB (billions):** US$104.2 (2012); US$101.9 (2013); US$108.2 (2018 forecast)
- **Sector breakdown:** service: 70.0%; industrial: 27.6%; agriculture: 2.4%
- **Trade balance (billions):** deficit of US$4.8 (2012); US$4.7 (2013); US$5.0 (2018 forecast)
- **Stock exchanges:** Johannesburg Stock Exchange (JSE), STRATE

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** The government plans to expedite growth by maintaining stimuli, including a budget deficit and relatively cheap money. It will, therefore, need to guard against macroeconomic imbalances, while mitigating the risks associated with global economic fragility. Consumer spending is set to rise from 2013–2017, aided by the rapid expansion in low-cost housing (and electrification), higher demand for ancillary goods and services, and a more broad-based approach to black economic empowerment. New initiatives — such as the well-received National Development Plan — aim to tackle deep-rooted problems. Sound monetary policies and sluggish demand should limit inflationary pressures, barring any supply-side shocks. Inflation is expected to ease in 2015–2016, helped by relatively stable commodity prices, efficiency gains arising from infrastructure investment, stricter competition policy and tighter monetary policy.
- **Competition policy:** The Competition Commission and the Competition Tribunal implement South African competition policy. These bodies: investigate and evaluate prohibited practices and exemptions (as defined in the act); put in place measures to enhance market transparency; authorize or prohibit mergers; and adjudicate over issues of prohibited conduct or practices or merger activity. Takeovers and mergers on the Johannesburg Stock Exchange Securities Exchange are subject to supervision, and the government has abolished price controls on all but a handful of items. During 2014–2015, the government is likely to remain broadly pro-business, in order to boost growth and employment. Policy challenges include tighter labor and competition laws, land reform and amendments to black economic empowerment legislation. In the period from 2016–2018, new special economic zones offering tax incentives should support industrial development.
- **FDI policy:** The value of FDI has been rising since 1994. South Africa's government is eager to attract more FDI, but investors must still contend with a number of obstacles: a high overall tax burden; a volatile currency; a heavy regulatory environment; the dominance of some markets by large conglomerates; and the conditions of Black Economic Empowerment, which apply to international companies if they seek government contracts. There are few limitations on incoming FDI. Except in banking and the media, there is no limit on the level of foreign ownership in companies. During 2014–2015, policy is likely to remain fairly accommodating to foreign investors, but the sale of state assets to non-residents will face political opposition. A draft bill to amend the Mineral and Petroleum Resources Development Act of 2002 threatens to impose new burdens on mining firms, which also face a challenging labor landscape marked by frequent strikes. A proposed foreign investment law expected in 2016–2018 would streamline regulation, but may limit access to international arbitration.
- **Foreign trade and exchange controls:** South Africa has reformed regional and bilateral trade arrangements, which largely define trade policy in the country's relatively new democratic era. The South African Reserve Bank is responsible for exchange controls, although it delegates routine transactions to approved private-sector banks, including nearly all of the larger domestic and foreign banks. The government has taken measured steps to abolish exchange controls. 2014–2015 should see a further relaxation of such controls, although some will remain in place. Selected trade tariffs may be raised to protect vulnerable industries. Efforts to build trade ties with key emerging markets will continue. Looking forward to 2016–2018, progress towards regional economic integration in southern Africa should advance slowly.
- **Financing policy:** Financing is set to become more favorable in 2014, owing to stronger global and local economic conditions. Local banks should remain sound, enabling them to increase lending. The Johannesburg Stock Exchange will remain a key source of capital. In the period 2016–2018, South Africa will probably remain reliant on external sources of financing and therefore try to preserve policy credibility.
- **Taxes:** South Africa cut its standard corporate tax rate to 28 percent from 29 percent in 2007. There is also a dividend tax of 15 percent on any net dividends declared. Passive income (such as interest, rent and royalties) generated outside South Africa is taxable, and residents and locally controlled companies are taxed on their worldwide income. Foreign dividends received by a South African resident company are usually taxable in South Africa. During 2014–2015, tight fiscal conditions should preclude any further cuts in key tax rates, although incentives will apply in some cases. Efforts to streamline taxes are likely to continue throughout 2016–2018, and the government may revisit windfall taxes on fuels and minerals.

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Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; World Stock Exchange, 2014

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