Investment decisions: Why South Africa, and why now?

Forward-looking scenarios for the Ramaphosa presidency (2018–2022)

March 2018 • www.pwc.co.za

pwc

Contents

About this report

What will the South African economy look like in 2022?

The leadership of the African National Congress (ANC) elected lawyer, former labour union leader, billionaire businessperson and veteran politician Cyril Ramaphosa as president of the party during the organisation's 54th National Conference, held at the Nasrec Expo Centre in December 2017. The South African Parliament elected him as President of the Republic of South Africa in February 2018. President Ramaphosa campaigned for the party presidency in 2017 with an economic recovery plan that he referred to as a 'New Deal for South Africa'. Central to this is the restoring of confidence amongst investors.

This report firstly looks at the economic and political decline in the country on the road to the Nasrec conference, and suggests that December 2017 was a turning point in this decline. Secondly, the report identifies strong fundamentals and positive factors for investment that have remained in spite of the above-mentioned declines. Thirdly, the report reflects on the appointment of President Ramaphosa and his plans for the future – the 'New Deal' as well as a ten-point action plan for turning the economy around. This is evident in the fourth section of the report, which reflects on significant progress seen during the first 40 days of President Ramaphosa's leading the ANC.

> *'The wheels of change are moving now and they are going to start speeding up'*
> *– Cyril Ramaphosa, 24 January 2018*

Within this context, the fifth section of the report considers the possible future scenarios for South Africa over a five-year horizon (towards 2022). The varying degrees of success that President Ramaphosa may have with making the necessary changes to improve governance and the health of the South African economy inform five alternative scenarios. Under the alternate futures, South Africa may see different outcomes regarding economic growth, sovereign ratings, the results of the 2019 elections and the trajectory of the rand exchange rate.

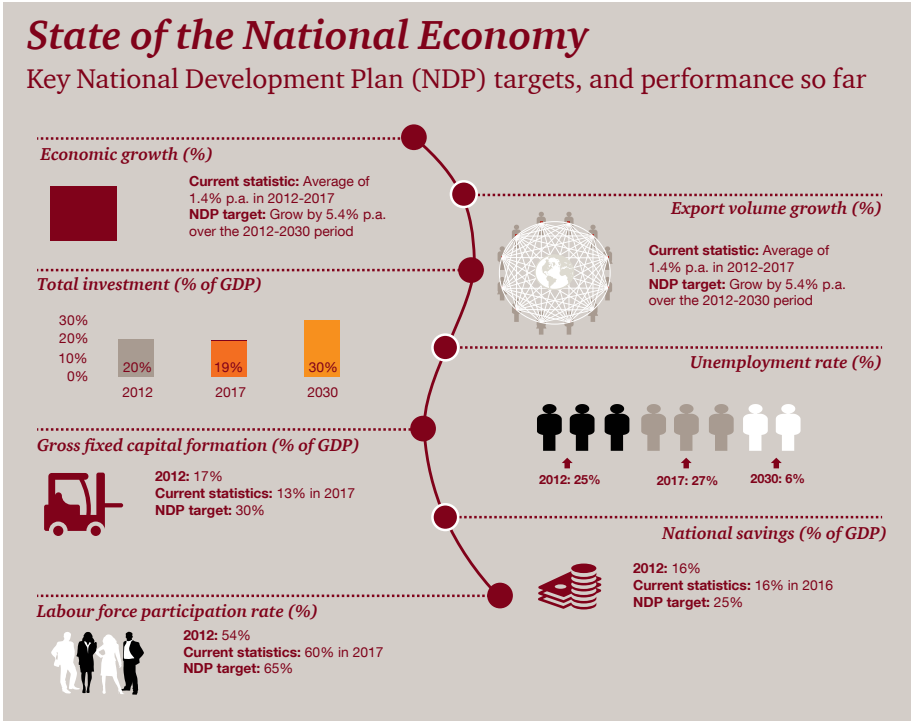
At the time of writing, the most likely scenario is that President Ramaphosa is able to make the necessary changes and reforms to help economic growth accelerate to as high as 3% by 2022. While this will fall somewhat short of his New Deal aspirations, PwC sees a 75% probability of improved economic growth under President Ramaphosa compared to the preceding several years. The final section of the report considers what this outcome could entail for the reader's deal, industry or company. The discussion concludes with illustrative examples of how the five scenarios would affect selected industries.

The road to Nasrec[1] – deteriorating economics and politics

The South African economy experienced declining **economic growth** *during 2014–2016, culminating in a two-quarter recession during the last quarter of 2016 and the first quarter of 2017. Real growth in gross domestic product (GDP) averaged just 1% year-on-year (y-o-y) during the January–September 2017 period, which was below the country's population growth rate and significantly below the post-1994 average GDP growth rate of 2.7%. The country's unemployment rate increased to 27.7% by the third quarter of 2017 – the highest level in 13 years.[2]*

The National Development Plan (NDP) aims to address the country's challenges of poverty and inequality through stimulating economic growth and job creation. The NDP envisions the unemployment rate falling from 25% in 2012 to 14% by 2020 and 6% by 2030. This would require the creation of an additional 11 million jobs. In turn, an average economic growth rate of 5.4% per annum is required to achieve this goal. Instead, economic growth has underperformed, and the unemployment rate has actually increased since 2012.[3]

Figure 1: South Africa is falling behind on its NDP targets



Sources: National Treasury, National Development Plan (NDP) 2030, Statistics South Africa (StatsSA)

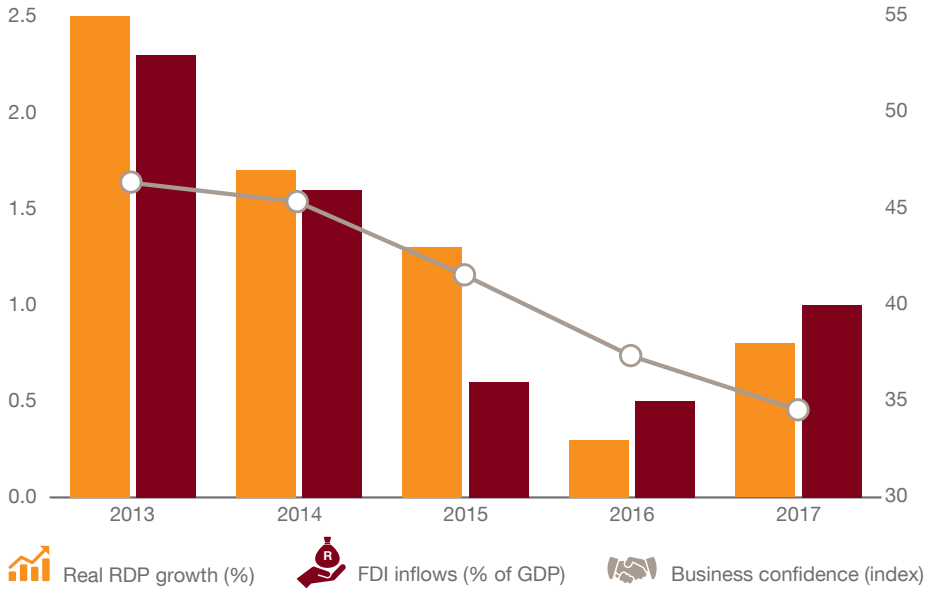
Not surprisingly, given this wide chasm between actual and desired economic outcomes, business sentiment has suffered as well: **business confidence** has been in broadly negative territory since the start of 2013 and remained pessimistic up until the first three weeks of November, when the Bureau for Economic Research (BER) conducted its final (fourth quarter) survey for 2017. Business sentiment was at a seven-and-a-half-year low during the second quarter of 2017, with seven out of ten respondents being unhappy with business conditions at the time.[4]

According to the United Nations Conference on Trade and Development (UNCTAD), **foreign direct investment (FDI)** inflows declined from an

1 The ANC's 54th National Conference was held at the Nasrec Expo Centre in December 2017.
2 Statistics South Africa (StatsSA), 2017. Gross domestic product (GDP). http://www.statssa.gov.za/publications/P0441/P04413rdQuarter2017.pdf
3 South African government, 2012. National Development Plan (NDP) 2030. https://www.gov.za/issues/national-development-plan-2030
4 Bureau for Economic Research (BER), 2017. RMB/BER Business Confidence Index 2017Q3. https://www.ber.ac.za/BER%20Documents/BER-press-release/?doctypeid=1068#7684

equivalent 2.3% of GDP during 2013 to 0.5% of GDP in 2016, with PwC estimating a reading of around 1% of GDP for last year. However, while the value of FDI inflows improved last year, data from Mergermarket indicates that the overall number of completed deals with South Africa as the target market declined from 163 in 2015 to 117 in 2016, falling to just 79 in 2017.

Figure 2: Slippery slope of economic decline



Sources: Business Monitor International (BMI), Bureau for Economic Research (BER), United Nations Conference on Trade and Development (UNCTAD), PwC's Strategy&

In several statements during the second half of 2017, the International Monetary Fund (IMF) associated South Africa's economic quagmire with various factors:

- Stalled implementation of structural reforms
- Inefficiencies in public enterprises
- Weaker sovereign ratings
- Increasing domestic political uncertainty
- Weaker commodity prices in 2014–2016
- Drought conditions during 2015–2017.[5]

The country's **fiscal situation** was also a point of much concern, both locally and abroad. The Medium-Term Budget Policy Statement (MTBPS) released in October 2017 signalled that the National Treasury had abandoned its long-standing rhetoric of aiming to narrow the fiscal deficit over the medium term. The MTBPS indicated that income and expenditure dynamics would see the government's total gross loan debt rise to near 60% of GDP by the 2020/21 financial year, with no plan at the time for it to peak. Debt servicing will account for nearly 15% of main budget revenue in 2020/21 and is now the fastest-growing category of government expenditure.[6]

Alongside this situation is the issue of effectiveness of **government expenditure**, and in particular the rise in corrupt activities, which syphons off state resources. The Office of the Auditor General found that irregular expenditure by government departments and state-owned entities reached

5 International Monetary Fund (IMF), 2017. Various publications. http://www.imf.org/en/Countries/ZAF#whatsnew

6 South African government, 2017. Medium-Term Budget Policy Statement (MTBPS). http://www.treasury.gov.za/documents/mtbps/2017/mtbps/FullMTBPS.pdf

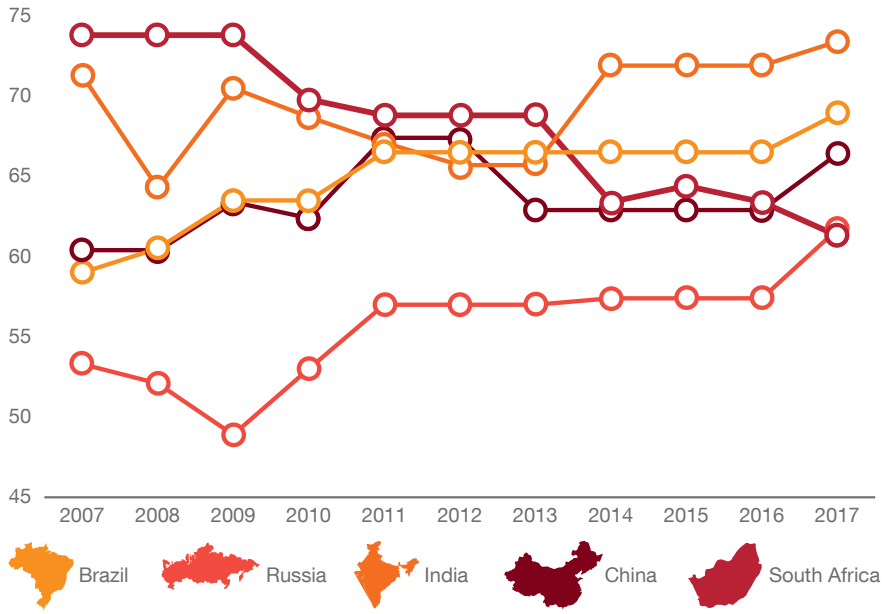
R45 billion in the 2016/17 fiscal year. This was 55% higher than in the preceding financial year. Even more worrying, the Auditor General indicated that the figure for 2016/17 could be even higher – some entities did not submit their financial results for auditing.[7]

> *Irregular expenditure by government departments and state-owned entities reached R45 billion in the 2016/17 fiscal year. This figure could be even higher, as some entities did not submit their financial results. – Office of the Auditor General*

In 2006, that is, the year before Jacob Zuma was elected as leader of the ANC, South Africa was ranked 51st out of 163 countries by Transparency International's **Corruption** Perceptions Index, with first place being the least corrupt. By the 2012 edition of the annual assessment, South Africa had deteriorated to 69th out of 176 countries, and it ranked weaker than 60th position in the following four editions. It is now on a par with countries like Montenegro, Oman, Senegal and Suriname.[8]

The overall **political risk** environment deteriorated under the Zuma administration. Amongst members of the BRICS (Brazil, Russia, India, China and South Africa) grouping, South Africa was the least risky from a political perspective up until 2013. However, an increase in political risk since 2010 resulted in research group BMI viewing the country as the most risky amongst the five economies by 2017. South Africa was the only one out of the five countries that experienced increased political risk in 2017, and the only one to have a riskier political scenario in 2017 compared to a decade earlier.

Figure 3: Against the BRICS political risk trend



Sources: Business Monitor International (BMI)

7 eNCA, 2017. Massive increase in irregular expenditure by government: AG. https://www.enca.com/south-africa/massive-increase-in-irregular-expenditure-by-government-ag

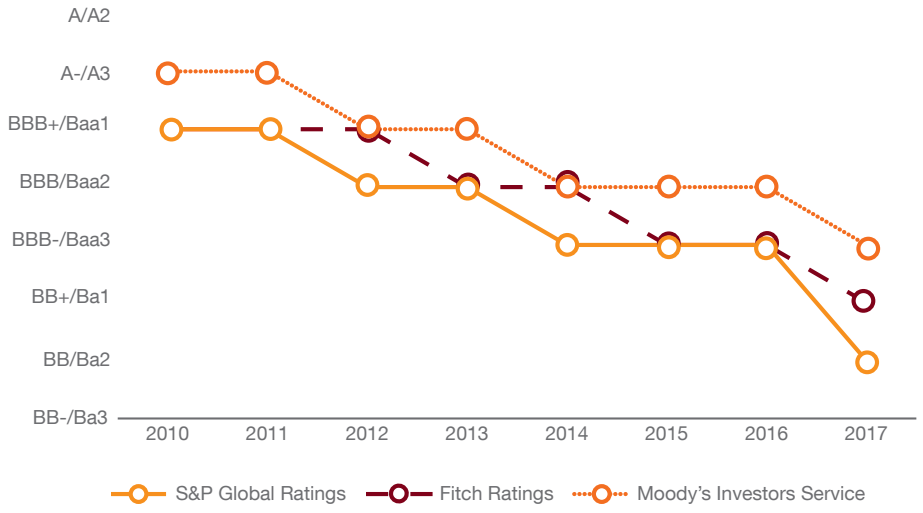
8 Transparency International, 2017. Corruption Perceptions Index (CPI). https://www.transparency.org/research/cpi/overview

One of the features of this political scenario is the uncertainty created by repeated changes in finance ministers. Pravin Gordhan was replaced by his deputy Nhlanhla Nene in May 2014, who, in turn, was replaced in December 2015, in a move that shocked South Africans and financial markets. After outrage over the appointment of little known Member of Parliament (MP) Des Van Rooyen, Mr Gordhan was brought back to the job just four days later. In another shock to the country's economic and financial system, former minister of home affairs and public enterprises Malusi Gigaba replaced Mr Gordhan in April 2017 – a move that directly led to a sovereign ratings downgrade. Thus, South Africa changed finance ministers four times in as many years.[9]

S&P Global Ratings and Fitch Ratings downgraded South Africa's foreign debt sovereign rating to non-investment grade during April 2017.

This economic and political malaise resulted in the South African sovereign seeing a **succession of downgrades to its debt ratings**. Both S&P Global Ratings and Fitch Ratings downgraded the South African sovereign's foreign currency debt rating to non-investment grade during April 2017. Analysts at S&P commented in December 2017: 'Economic decisions in recent years have largely focused on the distribution – rather than the growth – of national income. As a consequence, South Africa's economy has stagnated, and external competitiveness has eroded.'[10]

Figure 4: Six years of deteriorating sovereign creditworthiness



Source: Trading Economics

9 Across 195 countries, the average tenure of a finance minister is almost four years.

10 Fin24, 2017. Full Statement. S&P downgrades SA to junk. https://www.fin24.com/Economy/full-statement-sp-downgrades-sa-to-junk-20171124

Strong fundamentals and positive factors remain

There are many ills to diagnose in South Africa and many changes required to get the economy back on its feet. Nonetheless, many factors have remained positive and structurally sound over the past several years. These include independent and prudent monetary policy, state-of-the-art telecommunication and financial services sectors, and a more diversified economy than those of most African countries.

Below we highlight several other points associated with investment decisions, including openness to FDI, foreign investor protection, the country's status as a gateway into Africa, the launch of one-stop shops (OSSs) by InvestSA, capital controls and the rollout of Special Economic Zones (SEZs). These factors have supported South Africa's overall competitiveness as an investment destination. The country's score in the World Economic Forum (WEF) Global Competitiveness Index (GCI) was constant at 4.4 (on a scale of one to seven) in the annual publications dated from 2012–2013 to 2015–2016, and actually edged higher to 4.5 in the 2016–2017 edition.[11]

Government continues to court FDI

Throughout its economic and political decline, South Africa has been able to maintain a robust campaign to attract FDI into the country as a catalyst for economic growth. The country does not have a significant number of regulatory restrictions on foreign investment, and nearly all business sectors are open to foreign investors.[12] The FDI Regulatory Restrictiveness Index 2016[13] of the Organisation for Economic Co-operation and Development (OECD) ranked South Africa seventh out of 27 emerging and frontier markets[14] covered by the report for its openness to FDI. While openness varies across different sectors, the overall ranking places South Africa ahead of the other BRICS countries.[15]

President Ramaphosa led a delegation of business and political leaders to the annual WEF meeting in Davos, Switzerland on 23–26 January 2018. The Presidency commented that the WEF meeting 'presents South Africa with a platform to showcase its attractiveness as an investment destination', and that the delegation aimed to communicate 'that South Africa remains open for business'.[16] Media reports suggested that the message was conveyed loud and clear, and that WEF attendees were very welcoming of President Ramaphosa and his delegation.

Robust foreign investor protection

An often-used measure for the quality of investor protection is the World Bank Doing Business assessment of 'protection of minority investors'. This metric takes into account disclosure requirements for related-party transactions, shareholders' rights and role in major corporate decisions, available legal remedies to hold directors liable, and governance safeguards protecting shareholders from undue board control and retrenchment, amongst others.[17]

South Africa ranked 24th out of 190 countries for investor protection in the World Bank Doing Business 2018 report.

11 World Economic Forum (WEF), 2017. Global Competitiveness Index (GCI) 2017–2018. http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf

12 Santander, 2018. South Africa: Foreign Investment. https://en.portal.santandertrade.com/establish-overseas/south-africa/foreign-investment

13 The assessment process takes into account four key issues: restrictions on 1) equity and 2) foreign personnel, 3) screening and approval requirements, and 4) other operational restrictions, such as limits on repatriation of profits and capital.

14 Argentina, Brazil, Cambodia, China, Colombia, Costa Rica, Egypt, India, Indonesia, Jordan, Kazakhstan, Kyrgyzstan, Laos, Lithuania, Malaysia, Mongolia, Morocco, Myanmar, Peru, Philippines, Romania, Russia, Saudi Arabia, South Africa, Tunisia, Ukraine and Vietnam.

15 Organisation for Economic Co-operation and Development (OECD), 2017. FDI Regulatory Restrictiveness Index. http://www.oecd.org/investment/fdiindex.htm

16 South African government, 2018. Deputy President Cyril Ramaphosa departs from South Africa ahead of the World Economic Forum 2018 in Davos, Switzerland. http://www.thepresidency.gov.za/press-statements/deputy-president-cyril-ramaphosa-departs-south-africa-ahead-world-economic-forum

17 World Bank, 2018. Protecting Minority Investors. http://www.doingbusiness.org/Methodology/Protecting-Minority-Investors

South Africa ranked 24th out of 190 countries (i.e. in the top 15%) for investor protection in the World Bank Doing Business 2018 report. The country offers similar protection to that of Bulgaria, Slovenia, Spain and Taiwan.[18] The country's strong performance on this indicator is a long-standing feature: South Africa did not actually make any reforms in the past decade that would have specifically influenced the World Bank Doing Business measurement of investor protection.[19]

Gateway to Africa

Some research[20] suggests that South Africa might no longer be a default choice for global companies looking to enter the sub-Saharan African (SSA) market. Countries like Kenya and Nigeria, for example, are receiving significant attention and investment in specific sectors. However, the success of South Africa-based companies at home and in the rest of Africa is evidence of the role that a strong foundation in the south can play in growing pan-African companies.

According to The Africa Report, South Africa-based companies account for 35 out of the 50 largest companies by US dollar turnover on the continent.[21] From a stock exchange market capitalisation perspective, the largest pan-African companies include telecoms giant MTN (240 million subscribers in Africa and the Middle East), Standard Bank (with a presence in 18 African countries) and Shoprite (more than 2 700 retail outlets in 15 African countries).

What are the benefits of locating in South Africa as a base for SSA success? According to the WEF GCI 2017–2018 report, South Africa ranks amongst the top 25% of countries worldwide in several aspects. These include the strength of investor protection, auditing and reporting standards, efficiency of legal framework in settling disputes, strength of auditing and reporting standards, protection of minority shareholders' interests, corporate tax, availability of financial services, capacity for innovation, and – important for business travellers – quality of air transport infrastructure.[22]

The IMF reported in January 2018 that it expects the SSA economy to grow by 3.3% in 2018 and 3.5% by 2019 from an average of 2% per annum during 2016–2017.[23] These figures are even higher when excluding the region's largest

18 World Bank, 2017. South Africa: Protecting Minority Investors. http://www.doingbusiness.org/data/exploreeconomies/south-africa#protecting-minority-investors

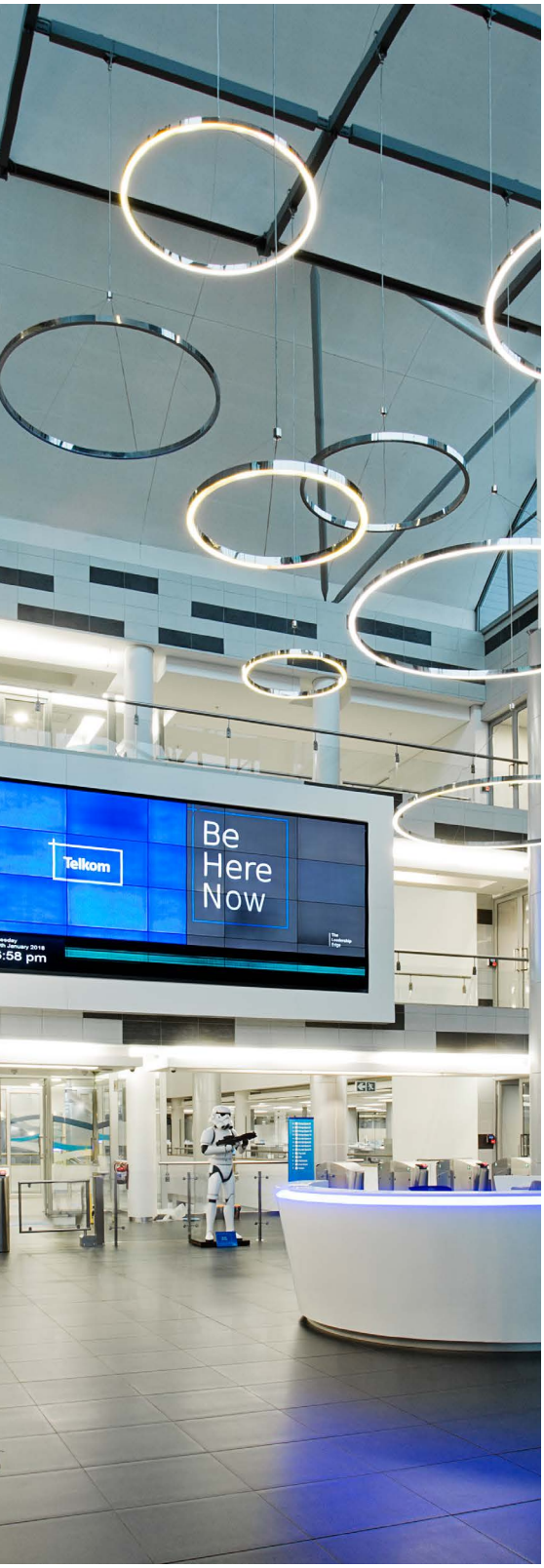
19 World Bank, 2p17. Business Reforms in South Africa. http://www.doingbusiness.org/Reforms/Overview/Economy/south-africa

20 BusinessTech, 2017. SA is losing its shine as the gateway into Africa. https://businesstech.co.za/news/business/200960/sa-is-losing-its-shine-as-the-gateway-into-africa/

21 Thinking Bottom Lines, The Africa Report, February 2017

22 World Economic Forum (WEF), 2017. Global Competitiveness Index (GCI) 2017–2018. http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf

23 International Monetary Fund (IMF), 2018. World Economic Outlook Update, January 2018. http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018



economies (Nigeria, South Africa and Angola).[24] During 2018–2019, the SSA region will be home to some of the fastest-growing economies in the world, as has been the case over the past decade.

South Africa is currently putting structures in place to aid future trade and investment growth, and joined the Tripartite Free Trade Area (TFTA) in July 2017. The regional structure will eventually include 26 African countries that over a five- to eight-year period will provide tariff liberalisation on 100% of tariff lines.[25] Intra-Africa trade is low compared to that of other economic regions.

Opening of InvestSA one-stop shops

InvestSA, a division of the Department of Trade and Industry (the dti), is in the process of launching various OSSs across South Africa with the purpose of making South Africa a more investor-friendly country. An OSS is a single-window mechanism consisting of many government departments working together under a unified structure to coordinate and streamline various processes to provide efficient and transparent services to investors.[26]

The purpose of this initiative is to facilitate the increase in both the quality and quantity of FDI into South Africa. the dti believes these facilities 'will fast track, unblock and reduce red tape in government'. The OSSs aim to support deals by assisting with permit approvals, licencing and registration processes. [27]

InvestSA launched the National OSS in March 2017 in Pretoria, followed by a Cape Town office in September and a Durban office in November. At the KZN office launch, the province's Member of the Executive Council (MEC) for Economic Development, Tourism and Environmental Affairs, Sihle Zikalala, said: 'We want to end the red tape and roll out the red carpet', emphasising the government's commitment to creating an appealing investment environment.[28]

> *'We want to end the red tape and roll out the red carpet' – KwaZulu-Natal MEC for Economic Development, Tourism and Environmental Affairs, Sihle Zikalala*

The objective is to open an OSS in every province in South Africa. The participating departments include the departments of Trade and Industry; Agriculture, Forestry and Fisheries; Cooperative Governance and Traditional Affairs; Economic Development; Energy; Environmental Affairs; National Treasury; Health; Labour; Home Affairs; Mineral Resources; Public Enterprises; Rural Development and Land Reform; Science and Technology; Water and Sanitation; and Small Business Development.[29]

24 Brookings Institutions, 2017. In defense of the 'Africa Rising' narrative. https://www.brookings.edu/blog/africa-in-focus/2017/06/27/in-defense-of-the-africa-rising-narrative/

25 Trade Law Centre (Tralac), 2017. The Tripartite Free Trade Area – a breakthrough in July 2017 as South Africa signs the Tripartite Agreement. https://www.tralac.org/news/article/11860-the-tripartite-free-trade-area-a-breakthrough-in-july-2017-as-south-africa-signs-the-tripartite-agreement.html

26 South African government, 2016. Inter-Ministerial Committee on Investment Promotion Appointed. http://www.thedti.gov.za/editmedia.jsp?id=3629

27 South African government, 2016. Inter-Ministerial Committee on Investment Promotion Appointed. http://www.thedti.gov.za/editmedia.jsp?id=3629

28 702, 2017. Driving investment and creating jobs through InvestSA's One Stop Shops. http://www.702.co.za/features/234/investsa-onestopshop/articles/281596/driving-investment-and-creating-jobs-through-investsa-s-one-stop-shops

29 South African government, 2016. Inter-Ministerial Committee on Investment Promotion Appointed. http://www.thedti.gov.za/editmedia.jsp?id=3629

No new restrictions on profit outflows

Countries in economic or political trouble have used capital controls to regulate the cross-border inflow and outflow of foreign capital.[30] The main purpose of capital controls in emerging markets is to reduce the volatility of the exchange rate and to provide stability in the economy by minimising sharp fluctuations in capital in- and outflows.[31] South Africa, with its volatile currency and pressure on FDI inflows, has resisted this option.

A prominent recent example of capital controls leading to unintended consequences is the Nigerian capital controls set in place in June 2015, with the main goal of controlling foreign reserves – specifically US dollars.[32] Nigeria, the largest oil producer in Africa, opted to impose currency restrictions after the decline in crude oil prices in 2014–2015 resulted in the country falling into a recession. The controls created a shortage of foreign exchange available in the market, which made it challenging for companies to pay for imports or repatriate profits.[33]

Rollout of Special Economic Zones (SEZs)

SEZs are defined geographic areas with special infrastructure and regulatory provisions with the main goal of attracting foreign direct investment and in doing so alleviate the unemployment problem in South Africa.[34] SEZs have had varied success rates internationally, where some have been able to transform economies. For this reason, the South African government embarked on a ramped-up process of rolling out these structures with the adoption of the SEZs Act No. 16 of 2014.[35]

The SEZs Act sets out four different zones:

- ***Industrial development zone –*** a purpose-built industrial estate that leverages domestic and foreign fixed direct investment in value-added and export-oriented manufacturing industries and services
- ***Free port –*** a duty-free area adjacent to a port of entry where imported goods may be unloaded for value-adding activities within the zone for storage, repackaging or processing, subject to customs import procedures
- ***Free trade zone –*** a duty-free area offering storage and distribution facilities for value-adding activities within the zone for subsequent export

30 Corporate Finance Institute (CFI), no date. What are Capital Controls? ?https://corporatefinanceinstitute.com/resources/knowledge/economics/capital-controls/

31 Bloomberg, 2015. Capital Controls. https://www.bloomberg.com/quicktake/capital-controls

32 International Monetary Fund (IMF), 2016. Capital Flows: Review of Experience with the Institutional View. https://www.imf.org/external/np/pp/eng/2016/110416a.pdf

33 Bloomberg, 2017. U.S. Business Deterred by Nigeria's Capital Curbs, Senator Says. https://www.bloomberg.com/news/articles/2017-08-31/u-s-business-deterred-by-nigeria-s-capital-curbs-senator-says

34 Centre for Development and Enterprise (CDE), 2012. Special Economic Zones: Lessons for South Africa from international evidence and local experience. http://www.cde.org.za/wp-content/uploads/2012/12/SEZs%20executive%20summary.pdf

35 South African government, 2014. SEZs Act No. 16 of 2014. https://www.thedti.gov.za/industrial_development/docs/SEZ_Act.pdf

- ***Sector development zone –*** an area focused on the development of a specific sector or industry through the facilitation of general or specific industrial infrastructure, incentives, and technical and business services primarily for the export market.[36]

Admittedly, South Africa has struggled to develop SEZs that significantly contribute to additional economic growth or transformation[37], as many of these zones take five to ten years to see significant growth.[38] Recently, however, Chinese Ambassador to South Africa Lin Songtian referred to the Coega SEZ as the best SEZ in Africa[39] – China is a big supporter of the SEZs concept and has significant experience in operating within and the administration of these zones. The Coega Development Corporation reported eight new investors in its 2017 mid-year investment report and 16 new investors in 2016, contributing approximately R11.7 billion.

Chinese Ambassador to South Africa Lin Songtian referred to the Coega SEZ as the best SEZ in Africa – China is a big supporter of the SEZs concept and has significant experience in operating within and the administration of these zones.

36 South African government, no date. Special Economic Zone (SEZ). http://www.thedti.gov.za/industrial_development/sez.jsp

37 Centre for Development and Enterprise (CDE), 2012. Special Economic Zones: Lessons for South Africa from international evidence and local experience. http://www.cde.org.za/wp-content/uploads/2012/12/SEZs%20executive%20summary.pdf

38 World Bank, 2011. Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience. http://www20.iadb.org/intal/catalogo/PE/2012/12126.pdf

39 Business Report, 2017. Coega – 'The best Special Economic Zone in the African Continent'. https://www.iol.co.za/business-report/coega-the-best-special-economic-zone-in-the-african-continent-11271213

Game-changer: Ramaphosa elected as ANC leader

Just before the close of 2017, Cyril Ramaphosa was elected as the new president of the ANC at the ruling party's 54th National Conference. His appointment as President of the Republic of South Africa on 15 February 2018 followed the resignation of his predecessor, Jacob Zuma. Many interpreted President Ramaphosa's appointments as the sun emerging from the dark clouds that have troubled the Rainbow Nation's economy and politics in recent years.

The business community, who are looking to him for ethical and accountable leadership in order to resuscitate the country's moribund economy, welcomed President Ramaphosa's victories.[40] He is a lawyer, former labour union leader, billionaire businessman and veteran politician – showing experience in all three spheres of the economy. President Ramaphosa was also the deputy chairperson of the National Planning Commission (NPC), which constructed South Africa's NDP, a long-term strategy for the country's economic development.

The ANC's new leader campaigned for the party presidency in 2017 with an economic recovery plan based on his deep understanding of labour, business and politics – a 'decisive new approach' that he referred to as a 'New Deal for South Africa'. He called on all stakeholders to 'lead a national initiative' to create at least one million jobs over the next five years, and is aiming for economic growth to rise to 5% by 2023.[41]

The ruling party's new leader campaigned for the presidency in 2017 with an economic recovery plan based on his deep understanding of labour, business and politics – a 'decisive new approach' that he referred to as a 'New Deal for South Africa'.

His 'decisive new approach' is different from that of his predecessor's approach in that it does not focus on public sector job creation as a driver of employment growth. Instead, President Ramaphosa indicated that the one million jobs he desires will largely come from the manufacturing sector, supported by a suitable combination of incentives, tax and other reforms, the creation of SEZs and the development of small- and medium-sized enterprises (SMEs).[42] Manufacturing jobs have amongst the highest multipliers for further job creation.

This manufacturing-led approach is very fitting for addressing South Africa's triple challenges of poverty, inequality and unemployment. Factory employment has historically played a very important part in economic development. Manufacturing-led growth was common amongst countries[43] – including BRICS counterparts Brazil and China – that have seen periods of high and sustained economic growth since the end of World War II. Success stories were built upon deliberate policies that enabled private enterprise to increase the output and diversity of manufactured products.[44]

40 The Messenger, 2017. Business welcomes Ramaphosa's win. http://www.themessenger.global/2017/12/18/business-welcomes-ramaphosas-win/

41 Rand Daily Mail, 2017. Cyril Ramaphosa: How I plan to fix SA's economy. https://www.businesslive.co.za/rdm/politics/2017-11-14-cyril-ramaphosa-how-i-plan-to-fix-sas-economy/

42 Rand Daily Mail, 2017. Cyril Ramaphosa: How I plan to fix SA's economy. https://www.businesslive.co.za/rdm/politics/2017-11-14-cyril-ramaphosa-how-i-plan-to-fix-sas-economy/

43 Brazil, China, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan and Thailand.

44 Econ3x3, 2014. What is the role of manufacturing in boosting economic growth and employment in South Africa? http://www.econ3x3.org/article/what-role-manufacturing-boosting-economic-growth-and-employment-south-africa

President Ramaphosa's ten-point action plan

1. "First, we will place the creation of decent jobs at the centre of our every policy, programme and action."
2. "Second, we will have an unrelenting focus on growth and investment."
3. "Third, we will pursue meaningful economic participation for the poor, the landless and the marginalised."
4. "Fourth, we will implement a macroeconomic policy that promotes growth and secures our economic sovereignty."
5. "Fifth, we must accelerate the transfer of ownership and control of the economy to black South Africans."
6. "Sixth, we will improve access for all to quality, relevant education."
7. "Seventh, we will revitalise and expand our manufacturing capacity."
8. "Eighth, we will maximise the impact of our infrastructure build."
9. "Ninth, we will restore SOEs as drivers of economic growth and social development."
10. "A judicial commission of inquiry needs to be established without delay and legal and criminal action will be pursued against the perpetrators."[45]

In his maiden State of the National Address (SONA), delivered on 16 February 2018, President Ramaphosa again emphasised the need for investment in manufacturing through the strategic use of incentives and other support measures. SONA 2018 also promised to host a jobs summit within the following few months. The aim of the summit will be to come up with practical solutions – for immediate implementation – for how South Africa can become more productive and see higher levels of investment.[46]

President Ramaphosa also promised to organise an investment conference within three months, aimed at marketing 'the compelling investment opportunities' in South Africa to both domestic and international investors. 'We will make a major push this year to encourage significant new investment in our economy', added the president, as he seeks to re-industrialise South Africa 'on a scale and at a pace that draws millions of job seekers into the economy'. SEZs will be used to attracted strategic domestic investment and FDI to build targeted industrial capabilities and establish new industrial hubs.[47]

Stakeholders in the mining sector also welcomed President Ramaphosa's commitment to address the impasse surrounding the Mining Charter.[48] The Department of Mineral Resources published the Broad-Based Black Socio-Economic Empowerment Charter for the South African Mining and Minerals industry in June 2017. However, the Chamber of Mines, who claimed that the process followed in developing the charter was flawed, immediately rejected the plan.[49] The two parties were at loggerheads on the matter (with court proceedings pending) until President Ramaphosa stepped in.

45 BizNews, 2017. Ramaphosa: My New Deal for SA – and 10-point action plan for jobs, growth, transformation. https://www.biznews.com/thought-leaders/2017/11/14/ramaphosa-new-deal-for-sa/

46 South African government, 2018. State of the Nation Address by President of the Republic of South Africa, Mr Cyril Ramaphosa. http://www.thepresidency.gov.za/speeches/state-nation-address-president-republic-south-africa%2C-mr-cyril-ramaphosa

47 South African government, 2018. State of the Nation Address by President of the Republic of South Africa, Mr Cyril Ramaphosa. http://www.thepresidency.gov.za/speeches/state-nation-address-president-republic-south-africa%2C-mr-cyril-ramaphosa

48 South African government, 2018. State of the Nation Address by President of the Republic of South Africa, Mr Cyril Ramaphosa. http://www.thepresidency.gov.za/speeches/state-nation-address-president-republic-south-africa%2C-mr-cyril-ramaphosa

49 ENSafrica, 2017. What you need to know about the 2017 Mining Charter. https://www.ensafrica.com/news/What-you-need-to-know-about-the-2017-Mining-Charter?Id=2663&STitle=ENSafrica%20newsflash

A new broom sweeps: early progress

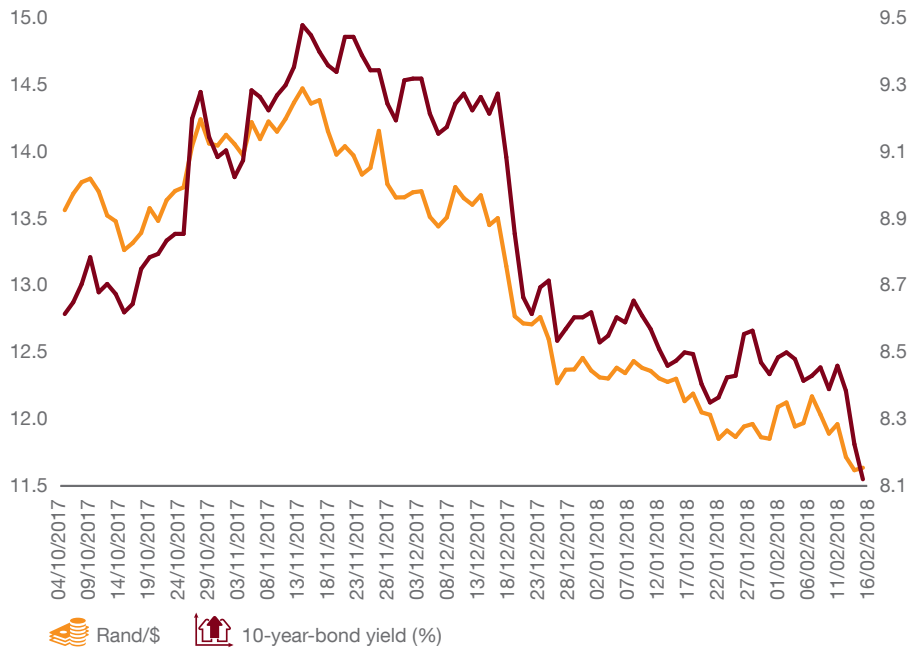
'Without pre-empting what the ratings agencies would say, South Africa is in a much better space now than where it was when previous ratings actions took place [in November 2017]. We have a good case to make [for avoiding further ratings downgrades]', commented South African Reserve Bank (SARB) Governor Lesetja Kganyago at the WEF in Davos.[50] Foreign portfolio investors were also optimistic about the country's prospects: Bloomberg reported that in the aftermath of President Ramaphosa's appointment, foreign investors were investing in the Johannesburg Stock Exchange (JSE) at the fastest pace since records started in 1997.[51]

Financial markets react positively

The rand exchange rate – which has been increasingly sensitive to domestic political developments over the past few years – welcomed the election of and forthright words from the country's new leader. The South African currency appreciated from R13.70/$ in mid-December 2017 to around R11.60/$ by mid-February. A firmer rand improves the outlook for South African consumers through lowering the cost of imports and associated inflation. Indeed, the SARB was able to lower its inflation forecasts during January in part due to a stronger rand.

Elsewhere in the financial markets, South Africa's ten-year bond yield declined from 9.3% in mid-December 2017 to 8.1% by the middle of February. Bond traders had since the MTBPS been pricing in further downgrades in South Africa's local bond ratings that would result in it being excluded from the Citi World Global Aggregate Bond Index (WGBI). This, according to estimates by Rand Merchant Bank (RMB), would result in up to R140 billion in foreign money exiting the domestic capital market.[52] The decline in yields since President Ramaphosa's election indicated that investors were expecting him to stem the downward trajectory in sovereign ratings.

Figure 5: Financial markets rally after Ramaphosa's election



Source: Investing.com

50 Bloomberg, 2018. South Africa Can Make Case to Avoid Downgrade, Governor Says. https://www.bloomberg.com/news/articles/2018-01-24/south-africa-can-make-case-to-avoid-downgrade-governor-says

51 Moneyweb, 2018. 6 reasons SA's future is suddenly a lot brighter. https://www.moneyweb.co.za/moneyweb-opinion/columnists/six-reasons-south-africas-future-is-suddenly-a-lot-brighter/

52 Moneyweb, 2017. Downgrades: The R140bn question. https://www.moneyweb.co.za/news/economy/downgrades-the-r140-billion-question/

This post-election rally in financial markets is not surprising. As part of his New Deal revealed prior to his election, President Ramaphosa signalled that restoring confidence amongst investors was his immediate priority. He indicated that this restoration required urgent measures to 1) achieve policy certainty, 2) improve institutional stability, 3) restore the credibility of the criminal justice system, and 4) demonstrate the political will to turn around the economy.[53]

The first 40 days in action

The first 40 days of President Ramaphosa's party presidency already delivered tangible results in some of these areas. For example, a new chairperson and group chief executive was appointed at financially troubled state-run power utility Eskom during January. Telkom chairperson Jabu Mabuza (who is credited with turning around the fortunes of the telecoms company) will now chair the Eskom board, while Phakamani Hadebe (in turn, credited with turning around the Land Bank) will be the acting group chief executive. In addition, authorities appointed a new board for the power utility, and several senior Eskom executives resigned in the wake of these appointments.

From a legal perspective, the fight against state capture[54] witnessed three significant developments in January as well. Firstly, the National Prosecuting Authority (NPA) – until then relatively unmoved on matters of state capture – filed a strongly worded founding affidavit in the North Gauteng High Court against McKinsey and Trillian. The NPA claimed that the companies received payments from Eskom that were criminal, claiming crimes ranging from fraud, theft and corruption to money laundering.[55]

Secondly, the NPA secured an order from the Free State High Court to seize control of a dairy farm and bank accounts linked to the Gupta family[56] and Mr Zuma's son, Duduzane. The NPA's Asset Forfeiture Unit (AFU) claimed that the Free State's agricultural department had made payments worth R220 million to the Guptas in a 'scheme designed to defraud and steal monies' from the provincial government.[57] The politically connected Gupta family and their associates are widely believed to be at the centre of the state capture saga[58], which former finance minister Pravin Gordhan believes likely cost the government a combined R100 billion.[59]

Thirdly, the Department of Justice and Constitutional Development published in late January the terms of reference for a judicial commission of enquiry into state capture.[60] The enquiry – led by Deputy Chief Justice Raymond Zondo – has a wide berth. The terms of reference include:

- Investigating allegations that politicians were offered cabinet positions by the Gupta family (and the role of Mr Zuma, if any, therein);
- Whether any public official unduly awarded tenders by state entities to the family; and

53 Rand Daily Mail, 2017. Cyril Ramaphosa: How I plan to fix SA's economy. https://www.businesslive.co.za/rdm/politics/2017-11-14-cyril-ramaphosa-how-i-plan-to-fix-sas-economy/

54 In the South African context, the term 'state capture' refers to a systematic and well-organised process of repurposing state entities and funds for the financial benefit of a small elite.

55 Fin24, 2018. NPA concludes Eskom payments to McKinsey and Trillian were criminal. https://www.fin24.com/Economy/npa-concludes-eskom-payments-to-mckinsey-and-trillian-were-criminal-20180117

56 A business network headed by the brothers Ajay, Atul and Rajesh Gupta are widely understood to be at the head of a political patronage system alongside former president Jacob Zuma and his family. This network of people have become the leading figures in media reporting on state capture.

57 News24, 2018. NPA freezes R220m, land linked to Gupta farm. https://www.news24.com/SouthAfrica/News/breaking-npa-freezes-r220m-land-linked-to-gupta-farm-20180120

58 Public Affairs Research Institute, 2017. Betrayal of the Promise: How South Africa is Being Stolen. http://pari.org.za/wp-content/uploads/2017/05/Betrayal-of-the-Promise-25052017.pdf

59 The South African, 2017. 'SA may have lost R100bn from State Capture' Gordhan unleashes at CPT conference. https://www.thesouthafrican.com/sa-may-have-lost-r100bn-from-state-capture-gordhan-unleashes-at-cpt-conference/

60 Former president Jacob Zuma was in November 2016 instructed by former Public Protector, Thuli Madonsela, in a report on state capture, to establish a judicial commission of enquiry. Ms Madonsela's report focused on improper influence by the Gupta family over Mr Zuma and his family.

- The nature and extent of corruption in the awarding of contracts and tenders to private companies by public entities, amongst other issues.[61]

President Ramaphosa has shown in the weeks after his election as party president that he is already in control of national governance, calming some of the biggest concerns about the creation of two centres of power in Luthuli House and the Union Buildings. It is understood that the new ANC leader was the impetus behind the changes at Eskom, legal moves by the NPA and the detailing of the state capture enquiry's scope. His actions also resonate with the last two items in his ten-point action plan, namely restoring SOEs and the establishment of the judicial commission of inquiry.

'The wheels of change are moving now and they are going to start speeding up,' commented President Ramaphosa in Davos on 24 January 2018. Foreign stakeholders are already listening to this message. SARB Governor Lesetja Kganyago commented at the WEF: 'Last year at this time in Davos, I was trying to look for people to talk to and convince that South Africa is worth investing in. This year, I'm having a lot of people come to me saying, 'Hey, it looks like a lot of things are changing in South Africa. Where are the opportunities?"[62]

61 TimesLIVE, 2018. State capture inquiry to probe Guptas, Zuma and ministers. https://www.timeslive.co.za/politics/2018-01-25-in-full--state-capture-inquiry-to-probe-guptas-zuma-and-ministers/

62 BizNews, 2018. 'Corruption and misrule will be history in South Africa' – Lesetja Kganyago. https://www.biznews.com/wef/davos-2018/2018/01/25/corruption-misrule-history-lesetja-kganyago/

Forward-looking scenarios under the Ramaphosa presidency (2018–2022)

The A.T. Kearney FDI Confidence Index 2017 included South Africa in their list of 25 economies most likely to attract foreign investment during 2018–2020.

Even before President Ramaphosa's election in December 2017, when the local and international business communities were pinning their hopes on his being elected as ANC president, the outlook for FDI had already improved. The A.T. Kearney FDI Confidence Index 2017 included South Africa in their list of 25 economies most likely to attract foreign investment during 2018–2020. It was the first time since 2014 that an African country appeared in the report, based on a February 2017 survey of C-level executives from companies with annual revenues of $500 million or more.[63]

Are analysts now also seeing an improved outlook for the local economy? A Reuters survey of local economists during early January reflected projections for economic growth in 2018 ranging from 1% to 2%, and in 2019 ranging between 1.2% and 2.3%. The actual pace of economic growth over the next two to five years – a key factor in solving South Africa's triple challenges – will be very dependent on the reforms that the new ANC leadership can implement. A myriad factors will influence the pace and scope of reform, making too specific forecasts a dubious endeavour at present.

'Reforms are urgently needed to reignite growth and render it more inclusive,' warned the IMF in July 2017.[64] For the multilateral organisation, and for the South African business community, a meeting between IMF managing director Christine Lagarde and President Ramaphosa in Davos was very encouraging. The two 'concurred that long-standing structural challenges continue to weigh on growth in South Africa'. Ms Lagarde and President Ramaphosa consequently agreed 'that bold and timely reforms are needed to create an environment conducive to job creation and less inequality', commented the IMF on 23 January 2018.[65]

The reform agenda is a central theme to our forward-looking scenarios for South Africa. Because the future of complex (economic and political) systems is plural rather than singular, scenario planning creates a range of alternative futures for a specific country. This provides stakeholders with a series of route maps about the future around which strategies can be built. Scenarios are plausible to varying degrees (probabilities) and incorporate a broad range of variables in order to build a narrative.

In this case, the scenarios are pathways to different potential future states by 2022 (i.e. a five-year horizon) under the guidance of President Ramaphosa as ANC and national president, as well as a significantly revamped cabinet. The scenarios enable the reader to look backwards from 2022 at the potential pathways that South Africa followed in the preceding five years. As a result, scenario narration is similar to that of history books by discussing past events. The reader will be able to gauge the potential outcome of President Ramaphosa's reform campaign as the story of the South African economy over the five-year period.

From a quantitative perspective, the scenarios provide projections for economic growth and the rand exchange rate. The outlook for GDP growth in 2018 is still quite opaque due to the uncertainties about how quickly President Ramaphosa can implement his reforms. Key to this is the time it takes him to replace

63 AT Kearney, 2017. Foreign Direct Investment Confidence Index. https://www.atkearney.com/documents/10192/12116059/2017+FDI+Confidence+Index+-+Glass+Half+Full.pdf/5dced533-c150-4984-acc9-da561b4d96b4

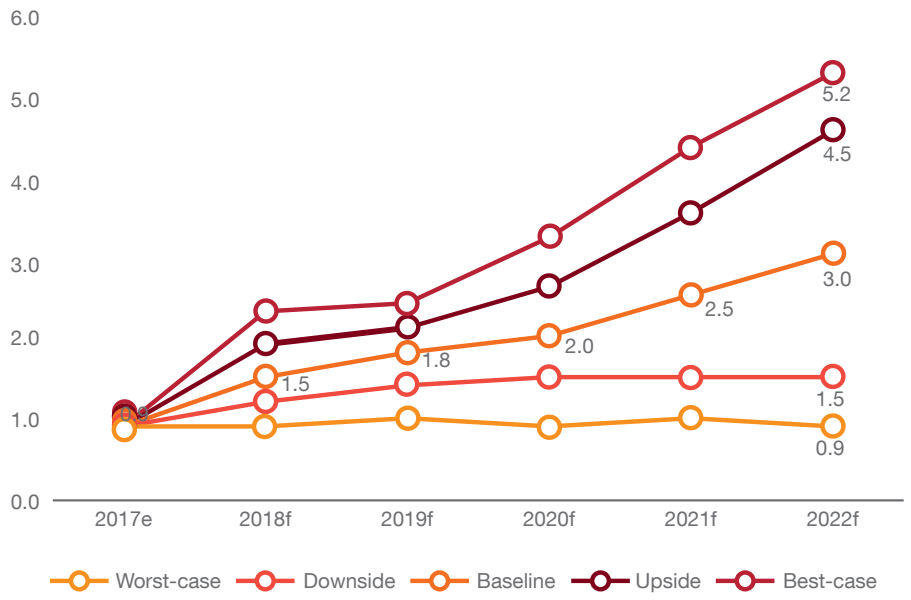
64 International Monetary Fund (IMF), 2017. South Africa: 2017 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for South Africa. http://www.imf.org/en/Publications/CR/Issues/2017/07/06/South-Africa-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-45044

65 International Monetary Fund (IMF), 2018. Statement by IMF Managing Director Christine Lagarde on Meeting with South Africa Deputy President Cyril Ramaphosa. http://www.imf.org/en/News/Articles/2018/01/23/pr1815-managing-director-lagarde-meets-south-africa-deputy-president-cyril-ramaphosa

Mr Zuma as the head of government. As a result, growth projections for this year can be best judged by considering the latest projection by the SARB – updated and published every two months. The scenarios will have different growth projections from 2018 onwards, assuming no external shocks.

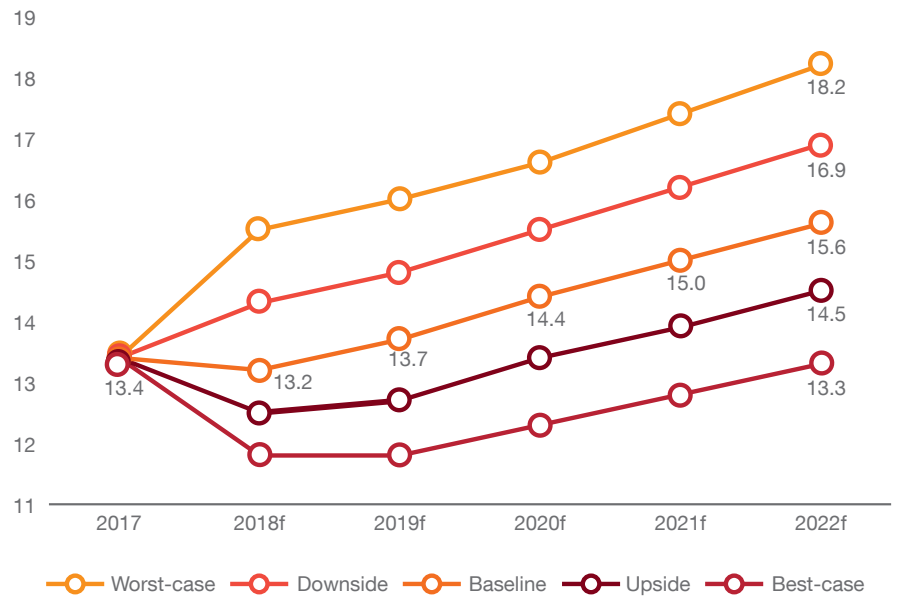
At present, PwC sees a 25% probability of the next five years delivering economic growth of less than 1.5%. This indicates a one-in-four chance that the election of President Ramaphosa will have no significant impact on the local economy. Conversely, PwC sees a 75% probability of improved economic growth (above the population growth rate) over the next five years. These scenarios include different projections for economic growth and the exchange rate.

Figure 6: Potential for recovery in economic growth (%)



Source: PwC's Strategy&

Figure 7: Short-term gains in the rand under the baseline scenario (R/$ exchange rate)



Source: PwC's Strategy&

The scenarios are current as of President Ramaphosa delivering his maiden SONA on 16 February 2018. The following schematic summarises the key components of these scenarios.

Figure 8: PwC sees a 75% probability of improved economic outcomes

Probability: 5%	Probability: 20%	Probability: 50%	Probability: 20%	Probability: 5%
Worst-case	Downside	Baseline	Upside	Best-case
Mouldy mess	*Coming up short*	*#Ramaprogress*	*New Deal*	*Prosperity*
Reforms – early gains with SOEs and state capture, but limited progress thereafter as focus turned to 2019 elections.	*Reforms* – early gains with SOEs and state capture, but limited progress thereafter as populist policies remained the key focus	*Reforms* – 10-point action plan and New Deal agenda was front-and-centre in policymaking – job creation is a clear priority	*Reforms* – Ramaphosa achieves his New Deal goals, with a boom in factory activity and jobs	*Reforms* – Ramaphosa achieves his New Deal goals and other reforms not currently envisaged (e.g. in labour market and regarding SOEs)
Economic growth – limited reforms keep GDP growth stuck below 1%	*Economic growth* – populist policies limits GDP growth to a maximum of 1.5%	*Economic growth* – reforms lift GDP growth to 2% in 2020 and 3% by 2022	*Economic growth* – much improved economic and political climate, GDP growth rises above 4% by 2022	*Economic growth* – GDP growth in excess of 4% by 2022
Ratings – Fiscal dynamics continue to deteriorate, another two rounds of ratings downgrades follow.	*Ratings* – Fiscal dynamics fail to improve, another round of ratings downgrades follow.	*Ratings* – Fiscal dynamics improve, no further downgrades by major rating agencies	*Ratings* – significantly improved fiscal situation materialises, eventually returns to investment-grade ratings	*Ratings* – significantly improved fiscal situation materialises, quickly returns to investment-grade ratings
Elections – Removal of Jacob Zuma frayed intra-ANC relationships. Party loses outright majority in 2019 polls but retains power through fragile coalition.	*Elections* – Populist policies help the ANC win the 2019 national elections and 2021 local government elections with a small majority.	*Elections* – ANC improves performance at the ballot box in 2019 and ends declining support, improvement in quality of business in the National Assembly	*Elections* – 2019 elections reward Ramaphosa's reforms with a notable increase in support for ANC	*Elections* – 2019 elections reward Ramaphosa's reforms with a notable increase in support for ANC
Exchange rate – Continued decline in economic competitiveness sees rand depreciate to an avg. of R18.20/$ in 2022	*Exchange rate* – Rand depreciates to an avg. of R16.90/$ in 2022 as markets price in high levels of political risk and low levels of productivity growth.	*Exchange rate* – Export growth and investment inflows support rand, avg. of R15.60/$ in 2022	*Exchange rate* – Strong rise in FDI and manufactured exports support rand to avg. of R14.50/$ in 2022	*Exchange rate* – Strong rise in FDI and increased competitiveness in manufactured exports support rand to avg. of R13.30/$ in 2022

Source: PwC's Strategy&

Probability: 5%

Worst-case

Mouldy mess

Scenario 1: Mouldy mess

Probability: 5%

President Ramaphosa started his tenure as ANC president with an immediate positive impact, including the appointment of skilled leaders at troubled Eskom and making some progress in starting the process of addressing state capture. However, these changes did not have a lasting impact. The attempted turnaround at the power utility had lacklustre results due to Eskom's legacy costs of poor management and planning. The state capture enquiry dragged on for several years with little tangible actions against transgressors. ANC policy changed very little, and job creation continued to disappoint. These issues were large blots on President Ramaphosa's presidency.

The ANC National Executive Committee (NEC) removed President Ramaphosa's predecessor in early 2018 with limited consultation with its branch structures. This frayed the relationship between the party's national leadership and provincial structures. Furthermore, while there was overwhelming support in the NEC for Mr Zuma's recall, many of the new NEC's membership and provincial leaders were prominent in the previous administration, with high stakes in a

business-as-usual approach. As a result, President Ramaphosa spent much of the lead-up to the 2019 elections dealing with party-related challenges as well as campaigning for the poll; leaving little time to implement his planned reforms.

The 2019 elections delivered another disappointing result for the ANC. Because of weak levels of continued service delivery at local government level, voters did not give the organisation an outright majority for the first time in post-1994 South Africa. The ANC was able, through alliances with smaller opposition parties, to piece together a ruling coalition – something that the new South Africa had never seen in national government. The coalition was troubled from the start by the ANC trying to continue running government as before, while smaller members of the coalition were able to disrupt policymaking and governance with threats of leaving the pact and forming a new government with larger opposition parties.

In the absence of much improvement on the policy and governance front, business and consumer confidence remained pessimistic. Investors in particular were concerned about the expropriation of land without compensation. Employment creation continued to be insufficient to absorb the growing number of school leavers entering the labour market each year. Businesses focused on international expansion for revenue growth and maintained limited domestic investment spending. As a result, economic growth remained stuck below the 1% level seen just before the departure of Mr Zuma from the Union Buildings. Clearly, not all the problems within the ANC could be blamed on just one man.

This economic growth performance was insufficient to make a real impact on fiscal dynamics from an income perspective. The government continued with sizeable fiscal deficits and rising public debt (as percentage of GDP). Unsurprisingly, rating agencies implemented another two rounds of ratings downgrades, taking the sovereign deeper into non-investment grade territory. Credit ratings only stabilised in 2020, although this was more a case of reaching a deep point of weakness rather than any real effort by the government to address the negative tide.

This economic and political situation chipped away at South Africa's competitiveness as an investment destination, eroding some of the strong points identified earlier in this document. This weakened competitiveness reduced the value of the South African rand as both a producer of goods and services and an investment tool. As a result, the rand depreciated to an average of R18.20/$ in 2022. This contributed to higher consumer price inflation and upward adjustments in interest rates, alongside a decline in GDP per capita.

Probability:
20%

Downside
Coming up short

Scenario 2: Coming up short

Probability: 20%

The first two months of President Ramaphosa's ANC presidency included many positive moves as he picked low-hanging fruit. These included the start of a turnaround for Eskom, judicial developments surrounding key corruption and state capture cases, a more focused fiscal budget, and the broadcasting of a positive 'South Africa is open for business' message to international investors. Local financial markets rallied as the new broom swept through the corridors of the Union Buildings, igniting hope of an improvement in governance and economic conditions when President Ramaphosa took over the national leadership.

The wheels of change were indeed moving, as he told attendees of the WEF in Davos during January. Perceptions of the quality of governance improved as South Africans perceived lower levels of corruption. However, the quick implementation of these early changes – popular with the media, low in cost and highly visible – failed to gain momentum. Elements within the ANC as well as local, provincial and national government, whose way of doing government business under the Zuma administration remained largely unchanged, stifled President Ramaphosa's reform ambitions. In turn, policymaking structures within the ruling party had to resort to populist policies to win national elections in 2019 (by a small majority) and local government polls in 2021.

An expected business-friendly Ramaphosa administration was not as favourable as suggested by New Deal promises. The private business sector did not react positively to this policy trajectory, with business confidence remaining pessimistic. Economic growth recovered to around 1.5% by 2020, rising slightly above the population growth rate. However, this remained significantly below potential. The country's policy direction did not really address the triple challenges of poverty, inequality and unemployment. A key issue here was the need for changes to the labour market/relations between the private sector and labour organisations in order to encourage job creation at a faster pace.

South Africans grew tired of the situation, as economic conditions failed to change much for them after Mr Zuma retired to Nkandla. The country's unemployment rate failed to decline, and a strengthening in the rand exchange rate in early 2018 soon fizzled out – resulting in higher inflation rates. Because of this continued malaise, the ANC lost more support during the 2019 national elections, but was able to retain a majority in the National Assembly.

The period 2019–2022 witnessed only a small improvement in overall quality of governance as the ANC made small reforms in order to appease their labour partners. However, these changes were not effective in improving the country's fiscal and public debt dynamics. On the contrary, weak economic growth and pressure from labour unions resulted in further deterioration in fiscal dynamics. As a result, rating agencies downgraded the sovereign's local and foreign credit ratings again in 2018–2019 before they stabilised.

President Ramaphosa had to shelve many of his New Deal plans in order for the ANC to remain in power, and the grand plan joined the NDP in being a ghostly plan for resurrecting the Rainbow Nation. Continuing policy uncertainty in primary sectors (in particular property rights in the mining and agricultural industries) hampered investment in these industries. Power and water utilities remained in financial and management doldrums. Business and consumer confidence failed to recover to positive territory.

All of this resulted in the international community continuing to price in high levels of political risk and low levels of productivity growth for South Africa. The rand followed a steady weakening path from the middle of 2018, and averaged R16.90/$ in 2022. Weak economic growth, sovereign rating downgrades, policy uncertainty, weak business and consumer confidence and continued poor quality of political governance resulted in disappointing levels of FDI and foreign portfolio investment into the country. All combined, these factors resulted in no real progress being made in addressing South Africa's triple challenges as the country passed the halfway mark of the NDP's vision for 2030.

Probability:

50%

Baseline

#Ramaprogress

Scenario 3: #Ramaprogress

Probability: 50%

By the time President Ramaphosa finished his maiden SONA on 16 February 2018, it was already clear that his government would have a significantly different face from that of the preceding Zuma administration. The first two months of the new ANC leader's party presidency set in motion changes that lifted the spirits of South Africans and investors, helping the rand appreciate to its strongest levels against the US dollar since before the axing of Mr Nene in 2015.

As a new broom swept through the ANC, Luthuli House and the national government, President Ramaphosa's ten-point action plan and New Deal agenda were front-and-centre when it came to policymaking and communication with investors. A focus on job creation, economic growth and investment was evident, as was the prioritisation of turning around financially troubled SOEs. South Africans observed a renewed vigour and focus within the ANC on national issues instead of party politics.

Nonetheless, while reforms were implemented at a steady pace in some areas, some of the country's structural weaknesses hampered improvements elsewhere. For example, the desire to improve access for all to quality education delivered limited results. The country's education system had produced a disappointing quality of school leavers over the preceding two decades, which was a key challenge for the country concerning employment creation. The education system's challenges were deep and could not be fixed within a few years.

This contributed to the challenges faced by President Ramaphosa in revitalising the manufacturing sector as a job-creating machine. While manufacturing-focused companies and investors welcomed incentives and the increased rollout of SEZs, high energy and labour costs, competition from Asian rivals and slow progress in implementing free-trade agreements on the African continent continued to place pressure on manufacturing production. Investors in the secondary sector remained vigilant about the uncertain long-term prospects of a more competitive operating environment.

Admittedly, while President Ramaphosa did not make much progress in the areas of education and manufacturing, many of his other aspirations were set in motion. Experts from all spheres of the South African economy were appointed to his newly created Presidential Economic Advisory Council, and interaction between labour, business and government under the auspices of the National Economic Development and Labour Council (Nedlac) grew from strength to strength. Social and labour unrest remained more subdued, as seen during the 2016–2017 period.

In response, business and consumer confidence returned to positive territory, and companies and households increased their consumption and investment expenditure. FDI improved alongside this rising sentiment. As a result, economic growth recovered to 2% by 2020 and 3% by 2022, with the unemployment rate inching lower. The rand averaged R15.60/$ in 2022 as a stronger export performance and investment inflows supported the South African currency.

A healthier pace of economic growth and improved administrative efficiency by the South African Revenue Service (SARS) boosted tax revenues and helped stabilise the fiscus. The National Treasury returned to a commitment to narrow the budget deficit (as percentage of GDP) and achieved a peak in public debt (as percentage of GDP). In recognition of the significant progress made, rating agencies did not make further downgrades to the sovereign's creditworthiness assessments.

An overall improvement in the country's economics and politics enabled the ANC to improve its performance at the ballot box during the 2019 national elections and 2021 local government elections. The party retained a majority and the quality of business in the National Assembly improved significantly under President Ramaphosa's guidance. The relationship between the ruling party, on the one hand, and opposition parties, on the other hand, was also much more amicable from 2018 onwards. A significant reduction in political noise was observed compared to the Zuma administration.

Probability:
20%

Upside

New Deal

Scenario 4: The New Deal

Probability: 20%

The New Deal vision reignited the ideals contained in the NDP, and SONA 2018 debuted several of the key ideas behind this vision. A jobs summit was organised within months of President Ramaphosa taking the reins at the Union Buildings in order to discuss practical solutions to youth unemployment. Soon afterwards followed the launch of the Youth Employment Service Initiative that placed tens of thousands of unemployed youth in paid internships in the private sector. A small business and innovation fund for start-ups also aided young entrepreneurs in establishing their own enterprises.

President Ramaphosa's desire to see the manufacturing sector lead the creation of jobs received strong and focused attention across all relevant ministries. Localisation – which public entities show a preference for, purchasing locally produced goods – formed the core focus of this initiative. Government geared its incentives towards encouraging increased manufacturing of import-substituting goods as part of a reindustrialisation process. The rollout of SEZs in particular attracted significant interest from foreign investors.

The process of localisation also had a key focus on transformation of ownership of private enterprises. The Ramaphosa administration actively used competition policy in order to diversify activity in markets where there was a high concentration of large companies. Under the New Deal, radical economic transformation was, however, not as 'radical' as many investors had feared. The campaign took shape under President Ramaphosa's guidance as a process of creating fundamental improvement in the lives of impoverished South Africans. ('Fundamental economic transformation' is a much more accurate description of this process.)

To be fair, many of the New Deal's aspirations could not be achieved in a five-year period. However, the Ramaphosa administration built a strong foundation for long-term economic success on top of quick gains seen in improving the quality of governance. The much-improved economic and political outlook resulted in a notable recovery in business and consumer confidence. Combined with increased foreign investment, economic growth recovered to 3% by 2020 and levels above 4% in 2022. The rand averaged R14.50/$ in 2022.

A significantly improved fiscal situation also materialised. Accelerated economic growth improved the government's revenue situation while a decline in wasteful expenditure also contributed to a reduced budget deficit. This enabled the Ramaphosa administration to turn a corner concerning public debt, which had crept higher under the Zuma administration. As a result, the country was able to stabilise its ratings downgrade quickly, with the sovereign eventually regaining its investment-grade rating. The 2019 elections rewarded the Ramaphosa administration with a rise in support for the ANC.

Probability:
5%

Best-case

Prosperity

Scenario 5: Prosperity

Probability: 5%

South Africa reached economic prosperity – economic growth in excess of 4.5% per annum from 2022 – under the Ramaphosa administration after the implementation of the New Deal, as well as making other important reforms not contained in the plan. These included the privatisation of some SOEs and the greater involvement of private companies in, for example, the electricity-generating industry. An important issue that was not on the New Deal agenda was changes to the labour market. South Africa reduced rigidity in the labour market by ensuring that wage determination was much more responsive to company-specific circumstances as opposed to the dominance of collective bargaining. This was an important linchpin in the revival of the manufacturing sector. Stronger export competitiveness supported the rand, which averaged R13.30/$ in 2022.

The next steps: What do these scenarios mean for your deal, industry or company?

The report argues that the time is right for investing in South Africa, for both domestic and international investors, as President Ramaphosa takes over leadership of the party and government. There is a high probability that the South African economy will be in a much healthier position by 2022 compared to the start of 2018.

Of course, the different scenarios would have different impacts on various industries. For example, the worst-case scenario entails limited progress on resolving the policy uncertainty that plagued the Zuma administration. For the mining industry, this would include an extended impasse on resolving issues surrounding the Mining Charter and making progress in finalising the Mineral and Petroleum Resources Development Amendment Bill; the latter is stuck in the National Council of Provinces (NCOP).

The downside scenario sees limited reform success by President Ramaphosa. In a need to balance interests within the ANC, the new president (a game farmer in his spare time) lets the land reform malaise continue, with no real improvement in associated administrative efficiency and lingering uncertainty over the issue of land expropriation without compensation. Combined with challenges related to drought conditions and minimum wages, this scenario would see the agricultural sector continue to experience sub-par investment spending.

The baseline sees economic growth rise to 3% by 2022. This is partly premised on improved business and consumer confidence because of reduced political risk and improved standards of governance – both supportive of greater fixed investment. A recovery in consumer confidence alongside improved household finances will be supportive of stronger retail sales. The sale of white goods and vehicles in particular will benefit.

The upside scenario will see President Ramaphosa achieve much success with his New Deal campaign. This manufacturing-led job creation plan will see notable benefit for the local factory sector. Stakeholders can look forward to a wider and deeper range of incentives, the opening of more SEZs and more support for SMEs in the secondary sector. This will be of benefit to the country as a whole, considering the role that manufacturing employment can play in economic development.

The best-case scenario sees South Africa implement reforms to the energy markets, which reduces the influence of Eskom on the electricity market. This, in turn, will result in a reigniting of investment in renewable energy generation that is fed into the national grid. A nuclear build programme does not materialise. A greater number of private companies and households invest in renewable energy generation in order to reduce their reliance on the national grid.

The possible industry, company and deal-related outcomes are diverse: with five scenarios and 16 major industries[66] in South Africa, the scenarios relevant to the reader could be complex. PwC's Economics and Deals teams are ideally placed to help our clients understand these potential future states within the context of their industry, company or investment deal.

66 Agriculture, forestry, fisheries, mining, manufacturing, utilities, construction, trade, hospitality, transport, communication, finance, real estate, business services, personal services and government services.

Glossary of abbreviations

ANC	African National Congress (ANC)
BER	Bureau for Economic Research (BER)
BMI	Business Monitor International (BMI)
BRICS	Brazil, Russia, India, China and South Africa (BRICS)
FDI	Foreign direct investment (FDI)
GCI	Global Competitiveness Index (GCI)
GDP	Gross domestic product (GDP)
IMF	International Monetary Fund (IMF)
MP	Member of Parliament (MP)
MTBPS	Medium-Term Budget Policy Statement (MTBPS)
NCOP	National Council of Provinces (NCOP)
NDP	National Development Plan (NDP)
NEC	National Executive Committee (NEC)
Nedlac	National Economic Development and Labour Council (Nedlac)
NPA	National Prosecuting Authority (NPA)
NPC	National Planning Commission (NPC)
OECD	Organisation for Economic Co-operation and Development (OECD)
OSSs	One-stop shops (OSSs)
SARB	South African Reserve Bank (SARB)
SARS	South African Revenue Service (SARS)
SEZs	Special Economic Zones (SEZs).
SMEs	Small- and medium-sized enterprises (SMEs)
SONA	State of the National Address (SONA)
SSA	Sub-Saharan African (SSA)
StatsSA	Statistics South Africa (StatsSA)
TFTA	Tripartite Free Trade Area (TFTA)
The dti	Department of Trade and Industry (the dti)
UNCTAD	United Nations Conference on Trade and Development (UNCTAD)
WEF	World Economic Forum (WEF)
WGBI	World Global Aggregate Bond Index (WGBI)

PwC contacts

Lullu Krugel

Chief Economist, South Africa

Telephone: +27 (0) 11 797 4929
Mobile: +27 (0) 82 708 2330
Email: lullu.krugel@pwc.com

Jan Groenewald

Deals Leader, Southern Africa

Telephone: +27 (0) 11 797 5380
Mobile: +27 (0) 83 302 9454
Email: jan.groenewald@pwc.com

Christie Viljoen

Economist, South Africa

Telephone: +27 (0) 21 529 2595
Cellphone: +27 (0) 82 472 8621
Email: christie.viljoen@pwc.com

Johan Schutte

Mergers & Acquisitions Leader, Southern Africa

Telephone: +27 (0) 11 797 4249
Cellphone: +27 (0) 82 424 6415
Email: johan.schutte@pwc.com

(18-21721)