This is what South Africa could look like under Ramaphosa in 3 years time – Business Tech 29 February 2020

PwC has published a new report outlining what South Africa will look like by the end of 2022 under president Cyril Ramaphosa.

The predictions are a follow-up to a 2018 report by the company which predicted that South Africa was set to rebound, following several years of economic and political decline.

The economists have since revised their predictions to be much more negative, highlighting that Ramaphosa and his cabinet have largely 'failed to impress' during their time in office.

"Many interpreted President Ramaphosa's appointment as the sun emerging from the dark clouds that troubled the Rainbow Nation's economy and politics," PwC said.

"The new leader of the African National Congress (ANC) campaigned for the party presidency in 2017 with an economic recovery plan based on his deep understanding of labour, business and politics.

"Ramaphoria was born and consumer confidence spiked to the highest level since the Bureau for Economic Research (BER) started its current confidence series in 1982."

However, failures and points of inaction have been all too numerous, PwC said. The group said that some of the biggest problem points include:

- Deterioration in fiscal dynamics and sovereign ratings;
- An increase in economic;
- Political and policy uncertainty;
- Rising levels of gender-based violence;
- Slow progress in resolving the land reform and expropriation issue;
- No high-level state capture prosecutions;
- Worsening bilateral ties due to xenophobic violence;
- Continued increase in irregular public-sector expenditure;
- The deepening of financial and governance troubles at SOEs.

“Unsurprisingly, the public is not impressed. Consumer confidence in the outlook for the economy has fallen back into negative territory alongside elevated economic, political and policy uncertainty,” PwC said.

“This is certainly not the scenario that president Ramaphosa was envisioning two years down the line when he won the ANC leadership race at Nasrec in December 2017.”

Where to next?

Probability: 15% (previously 5%)

Worst-case

Mouldy mess

Reforms – early gains with SOEs and state capture, but limited progress thereafter as focus turned to 2019 elections.

Economic growth – limited reforms keep GDP growth stuck below 1%

Ratings – Fiscal dynamics continue to deteriorate, another two rounds of ratings downgrades follow.

Elections – Removal of Jacob Zuma frayed intra-ANC relationships. Party loses outright majority in 2019 polls but retains power through fragile coalition.

Exchange rate – Continued decline in economic competitiveness sees rand depreciate to an avg. of R18.20/$ in 2022

Probability: 50% (previously 20%)

Downside

Coming up short

Reforms – early gains with SOEs and state capture, but limited progress thereafter as populist policies remained the key focus

Economic growth – populist policies limits GDP growth to a maximum of 1.5%

Ratings – Fiscal dynamics fail to improve, another round of ratings downgrades follow.

Elections – Populist policies help the ANC win the 2019 national elections and 2021 local government elections with a smaller majority.

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.

Probability: 20% (previously 50%)

Baseline

#Ramaprogress

Reforms – 10-point action plan and New Deal agenda was front-and-centre in policymaking – job creation is a clear priority

Economic growth – reforms lift GDP growth to 2% in 2020 and 3% by 2022

Ratings – Fiscal dynamics improve, no further downgrades by major rating agencies

Elections – ANC improves performance at the ballot box in 2019 and ends declining support, improvement in quality of business in the National Assembly

Exchange rate – Export growth and investment inflows support rand, avg. of R15.60/$ in 2022

Probability: 10% (previously 20%)

Upside

New Deal

Reforms – Ramaphosa achieves his New Deal goals, with a boom in factory activity and jobs

Economic growth – much improved economic and political climate, GDP growth rises above 4% by 2022

Ratings – significantly improved fiscal situation materialises, eventually returns to investment-grade ratings

Elections – 2019 elections reward Ramaphosa's reforms with a notable increase in support for ANC

Exchange rate – Strong rise in FDI and manufactured exports support rand to avg. of R14.50/$ in 2022

PwC expects that its downside scenario of ‘coming up short’ is currently the most likely for South Africa on the back of disappointing economic growth.

The group noted that business confidence has dropped to a 20-year low, unemployment climbed to the highest level since 2003, and the economy stretched a downward business cycle to the longest since records started in 1945.

“In March 2018, we assigned a 20% probability to the ‘Coming up short’ downside scenario being realised over the ensuing five years. This has now increased to 50% and currently the most likely outcome,” it said.

On a positive note, South Africa has (so far) avoided a worst-case scenario, which PwC referred to as a ‘Mouldy mess’.

“In this scenario, economic growth potential is below 1%, multiple ratings downgrades follow, a messy coalition government would have taken control after the 2019 elections, and the rand deteriorates significantly.

“Apart from the coalition government element, the other factors in this scenario remain real risks that need urgent action in 2020 if South Africa is to get anywhere near the ‘Ramaprogress’ trends that sounded so promising less than two years ago,” it said.