



## ***Country outlook South Africa***





## South Africa



**Form of Government:** Parliamentary Republic

**Capital:** Pretoria, Cape Town, Bloemfontein

**Official language:** English, Afrikaans and nine languages from the Bantu family (primarily Zulu and Xhosa)

**Population:** 59 million inhabitants (2019)

**Currency:** Rand (ZAR)

**Exchange rate:** 1 EUR = 17.28 ZAR (29/02/2020)  
1 USD = 15.73 ZAR (29/02/2020)

**GDP:** \$358 billion (0.6% of world GDP)

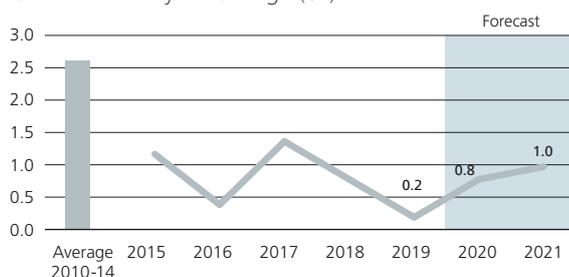
**GDP per capita:** \$6,100 (\$13,754 purchasing power parity)

**Ease of doing business:** 84th in the world out of 190 according to the World Bank (Doing Business)

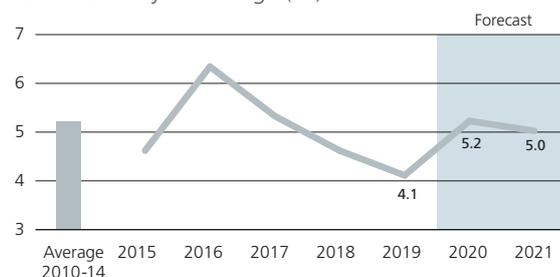
**Religion:** Catholic: 88%

## Economic forecast

### GDP. Year-on-year change (%)



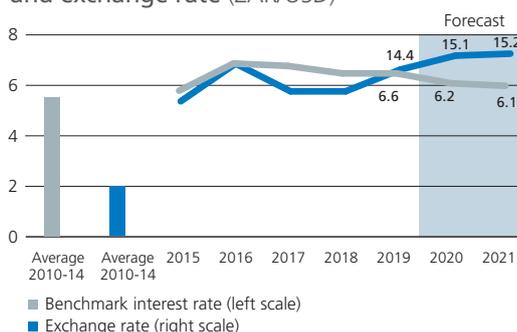
### CPI. Year-on-year change (%)



- The economy has performed poorly in the last years, reflecting governance problems and structural rigidities (weak institutional framework, policy uncertainty and power cuts), contributing to the deterioration of business confidence and weak private investment. For 2020-21, we are expecting a slight recovery, but with significant risks: public sector problems, slower implementation of reforms, the deterioration of business sentiment, the evolution of commodity prices, trade tensions, the impacts of coronavirus and of downgrading to a non-investment grade rating by Moody's.
- Inflation in 2019 reached its lowest level since 2005 and stood within the South African Reserve Bank's range (3%-6%). This performance was due to weak economic activity, which offset the impact from the increase in energy prices. For 2020-21, we are expecting an increase in inflation to levels around 5%, in line with the recovery of the economy and looser financial conditions. In addition, the enlarged bill of imported food (due to the depreciation of the Rand) and fuel, electricity and water prices will probably put upwards pressure on the evolution of domestic prices.

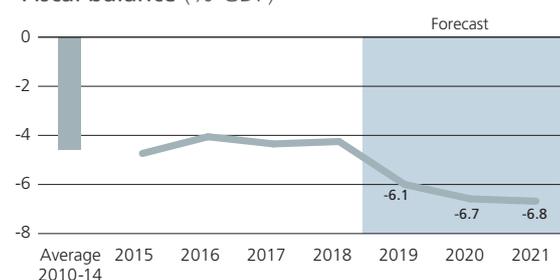
## Economic policy

### Benchmark interest rate (%) and exchange rate (ZAR/USD)

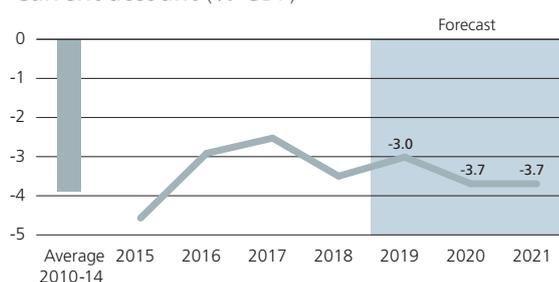


Note: FYI the Central Bank just cut the depo rate.

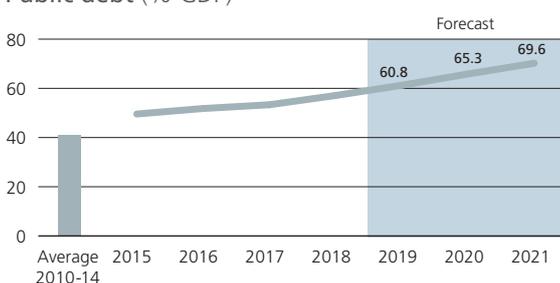
### Fiscal balance (% GDP)



### Current account (% GDP)



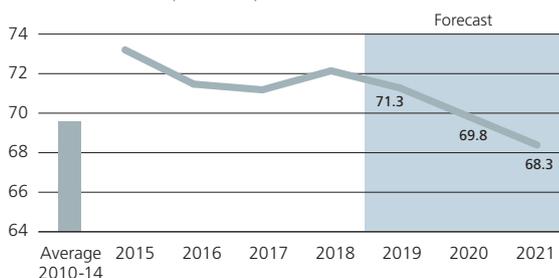
### Public debt (% GDP)



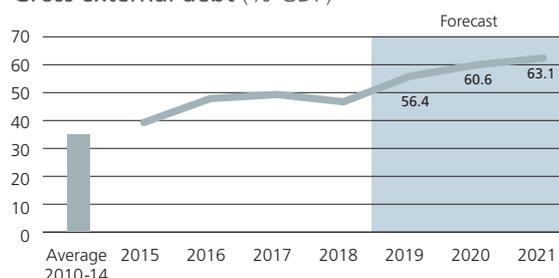
- On monetary policy, after the increase in the repo rate to 6.75% in November 2018 to control the evolution of prices, the South African Reserve Bank (SARB) decreased the reference rate by 25 basis points in mid-2019, to 6.5%, and again to 6.25% at the beginning of 2020. SARB should continue lowering the repo rate in 2020-21, given that inflation expectations remain relatively contained and the economic recovery is fragile. It is unlikely that, after the Moody's downgrading, the SARB would react by tightening the repo rate, but if the pressure on the Rand is intense then a "wait and see" phase (maybe accompanied with selective intervention) is probable.
- The government's objective to boost growth while adjusting its fiscal position will prove increasingly difficult, given the context of subdued economic growth and slow reform implementation. Moreover, financial problems in SOEs, especially the public utility company Eskom, are expected to continue to drain public funds and further contribute to the fiscal slippage. As a result, without corrective measures, the country will continue to face increasing fiscal deficits and public debt ratios. The context will be even more difficult after Moody's has downgrade the rating to non-investment grade.

**Financial conditions**

Private credit (% GDP)



Gross external debt (% GDP)



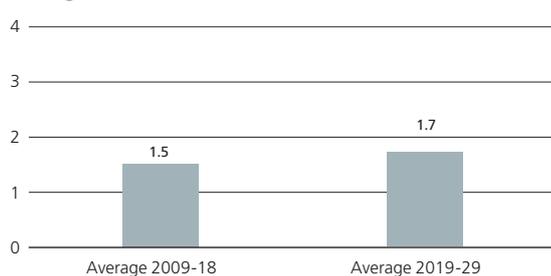
- The country displays a healthy financial and banking sector, despite the decrease in bank revenues. The system is facing some difficulties in increasing its profitability, and asset quality worsened due to the constraints in the construction sector. However, the bank's exposure to Eskom and the government is limited.
- The current account deficit is expected to widen over 2020-2021, in part due to the economy's low external competitiveness. This will create a challenging environment for South Africa, given its high dependence on capital inflows to finance the external deficit. Additionally, a significant share of external debt is denominated in domestic currency, which makes the country more vulnerable to a currency shock, an event that is non-negligible if we take into account the very likely rating downgrading by Moody's.

**Political situation**

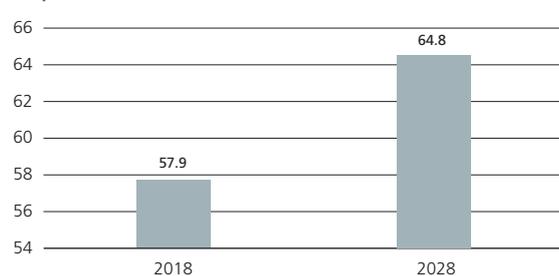
- The ruling African National Congress (ANC) won the 2019 elections and President Cyril Ramaphosa was subsequently reappointed. Nevertheless, the ANC won the election with a smaller majority of 57.5% of the vote, down from the 62.5% obtained in the 2014 election. This was also ANC's worst result since the end of apartheid in 1994. Several corruption scandals, high levels of unemployment and persistent racial inequality in the access to land and housing are behind the erosion of its electorate support.
- However, the relatively comfortable majority gives President Ramaphosa the legitimacy to advance the implementation of his reform agenda, focused on raising potential growth (through reforms aimed at lifting productivity, improving competitiveness, and attracting investment), tackling the rising government debt, and rebuilding South Africa's institutions. Nevertheless, it is far from certain whether he will manage to implement this policy agenda in full, given that opposing factions within the ANC will continue to act as a brake. In this context, losing the investment grade rating after the downgrading by Moody's should be an incentive for a stronger reform impulse.

**Long-term outlook**

GDP growth (%)



Population (millions of inhabitants)



- The South African economy is expected to grow near to but below 2% per year in the long run. The country's ability to tackle major socioeconomic challenges in the upcoming years will be the main determinant of its long-term growth. However, it is likely that such fundamental shifts cannot be accomplished without affecting some political elites.
- The main problems faced by the country include: a very high incidence of AIDS; widespread poverty; an undeveloped educational system; an inefficient labour market (unemployment ≈30%); leveraged state-owned enterprises; weakened institutions and high levels of corruption.

**Country risk**

|                             | Rating     | Last changed | Outlook  |
|-----------------------------|------------|--------------|----------|
| <b>STANDARD &amp; POORS</b> | <b>BB</b>  | 23/03/18     | Negative |
| <b>MOODY'S</b>              | <b>Ba1</b> | 27/03/20     | Negative |
| <b>FitchRatings</b>         | <b>BB+</b> | 07/04/17     | Negative |



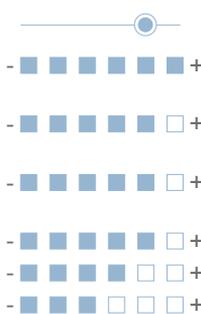
■ Indicates that the country has an "investment grade".  
 □ Indicates that the country does not have an "investment grade".

\*Credit default swap: measurement of country risk that reflects the cost of ensuring the non-payment of the sovereign bond.

**Risks**

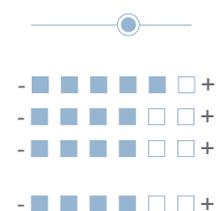
**SHORT-TERM**

- Public finance imbalances
- Impact of coronavirus on the world economy
- Greater impact of rating downgrading
- Policy uncertainty and slow implementation of reforms
- Financial problems in SOEs
- Weak business confidence



**LONG-TERM**

- Dependence on mining industry
- High inequality
- Inefficient labour market
- Corruption and weak institutional framework



**Business environment**

**STRENGTHS**

- Healthy and developed financial and banking sector.
- Market size.
- Use of technological innovation.

**WEAKNESSES**

- High inequality and poverty.
- Shortage of infrastructures.
- Inefficient labour market.
- Weak educational system.
- Corruption and weak institutions.
- Power outages.

**Main sectors**

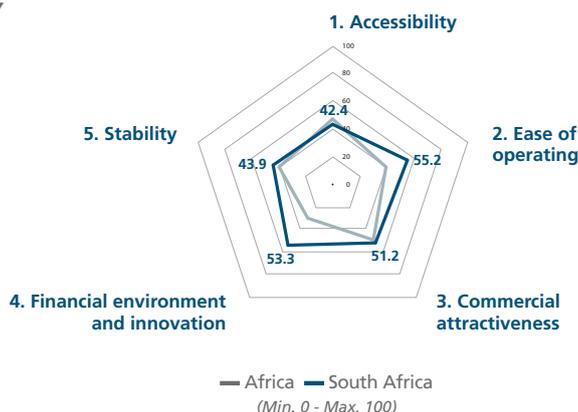
- Mining industry, financial sector, tourism, transport and logistics.

**CIBI | CaixaBank Index for Business Internationalisation**

**POSITION IN COUNTRY RANKING**



**PILLARS**



**SUBPILLARS**

- Top**
- Easiness of operating a business
  - Infrastructures
  - Similar tastes to Spain
- Bottom**
- Purchasing Power
  - Macroeconomic stability
  - Distance, communications, and agreements with Spain

**Taxation**

There are two types of tax on the earnings obtained by the different companies operating in South Africa, depending on their size. The general rate for large companies is set at 28%. In the case of trust companies the rate rises to 40%, although special trusts are charged tax at a rate of between 18% and 40%. There is also a tax on long-term insurance company funds that varies from 28% to 30%. Companies distributing profits after tax as dividends are subject to a withholding tax of 15% on the dividend paid out. Smaller companies (small business corporations, SBC) whose turnover is less than ZAR 14 million are subject to a

progressive tax in line with their profits. Earnings below ZAR 70,700 do not have to pay any tax; companies with earnings between ZAR 70,701 and ZAR 365,000 are levied at 7%; earnings from ZAR 365,001 to 550,000 ZAR at 21%; and all companies exceeding ZAR 550,001 pay the general rate of 28%. For micro-enterprises (turnover below one million ZAR), there is a sliding tax scale different from the one for small firms: up to ZAR 150,000, 0%; from ZAR 150,001 to ZAR 300,000, 1%; from ZAR 300,001 to ZAR 500,000, 2%; up to ZAR 750,000, 4%, and earnings above ZAR 750,001, 6%.

**Investment**

In South Africa, foreign direct investment for 2019 was 1.137 billion dollars. This inflow of investment is expected to continue falling. The

sectors that continue to absorb funds from other countries are: financial services, mining, manufacturing, logistics and trade.

**Establishment**

**LOCAL COMPANY**

The main forms of companies that exist in South Africa are: public companies (Ltd.) or private companies (Pty. Ltd.), commercial partnerships, sole owner, trust companies and branches of foreign firms. The procedures to set up a company are relatively simple. So-called public companies (Ltd.) are similar to limited liability companies and must have a minimum of seven shareholders, with no maximum limit. In the case of private

companies (Pty. Ltd.), the number of shareholders must be between one and 50. Neither of these two forms of company require a minimum capital in order to be established. Collaborations or partnerships can be formed between non-resident shareholders or with South African resident shareholders, but there must be at least two and a maximum of 20; these shareholders are fully liable for the company's debts.

**BRANCH**

To set up a branch of a foreign firm, it must be registered as an external company with the Companies and Intellectual Properties

Commission of South Africa within the first 20 days after starting commercial activity.

**Alliances strategic**

**FREE TRADE ZONE**

In South Africa there are "industrial development zones", with a total of five throughout the country. These are located close to airports or ports and are aimed at boosting

the competitiveness of South African products. These five zones are: East London, Coega, Richards Bay, Mafikeng and OR Tambo airport.

**JOINT VENTURE**

There are two ways of setting up a joint venture in South Africa according to South African law: non-equity joint ventures and equity joint ventures. The former is more like a collaboration between two or more firms and the resulting company does not have its own legal personality. This kind of association must

be set up via a partnership agreement specifying all the basic aspects of the association. The latter case is more like a joint company and is an independent commercial enterprise. It must be registered in the country in accordance with current legislation and comes under the Company Act as if it were a local firm.

**Customs conditions**

**FREE TRADE AGREEMENTS**

The main treaties signed by South Africa and the rest of the world are as follows:

- With the EU: Trade, Development and Cooperation Agreement (TDCA).
- With Switzerland, Norway, Liechtenstein and Iceland: EFTA-SACU FTA.

Preferential trade agreements:

- With Argentina, Brazil, Paraguay, Uruguay and Zimbabwe.

Other agreements:

- With the United States: Trade and Investment Framework Agreement (TIFA) and Trade, Investment and Development Cooperation Agreement (TIDCA).

Negotiations are currently under way with India for a Preferential Trade Agreement and a tripartite Free Trade Treaty: SADC-EAC-COMESA.

### **Customs conditions** (continuation)

#### **INDUSTRIAL DEVELOPMENT ZONE**

The benefits of these zones centre on: Customs security (Customs Controlled Area), making customs services and procedures much easier, being able to import without VAT machinery and commodities if these are to be used to manufacture products that are going to be

exported; easy access to administrative information to carry out investment projects; better quality infrastructures than in other zones of the country, and access to the South African government's incentive scheme.

#### **GENERALISED SYSTEM OF PREFERENCES (GSP)**

South Africa no longer forms part, as a beneficiary, of the European Union's GSP, as of 1 January 2014 when the new system was approved, which will last until 2024.

### **Negotiations and protocol**

#### **BUSINESS CULTURE**

South Africa is a country affected by its history. International isolation as rejection to apartheid has produced businesspeople who are reluctant to do business with foreign firms, so their character and culture must therefore be taken into account. To begin commercial relations, it is

advisable to use a local agent-distributor, and once initial contact has been established, you must be constant. Negotiations are usually carried out in a cordial atmosphere and pressure should be avoided.

### **Top fairs**

- IFEA.
- Decorex Urban.
- Africa Energy.
- Africa's Big Seven.
- Africa Investment Forum

### **Websites of interest**

- Chamber of Commerce: [www.sacci.org.za](http://www.sacci.org.za)
- Investment Incentives in South Africa: [www.investmentincentives.co.za](http://www.investmentincentives.co.za)
- Southern African Customs Union: [www.sacu.int](http://www.sacu.int)
- Industrial Development Corporation: [www.idc.co.za](http://www.idc.co.za)
- Information for trade and investment: [www.tradeinvestsa.co.za](http://www.tradeinvestsa.co.za)

### **Payment and charging methods**

#### **MEANS OF COLLECTION**

It is advisable to always ensure payments are received by using the usual international methods, primarily documentary credit, which offers more guarantees. This must be carried out in the initial phases of international commercial relations to effectively ensure payment collection options on the part of the company. Documentary remittances are also

often used as the bank can help to manage all the commercial documentation procedures; at sight (CAD – Cash against Documents) or term (DA – Delivery against Acceptance). Further on, when there is more trust, international transfers can be used via SWIFT. The managing and factoring of invoices is also commonly done by international financial institutions.

#### **MEANS OF PAYMENT**

Documentary credit is the most secure means of payment for both parties. It is customary in almost all international trade transactions.

#### **EXCHANGE RATE INSURANCE**

International transactions are affected by market fluctuations, and it is therefore advisable to hedge this kind of transaction against exchange rate risk. The South Africa Rand is a

currency whose risk can be hedged through an exchange insurance and which is listed in international exchange markets.

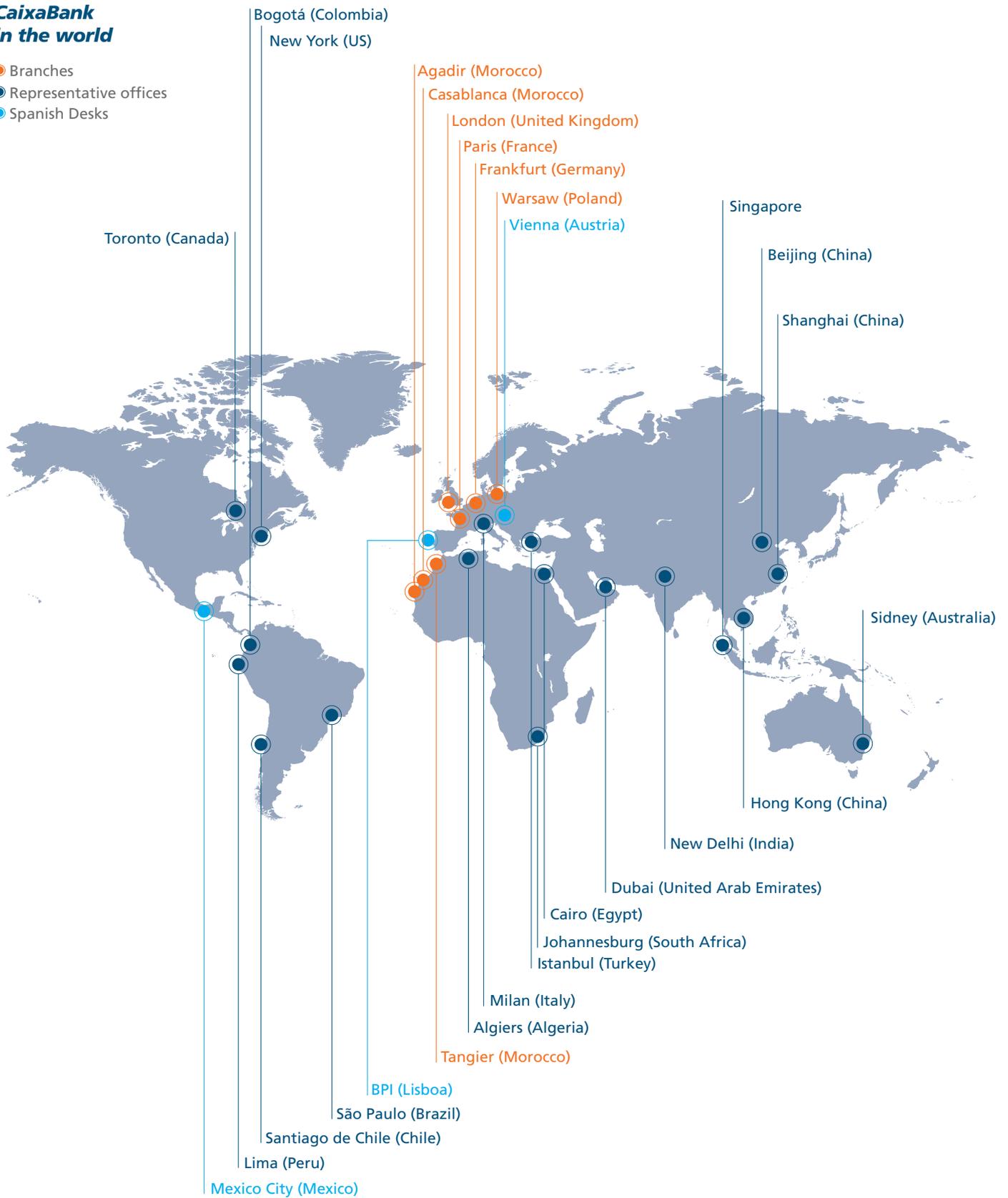
### **CaixaBank in the country**

At the South African office, in addition to facilitating close collaboration with local financial institutions, the main objective of the representative office is to support CaixaBank customers in the country, both in foreign trade

and transactions, as well as accompanying companies that wish to establish themselves in the country with investments and deployment projects.

**CaixaBank  
in the world**

- Branches
- Representative offices
- Spanish Desks



**South Africa representative office**

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