



P R E S S R E L E A S E

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South Africa's Economy Challenged by Crises in Agriculture and Mining, and Fears of an Investment Downgrade

- Growth has been in constant decline since peaking in 2011
- Financial and retail services are resilient but domestic economics have suffered from prolonged crises in agriculture and mining
- Increasing risks for strategic sectors such as automotive and agrofood could affect national macro-economics
- On the positive side, South Africa benefits from a well-diversified economy
- The country remains the second-largest economy on the African continent and takes the leading position in terms of manufacturing output

Still No Signs of Solid Recovery

Concerns over the country's economic performance have been growing because of its prolonged economic decline since 2011. Despite a slight recovery in 2016, the growth rate has remained low. Coface forecasts that the country's GDP rate will only slightly increase next year, by 0.8%, after stalling in 2016 due to the effects of serious droughts on agriculture. Private consumption, which accounts for approximately 60% of national GDP, is likely to remain sluggish in 2017. This is mainly due to subdued overall purchasing power, a trend that is expected to continue.

In the meantime, as the South African Government is struggling to reduce expenditures, spending is expected to rise in terms of GDP. State-owned enterprises are a thorn in the side of expenditure reduction program, especially in the current scenario of low growth. Another major problem for the economy is the lower level of capital investment, which is expected to continue over the coming years.

Investors remain concerned by the country's rising political tensions, especially with the contested legitimacy of President Zuma. This environment is contributing to the likely risk of a sovereign downgrade and is depressing investor enthusiasm.

Even so, it should be recognized that South Africa is still one of the region's leading industrial nations - particularly in terms of manufacturing. Despite weak conditions in domestic and global markets (along with the negative impacts of volatile exchange rates), manufacturing remains a core sector, along with automotive, chemicals, ICT & electronics, and textiles & clothing.

Higher Risk Perspectives for Agrofood and Automotive Sectors

As anticipated, the agrofood and automotive sectors represent the two major risk concerns.



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The agrofood sector is one of the most sophisticated in the Sub-Saharan region and the government has made it a top-priority in its 'New Growth Path.' The sector is one of South Africa's largest manufacturing segments, providing employment for around 30% of the working population. The country's well-established food market system ensures a certain level of stability in terms of demand. But the sector suffers from a number of challenges, leading Coface to rate the segment as very high risk. The main issues are the deteriorating macroeconomic outlook and uncertainties surrounding economic policies, which are increasingly damaging consumer and business confidence. Other ongoing concerns for agrofood include the likelihood of reduced investments, the unsatisfactory state of rural infrastructures, and the weakening of local currency against the US dollar.

The automotive sector could also see increasing risks on the horizon. While it benefits from a number of advantages – such as robust exports, a good geographical position, and the strong presence of multinational producers within the national market – South Africa's automotive segment is faced with a deteriorating economic outlook, high inflation, and rising interest rates. These factors are negatively impacting purchasing power and dragging down domestic sales. New vehicle sales could also suffer from fears over the stability of the labor market and the constant threat of strikes.

The weakening of the rand could also put pressure on production costs, which auto makers may pass along to the consumer.

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