



VICTORIA
CONSULTING LTD

REPUBLIC OF SOUTH AFRICA

COUNTRY REPORT

2018

About the report

In this report we addressed the research with the aim of providing an unbiased analysis of The Republic of South Africa to enable potential investors to have an objective view about the country as well as to be able to make fact-based business decisions.

Methodology

The research was based on primary and secondary data gathered from different sources that were judged reliable by Victoria's research team.

The report encompasses two parts, first the macro-environmental analysis part which addresses the country's macro-environment and provides insights about the country's Political, Economic, Social, Technological, Environmental as well as Legal aspects. The second part contains a sectoral analysis that sheds light on the country's potential and risks associated with the sectors analysed.

Victoria Consulting Countries Reports Committee

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Special Report Committee of the Present Edition

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About Victoria Consulting

Victoria Consulting is a fast-growing boutique consultancy firm based in Dubai International Financial Centre (Dubai, UAE) with strong network in Europe, Africa, Asia. Founded recently by former Deloitte and Euronext senior executives with over 60+ years of combined work experience in strategy, finance and management consulting.

We hold ourselves accountable to our value delivered standards by engaging strongly with our clients to reach high value created by our joint efforts.

In today's complex and ever-changing business environment the stakes and the risks are incredibly high. Getting the right advice matters. You need the right partner to help you identify the right strategy for your organization, and execute it with certainty, speed, and impact...

We help our clients make sustainable improvements to their performance and realize their most important goals.

Helping organizations make the changes needed to succeed is Victoria Consulting's main objective. We serve a broad mix of public, private and social sector institutions. We help our clients make noteworthy improvements to their performance and realize their most important goals.

Our guiding principles of working together are based on fundamental standards that are extremely high.

At Victoria Consulting, high value creation requires that our advice deliver insight and change in the mindset of our clients. Hence, our work leads directly to clients acting and executing their strategy in better ways. We enhance client capabilities and deliver both competitive advantage and bottom-line impact.

As committed management consultants, we want to create sustainable impact for our clients.

We leverage our strategic knowhow, industry expertise and relevant strategic networks with emerging and mature markets to help your organization have valuable advice.

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Executive Summary

Republic of South Africa has its administrative capital at Pretoria. The country has an ethnically diversified youth population, with those aged below 25 years old constituting about 45% of the total population. South African people live in major cities, namely, Johannesburg, Cape Town, Durban, Pretoria and Port Elizabeth. As the proportion of working-age South Africans has grown relative to children and the elderly, South Africa has been unable to achieve a demographic dividend due to persistent high unemployment, and the prevalence of HIV/AIDs have created a larger-than-normal dependent population.

South Africa has a developed economy and advanced economic infrastructure, with real GDP growth of 1.9% YoY in Dec 2017.¹ The real GDP growth is expected to sustain at the same pace in the years ahead, weighed down by structural headwinds from a challenging operating environment, elevated unemployment and low commodity prices.

The South African legal system has undergone significant reforms since the end of Apartheid in 1994. South Africa's system of government changed from one of parliamentary supremacy to that of a constitutional democracy in 1994 and was followed by the establishment of South Africa's first Constitutional Court (CC). South Africa remains one of the best Southern African states in terms of risks posed to business operation from its legal environment. This is largely as a result of the country's sophisticated and efficient court system. Important institutions such as the judiciary, central bank, Auditor General

¹ CEIC, South Africa Real GDP Growth

and Public Protector are still viewed as free from state influence. Additionally, real and intellectual property rights enjoy strong protection in South African law and by South African courts.

The African National Congress (ANC) has dominated politics since the end of apartheid in 1994. Recently, business-friendly Cyril Ramaphosa took over as president of the country, after president Jacob Zuma departed office before the end of his term in 2019. Even after Ramaphosa has taken office, the need to balance the priorities of two increasingly divergent factions of the ANC could undercut scope for significant structural reform in the future in South Africa. Many issues threaten South Africa's political stability over the long term, not least the social and economic inequalities still stemming from the apartheid era.

South Africa is one of the most attractive markets in Southern Africa on account of its relatively limited overall security risks, well-regulated open market and relatively investor-friendly business environment, combined with its superior transport logistics offering and abundant natural resources. It is also one of the world's largest producers and exporters of gold, platinum and other natural resources. Furthermore, it has well-developed financial, legal, communications and energy sectors. Nonetheless, the country's competitiveness could be hampered by slow economic growth, widespread utilities shortages, limited and largely unskilled labour pool, and a heightened political risk profile.

South Africa is one of the Southern African regional outperformers in terms of the comparatively lower trade and investment-related risks faced by businesses in the market. This is largely by virtue of the country's significant trade turnover and inward FDI stocks.

South Africa has well-developed financial, energy, manufacturing and construction sectors as well as the continent's largest stock exchange. Financial services, manufacturing and mining sector had the highest contribution to the South African GDP. Also, the sectors mentioned received the highest amounts of foreign direct investment.

South Africa's manufacturing sector makes up around 13% of the country's GDP, making the sector a vital driver of growth. It is also a major contributor to export and foreign currency earnings. The country has developed an established, diversified manufacturing base that stimulates the growth of other activities, such as services, and enables important outcomes such as employment creation and economic empowerment.

South Africa is renowned for an abundance of mineral resources, accounting for a significant proportion of both world production and reserves. South African mining companies are some of the world's largest producers and exporters of gold, platinum, and other natural resources. South African mining companies dominate many sub-sectors in

the global mining industry. In 2017, mining sector contributed 8% to South Africa's total GDP.

South Africa financial sector development, reinforcement, and diversification has been strengthened by the positive macroeconomic performance. The sector comprises a sophisticated banking sector, well-established capital markets, and an array of nonbank institutions, including insurance companies, pension funds, and collective investment schemes. Finance, real estate and business services had a contribution of 20.2% of the total GDP in 2017.

South Africa's infrastructure investments have amounted to nearly 5 percent of GDP over the past 20 years.² In the next decade, the government envisages continued high levels of infrastructure spending, with over 200 billion rand (\$17 billion) a year. Residential building remains an important part of the infrastructure segment that is projected to record 4.0%-real growth in 2018 and is expected to continue to expand up to 2026.³

² McKinsey & Company Infrastructure Spend and Stock database, 2015. This analysis covers only the four major asset classes—power, water, telecommunications, and transportation.

³ South Africa Infrastructure Report | Q2 2018, Business Monitor International, Fitch.