South Africa
**CRT-4**

August 22, 2018

**Region:** Sub-Saharan Africa

**Country Risk Criteria Procedures**

- South Africa, a CRT-4 country, is an emerging market with moderate financial system risk and high levels of economic and political risk.
- Economic growth has been constrained for several years owing to political instability and policy uncertainty. Despite an abundant supply of natural resources and modern infrastructure, the country is below economic potential. GDP growth is forecast at 1.5% in 2018 and 1.7% 2019.
- The majority of countries in Sub-Saharan Africa are categorized as CRT-5, with the exceptions being Mauritius at a CRT-3, and South Africa at a CRT-4.

### Regional Summary: Sub-Saharan Africa

- Africa’s growth prospects are expected to improve slightly on rising domestic demand, stronger global growth, a recovery in agricultural production, and modestly increasing commodity prices. However, economic growth continues to lag population growth, making any significant progress towards human development goals difficult.
- The region faces several headwinds that limit potential, including political uncertainty, challenging business environments that erode investor confidence, fiscal pressures, high debt, poverty, growing numbers of refugees, corruption, inadequate infrastructure, and an unstable security environment.
- The IMF estimates that about 40% of the region’s low-income countries have a high risk of debt distress or are already in debt distress. A large share of the region’s sovereign debt is denominated in foreign currency, and an appreciating dollar/euro would lead to larger debt burdens.
Economic Risk: High

- South Africa has a diversified economy with abundant natural resources. Financial services and manufacturing now contribute more to GDP growth than mining and agriculture.
- More than half the population lives in poverty, making South Africa one of the most inequitable economies in the world. According to first quarter 2018 data, unemployment is above 25%. However, unemployment levels are difficult to calculate due to the large informal economy.
- Investment spending could remain muted owing to policy uncertainties, which will likely weigh on consumer and investor confidence. Additionally, the government's ability to stimulate the economy remains limited, because of fiscal constraints.

Political Risk: High

- In February 2018, Cyril Ramaphosa replaced Jacob Zuma as president. Zuma's presidency had been overshadowed by persistent allegations of corruption and recurring legal issues that eventually led to his resignation. Legislative elections are scheduled for May 2019.
- Government debt levels have increased substantially over the last decade. The interest rate burden has also increased due to lower sovereign ratings, which has led to an increase in borrowing costs. Fiscal consolidation efforts need to target the large public-sector wage bill and increase revenues by enhancing tax collection.
- Economic conditions have led to a higher probability of protests stemming largely from labor-related actions and the government's inability to provide public services to some neighborhoods.

Financial System Risk: Moderate

- Starting in April 2018, the Financial Services Board (FSB), which was previously responsible for regulating the insurance industry, was replaced by two new regulators, the Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA). The new regulatory regime is named “Twin Peaks.”
- Established under the South African Reserve Bank, the PA will supervise all financial institutions and provide broader oversight of financial conglomerates. The FSCA will supervise how financial institutions conduct business and treat customers.
- The capital markets are well developed, with the largest stock exchange in Africa—among the world's top 20 exchanges.
- The banking sector has historically been highly profitable and well-capitalized owing in part to limited competition and pricing power, including sizable fees for financial services. However, there are plans for the entry of new banks to boost competition, lower user charges, and improve credit access to small and medium-sized enterprises.