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NEWSLETTER

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ECONOMIC COMMENTARY - By Francois Stofberg

African Investments and Inflation

The hunt for investors is on. Both South Africa and Zimbabwe have in recent months undergone a change in leadership and, some might hope, a change in the way they do business. These economies are now springboarding from higher confidence and a change in sentiment to attract investors – both local and foreign. Both economies live above their means, have too little investment, and need a constant inflow of capital to fund large deficits and boost the potential for economic growth. In the end, higher investor confidence is the only way to reduce unemployment in South Africa and Zimbabwe (the two countries with the highest unemployment rates in the world).

Sibusiso Moyo, Zimbabwe's foreign minister, explained that they have learned from their past mistakes, and from those made by others, and are now open for business. He explained that the Zimbabwean government has done a lot in recent months, since Robert Mugabe was removed as president in November 2017, to reduce red tape and regulation. Even the governor of their central bank, John Mangudya, sang a similar tune on Bloomberg. The message they want the rest of the world to buy into is that the Zimbabwean economy is now open for business. Changes made to land-reform now even allow foreign businesses to buy and own property – except in the platinum and diamond sectors. According to the governor, Zimbabwe has already attracted $7 billion of potential foreign direct investment (of which $3 billion will come from China). Their goal is to attract investors to the mining, agriculture and tourism sectors. The governor continued to explain that their government has dealt with investor concerns and, as such, have dealt with compensating old farmers.

Further south, President Ramaphosa has put together a task team. Their aim is to tour the globe and convince investors to bring their long-term capital to South Africa. Finance Minister, Nhlanhla Nene, and Minister of Public Enterprises, Pravin Gordhan, are among the heavyweights in the task team. President Ramaphosa believes it possible to attract at least R100 billion during this initial tour. However, his main goal is to host an investor conference later in 2018, during which time he wishes to convince investors to invest an additional R1.2 trillion over the next five years.

Inflation reached a 7-year low in South Africa during the month of March. Measured on a year-to-year basis, Statistics South Africa (STATSSA) reported that inflation fell to 3.8% in March, down from 4.0% in February. Analysts were expecting something closer to 4.1%, but two factors edged inflation down even lower. First, the persistently strong rand. Its resilience has meant that imports, on which the South African economy is still very reliant, have become a lot cheaper! Second, for the first time in 28 consecutive months, food price inflation is not higher than the rest of the inflation basket. This might suggest that the supply-pull price-effect of the two-season drought has finally passed through. Looking forward, April prices might surprise to the upside, mainly because of newly introduced taxes (like the 1% VAT hike) and not because of other recurring taxes. Inflation is measured year-on-year, recurring tax increases (like petrol-related levies or sin taxes) will therefore only contribute to inflation at the rate at which the price is higher than last year's increase. From there on, inflation should remain subdued at levels between 4.8% and 5.2%. We might even see another interest rate decrease!