The South African economy is forecast to grow by 1% during 2017 from an estimate real GDP growth rate of 0.5% in the preceding year. Consumer price inflation is expected to moderate from an average of 6.3% in 2016 to 5.9% this year. Both estimates for 2017 are an improvement on conditions seen in the previous year.

**Figure 1: South Africa key economic forecasts**

However, a myriad of factors will influence growth and inflation projections over the coming 12 months, with many uncertainties over some potentially positive (upside factors) and potentially negative (downside risk) developments.

The following two sections list some of the risk factors that will influence the South African economy during 2017. The associated timeframe indicates the period during which this risk would materialise and have the biggest impact.

**Upside factors:**

**Improved rainfall** – The local wheat harvest (completed late last year) was almost 20% larger compared to the previous season due to higher plantings and favourable weather. Furthermore, the Food and Agricultural Organisation (FAO) sees a good chance of above-normal precipitation in summer rainfall areas towards March this year. A good start to the rainy season resulted in maize plantings returning to five-year average levels following below-normal levels in 2016. **Timeframe: 3 months**

**Optimism amongst manufacturers** – The latest Barclays Purchasing Managers’ Index (PMI) indicates that manufacturers are positive about business conditions in six months’ time. According to the publication’s leading indicator, production growth could improve as demand for factory goods exceed inventories. New sales orders are currently underpinned by export orders with domestic demand remaining tepid. **Timeframe: 6 months**
Wage agreements with limited strikes - Major wage negotiations in the platinum mining and automotive sectors went relatively smoothly during 2016 compared to dramatic strike disruptions seen in previous years. This has set the scene for a relatively stable labour environment in major industries heading towards ‘strike season’ usually seen during the third quarter of the calendar year. High-level progress towards implementing secret ballots around strikes is also promising. *Timeframe: 9 months*

Electricity grid stability – South Africa has not seen official loadshedding since August 2015. Improvements in supply volumes as well as curbs on demand from a weak economy and energy saving have resulted in a much better balance between power supply and demand compared to 2015. Eskom expects this to continue during 2017. In a statement released in January, the power utility acknowledged the renewable energy suppliers’ role the reduction of loadshedding. *Timeframe: 12 months*

Stronger economic growth in Africa – The World Bank expects Sub-Saharan Africa to record real GDP growth of 2.9% during 2017 compared to an estimate of 1.5% for the previous year. Growth rates will vary across regions and is expected to be more robust in non-intensive resource countries. For example, the East Africa region – a key buyer of manufactured exports from South Africa - is expected to see aggregate growth of nearly 5.5% this year. *Timeframe: 12 months*

Higher commodity prices - The Bloomberg Commodity Index (an aggregate measure tracking the prices of 22 component) increased by 11% in 2016. Hedge funds – who make money from accurately predicting financial market price movements – are betting on continued commodity price gains through 2017 and subsequently increased the value of these bets by almost 10% during December. Platinum (South Africa’s largest export by value) will see a sixth year of market deficit (supply below demand) during 2017, which is a positive from a pricing perspective. *Timeframe: 12 months*

**Downside risks:**

Cabinet reshuffle – In the wake of a stormy 2016, the political scene at the start of 2017 is expected to include changes to the Cabinet. Apart from the fact that Cabinet changes are a relatively regular feature of the Zuma administration, and almost overdue by this stage, the current top leadership of the ruling party could look to purge the Cabinet from ministers associated with a failed vote-of-no-confidence in President Jacob Zuma during November 2016. *Timeframe: 3 months*
Increase in tax rates – The Medium-Term Budget Policy Statement delivered in October 2016 indicated that the National Treasury will seek to raise an additional R43 billion over the next two years through tax measures. It is highly unlikely that value-added tax (VAT) would be increased. Instead, authorities could look towards the taxation of sugar-sweetened beverages (SSBs) or higher taxes on the personal income of rich citizens – most market commentators anticipate a combination of tax increases in the next fiscal year. **Timeframe: 3 months**

Global uncertainty – The inauguration of US President Donald Trump in January and the start to Brexit negotiations in March will affect the politics and economics of some of the world’s largest economies. This will be accompanied by significant levels of uncertainty (something which emerging financial markets are always disadvantaged by) over how these developments will play out over the long term. **Timeframe: 3 months**

Sovereign rating downgrade – South Africa avoided losing its investment-grade rating when major rating agencies reviewed the sovereign in November and December last year. However, S&P Global Ratings – who is just one downward adjustment away from rating South Africa non-investment grade – warned at the time that a downgrade could occur if the country’s economy does not perform to its expectations. S&P wants to see economic growth of 1.5% this year; the International Monetary Fund (IMF) expects less than 1%. **Timeframe: 6 months**

Tighter monetary policy – The South African Reserve Bank (SARB) commented in a statement on November 24 that it might be close to the end of the interest rate hiking cycle based on expectations that inflation will return to the 3%-6% range in 2017Q2. However, the central bank also warned of upside risks to inflation from shocks to the exchange rate, which would raise inflation forecasts and potentially prompt further interest rate increases. **Timeframe: 9 months**

Domestic political uncertainty – History shows that the ruling African National Congress (ANC) will be very busy with party politics this year in the lead-up to its national conference in December when a new leadership will be elected. Already, several groupings in the ruling alliance have broken with tradition by announcing their preferred candidates, setting the scene for significant internal activity at the expense of national policymaking. **Timeframe: 12 months**
Regional pressure – Several of South Africa’s neighbours are experiencing troubles that will linger throughout 2017. The Zimbabwean economy remains under pressure from political uncertainty and a shortage of hard currency. Mozambique is faced with an international backlash and fiscal constrains associated with $1.2 billion in hidden external debt that was revealed last year. In Lesotho, a fragile coalition government could collapse when the country’s parliament reopens in February. Timeframe: 12 months