

International Commentary — May 17, 2024

South Africa 2024 Presidential Election Scenario Analysis

Summary

Next up on the 2024 global election calendar is South Africa. Voters in Africa's most industrialized nation will head to the polls May 29 amid a backdrop of local economic stagnation and a potential desire for policy change. While the range of potential election outcomes is wide, this report focuses on three of the more plausible outcomes and the local financial market reaction in each scenario. In our view, the African National Congress (ANC) is likely to lose its legislative majority, but the magnitude of ANC support could determine if South Africa continues on a path of reform pursuit or slips into full-blown crisis.

Economist(s)

Brendan McKenna

International Economist | Wells Fargo Economics
Brendan.McKenna@wellsfargo.com | 212-214-5637



Downside Scenario: Lack of progress toward ANC goals push voters to opt for a new policy agenda and direction for South Africa. Frustration with the ANC creates a sentiment among voters that dramatic and radical change is needed. Drastic change is represented by the Economic Freedom Fighters (EFF) and former President Jacob Zuma's MK Party (MKP). Voters shifting to the EFF and MKP results in a further erosion of ANC backing, but also reduced support for the DA. Still as the leading vote getter, the ANC is forced to form a coalition made up of populist-style political parties. An ANC-EFF-MKP coalition fundamentally shifts South Africa to the populist end of the political spectrum and injects long-term uncertainty into South Africa.

Policy Platform: Most ANC reform items stall in the National Assembly amid competing policy agendas, and high-level policy paralysis likely comes as a result. However, EFF & MKP policymakers could use a form of "quid pro quo" to advance pieces of their respective legislative agendas. "Land reform" (the expropriation of land without compensation) could come closer to being implemented, while broader nationalization efforts could gather momentum. A deterioration of public finances likely occurs.

Post-Election Market Reaction:

- **FX:**
 - ZAR weakens to all-time low against USD
 - Full-blown ZAR currency crisis is possible
- **Sovereign Yields:**
 - Yields spike higher; default is avoided although South Africa's economy enters deep recession

Base Case: ANC wins 40%-45% of votes and loses its National Assembly majority; however, the party secures a legislative coalition solely with the primary opposition Democratic Alliance (DA) as opposed to forming partnerships with any of the more radical political parties. Support for the ANC has been eroded over time as South Africa's economy has stagnated, unemployment is elevated, living standards have worsened, while crime and corruption concerns persist. Addressing these issues were a priority under current president Ramaphosa, and little progress on the reform front is likely to result in voters questioning the ANC's ability to govern and whether their policy platform is effective enough to enact change in South Africa.

Policy Platform: DA ideologies hover around the center of the political spectrum, and DA economic policy is broadly in-line with ANC economic philosophy. Differences do exist, particularly on land reform, fiscal spending and whether to align South Africa strategically with the U.S. or China. In an ANC-DA coalition, improving South Africa's economy will be the focus of the legislative agenda but we expect high-level policymaking paralysis that limits policy implementation.

Post-Election Market Reaction:

- **FX:**
 - Modest positive impact on ZAR
 - Global developments more influential on ZAR
- **Sovereign Yields:**
 - Modest fall; however, the global economic and policy backdrop is the primary driver of yields

Upside Scenario: The ideal scenario is one where the ANC maintains its National Assembly majority and retains control of the legislative and reform agenda in South Africa. In our view, this scenario is not likely to materialize; however, the ANC could win a majority if Ramaphosa rapidly adjusts his near-term policy platform in a more populist direction (i.e. universal national health insurance etc.). In addition, Ramaphosa would also still need to represent and communicate a reform agenda that can place South Africa's economy on a more stable foundation, while at the same time addressing issues such as corruption, elevated crime rates, persistent power shortages and high unemployment.

Policy Platform: Ramaphosa and the broader ANC represent a center-left agenda, but also a market friendly political platform. Another presidential term for Ramaphosa would likely see a continued focus on improving South Africa's economic growth prospects and integrating the private sector into the economy. Also, while public finances have not improved all that much under Ramaphosa, a concerted effort to contain spending and place debt on a sustainable trajectory would likely be pursued.

Post-Election Market Reaction:

- **FX:**
 - Sharp ZAR rally on pursuit of ANC reforms
 - ZAR responds to local & global developments
- **Sovereign Yields:**
 - Yields fall sharply as the pursuit of market-friendly reforms are set to continue

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Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

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