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South Africa

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Executive Summary

South Africa`s Growth Domestic Product ("GDP") is projected to grow at a low average of 0.1 % in 2023, as a result of the significant increase in loadshedding, weaker commodity prices and external market shocks. These external factors include the ongoing Russia`s aggression on Ukraine that has negatively impacted domestic inflation and food inflation. On the fiscal front, South Africa continues to experience fiscal challenges, with the debt to GDP ratio expected to increase from 2022`s figure of 69% to 72.2% in 2023. Unemployment continues to be the highest in world, with South Africa ranking first among the 19 countries that are members of the G20. This has resulted in the South African economy experiencing a sustained period of stagflation which is characterized by the country`s slow economic growth and a high unemployment rate accompanied by rising inflation. Despite these negative figures, the country has managed to evade a recession with the economy recording a 0.4% GDP growth in the first quarter of 2023. South Africa was also grey listed by the Financial Action Task Force in 2023 for not fully complying with international standards around the prevention of money laundering, terrorist financing and proliferation financing.

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1. ECONOMIC OUTLOOK AND ECONOMIC POLICY DEVELOPMENTS

South Africa's economy continues to face the triple threat of low economic growth, unsustainable energy supply and security concerns in 2023. The International Monetary Fund together with the World Bank have estimated the country`s economic growth to average 0.1% in 2023 and 1.8% for 2024. Furthermore, the South African economy is also facing mounting economic and social challenges. In previous years, growth moderated from 4.9 percent in 2021 to 2.0 percent in 2022 as the country was buffeted by Russia's war in Ukraine, global monetary policy tightening, severe floods, and an unprecedented energy crisis. Business and consumer confidence and investor sentiment continue to remain weak, and the sovereign spread for South Africa remains higher than the pre-pandemic level.

Annual growth is expected at about 1.5% over the medium term, as long-standing structural impediments, such as product and labour market rigidities and human capital constraints offset expected improvements in energy supply, higher private spending on energy-related infrastructure, and a more supportive external environment. The growth level would be too low to create enough jobs to absorb the new labour market entrants. The fiscal position is projected to deteriorate due to weakening mineral revenue, the Eskom debt relief arrangement, wage bill pressures, and rising debt service. As a result, public debt is not expected to stabilize.

According to Statistics South Africa ("Stats SA"), the average unemployment rate in 2022 was averaging at 32.9% with over 65% of the young population being unemployed. This has posed serious threat to social cohesion and has resulted in increased crime rates. The IMF has forecasted that unemployment will reach 34.7% in 2023, a figure that excludes undocumented workers and informal labour.

Headline inflation has risen above the South African Reserve Bank (SARB)'s 3–6 percent target range amid higher food and energy prices. Inflation expectations have inched up and have exceeded the central bank`s target range. To date, the SARB has increased the interest rates more than 10 times, an act which has been regarded as unprecedented by the Governor of the Reserve Bank. The current central interest rate is expected to average at 6% in 2023, following the 6.9% which was recorded in 2022.

The World Bank has commended the South African Reserve Bank's commitment to price stability and endorsed the pace of monetary policy normalization, which should bring inflation back within the target. They recommended maintaining a data dependent approach to monetary policy decisions. Furthermore, they extended support to enhancing the inflation targeting framework by formalizing the current focus on the midpoint of the target range and lowering the inflation target, as conditions allow and with adequate communication.

On the current account front, the South African current account deficit is projected to deteriorate to about 2.5% of GDP in the near term. The outlook is subject to significant uncertainty related to the pace of reform domestically and the challenging external environment. The balance decreased to a -0.5% GDP deficit from 3.7% surplus in 2021, as a result of lower commodity prices and logistical bottlenecks. This, together with tighter global financial conditions, shifts in investors sentiment, and increased domestic political uncertainty have weakened the rand.

The fiscal deficit has continued to narrow, reaching 4.2 percent of GDP in FY2022/23, from 4.8 percent in FY2021/22, thanks to buoyant revenue and expenditure restraint. Despite this improvement, the government debt-to-GDP ratio is estimated to have increased to 72.2% at the end of 2023. The recent efforts to reducing in the fiscal deficit has reflected efforts to contain public spending and improve revenue administration. The South African government has encouraged stronger fiscal consolidation under a credible medium-term framework to put public debt on a firmly declining path while protecting productive investment and well-targeted social spending. This should be supported by reforms to the fiscal framework, procurement system, and public investment management.

South Africa`s on-going support to Russia and its non-alignment has also increased geopolitical and trade tensions between itself and the United States of America ("USA"). A group of US lawmakers have called for the US-Africa trade summit planned for later this year to be moved from South Africa in response to what they said was the country's "deepening military relationship" with Russia. With South Africa`s export volume with the USA accounting for over 9% as compared to 0.2 % with Russia, the USA authorities have threatened to remove South Africa from the African Growth and Opportunity Act which has resulted in the country benefiting from the duty-free access to the U.S. market. Furthermore, the International Criminal Court has also called for South Africa to arrest Russian President, Vladimir Putin if he comes to South Africa to attend the BRICS Summit in August 2023.

On a National Budget front, the South African 2023 Budget speech highlighted the country`s ongoing issue with power challenges which dominated 2023's National Budget. The government stated that it will largely take Eskom's debt over, according to Finance Minister Enoch Godongwana. Also, major tax incentives were announced to encourage South Africans to embrace renewables and get off the grid. The Budget confirmed that South Africa has stepped further away from a fiscal cliff that loomed in 2020. Ballooning state debt is stabilizing, and tax revenue is higher than previously expected.

For the first time since 2008/09, South Africa had a primary surplus - government spending was less than revenue (excluding debt interest payments). The government's tax income was almost R94 billion more than it expected a year ago. This will help the government's budget deficit decline from 4.6% of GDP in 2021/22 to 4.2% this year.

However, total debt has now reached almost R5 trillion - while earnings are less than R1.7 trillion in tax a year. The cost of paying off debt has increased to more than R360 billion a year. Some 18% of all government revenue - mostly from tax - is now spent on debt repayments and expected to rise further. The cost of debt repayment is increasing by almost 9% a year, making it the Budget's fastest-growing spending item.

The budget documentation shows that the Government raised US$3 billion in the international capital markets. Out of this, €454.4 million come from the World Bank, and €600 million from Germany and France through the Just Energy Transition Investment Plan to support policy and institutional reforms related to climate change. The government also emphasized that promoting a sustainable, inclusive, and green recovery requires reforms that foster private investment, a balanced energy transition, and good governance. They recommended further measures to reform SOEs, open key network industries to private sector participation, reduce the regulatory burden, and enhance labour market flexibility and the quality of education to tackle high structural unemployment. Directors recognized that resolving the ongoing energy crisis remains the top priority, providing an opportunity to accelerate the rollout of renewables. They supported steadfast implementation of the government's energy transition plan and emphasized the importance of well-targeted fiscal support for affected communities and workers. Plans are to continue efforts to access concessional financing from international financial institutions, including through climate finance. In 2023/24, the government intends to raise the equivalent of US$2.6 billion, and about US$9.1 billion over the medium term. Discussions are ongoing with the World Bank on a second DPO loan, possibly with a link to sustainability.

Electricity reliability remains the biggest economic constraint. Eskom is struggling with a debt burden of R423 billion. Massive debt repayments mean it cannot afford to buy diesel for emergency power generation, or make urgent investments in the electricity grid. Eskom cannot perform maintenance and other crucial work.

Government currently guarantees R350 billions of Eskom's debt, which is at risk of default - a contingent liability that raises South Africa's risk premium and borrowing costs. It is now proposed that the National Treasury provides Eskom with a debt relief of R254 billion (capital and interest) over the next three years. The goal is to strengthen the utility's balance sheet, enabling it to restructure and undertake the investment and maintenance needed to support security of electricity supply. Government imposed strict conditions for this bailout. These include restrictions on capital expenditure by Eskom and on the use of proceeds from the sale of non-core assets.

Government spending will remain tight. Economic development and infrastructure spending will see the biggest hikes in spending, while education continues to receive the largest allocation. In addition, for households, a tax incentive to install rooftop solar panels has been announced. This incentive will be available for one year, i.e. from 1 March 2023 to 29 February 2024.

Expenditure on social grants will also increase, due to both the increase in the number of recipients and the value of the grants. Excluding COVID-19 social assistance, the number of social assistance recipients is expected to increase from about 18.6 million in March 2023 to 19.6 million in March 2026. COVID-19 social assistance is extended by one year to 31 March 2024 to cushion the impact of the slow economic recovery and increase in poverty due to the COVID-19 pandemic.

The 2023 budget also addresses disaster relief. R695 million is made available for emergency relief following recent floods and national disasters in various provinces. The Disaster Risk Financing and Insurance (DRFI) programme will advance its activities through the NT Public Finance Department.

Initiatives to build capacity mentioned in the budget include (i) the change management and leadership development programmes, which will be institutionalized in the National School of Government through the Cities Support Programme and (ii) the implementation of the infrastructure delivery and managements system (IDMS), which is supported through CSP and PINK. However, the budget notes the deteriorating financial performance of municipalities as a major concern with 167 of the 257 municipalities being in financial distress by 2021/22, compared to the 66 municipalities 2010/11. Revenue management was the most prevalent factor contributing to this financial distress, with challenges including electricity and water tariffs and the approval of unfunded budgets.

Through the Financial Sector Development & Regionalization (FSDRP) programme, the AML-CFT activity has made remarkable progress in assisting the government in combating unwanted crimes. This has also received attention in the budget as there was at the time of the budget tabling an expected decision by the Financial Action Task Force (FATF) Plenary whether to put South Africa under grey listing.

According to the National Treasury published fact sheet on the FATF process (24 February), the country has done poorly in its 2021 mutual evaluation (conducted in 2019). South Africa was assessed as having too many weaknesses in its legal framework in all "effectiveness immediate outcomes". 67 recommendation were made to improve the situation (with a one-year observation period).

During this one-year period, South Africa made significant progress, passing two major Amendment Acts in 2022, and strengthening its institutions. A January 2023 assessment of the country's progress found that South Africa had made significant and positive progress, reducing the 67 Recommended Actions to 8 strategic deficiencies, where more progress is required. Despite FATF's recognition of the progress made since 2019, South Africa was grey listed until the remaining 8 deficiencies are addressed. Treasury's statement indicates that the involved institutions are working to "continue to strengthen and expand anti-money laundering (and combatting terror finance) systems in the financial sector, to minimise perceived risks relating to this sector, including from new and emerging risks (e.g. crypto-related risk

2. PRIORITY SECTORS AND OPPORTUNITIES FOR SWISS COMPANIES

2.1. Specific sectorial developments

The South African mineral production value production achieved a record high for the second consecutive year in 2023, achieving a fresh record high of R1.18 trillion in 2022, and is expected to increase to R1.25 trillion in 2023. This figure exceeded ZAR 1 trillion (CHF 58 billions) for the first time, buoyed by strong commodity prices and giving the domestic economy a vital injection of higher taxes, wages, and increased employment.

In May 2023, South Africa`s manufacturing export prices have tumbled 14.5% over a month earlier to R163 billion in April 2023, mainly on lower shipments of precious metals & stones (-30%); machinery & electronics (-22%); base metals (-14%) and vegetable products (-14%). Among trading partners, overseas sales decreased to Europe (-15.9%), Africa (-13.4%), Asia (-12%) and America (-7.6%) but rose to Oceania (+2.5%).

To this date the official tourism statistics for 2023 in South Africa are not yet available. However, 2022 and 2023 mark an important recovery in this crucial sector for the country post the Covid-2019 pandemic, especially since the end to the travel bans (early 2022) and the incremental facilitation of measures linked to Covid-19 prevention. In 2022, Switzerland remains an expensive travel destination for South Africans due to the strong Swiss Franc. For Swiss tourists however, trips to South Africa have become much more affordable due to a weakening ZAR and therefore Swiss tourists are among the top 10 European visitors to South Africa each year. According to Statistics South Africa, the movements in December 2021 and December 2022 indicate that the volume of arrivals, departures and travellers in transit increased for both South African residents and foreign travellers. Switzerland travellers that visited South Africa increased from 11 375 in 2021 to 33257 in 2022.

There is no doubt that the pandemic has accelerated most digitalisation trends in South Africa. Companies have been forced to adapt and change their business models in order to survive, embracing digitalisation which they might have put off before. The result has been more widespread online services than ever, and a growing percentage of the population has enjoyed better access to goods and services than ever before. There is a clear hope that digitalisation and the Fourth Industrial Revolution (4IR) will create more jobs. E-commerce is one of the tangible effect of digitalisation, with 70% of South Africans that spend time online shopping at least once a month. The access to internet has greatly improved, and most of the services are accessible by mobile phone, which has become a wallet, as cashless services are increasingly expanding. As a last example of the increased interconnectivity of South Africa within global digital market, Amazon has announced that it will start operating in South Africa in 2023. It will also be part of The Digital Transformation Summit in South Africa which will be part of the country`s accelerated adoption of digital technologies which stand to triple South Africa's productivity growth, resulting into a net gain of up to 1.2 million jobs in South Africa by 2030.

2.2. **Energy sector**

The newly elected South African Minister of Electricity, Dr Kgosientsho Ramakgopa together with his Mozambican counterpart Mineral Resources and Energy Minister, Carlos Zacarias confirmed to South Africans that the country has secured an emergency power purchasing agreement with Mozambique to import 100 megawatts of electricity as an interim measure of electricity security. The announcement comes after South Africa recorded a seven percentage point improvement in generation capacity, which translates to a recovery of nearly 3300 additional megawatts onto the grid. In addition to this, in the long term, South Africa plans to import up to 1000 megawatts of electricity from Mozambique, a strategy that promises to reduce load shedding to stage 1. This cross border power purchasing agreement between the two countries is one of the three emergency procurement programmes by the South African Ministry of Electricity aimed at improving South Africa's energy availability factor, which now stands at 60%. Minister Ramakgopa said that the technical teams from each country have met to concritise details on how to best execute this in the next six months so that South Africa can get the initial 600MW and going into the future there are multiple sources in access of a

1000MW. According to OEC World Data for 2021-2022, South Africa imported $296M in Electricity, becoming the 40th largest importer of Electricity in the world. Furthermore, the fastest growing import markets of Electricity for South Africa between 2021 and 2022 were Mozambique ($45.8M), Lesotho ($82.7k), and Namibia ($69k). At the same year, Electricity was the 70th most imported product in South Africa. In 2021, South Africa exported $812M in Electricity, making it the 24th largest exporter of Electricity in the world. At the same year, Electricity was the 21st most exported product in South Africa. The main destination of Electricity exports from South Africa are: Mozambique, Namibia, Eswatini, Zimbabwe and Botswana .On the cost implication side, the 100MW purchase from Mozambique should not exceed five years and must be obtained at an affordable tariff structure that does not exceed the current cost of diesel.

The President of South Africa, Cyril Ramaphosa has allowed for independent power producers to supply access power to the main grid and that will relieve the load of electricity from Eskom up to a 100 megawatts which has assisted many companies in South Africa to profit from this opportunity. According to the South African Photovoltaic Industry Association (SAPVIA), the use of Solar panels by South African households has also alleviated the burden of load shedding as South Africa is experiencing a residential solar installation boom, with households importing over R2.2 billion (USD 120 million) worth of solar photovoltaic (PV) panels in the first five months of 2022 alone. This has made solar energy become a regular feature in the South Africa energy mix, despite the high cost of the initial investment to set up solar remains a barrier to entry for households, the new offers and ranges are constantly being brought onto the market, while financing options from banks are also increasingly becoming available to homeowners and small businesses to have solar installed.

2.3. Outlook for Switzerland – Infrastructure Mandate and SBHSA

In 2023, the SBHSA has aimed at establishing and strengthening its regional network in the framework of the export promotion mandate including the cleantech and large infrastructure mandates. This has been achieved through joint initiatives and events across the region, with a cleantech FFM in Kenya, a joint business forum in Botswana, the Switzerland-South Africa Joint Economic Committee (JEC) and business conferences and a joint business forum in South Africa's KwaZulu-Natal province, Having identified energy, water and sanitation (including waste management), and transportation as key sectors in the region, the SBHSA has been engaging with EPCs and project sponsors to identify early-stage opportunities for Swiss companies. In addition, a market report on South Africa's infrastructure landscape was produced and launched. The SBHSA has launched the first edition of the Swiss Business Hub Southern Africa Newsflash. Its primary purpose is to keep its partner network in the Southern and Eastern African region informed of the ongoing and upcoming projects and activities in line with SBHSA's export and investment mandate. Additionally, the newsflash provides insights into its endeavors within the wider sub-Saharan region, with a focus on infrastructure initiatives.

Focus Infrastructure

The cleantech and infrastructure sectors in South Africa and the wider sub-Saharan African region offer promising opportunities for Swiss companies, driven by factors such as vast natural resources, population growth, rapid urbanization and the urgent need to improve access to critical infrastructure such as energy, water and transport. As the world's largest consumer of electricity and with the world's 10th largest road network, South Africa has significant growth potential in the energy and transport sectors. In the energy sector, there's been a shift towards renewable energy, with South Africa hosting around 57% of the region's solar projects. The emergence of green hydrogen technologies is particularly promising, with two large-scale projects planned for the South Africa-Namibia border region. These projects aim to harness the region's abundant solar resources to produce sustainable, carbon-free energy, stimulate economic growth and create jobs. Despite challenges such as significant investment needs and the need for a supportive regulatory environment, the cleantech sector in South Africa and the wider sub-Saharan Africa region has enormous potential and is expected to grow significantly in the coming years. The African Continental Free Trade Area (AfCFTA), the world's largest free trade area, is expected to play a significant role in driving further transport infrastructure projects in South Africa and across sub-Saharan Africa. By promoting increased regional connectivity and trade, the AfCFTA could spur the expansion and development of transport infrastructure such as roads, ports and railways to facilitate the efficient movement of goods and people across borders. This could create an even more conducive environment for Swiss companies to invest in these sectors.

Coupled with the SBHSA's efforts in project identification and market intelligence, there is an active exploration of various relevant conferences and trade fairs. The purpose of this exploration is to identify key events where Swiss delegations could potentially participate, present or exhibit. The SBHSA's strategic scouting initiatives are wide-ranging and cover various industries. As part of this initiative, the SBHSA was present at the Africa Energy Indaba, the DEVAC Infrastructure Conference and numerous conferences related to the rail and energy sectors.

3. FOREIGN ECONOMIC POLICY

3.1. South Africa’s Policy and Priorities

South Africa’s foreign economic policy priorities are not officially available. The Embassy can draw from interaction with the governments and experts a few elements that are presented below, but the detailed of the positioning of South Africa remain open. It should be noted that due to the dire economic situation, South Africa focused in 2023 much more on its domestic economic situation.

South Africa’s foreign economic and trade strategy prioritizes its development, industrialisation and integration into the African continent. It aims to maintain trade and investment relations with industrialised economies and pursue regional value chains. On the African continent, the priorities concern greater integration in Southern African Customs Union (SACU), Southern African Development Community (SADC) and the African Continental Free Trade Agreement (AfCFTA). On a global scale, South Africa’s key focus is to shift the structure of trade with economies of the South, such as the BRICS countries (South Africa will held the presidency of the organization in 2023) and create a more diverse trade basket than the historically consumption and commodity driven trade it engaged in.

The Agreement establishing the African Continental Free Trade Agreement (AfCFTA) achieved great developments especially in 2021 following the aftermath of the Covid-19 pandemic which generated a global economic crisis at a very critical phase of the AfCFTA and resulted in a delay in its implementation. The traction gained since January 2021 also provides an outlook on the developments yet to come. Since 1 January 2021, African countries that had submitted their plans to reduce tariffs, or taxes on imported goods are were now able to trade goods under the AfCFTA Agreement.

The submission of the Tariff Schedule speaks to that commitment with the view to ensuring that the SACU business community leverage on the benefits of the AfCFTA. President of Botswana, Mr Mokgweetsi Eric Keabetswe Masisi, deposited the instruments for ratification of the AfCFTA. Following Botswana’s submission, all SACU member states have now ratified the agreement establishing the AfCFTA. SACU submitted an initial Tariff Offer in November 2020, in preparation for the commencement of trading in January 2021 which needed further work to comply with the agreed modalities. Subsequently, the region worked tirelessly to meet the threshold of 90% of products to be liberalised. This process has now been completed as noted by the 11th Meeting of AfCFTA Council of Ministers responsible for Trade and Industry held from 11 to 12 February 2023, in Gaborone, Botswana.

Regarding the current renegotiation of the Free Trade Agreement between the EFTA and the SACU, here are the conclusions of the last review (2021) of Switzerland and South

Africa on the matter: Both sides welcomed the current review of the EFTA-SACU Free Trade Agreement (FTA). The Swiss side stressed that efforts still need to be made in the field of Trade and Sustainable Development. Indeed, these topics have risen to the top of the trade agenda in the EFTA States, to the extent that the inclusion of substantial provisions on Trade and Sustainable Development has become a de facto prerequisite in order for newly negotiated and revised FTAs to be approved by EFTA national parliaments. Switzerland called on South Africa's leadership to unblock this situation with a view to concluding the negotiations as soon as possible. The South African side stressed the need for flexibility and reciprocity from the EFTA side in the negotiations in order to conclude the review

3.2. SECO bilateral economic cooperation 2023

As part of South Africa`s foreign economic policy, over 30 projects being implemented to contribute to inclusive economic development, Switzerland is currently the 5th largest bilateral donor in South Africa. The current Cooperation Program for South Africa, covering the period 2021-2024, has, as its overall objective, the continued deepening of Swiss-South African economic development cooperation in order to foster a competitive and sustainable economy. A four-year financial envelope of approximately CHF 55 million is allocated to the Strategy. Preparations will commence in 2024 for the development of a cooperation program for the next four-year period, i.e. 2025-2028.

As part of its contribution, SECO focuses on competitiveness, as it addresses several key impediments to economic growth and job creation in South Africa. As a result of the challenging economic and social context, some of SECO's economic development cooperation agenda has been strengthened to achieve the following results in 2023 to date:

1. On 24 May 2023, the Department of Trade, Industry and Competition, UNIDO and SECO also officially launched the second phase of the Global Quality and Standards Program in South Africa. The project seeks to unlock the export potential and facilitate market access for small and medium-sized enterprises through targeted interventions along the essential and vegetable oils value chain.
2. Investment climate reforms at national and municipal level started to yield positive results. The City of Johannesburg implemented its online construction permit system and procedures to improve the processing of site development plans. In 2018, using a manual system, the city took 155 days to process applications. By 2022, the turnaround times have been reduced to 3 days. In the area of title deed reforms, significant inroads have been made as a result of an initial pilot in the iLembe District of KwaZulu-Natal, leading to the establishment of a title deed transfer toolkit available to all municipalities and the upscaling of the program into a national title deeds reform program under the auspices of the Presidency.
3. Support to the capacity building in selected investment promotion agencies showed significant results. A survey conducted by Invest Durban, for example, determined that investments generated as an outcome of the investment policy and promotion reform was US$26bn, with more than 8,000 new jobs which can be attributed to the project's interventions since its inception. Support is currently focused on regulatory red tape reduction, particularly in the energy licensing space in South Africa, and investment policy and promotion work in the country's renewable energy sector.
4. Support to South Africa's urban areas has also advanced. In June, the new Spatial Economic Activity Data South Africa platform was launched. SEAD-SA does not only address a gap in the city planning environment, i.e. the lack of credible, disaggregated economic data, but it will also reinforce linking data and related research with policy making and planning. Moreover, it will enable policy makers to monitor changing economic environments and testing the impact of policies based on the experiences of communities. It builds on support that has been provided by various partners since 2017. An executive leadership program was also hosted under the Cities Support Program, which aimed to strengthen leadership capabilities amongst senior city management and politicians in the country's eight metros. The course focused on climate change responsiveness and resilience, with the launch of the new Just Urban Transition Framework during this time as an important milestone. Also under the theme of climate change, two workshops were held on recently conducted heat assessments in the cities of

Johannesburg and Ekurhuleni, discussing ways to combat climate change related heat occurrences.

6. The topic of climate and resource efficiency continues to be strengthened also on the private sector side. In the area of a resource efficient agri-processing sector, two benchmark studies were released, one on the red meat abattoir sector and one on the dairy processing sector. Eco-Industrial Park assessments have been concluded in 3 industrial parks with a set of feasibility studies for selected resource efficiency projects under way.

Lastly, elements of the economic development cooperation program were showcased during the 2023 High Level Consultations between the Swiss and South African governments (focusing on urban development and township economic development), as well as during the Joint Economic Committee mission, focusing on the topic of water management and infrastructure.

4. FOREIGN TRADE

4.1. Developments and general outlook

South Africa's trade outlook in 2023 reflected stronger domestic demand and even higher export demand from international market. The commodities boom following the increased demand for local minerals also upshot the current account surplus as a percentage of GDP for 2022 to 4.8%.The decline in the country's financial account also opened a gap in disbursements which could only be filled by multilateral institutions such as the International Monetary Fund (IMF). China continued to be South Africa's biggest trade partner in 2023, both in terms of exports and imports recording over 24% of total trade volume. South Africa is also strategically engaging with African countries in the eastern and northern parts of the region to formulate stronger trade ties within the continent in light of the Africa Continental Free Trade Area.

There was no major outbreaks in legislation regarding imports in 2023. According to the South African Trade Analysis Report which provides information on trade trends of the country`s various trade agreements and the impact of external shocks, Oil continued to be the top import product in 2023 followed by vehicles and parts, and machinery. South African exports are still largely commodity- or agriculture-based, and precious metals and stones accounted for the most exports. South Africa`s biggest trading challenge is the transportation and the lack of sufficient storage facilities which result in commodity goods either being delivered late to international buyers or with damage to the goods.

4.2. Bilateral trade

In 2022, the volume of trade between the two countries exceeded CHF 6,25 billion. Switzerland mainly imports precious metals from South Africa and exports pharmaceutical products, machinery, precision instruments and watches. As of 2023, total trade and foreign direct investment inflows into South Africa had risen to ZAR 67 billion in the fourth quarter of 2022, up from ZAR 11.9 billion in the third quarter of the same year. This is the biggest increase in a year, in part due to a non-resident parent company in the commerce sector raising its equity investment in a domestic subsidiary.

Bilateral trade between Switzerland and South Africa still accounts for 13.5% of trade between Switzerland and Africa for 2023. Precious metals, mainly gold, platinum and diamonds are still primarily the main commodities of trade between Switzerland and South Africa. A sectoral analysis of Swiss imports to South Africa reflects that the former has comparative and competitive advantage in the high skills and capital-intensive products that characterize the Swiss economy and export basket. The top exports in Switzerland's export basket to South Africa range from machinery, electrical equipment, pharmaceuticals, and watches among other high end products. Main imports are precious metals, general metals, agricultural products and vehicles. Overall, South Africa still offers trade opportunities for Swiss firms as indicated in the sectoral breakdown of trade. The opportunities abound in the traditional areas in which Switzerland has comparative and competitive advantages. These trade opportunities could also be enhanced in the area of processed agricultural (and some industrial) goods if the negotiations for the renewal of the Free Trade Agreement between the South African Customs Union (SACU) and the European Free Trade Association (EFTA) are successful, especially for the exports of chocolate (see above).

The European Union as a trading block remains South Africa's largest trading and development partner. The SADC EU Economic Partnership Agreement (EPA) is therefore an important agreement in this context along with the recently concluded SACU,-UK EPA. The SACU EFTA review has yet to be concluded, along with various other SACU agreements. Being a much smaller market for South Africa's trade (EFTA represents approximately 1.2% of South Africa's total exports to the world and imports approximately 1.1%), the EFTA countries have a much smaller sphere of influence. South Africa will continue to seek improved market access in its future agreements while it seeks to increase and diversify its trade, and move away from exporting mainly raw materials.

5. DIRECT INVESTMENTS

5.1. Developments and general outlook

In January 2023, South Africa took over the BRICS chairmanship from China and is expected to host the BRICS annual summit in August 2023 in Johannesburg. South Africa`s President, Cyril Ramaphosa has in his capacity as chairman of the BRICS nations vowed to assist emerging economies to focus on advancing African interests. The bloc — Brazil, Russia, India, China and South Africa — has now more than ever been seen as an alternative to old guard powers of the western economies. As part of the list of priorities in South Africa`s chairmanship, President Ramaphosa has said that the country wants to use this opportunity to advance the interests of our continent, and therefore through the BRICS summit, create an avenue to advance the interests of the African continent and have an outreach where South Africa invites other African countries to come and be part of the BRICS in the efforts to accelerate the development of the African continent concurrently with that of the trading bloc. President Ramaphosa has said that while the African Continent continues to be exploited by other stronger economic powers, BRICS provides an opportunity for build a solidarity to not only advance the interests of member states, but of the greater African Continent in line with the African Continental Free Trade Area ratifications. South Africa also expressed that through its chairmanship, it will focus on assisting African countries to gaining greater market access to the global economy in a more meaningful way.

On the 13th of April 2023, the President of South Africa, Cyril Ramaphosa hosted the 5th instalment of the South African Investment Conference ("SAIC") at the Sandton Convention Centre in Johannesburg. The 5th and final instalment of this conference was attended by dignities from the international community including the African continent as well as diplomats and captions of industry in South Africa. While the SAIC aimed to attract R1.2 Trillion in foreign and domestic investment, the 2023 South African Investment Conference ("SAIC") successfully managed to raise R1.51 Trillion in new investment pledges over the past five years. This amount is 26% more than the initial target set by President Ramaphosa in 2018 of R1.2 Trillion overshooting the initial objective by over R300 00 billion.

5.2. Bilateral investment

Approximate number of jobs created by Swiss companies.

According to the Swiss National Bank, South Africa accounts for approximately 23% of total Swiss FDI stock in Africa. More than 100 Swiss companies have a branch in South Africa. Despite the difficult investment conditions, the fact that South Africa is a mainly services based economy is of significance for Switzerland. Switzerland also remains among the top foreign direct investors for South Africa, however the landscape is changing as Swiss investors seek opportunities all over Africa and many African countries are implementing reforms at a faster pace than in South Africa. Switzerland's priorities based on local market potential such as in skills and training, technology and innovation, capacity building and technical skills transfer make South Africa an attractive investment destination. The main sectors of Swiss companies that are dominant in the South African economy include the pharmaceutical companies, cleantech firms, machinery and industrial producing firm's as well global multinationals such as Nestlé. These companies continue to expand their footprint in the South African economy as many are in constant consultation with the embassy on how to deal with the legislative requirements that will ensure that their growth in South Africa results in sustainable development as well as increased profitability for the companies.

Bilateral investment between South Africa and Switzerland should also be noted through the long-lasting cooperation in the education, scientific and research sector. Opportunities in South Africa are also bound to be in training and skills development, as South Africa seeks to expand on its Technical and Vocational Education and Training (TVET) system with limited funding and capacity. The TVET system is crucial for addressing the mid-level skills the country is in short supply of, and for producing college graduates who are work ready. It is aimed at affording unemployed graduates an opportunity to participate in the economy by offering them an internship with a firm for a year. The private sector subsidizes the stipend of the intern for a year while they gain much needed experience. In lieu of government subsidizing the internship, firms could gain Broad-Based Black Economic Empowerment points under the equity equivalence scheme. This is a window of opportunity for Swiss firms that cannot forego ownership requirements to rather lend a hand through the internship program.

6. ECONOMIC AND TOURISM PROMOTION

6.1. Swiss foreign economic promotion instruments

The SwissCham Southern Africa – South Africa Chapter (SCSA-SAC) is an apolitical non-profit organization, which seeks to contribute to the expansion of economic, commercial and cultural relations between Switzerland and Southern Africa. SCSA-SAC network consists of approximately 100 members representing companies and individual members. It is a networking and information platform for both Swiss companies in South Africa and South African companies interested in Switzerland. SCSA-SAC plays an active role in representing Swiss interest to South African Government.

Switzerland's official representations in South Africa, i.e. its Embassy in Pretoria and its Consulate General in Cape Town, play a pivotal role in ensuring a favourable environment for Swiss businesses interested in or already actively doing business in South Africa and accredited countries i.e. Botswana, eSwatini, Lesotho, Mauritius and Namibia. The Embassy of Switzerland, together with the respective Swiss federal authorities, engages in a number of dialogues with Swiss companies and the South African government, mainly the Department of Trade and Industry and Competition (DTIC) on issues such as B-BBEE, tender processes and investment protection.

The Swiss Business Hub Southern Africa (SBHSA) is the local representative office of Switzerland Global Enterprise (S-GE) and is part of the operations of the Embassy of Switzerland. The role of S-GE as a centre of excellence for internationalization is to foster exports and investments. It also aims to assist Swiss companies develop new potential for their international businesses and strengthen Switzerland as an economic hub.

6.1.1. Swiss Import Promotion Programme

The end of June 2023 marked the halfway stage of the Swiss Import Promotion Programme (SIPPO) Programme's phase 2 of the mandate, which commenced in July 2021 and runs until June 2025. During the year SIPPO continued to further build on activities and achievements from the previous years by supporting its partner Business Support Organisations (BSO) with the development of market and sector knowledge related to market trends, buyer demand and export opportunities. The important topic of creating awareness of sustainability criteria and compliance with these requirements was further integrated into SIPPO's support and interventions. SIPPO furthermore conducted a survey with its BSO partners on the depth of their awareness and knowledge of the sustainability topic, in order to plan tailor-made interventions on sustainability according to the needs of each BSO partner, which will be implemented going forward.

SIPPO supported its strategic BSO partner, the dtic and three other BSOs (Wesgro, CECOSA and ECDC) for the preparation, promotion and participation at the In-cosmetics Global trade fair in Barcelona in March 2023. This was the first official South African participation, by means of country pavilion at this global trade fair for ingredients destined for the cosmetics sector, with the BSOs supporting 14 South African exhibitors of a range of ingredients. These included ingredients from indigenous plant species from the biotrade sector and is in line with the BSO partners' initiatives to promote exports of the natural ingredients sector, with South Africa being the third most bio-diverse country in the world.

As part of the BSOs' promotional campaign for participation at In-cosmetics Global, SIPPO's support included assisting the dtic, with the preparation of a Social Media campaign to successfully promote the country pavilion and the exhibitors, particularly using LinkedIn, which led to a broader outreach and success. The importance of sustainability criteria and requirements was highlighted by SIPPO during the preparation phase with the BSOs, which led to the companies being better prepared for meeting potential customers at the trade fair.

Furthermore, SIPPO actively participated as part of Team Switzerland in the planning and programme of the Swiss-KZN Business Seminar hosted by SIPPO's BSO partner TIKZN, in partnership with the Embassy of Switzerland. The seminar which was held on 11 May 2023 in Durban, explored the theme of exploring trade and investment for mutual beneficial collaboration. This followed the official visit of the Ambassador of Switzerland H.E. Dr Nicolas Brühl, to Durban last year.

SIPPO's annual Import Forum was held in Bern on the 8th of June 2023. This year's event was organized on site and with a new format, which included participation of officials from certain of SIPPO's partner countries, including two BSOs from South Africa. The goal was to create linkages between BSOs from SIPPO partner countries and stakeholders and import institutions from Switzerland. A senior official from both TIKZN and Wesgro travelled to Bern to participate in the Forum, where they were able to meet and have very fruitful discussions with Swiss importers and other stakeholders from both of SIPPO South Africa's two target sectors, Natural Ingredients and Processed Foods. The discussions included the important and very relevant topic of compliance with sustainability criteria for exporting to Switzerland and the greater Europe.

This year, SIPPO in South Africa was able to onboard the Eastern Cape Development Corporation, the ECDC, as an additional BSO partner, thus bringing the total number of BSO partners to five. This will strengthen SIPPO's outreach and synergies within the export promotion network, by also including coverage of the Eastern Cape province.

6.2. South Africa's interest in Switzerland

South Africa`s interest in Switzerland varies from an array of sectors, from education and scientific research to innovation and investment in the financial services sector. With Switzerland being ranked as the world`s most innovative country in 2023, South Africa leverages its relations with Switzerland also through broad-based academic and university exchange programs. This collaboration between the two countries has benefitted South Africa in its efforts to become the continent's most innovative country. Switzerland continues to invest in the advancement of South Africa's science and technology knowledge Hub through its involvement with universities such as the University of Cape Town and the University of Pretoria as well as the CSIR to solve the problems of water purification, solar energy solutions and well as health innovation, an initiative well received by the South African academic and government institutions. South Africa also continues to trust the Swiss banking and financial services sector through the increased outflows of investment that are held in Switzerland. Investment Banks such as UBS have a high rating investment level of South African funds and are continuously ranked highly by the country’s investment rating agencies. The interest of South Africa lie also in the continuous trade in the gold sector.

ANNEX 1 – Economic structure

Economic structure of the host country

	Year *2016*	Year *2022*
Distribution of GDP		
Primary sector	0.2%	0.3%
Manufacturing sector	0.3%	0.3%
Services	1.7%	0.2%
- of which public services	0.9%	0.3%

Percentage of employment by sector

Rank	Sectors	2022
1	Community and social services	**22.4**
2	Trade (Retail & Wholesale)	**19.9**
3	Finance and other business services	**16.5**
4	Manufacturing	**9.1**
5	Construction	**7.8**
6	Private households	**8.9**
7	Transport	**6.5**
8	Agriculture	**6.0**
9	Mining	**2.5**
10	Utilities	**0.6**
11	Other	**0.7**

Source(s): Statistics South Africa

ANNEX 2 – Main economic data

	2020	2021	2022
GDP (USD bn)*	309.1	418.02	345
GDP per capita (USD)*	5’656	6`951	7`200
Growth rate (% of GDP)*	0.2	4.9	2.3
Inflation rate (%)*	3.3	4.5	6.6
Unemployment rate (%)*	29.2	33.4	33.9
Budget balance (% of GDP)*	-9.74	-6.41	-5.78
Current account balance (% of GDP)*	-3.0	-1.6	-1.8
Public debt (% of GDP)**	69.43	69.13	74.70

* Source: IMF, World Economic Outlook (indicate the month and year of publication)

- www.imf.org/external/pubs/ft/weo

** Source: IMF, Article IV Consultation (or host country statistics) [indicate the date of the Art. IV Consultation report]

- www.imf.org/external/country/index.htm

ANNEX 3 – Trade partners

Trade partners of the host country Year: 2022

Percentage of Total Exports

Rank	Country	Exports	Share
1	China	9,794	**11.49**
2	USA	7`131	**8.37**
3	Germany	6`894	**8.09**
4	United Kingdom	4’241	**4.98**
5	Japan	3’914	**4.91**
6	Netherlands	3’319	**4.6**
7	Botswana	3’258	**4.4**
8	India	3’254	**4.2**
9	Mozambique	2’994	**3.9**
10	Namibia	2’871	**3.5**
20	Switzerland	12`491	**1.1**
	Total Volume (in Mio. USD)	**79`415**	**100%**

Percentage of Total Imports

Rank	Country	Imports	Share
1	China	14.309	20.76
2	Germany	6`294	9.13
3	USA	4`436	6.43
4	India	3’582	**5.20**
5	Saudi Arabia	2’686	**3.90**
6	Nigeria	2’457	**3.5**
7	Thailand	2’402	**3.3**
8	Japan	2’341	**3.26**
9	Italy	1’794	**3.01**
10	United Kingdom	1’757	**2.5**
17	Switzerland	10`638	**0.9**
	Total Volume (in Mio. USD)	**72’129**	**100%**

Source(s): IMF, Direction of Trade Statistics

ANNEX 4 – Bilateral trade

Bilateral trade between Switzerland and the host country

	Exports (Mio. CHF)	**Change** (%)	**Imports** (Mio. CHF)	**Change** (%)	**Balance** (Mio. CHF)	**Trade Volume**
2013	750.0	1.9	1'728.1	-10.8	-978.1	2'478.1
2014	723.4	-3.5	2'175.2	25.9	-1'451.8	2'898.6
2015	675.6	-6.6	2'182.8	0.3	-1'507.2	2'854.4
2016	700.5	3.7	1'117.0	-48.8	-416.5	1'817.5
2017	729.4	4.1	1'233.5	10.4	-504.1	1'962.9
2018	**739.2** (738.5)	**1.3** (1.6)	**2'272.2** (300.7)	**84.2** (16.2)	**-1'533.0** (437.8)	**3'010.4** (1039.2)
2019 (Total 1)*	**673.4** (672.0)	**-8.9** (-9.0)	**2'813.5** (277.9)	**23.8** (-7.6)	**-2'140** (394.2)	**3'486.8** (949.9)
2020	**369**	**-29.4 (0.08)**	**1'519**	**-29.0**	**-1'150**	**1'888**
2021	**377**	**2.12**	**3`920**	**61.25**	**-3543**	**2`800**

Source: Federal Office for Customs and Border Security

ANNEX 5 – Main investing countries

Main investing countries in the host country **Year: 2022**

Foreign Direct Investment 2022: ZAR Millions

Rank	Country	FDI Stock 2019	% Total
1	UK	638963	39.33
2	Netherlands	354859	19.52
3	Belgium	219356	9.08
4	USA	169832	6.15
5	Japan	123198	6.05
6	China	400.43	4.88
7	Germany	911593	4.44
8	Luxembourg	45466	2.23
9	Australia	36280	1.78
10	Switzerland	17200	1.2
	Total	**6`040 00000**	

Source(s): South African Reserve Bank[1]

[1] https://www.resbank.co.za/content/dam/sarb/publications/quarterly-bulletins/quarterly-bulletin-publications/2020/qb-dec-2020/09%20Statistical%20tables%20External%20economic%20accounts.pdf