

# Country Insight Snapshot South Africa

October 2018





## OVERVIEW

### OVERALL COUNTRY RISK RATING: DB4d

**Moderate risk:** Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

**Rating Outlook:**

Stable



## CORE OUTLOOK

- + President Ramaphosa has proposed a new economic stimulus and recovery plan, together with pro-business reforms, which aim to revitalise the flagging economy.
- + The government will focus on infrastructure development and a review of transport, power and customs tariffs to help boost business investment and spur job creation.
- The South African rand remains vulnerable to wide swings created by bouts of political instability, policy uncertainty and exposure to volatile 'footloose' foreign capital flows.
- Property rights protection has come into question given the government's current stance on pushing ahead with land reforms that entail expropriation without compensation.

## KEY DEVELOPMENT

The economy slipped into a 'technical' recession during Q2 following two successive quarters of real GDP contraction, while the government is proposing a new economic stimulus and recovery plan.

### CREDIT ENVIRONMENT OUTLOOK

R

**Trend:**

Stable



Key Development has had a negative impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK

R

**Trend:**

Stable



Key Development has had a neutral impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

R

**Trend:**

Stable



Key Development has had a negative impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

A

**Trend:**

Stable

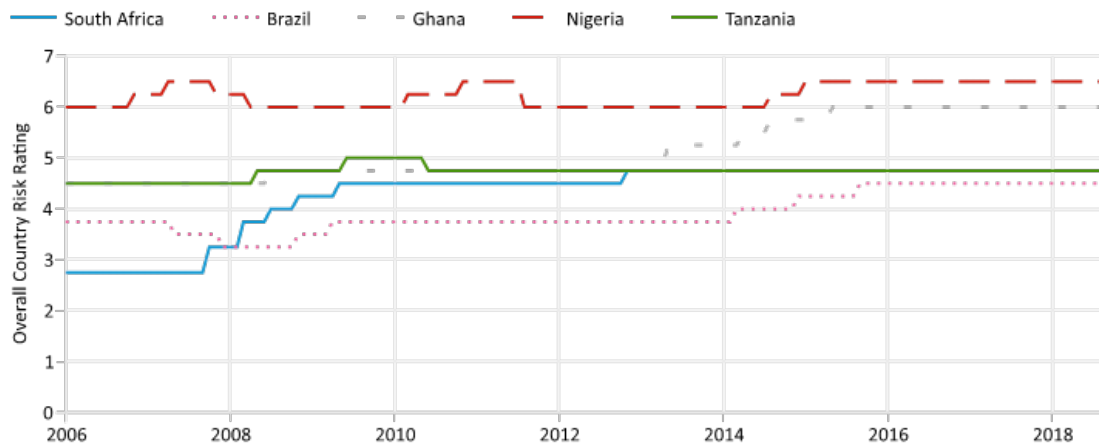


Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

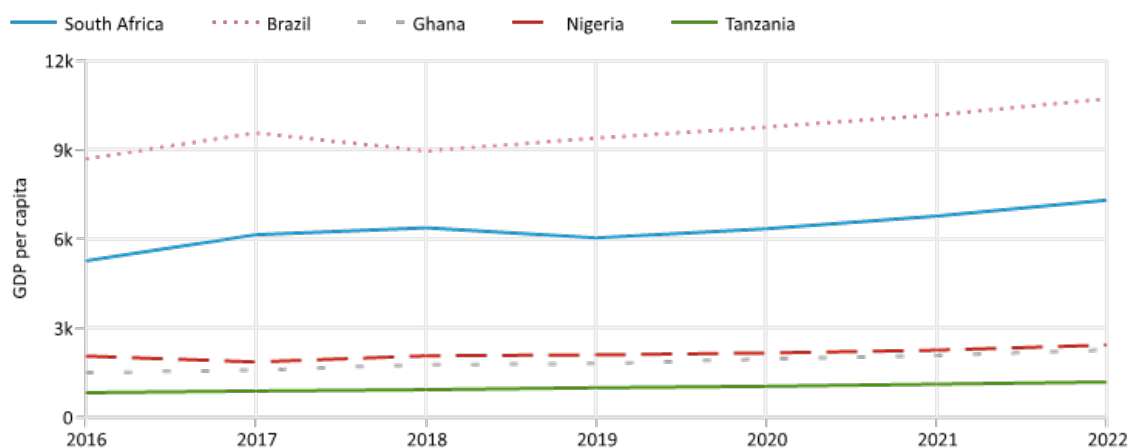
### Rating History and Comparison



Source : Dun & Bradstreet

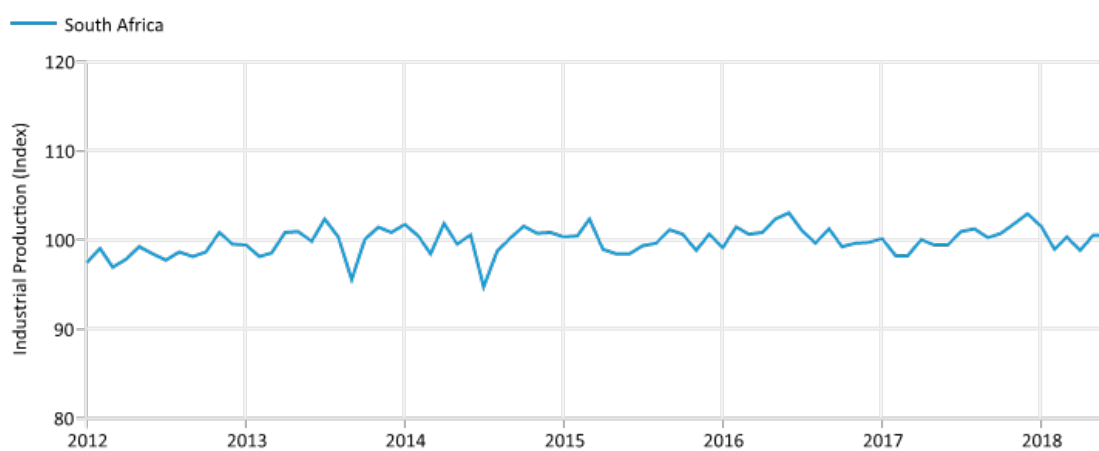
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Industrial Production (Index)



Source : Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2015	2016	2017	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-4.6	-2.8	-2.5	-2.7	-3.3	-3.2	-3.3	-3.2
Gold avg USD/ounce	1,160.7	1,249.0	1,257.6	1,267.6	1,296.4	1,300.2	1,313.5	1,320.5
Govt balance, % GDP	-4.1	-3.9	-4.3	-4.0	-3.9	-3.5	-3.3	-3.3
Inflation, annual ave %	4.6	6.3	5.3	4.7	5.4	5.6	5.6	5.8
Real GDP Growth, %	1.3	0.6	1.3	0.9	1.9	2.1	2.3	2.5

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

The South African economy entered a 'technical' recession in Q2 2018, following two consecutive quarters of real GDP contraction. The economy is expected to grow by just 0.9% in 2018, before picking up to 1.9% in 2019. The South African rand is under pressure, and vulnerable to heightened volatility, owing to growing risk aversion towards emerging markets and the rand's exposure to 'foot-loose' foreign capital flows. The government is proposing a new economic stimulus and recovery plan, which focuses on infrastructure development and pushing ahead with sector specific reforms. The latter include a final set of revisions to the mining charter, the drafting of new legislation for the oil and gas sector, a commitment to land reform and changes to the onerous visa requirement regime. The ruling ANC is confronted by the need to prepare for the fast-approaching general election of 2019. This will take up increasing amounts of time, as the ANC attempt to fend off the challenge from the main opposition amid a backdrop of sluggish economic growth, high unemployment and rising living costs. We continue to recommend LC terms in all trade dealings with South Africa.

## TRADE TERMS AND TRANSFER SITUATION

### Minimum Terms: SD

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: LC

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### Usual Terms: 30-90 days

*Normal period of credit associated with transactions with companies in the stated country.*

### Local Delays: 0-1 month

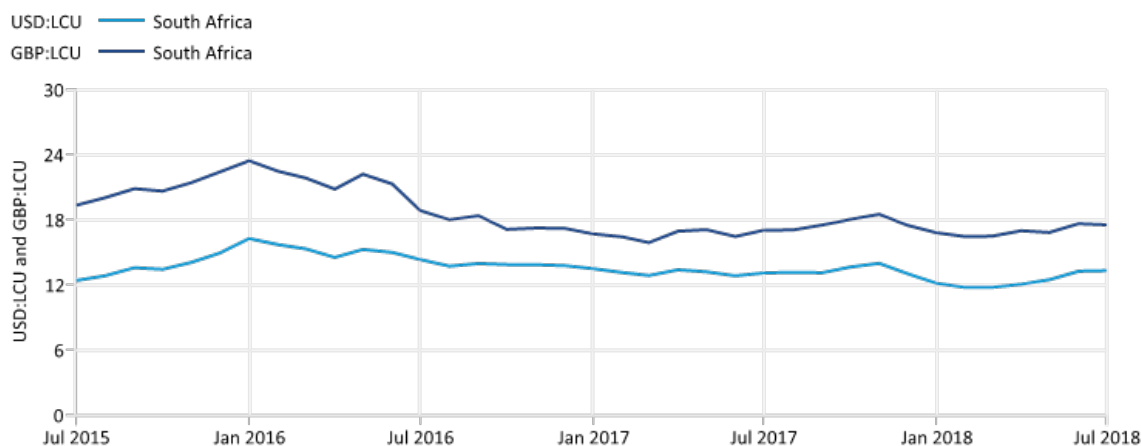
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: 0-1 month

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



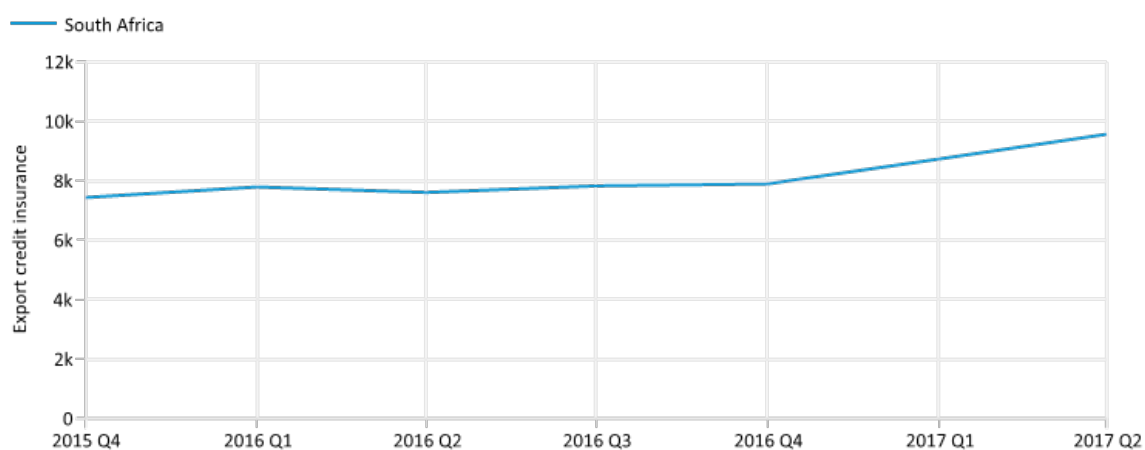
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = South African rand*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.*



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### *The economy slips into recession*

The South African economy slipped into a 'technical' recession during Q2 2018 following two successive periods of quarterly real GDP contraction. On a seasonally-adjusted annualised basis, real GDP shrank by 2.6% in Q1, and again by 0.7% in Q2, according to Statistics South Africa. The largest contributors to the contraction in real GDP have been the agriculture, construction, mining, transport and trade sub-sectors. The composite RMB/BER Business Confidence Index (BCI) picked up in Q1 to 45, before slipping to 39 in Q2 and 38 in Q3, as the initial feel-good factor provided by the appointment of President Cyril Ramaphosa began to wane. The BCI has remained below 50 throughout 2018, which indicates manufacturers, building contractors, retailers, wholesalers and new vehicle dealers are - on balance - more pessimistic than optimistic about prevailing business conditions. Quarterly contractions took annual economic growth to just 0.6% y/y in H1 2018, and we now expect the economy to expand by just 1.0% in 2018 as a whole, before slightly picking up to 1.8% in 2019.

### Business Regulatory Environment

#### *Ramaphosa announces stimulus and recovery plan*

President Ramaphosa announced an economic stimulus and recovery plan in mid-September, which will re-direct ZAR50bn (around USD3.5bn) to projects that boost both growth and job creation. Details of the re-jig to public finances will be revealed in the mid-term budget policy statement in October, which will include an increase in spending on infrastructure projects and the launch of a new South African Infrastructure Fund. In addition to this, the plan reiterates the government's commitment to pro-business reforms in the mining and energy industries, as well as the travel and tourism sectors.

The controversial mining amendment bill has been formally scrapped, and the new plan focuses on final revisions to the mining charter, which include further concessions to mining companies on ownership rules. For instance, although the black economic empowerment ownership threshold will rise to 30% (from the existing requirement of 26%), existing ventures are not required to adjust their ownership structure until mining rights are renewed, and pending applications are granted a transition period to make the adjustment. Ramaphosa announced a review of power, rail and port tariffs with the intention of lowering business costs, while visa requirements will be revised to make it easier to hire skilled foreign workers and to facilitate the entry of tourists into the country.

### Political/Insecurity Risk

#### *Approaching election unnerves ANC*

The ruling African National Congress (ANC) and the new president, Cyril Ramaphosa, are attempting to develop and implement a wide-ranging reform agenda at a time when the economy is struggling, and the next general election - in 2019 - is fast approaching. The ANC leadership is concerned that sluggish economic growth, combined with high inflation, high unemployment, official corruption and poor public service delivery will continue to undermine its standing among the general public. The president and senior party figures are preparing for the election and nullifying the message of the main opposition (the Democratic Alliance), which could soon begin to distract from some aspects of the reform agenda and lead to some populist policies that stray from the pro-business and pro-investment path.



## COUNTRY PROFILE AND STATISTICS

### Overview

South Africa is situated at the southern tip of Africa and is a driving force behind the Southern African Development Community (SADC) and the more compact Southern African Customs Union (SACU). South Africa has a diversified economy, skilled labour force, well-developed banking system and strong trade-facilitating infrastructure. The economy is open to foreign investment and is highly industrialised by regional standards (including a diverse manufacturing sector). However, industrial disputes and regulatory uncertainty can create challenges for businesses and deter some foreign investment.

The African National Congress (ANC) party has dominated national politics since 1994, although its pre-eminence has waned in recent elections, and in-fighting between rival ANC factions is a major concern for investors. An out-of-election-cycle change of presidency took place in February 2018, when Cyril Ramaphosa replaced Jacob Zuma as national president.

### Key Facts

Key Fact	Detail
Head of state	President Cyril RAMAPHOSA
Capital	Tshwane/Pretoria
Timezone	GMT +02-00
Official languages	Eleven, including- Xhosa, Zulu, Afrikaans & English
Population (millions)	56.7
GDP (USD billions)	349.3
GDP per capita (USD)	6,159
Life expectancy (years)	61.1
Literacy (% of adult pop.)	94.4
Surface area (sq km)	1,219,090

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2013	2014	2015	2016	2017
Real GDP growth (%)	2.5	1.8	1.3	0.6	1.3
Nominal GDP in USDbn	367	351	318	296	349
Nominal GDP in local currency (bn)	3,540	3,805	4,051	4,350	4,652
GDP per Capita in USD	6,822	6,434	5,746	5,279	6,159
Population (year-end, m)	53.8	54.5	55.3	56.0	56.7
Exchange rate (yr avge, USD-LCU)	9.7	10.8	12.8	14.7	13.3
Current Account in USDbn	-21.3	-17.7	-14.6	-8.3	-8.6
Current Account (% of GDP)	-5.8	-5.1	-4.6	-2.8	-2.5
FX reserves (year-end, USDbn)	44.9	44.3	41.6	42.6	45.5
Import Cover (months)	4.4	4.6	5.0	5.7	5.5
Inflation (annual avge, %)	5.8	6.1	4.6	6.3	5.3
Govt Balance (% GDP)	-4.4	-4.3	-4.1	-3.9	-4.3

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	0.9	1.9	2.1	2.3	2.5
Nominal GDP in USDbn	367	351	373	403	439
Nominal GDP in local currency (bn)	4,912	5,271	5,677	6,125	6,634
GDP per Capita in USD	6,392	6,052	6,360	6,788	7,322
Population (year-end, m)	57.4	58.1	58.7	59.4	60.0
Exchange rate (yr avge, USD-LCU)	13.4	15.0	15.2	15.2	15.1
Current Account in USDbn	-10.0	-11.5	-12.0	-13.1	-13.9
Current Account (% of GDP)	-2.7	-3.3	-3.2	-3.3	-3.2
FX reserves (year-end, USDbn)	48.0	48.0	48.0	49.0	49.0
Import Cover (months)	5.5	5.5	5.5	5.5	5.5
Inflation (annual avge, %)	4.7	5.4	5.6	5.6	5.8
Govt Balance (% GDP)	-4.0	-3.9	-3.5	-3.3	-3.3

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	S. Africa	Brazil	Ghana	Nigeria	Tanzania
Income per Capita (USD)	6,392	8,979	1,787	2,082	944
Country Population (m)	57.4	209.2	29.5	203.7	59.1
Internet users (% of population)	54.0	59.7	34.7	25.7	13.0
Real GDP Growth (% p.a., 2018 - 2027)	1.5 - 2.5	1.0 - 2.0	4.5 - 5.5	5.5 - 7.0	5.5 - 7.0

Source : Various sources/Dun & Bradstreet





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