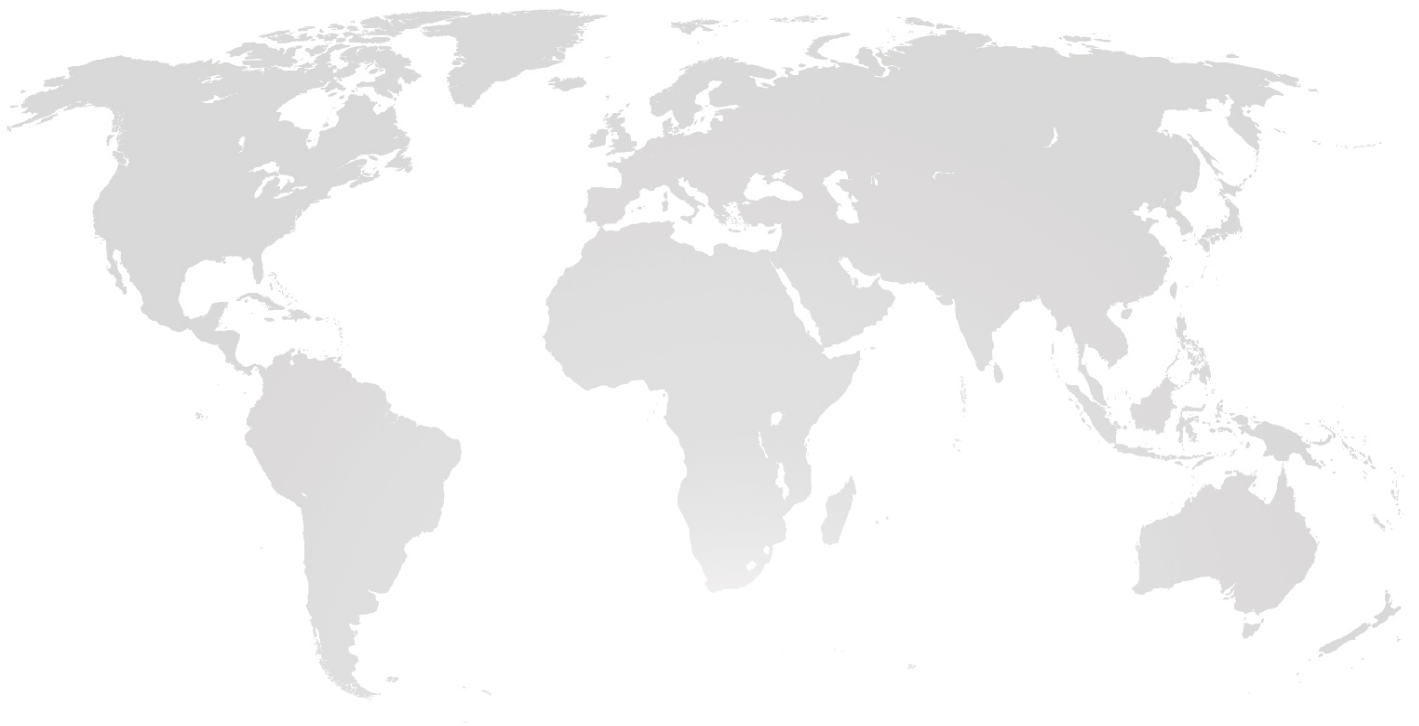


# Country Insight Snapshot

## South Africa

September 2015





## 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

- + The increasing purchasing power of the black middle class will boost spending across a number of sectors.
- + The demographic age profile is heavily skewed towards children and young adults.
- Ageing infrastructure has become a serious impediment to business continuity.
- External liquidity risk is firmly to the downside in the near term due to the fragility of the currency.

## KEY DEVELOPMENT

The slowdown intensifies in Q2, with real GDP actually contracting due to declines in a number of industries, including manufacturing and construction.

### CREDIT ENVIRONMENT OUTLOOK

R

Key Development has had a negative impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK

R

Key Development has had a negative impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

R

Key Development has had a neutral impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

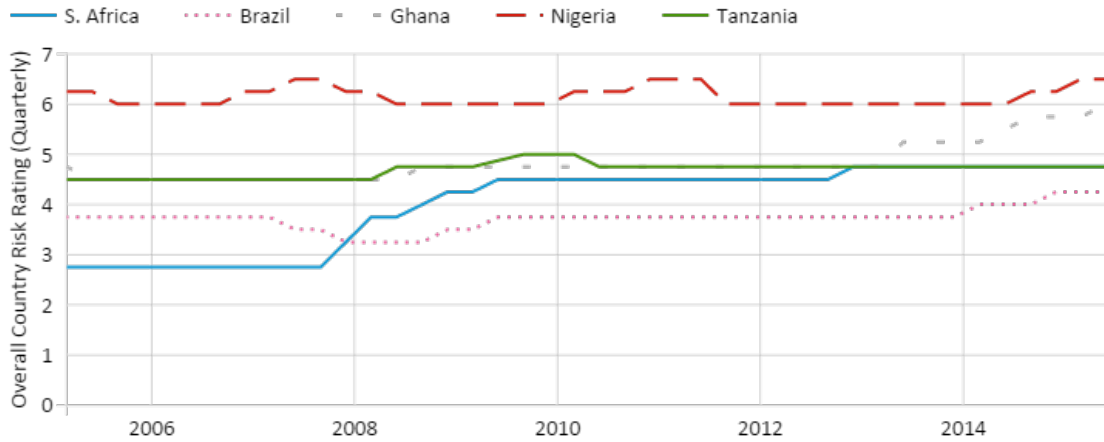
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Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

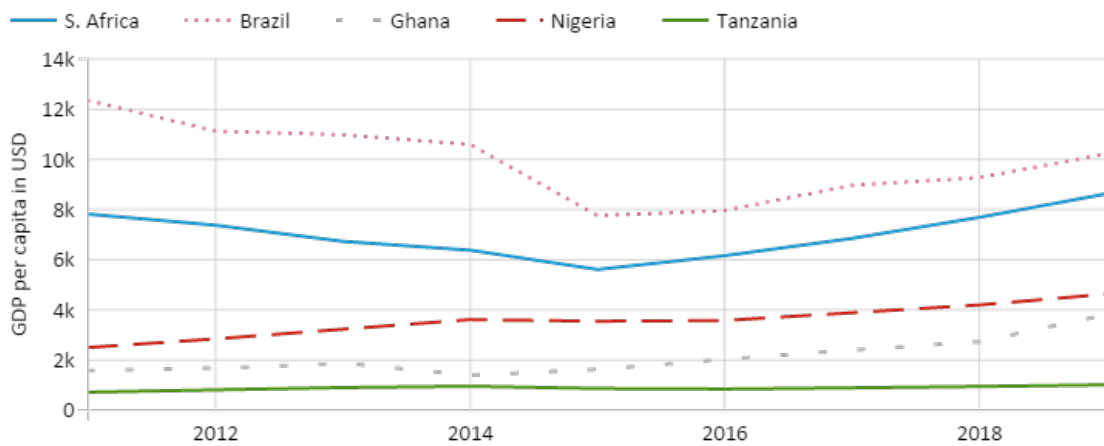
### Rating History and Comparison



Source : Dun and Bradstreet

Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : D&B

### Industrial Production (Index)



Source : National Statistical Offices



## Economic Indicators

Indicator	2012	2013	2014	2015f	2016f	2017f	2018f	2019f
C/A balance % GDP	-6.4	-7.8	-8.6	-8.2	-8.7	-8.5	-7.5	-6.6
Gold avg USD/ounce	1,668.9	1,409.6	1,265.8	1,089.7	1,098.3	1,094.9	1,102.5	1,115.8
Govt balance, % GDP	-4.2	-4.4	-4.2	-3.6	-3.0	-2.6	-2.4	-2.4
Inflation, annual avge %	5.7	5.8	6.1	4.9	6.1	5.4	5.3	5.2
Real GDP Growth, %	2.2	2.2	1.5	1.8	2.3	2.5	2.7	2.8

Source : Haver Analytics/D&B

## TRADE AND COMMERCIAL ENVIRONMENT

Dun & Bradstreet continues to recommend LC terms in all trade dealings with counterparties in South Africa (particularly for new customers) as growth remains subdued due to electricity shortages and the currency remaining very weak in global markets. The rand, already one of the worst-performing emerging market currencies this year, came under renewed downward pressure following the Chinese devaluation and associated market volatility; it has fallen below ZAR13:USD, well below its previous weakest level set in December 2001. Domestic business confidence mirrors the slide in global investor confidence; the South African Chamber of Commerce and Industry's (SACCI) business confidence index slipped to 84.3 in August, the lowest it has ever been since the survey started in 2004.

## 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.*

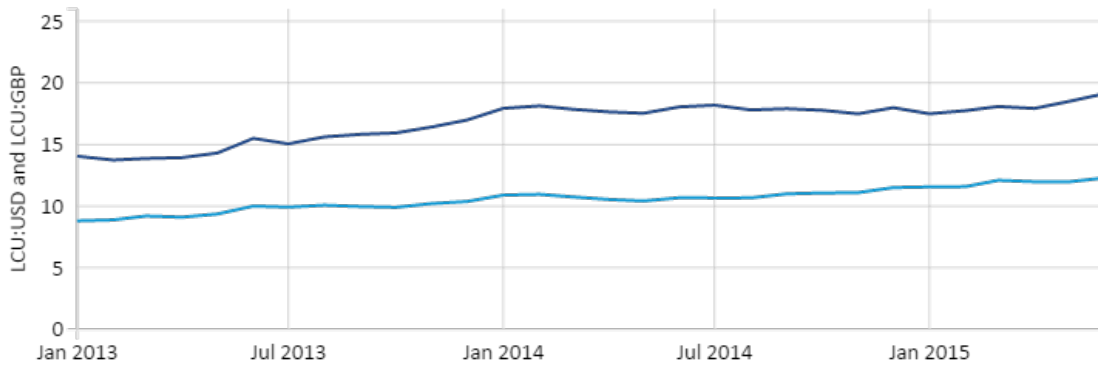
### FX/Bank Delays: 0-1 month

*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

LCU:USD — S. Africa  
LCU:GBP — S. Africa

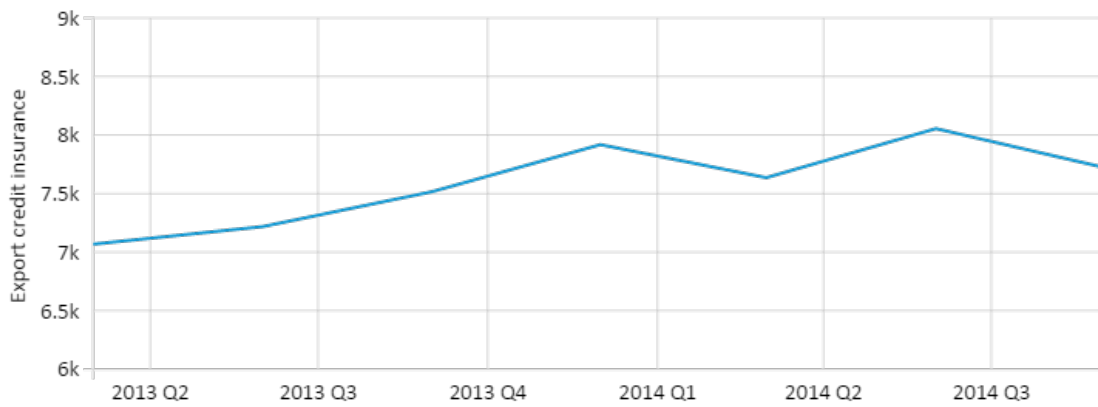


Source : IMF International Financial Statistics, National Statistical Offices

*LCU = Local Currency Unit*

## Credit Conditions

— S. Africa



Source : Haver

*Insured export credit exposures, USDm*



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### ***Growth contracts in Q2***

A slow start to the year in South Africa has intensified further, prompting Dun & Bradstreet to temper our near-term growth forecast. Real GDP actually contracted in Q2; SAAR growth fell by 1.3% in Q2 from 1.3% in Q1 and 0.5% in Q2 2014. Growth in Q2 was held back by broad-based factors; five of the ten main industry groups contracted, while the other five experienced modest growth. Plagued by the lack of adequate electricity supply, the manufacturing sector contracted by 6.3% and subtracted 0.8 percentage points from growth in Q2. Similarly, the mining and quarrying industry contracted by 6.3% and subtracted 0.5 percentage points from growth as production fell in basic iron and steel, non-ferrous metal products, metal products and machinery, petroleum, chemical products, and rubber and plastic products. Among the industries that made positive contributions to growth, the financial, real estate and business services grew 2.7%. Near-term growth will be challenged by low global prices for South African commodity exports; the structural problems in its labour market and the perennial potential for labour strikes; inadequate availability of electricity; and an acute drought in parts of the country. Following 1.5% growth in 2014, Dun & Bradstreet expects real GDP to accelerate only slightly to 1.8% in 2015, picking up to 2.3% in 2016.

One of the main factors behind the contraction in Q2 was the agriculture, forestry and fishing industry, which contracted by 17.4% and subtracted 0.4 percentage points from overall GDP. This was exacerbated by the ongoing drought. Some regions have been hit by their worst drought since 1992; with water-shortage in some provinces now at crisis levels. Further, this dry spell will drag on food output over the next few months. It has already forced South Africa, traditionally a net exporter of corn, into importing part of its corn supply this year; the Crop Estimates Committee predicts that this season's crop will be 9.84m metric tons, the smallest since 7.13m tons in 2007.

#### **FX Risk**

##### ***Drought threatens to ignite food price inflation***

Rising food prices, a consequence of drought, will add to FX weakness as a catalyst for domestic inflation. Headline CPI inflation rose from 4.7% y/y in June to 5.0% in July. The July reading was below expectations, but the South African Reserve Bank (SARB) believes the respite to be temporary. The weak rand, projected increases in electricity tariffs, and food price increases driven by rising prices of agricultural commodities are major risks that are likely to drive South African CPI inflation above the Bank's inflation target range of 3-6% in the medium term. Given the lags in the effect of monetary policy on inflation, the SARB has acted pre-emptively and raised the policy interest rate by 25 basis points to 6.0%. The bank remains in a tightening cycle with a goal of normalising the interest rate, and further hikes to the policy rate cannot be ruled out if inflation persists outside the bank's target range for an extended period of time.



## COUNTRY PROFILE AND STATISTICS

### Overview

South Africa is situated at the southern tip of Africa. After a long history of division and exploitation, the country made a transition from the 'apartheid' system to democratic government in 1994. However, apartheid generated a deep suspicion of others based on colour and racial stereotyping, which is still a source of socio-political friction across the country.

South Africa is a middle-income developing country, with strong financial and manufacturing sectors. It is a leading exporter of minerals, and tourism is a key source of FX. However, many South Africans remain poor, and unemployment and crime levels are high. In addition, the country has one of the highest rates of HIV/AIDS prevalence in the world, with around one in seven South Africans infected.

The country is relatively stable compared with many African countries, but growing corruption scandals surrounding top members of the ruling party are proving detrimental for the business environment; however, the country has a skilled labour force and a well-developed banking system.

### Key Facts

Key Fact	Detail
Head of state	President Jacob ZUMA
Capital	Tshwane/Pretoria
Timezone	GMT +02-00
Official languages	Eleven, including- Xhosa, Zulu, Afrikaans & English
Population (millions)	54
GDP (USD billions)	344.2
GDP per capita (USD)	6,379
Life expectancy (years)	56
Literacy (% of adult pop.)	82.4
Surface area (sq km)	1,219,090

Source : UN / Haver Analytics / D&B

### Historical Data

Metric	2010	2011	2012	2013	2014
Real GDP growth (%)	3.04	3.21	2.22	2.21	1.52
Nominal GDP in USDbn	363.52	408.24	389.58	359.43	344.24
Nominal GDP in local currency (bn)	2,661	2,964	3,198	3,470	3,736
GDP per Capita in USD	7,042	7,815	7,373	6,729	6,379
Population (year-end, m)	51.62	52.24	52.84	53.42	53.97
Exchange rate (yr avge, USD-LCU)	7.32	7.26	8.21	9.66	10.85
Current Account in USDbn	-10.12	-13.61	-25	-28	-29.7
Current Account (% of GDP)	-2.78	-3.33	-6.42	-7.79	-8.63
FX reserves (year-end, USDbn)	38.18	42.6	41	40	40.2
Import Cover (months)	4.57	4.64	3.95	3.61	3.48
Inflation (annual avge, %)	4.1	5	5.7	5.8	6.1
Govt Balance (% GDP)	-5.5	-4.5	-4.2	-4.4	-4.2

Source : D&B



## Forecasts

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	1.8	2.3	2.5	2.7	2.8
Nominal GDP in USDbn	305.7	338.6	379.7	429.5	485.5
Nominal GDP in local currency (bn)	4,004.4	4,367.4	4,746.4	5,154.5	5,582.8
GDP per Capita in USD	5,610	6,158	6,849	7,689	8,626
Population (year-end, m)	54.5	55	55.4	55.9	56.3
Exchange rate (yr avge, USD-LCU)	13.1	12.9	12.5	12	11.5
Current Account in USDbn	-25.1	-29.4	-32.2	-32.2	-32.2
Current Account (% of GDP)	-8.21	-8.68	-8.48	-7.5	-6.63
FX reserves (year-end, USDbn)	40.5	41.5	42	42	42
Import Cover (months)	3.39	3.36	3.33	3.33	3.33
Inflation (annual avge, %)	4.9	6.1	5.4	5.3	5.2
Govt Balance (% GDP)	-3.6	-3	-2.6	-2.4	-2.4

Source : D&B

## Comparative Market Indicators

Indicator	S. Africa	Brazil	Ghana	Nigeria	Tanzania
Income per Capita (USD)	6,379	10,589	1,396	3,613	955
Country Population (m)	54	206.7	26.8	177.5	50.8
Internet users (% of population)	49	57.6	18.9	42.7	4.9
Real GDP Growth (% p.a., 2015 - 2024)	4 - 5	2.5 - 4.5	6 - 9	5 - 7	5 - 8

Source : D&B





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