



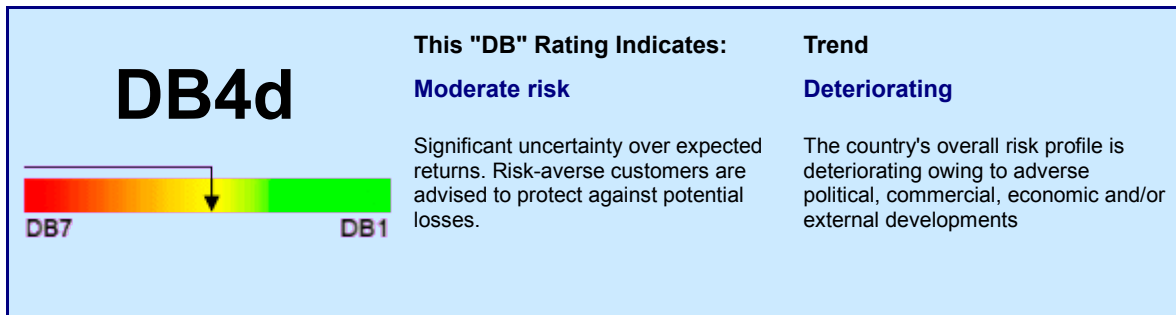
Decide with Confidence

# SOUTH AFRICA

Region : Africa

Edition : July 2014

## D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

*Political risk* - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

*Commercial risk* - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

*External risk* - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

*Macroeconomic risk* - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

## Key Facts

<b>Population:</b>	50.5m
<b>Surface area (sq km):</b>	1,219,090
<b>Capital:</b>	Tshwane/Pretoria
<b>Timezone:</b>	GMT +02:00
<b>Official languages:</b>	11, including: Xhosa, Zulu, Afrikaans & English
<b>Head of state:</b>	President Jacob ZUMA
<b>GDP (USD):</b>	394.9bn
<b>GDP per capita (USD):</b>	7,538
<b>Life expectancy (years):</b>	48
<b>Literacy (% of adult pop.):</b>	82.4

### Country 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 is proving detrimental for the business environment; however, the country has a skilful labour force and a well-developed banking system.

## Trade & Commercial Environment

### Trade Terms

<b>Minimum Terms:</b>	SD
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

<b>Recommended Terms:</b>	LC
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D&B'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.

<b>Usual Terms:</b>	30-90 days
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Normal period of credit associated with transactions with companies in the stated country.

### Transfer Situation

<b>Local Delays:</b>	0-1 month
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

<b>FX/Bank Delays:</b>	0-1 month
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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.

### Trade & Commercial Environment

D&B continues to recommend LC terms for all trades with South African parties, as labour disputes continue. A major labour dispute was settled in the platinum industry, but more disputes are now underway in the metal and engineering sectors. Work began immediately after an agreement was reached in the platinum industry, but it could take up to three months for production to be fully up and running again. The resolution caused a slight appreciation in the value of the rand, but the value of the currency has leveled out since then. The rand has depreciated by 2.8% in 2014, but has appreciated 4.6% since the strikes began in late January. The rand is expected to remain vulnerable to both domestic factors and the US monetary policy's effect on capital flows.

### Export Credit Agencies

<b>US Eximbank</b>	Full cover available
<b>Atradius</b>	Full cover available
<b>ECGD</b>	Full cover available
<b>Euler Hermes UK</b>	Full ST cover available

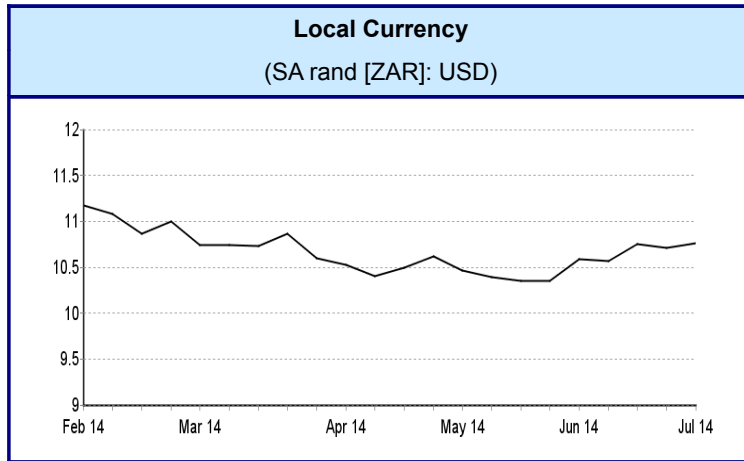
### Economic Indicators

	2011	2012	2013	2014f	2015f
<b>Real GDP growth, %</b>	3.3	1.8	1.9	2.2	3.0
<b>Inflation, annual ave, %</b>	5.0	5.7	5.8	6.3	5.8
<b>Govt balance, % GDP</b>	-4.5	-4.2	-4.4	-4.2	-3.6
<b>Gold, avg USD/ounce</b>	1571.0	1668.9	1435.0	1420.0	1425.0
<b>C/A balance, % GDP</b>	-3.3	-6.3	-6.5	-6.3	-6.2

Economic indicators: Government balance figures are for fiscal years (April-March).

### Currency Information

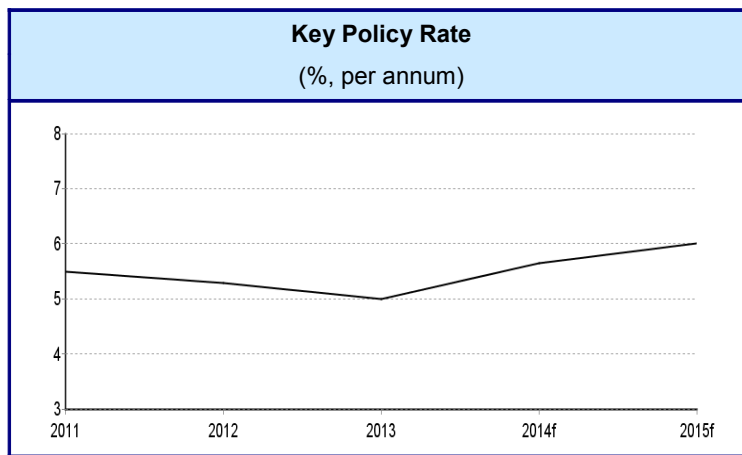
<b>Exchange Rates</b>	
(London, 07 Jul 14)	
EUR	14.6184
GBP	18.4465
JPY*	10.5388
USD	10.7575
*(x 100)	



**Local Currency**  
(SA rand [ZAR]: USD)

	Feb 14	Mar 14	Apr 14	May 14	Jun 14	Jul 14
<b>Week 1</b>	11.169	10.742	10.529	10.462	10.584	10.758
<b>Week 2</b>	11.079	10.738	10.398	10.387	10.563	
<b>Week 3</b>	10.869	10.733	10.498	10.351	10.756	
<b>Week 4</b>	10.998	10.868	10.619	10.351	10.713	
<b>Week 5</b>		10.596				

**Key Policy Rate**



**Data Table**

2011	2012	2013	2014f	2015f
5.5	5.28	5.0	5.65	6.0

## Risk Factor

D&B has slightly upgraded South Africa's near-term growth forecast; our forecast for 2014 stands 2.2%, up from our previous estimate of 2.0%, and our 3.0% projection for 2015 is unchanged. The uptick in our forecast is caused by expected growth in the platinum mining industry. After a five-month long dispute (the longest in South Africa's history), union members and mining companies were able to reach an agreement in late June. The strike, organised by the Association of Mineworkers and Construction Union, involved around 80% of all major platinum miners in South Africa. The strike led to a projected USD2.0bn in lost revenue and another USD1.0bn in lost wages. Union members demanded an almost three-fold increase in entry-level wages from ZAR5,000 (USD471.61) to ZAR12,500 (USD1,179.12). When a deal was finally struck, wages were set at ZAR10,000 (USD943.05). The agreement is for three years and begins retroactively from 2013, which means labour disputes could occur as early as 2016. While GDP growth is once again expected to be low in Q2, rising platinum prices (driven by geopolitical uncertainty) should help growth in H2. Prices soared to USD1,515 a troy ounce on July 1, nearing a ten-month peak.

Labour disputes in other sectors continue to pose downside risks to the near-term forecast. Metal workers and engineers began a fresh strike on July 1. While the strike, put on by the National Union of Metalworkers of South Africa (Numsa), is expected to be settled much faster than the one in the platinum industry, the demands are still high. Numsa workers are fighting for a 12.0% increase in wages and claim they will settle for nothing less than 10.0%; companies are currently offering an 8.0% increase. The strike is expected to be tame compared with the one in the platinum industry, but growth may still be dragged down slightly in Q3.

Even with a slight downgrade in the end-2014 inflation projection, from 6.3% in July to 6.2% currently, inflation will continue to hinder the Reserve Bank's use of monetary policy to boost growth. CPI inflation rose to 6.6% year on year (y/y) in May from 6.1% in April. This was the third successive month that the rate has exceeded the central bank's target range of 3.0-6.0%. Inflation is especially high in the food and non-alcoholic beverage component, standing at 7.8% and 8.8% in April and May respectively. This is a major increase from the 3.5% rate seen last December. However, inflation could decline in the next few months due to the projected increase in maize production. The predicted rise of 11.0% in the maize supply over the last year has reduced the price from ZAR3,800 (USD358.24) to ZAR2,000 (USD188.55) per tonne. This will also reduce producer food price inflation, which has soared to 9.1%.

## Glossary & Definitions

### DEFINITIONS

#### Minimum Terms:

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

#### Recommended Terms:

D&B'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:

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

#### Local Delays:

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

#### F/X Bank Delays:

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.

#### C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

## GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

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Email: [CustomerHelp@dnb.com](mailto:CustomerHelp@dnb.com)

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