

SOUTH AFRICA

COFACE ASSESSMENTS

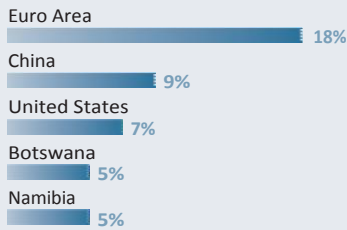
B
COUNTRY RISK

A4
BUSINESS CLIMATE

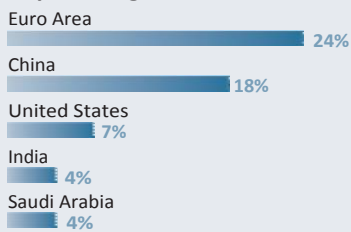


TRADE EXCHANGES

Exports of goods, as a % of total



Imports of goods, as a % of total



+ STRENGTHS

- Regional/continental economic and political power
- Rich in natural resources (gold, platinum, carbon, chromium...)
- Advanced services sector (especially financial)
- Legislative environment provides protection for investors

- WEAKNESSES

- Poverty and inequality are sources of social risk (crime, strikes and demonstrations)
- High unemployment (27.7%, 54.3% for those aged 15-24) and shortage of skilled labour
- Infrastructure shortcomings (transport, energy)
- Dependent on volatile flows of foreign capital

Main economic indicators

	2015	2016	2017(f)	2018(f)
GDP growth (%)	1.3	0.6	1.3	1.8
Inflation (yearly average, %)	4.6	6.2	5.3	4.9
Budget balance (% GDP) *	-4.1	-3.8	-4.5	-3.9
Current account balance (% GDP)	-4.6	-2.8	-2.5	-2.8
Public debt (% GDP)	49.4	50.7	53.3	55.2

* last fiscal year from April 1st 2018 to March 31st 2019 (f): forecast

55.6
POPULATION
(millions of persons - 2016)

5,302
GDP PER CAPITA
(US dollars - 2016)

RISK ASSESSMENT

Mild recovery

Recovery in activity is set to continue at a moderate pace in 2018. Mitigating inflation, rising real wages, and a more accommodative monetary policy (key interest rate cut by 25 basis points to 6.50% in March 2018) should support private consumption – but its contribution to growth will continue to be constrained by high unemployment (almost 27% at the end of 2017) and the 1 percentage point increase in VAT (to 15%). Given the deteriorated fiscal profile, support for public consumption and public investment will likely remain weak. It is possible that the appointment of President Cyril Ramaphosa, successor to Jacob Zuma, in February 2018 could encourage a rebound in private investment. Nonetheless, domestic and foreign investor confidence will likely continue to be hampered by a deteriorated operating environment (high costs, electricity supply problems, etc.) and perceived hostile public policies. Moreover, the uncertainty surrounding a land reform, which could allow expropriations to be carried out without compensation, might dissuade certain investments. To a lesser extent, the negotiation of a new mining charter could also delay some investment decisions. After a rebound that largely supported the recovery in 2017, the mining sector – suffering from structural challenges and continued relatively low international prices for steel, coal, and even platinum – will likely slow down further. Overall export growth is therefore expected to remain lacklustre, especially as manufactured goods exports are potential victims of the appreciation of the rand.

Prudent fiscal consolidation

The economic slowdown, low revenue collection, and inflation in public expenditure (partly due to the growing debt service burden that represents 14% of government revenue) resulted in the largest deficit since 2009 in 2017/18. In order to contain this deficit, the first budget of Mr Ramaphosa's presidency is based mainly on tax increases (increases in VAT, fuel taxes, and excise duties). With the 2019 elections looming, fiscal consolidation on the expenditure side should remain cautious. However, this budget prevented Moody's from downgrading its credit rating to "speculative". Such a downgrade, after those operated by Fitch and S&P in 2017, would have seen the country expelled from the World Government Bond Index (leading to estimated capital outflows of USD 8.5 billion). In this context, the debt burden is expected to continue to increase.

The current account deficit is expected to deteriorate slightly in 2018, in line with the expected decline in the goods balance surplus. Indeed, even if the global economic situation should support an increase in exports, this will be slowed down by the appreciation of the rand. Moreover, the recovery in domestic demand and higher oil prices will likely lead to faster import growth, and the small services deficit is unlikely to offset this trade surplus. Nevertheless, the current account balance is set to remain in deficit, as the impact on the income balance of large repatriations of profits and interest payments from foreign companies holding South African assets will have a negative impact. To a lesser extent, outward transfers under the Southern African Customs Union (SACU) will also have an impact. While the external position should not be threatened in the short-term, notably as a result of portfolio investment flows, the decline in direct investment is a cause for concern. Fluctuations in capital inflows will maintain the volatility of the rand in particular. Although dominated by four banks and exposed to sovereign risk, the banking sector remains sound.

Numerous challenges on the agenda for the new president

Following the resignation of Jacob Zuma under pressure from his own party in February 2018, Vice-President Cyril Ramaphosa was elected to head the African National Congress (ANC), and in December 2017, was sworn in as President of South Africa. Economic and social challenges remain numerous as we emerge from a Zuma era marked by slowing activity, rising unemployment, poverty and inequality, a growing perception of rampant corruption, and uncertainty in public policy making. Mr Ramaphosa will have to rebuild investor confidence by implementing structural reforms that will restore the credibility of governance and restore the business environment: the country has plummeted in the Doing Business ranking (from 32nd in 2008 to 86th in the 2018 edition), undermined by the heavy administrative burden. At the same time, with the 2019 general elections in sight, Mr Ramaphosa will have to bring together a party in which divisions remain, particularly around the thorny issue of expropriations without compensation. Worse, this agrarian reform could also divide the whole country.