Euler Hermes Economic Research

Country Report

South Africa

Uncomfortably numb

General Information

GDP	USD314bn (World ranking 32, World Bank 2015)
Population	54.97mn (World ranking 24, World Bank 2015)
Form of state	Republic
Head of government	Jacob ZUMA
Next elections	2019, presidential and legislative

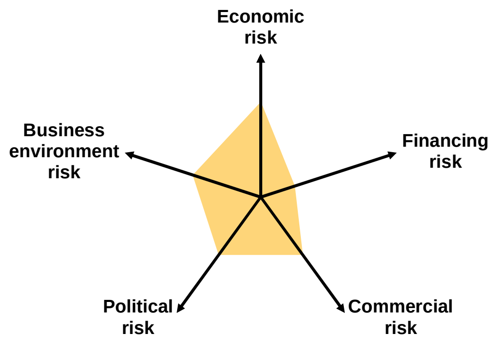
Strengths

- Natural resource base includes gold, platinum, chrome, manganese, vanadium, coal and diamonds.
- Geographic (strategic) and economic size engender regional dominance.
- Judicial and business environments aligned with western 'norms'.
- Economic management (monetary & fiscal policy) has a sound track record.
- Exemplary exodus from foreign debt problems in the 1990s.
- Good relations with IFIs and assistance would be readily available, in need.

Weaknesses

- Long-term structural problems include unemployment, rural poverty, skewed incomes, incidence of HIV/AIDS, labour militancy and weak educational standards.
- Open economy can result in currency and external account pressures.
- Despite lower dependence on mining (now accounting for around 13% of GDP), vulnerability to commodity price fluctuations.
- Current and fiscal account deficits.
- Inward investment weighted to portfolio flows rather than FDI.
- Lack of investment in power generation has resulted in some rationing of supplies to homes and industry.

Country Rating B2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
China	8%	1	18%	China
United States	8%	2	12%	Germany
Germany	6%	3	7%	United States
Namibia	6%	4	6%	Nigeria
Botswana	5%	5	5%	India

By product (% of total)

Exports		Rank		Imports
Non-ferrous metals	12%	1	16%	Petroleum, petroleum products and related materials
Road vehicles	12%	2	8%	Road vehicles
Metalliferous ores and metal scrap	10%	3	5%	Telecommunication and sound recording apparatus
Iron and steel	6%	4	5%	Other industrial machinery and parts
Coal, coke and briquettes	6%	5	4%	Electrical machinery, apparatus and appliances, n.e.s.

Source: UNCTAD 2015

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Stagnation per se

South African GDP per capita stalled for almost three years. Expected growth for 2017 (+1%) and 2018 (+1.5%) will not be enough to deliver fresh per capita income growth. It created some discontent and contributed to private confidence (business as well as consumer one) slump. The trigger of this slow growth momentum was the decision of Chinese authorities to let growth slow in 2011. It implied less demand for metals, a fall in metal prices (key South African export) and a related depreciation of the rand exchange rate (-46% from 2011 to date).

Recent political evolutions didn't show any sign of solutions in order to break this stagnation. Public debt is growing but from a low starting point. It means that financing is not a big issue, so the government has no incentives to rebalance its public balance. Such a model, with a level of public spending somewhat high for the region (about 40% of GDP) does not give the right incentives to the private sector. National savings are only 16% of GDP, not enough to finance investment and fix the bottlenecks inhibiting South African growth (particularly regular power shortages). Policy slippage is likely until the next Presidential election in 2019.

But the economy is diversified…

Dependence on the gold sector is much reduced, with mining as a whole now accounts for around 13% of GDP, just like manufacturing. Platinum and coal are both larger contributors to mining output than gold. Recent economic performance shows also some resilience in the domestic economy. GDP growth was +0.3% in 2016, the weakest growth since the 2009 World crisis. However, the South African economy exhibited a divergence between weak primary sectors and services. Agricultural production decreased for the 2nd year in a row (-7.8% in 2016, -6.1% in 2015), as a result of a bad harvest. Moreover, the mining output decreased by -4.7%, subtracting 0.4pp to overall GDP growth. Services sectors (63% GDP) performance remained quite unchanged, growing by +1.4% in 2016, after +1.6% in 2015. It means that even if the commodity sector weighs on South Africa's economic performance, other sectors still benefit from other drivers to grow (wage indexation).

…and has buffers

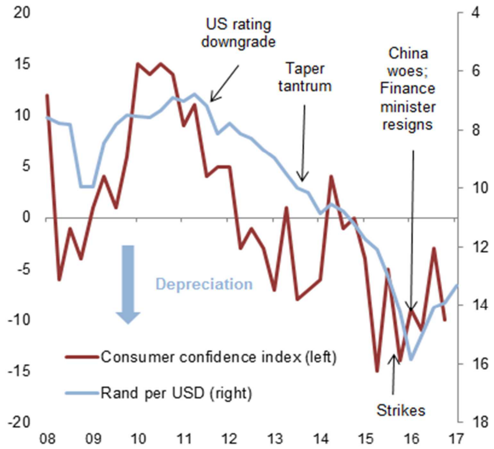
The Central Bank (CB) is clearly an asset. The floating exchange rate regime offers some self-insurance against shocks. The exchange rate plays a shock absorber role and reduces the need for foreign exchange reserves: their current level is adequate.

Key Economic Forecasts

	2015	2016e	2017f	2018f
GDP growth (% change)	1.3	0.3	1	1.5
Inflation (%, average)	4.6	6.5	6	5.5
Fiscal balance (% of GDP)	-3.9	-4	-4	-3.8
Public debt (% of GDP)	50	51.7	53	55
Current account (% of GDP)	-4.3	-3.3	-3.2	-2.5
External debt (% of GDP)	48	57	63	66

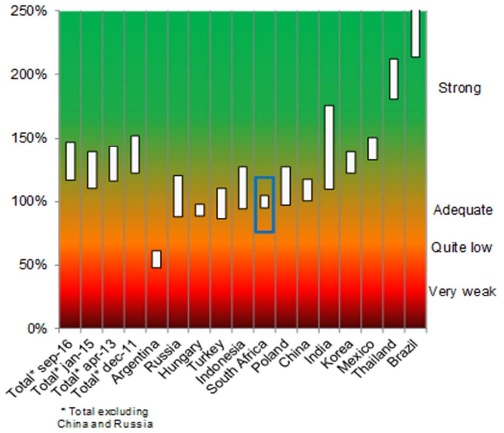
Sources: National Sources, IHS, Euler Hermes

Exchange rate and consumer confidence



Sources: National sources, IHS, Euler Hermes

Reserve adequacy: Foreign exchange reserve in % of likely financing needs



Likely financing needs are an estimate of likely capital outflows, the risk of a credit crunch, and the risk of an export drop

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