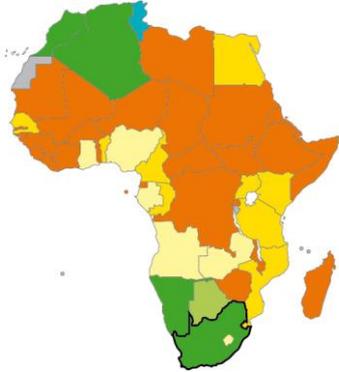


South Africa

DIN SÄKERHET I EXPORTAFFÄRER **ekn**



COUNTRY RISK CATEGORY

3/7

The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.



EKN'S OUTSTANDING GUARANTEES TO THE COUNTRY

SHORT-TERM TRANSACTIONS: SEK 37 MILLION

MEDIUM AND LONG-TERM TRANSACTIONS: SEK 5265 MILLION

DATE

8/12/2014

Structural weaknesses hampering growth

South Africa has a solid foundation to build on with a diversified economy, stable institutions and a strong banking system. As a result of the latest show of confidence in the ANC in the spring elections and the country's dependence on foreign investment, economic policies will remain responsible. Nevertheless, South Africa's structural problems are preventing growth from reaching the level needed to improve living conditions for the population at large and reforms are becoming increasingly urgent. However, the economic scope to make reforms has shrunk, as well as the political support for the government's reform agenda. The long-term forecast for South Africa's economy is therefore slightly gloomy overall.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

Strengths

- Stable and transparent institutions
- Responsible economic policies
- Sound and well-regulated banking sector

Weaknesses

- Deep structural problems in the form of poverty, unemployment and inequality
- Social unrest and frustration among the population, which has resulted in mine strikes that are slowing down growth
- Dependence on portfolio investments to finance the current account deficit

EKN'S POLICY

One of the region's best country risk categories

Like the rest of the OECD, EKN places South Africa in country risk category 3 for both short-term and long-term guarantees. After Botswana (country risk category 2), South Africa

holds the best categorisation in sub-Saharan Africa. For all buyer categories, transactions are assessed on their own merits without any special requirements or conditions.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY?

The policy may be made less restrictive in the event of

- The government succeeding in resolving its structural problems, thus reducing unemployment, increasing growth and strengthening the public finances.

The policy may be made more restrictive in the event of

- The government failing to implement necessary reforms, with non-existent growth and a continuing weakening of the public finances as a result.
- The government abandoning the National Development Plan (NDP) in favour of a more populist economic policy that could scare away foreign investors and thus complicate the financing of the current account deficit.

EKN'S EXPOSURE AND EXPERIENCE

JAS Gripen still dominant

EKN's outstanding guarantees total SEK 5.3 billion and consist largely of an export transaction for JAS Gripen. Other guarantees amount to approximately SEK 300 million and consist primarily of guarantees in the mining and transport sectors. In the first three quarters of 2014, EKN issued 51 new guarantees equal to a guarantee amount of SEK 88 million.

EKN is seeing a reduction in guarantee amounts for South Africa, which can be explained by the falling commodity prices and decreasing investments in relation to the mining industry.

EKN's experience in guaranteeing transactions to South Africa is good. During the financial crisis, there were some payment delays in transactions with counterparties in the mining sector. In a couple of transactions, the export company repossessed the equipment and sold it before indemnification, a procedure that worked well. Claims currently total just below SEK 9 million and are spread out among a handful of debtors. Most of the claims refer to payments for damage arising in conjunction with the financial crisis.

Increasing politicisation and the ongoing process of change within the judiciary in the country, in EKN's experience, is having a negative effect on recovery efforts and past experience also shows that recovery proceedings have been beset with bureaucratic difficulties.

COUNTRY ANALYST



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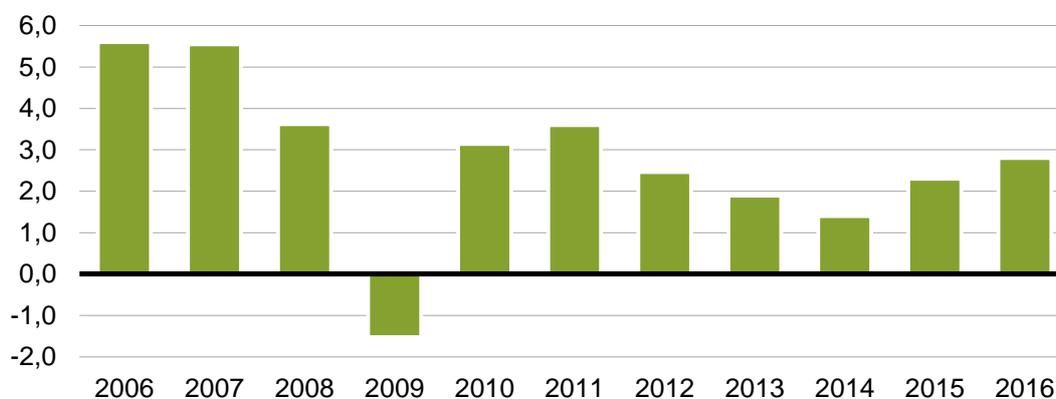
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DISCLAIMER

The country analysis is based on a range of sources and reflects information that is relevant to EKN at the time of publication. The responsibility for how the information is used or interpreted rests solely with the user, and EKN cannot be held responsible for any loss or damage.

RISK DEVELOPMENT

As expected, the ANC won the spring elections by a convincing majority. It is highly likely that there will be continuity in terms of the responsible economic policies pursued by the ANC government since the fall of the apartheid regime, which have made South Africa a middle income country with a well-diversified economy. However, both voter turnout and support for the ANC are experiencing a falling trend. This is a symptom of growing disappointment on the part of South Africans over corruption scandals and passivity when it comes to dealing with the country's serious socioeconomic problems. The legacy of the apartheid system, such as a sub-standard educational system and rigid labour market legislation, has caused widespread poverty, inequality and unemployment. This is holding back growth, which is not estimated to be more than 1.4% this year. The frustration of the population has also led to several widespread and prolonged strikes in the mining sector, which is crucial to the economy. This factor is contributing to the weak growth for this year. Growth is expected to strengthen slightly in the coming years, in part thanks to a new power plant that will come online at the end of the year. A growth rate of 2-3% is however a little below the country's potential of around 4-5%, and is not enough to significantly improve the population's living standards.

GDP GROWTH, PER CENT

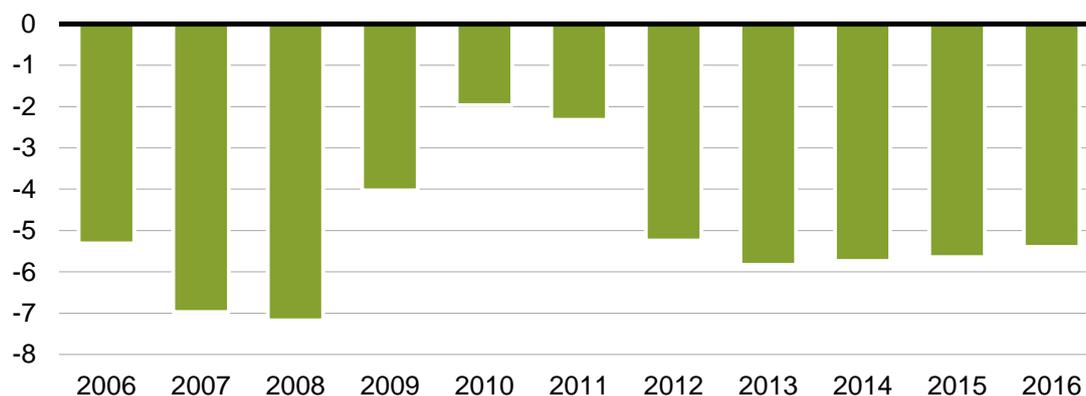
Source: IMF, the forecast years are 2014-16

The public finances weakened during the financial crisis on account of expansionary fiscal policies to counteract the effects of lower external demand. This year's elections put additional pressure on the public finances. The budget deficit is currently slightly less than 5% of GDP. It is estimated that the budget deficit will shrink over the next couple of years, but rapid growth in civil servant salaries and the large amounts of public investment needed will remain a fiscal policy challenge. In the long term, this may lead to an increase in the public debt.

South Africa's external position is considered good overall. The international reserves cover less than four months of imports, which is considered acceptable given the country's relatively broad economic base. The rand has a high degree of convertibility and can be assessed by EKN in transactions financed in local currency. Reduced export demand and capital outflows on account of more normal American monetary policies have led to relatively significant

depreciation of the rand over the past 15 months. The negative effects of the currency depreciation are however being limited by the fact that the government is primarily borrowing on the domestic market. The country's external debt is moderate at 40% of GDP. The current account deficit is relatively large and has grown over the past years as a result of falling commodity prices and an increase in imports in relation to various infrastructure projects. Low productivity has also made the country's exports relatively more expensive and thus put pressure on export growth. The current account deficit is expected to decrease in the future, but its financing still bears a certain degree of risk, since it is mainly financed via portfolio investments that are more volatile than direct investments.

CURRENT ACCOUNT BALANCE, PER CENT OF GDP



Source: IMF, the forecast years are 2014-16

The country's dependence on foreign investments will contribute to the continuation of responsible economic policies. But political and economic reforms are needed to be able to increase the rate of growth and address the structural problems. The government has adopted the National Development Plan (NDP), an ambitious vision for South Africa in 2030. But the economic scope to meet these targets has shrunk, and the NDP is being criticised by the unions and the left wing of the ANC. The government's will and ability to pursue the NDP seems to be uncertain, which brings down the long-term growth forecast for South Africa's economy.

BUSINESS ENVIRONMENT

The region's commercial hub

South Africa is the commercial centre of the region and the base for many international companies operating in the region. The World Bank's Doing Business Index ranks South Africa's business environment the third best in Africa after Mauritius and Rwanda. However, the country has continuously fallen in the DBI from 32nd place in 2009 to this year's 41st place. This can be explained by increased red tape when it comes to starting a business and registering property. Another challenge is the difficulty in recruiting skilled labour locally. The availability of financial information is good and the South African accounting standard (GRAP¹) is equivalent to IFRS. Over the past year, Chapter 11 has been introduced into the country's competition legislation, which creates the ability to restructure a company on the verge of bankruptcy and avoid liquidation, which should be positive for the business environment.

The country's judiciary is independent, although increased political interference has been noted recently. A lack of skilled staff is causing protracted proceedings. In comparison with

¹ Generally Recognised Accounting Practice

other African countries, corruption is low, although it occurs in certain government organisations. However, the South African national audit office (South African Office of the Auditor-General), as well as the press and the civil society, are doing an excellent job of reporting cases of corruption within the state apparatus.

South African banks are generally well-capitalised and profitable with a low proportion of bad loans. Bank regulation and supervision is considered good and no bank required support from the central bank during the financial crisis. There is a certain risk of an increase in the proportion of bad loans and worse capitalisation on account of a significant increase in lending to private households in recent years.