South Africa
Country Report

Economic and Financial Research Department
Telef. 21 310 11 86 | Fax: 21 353 56 94 | Email: deef@bancobpi.pt

July 2016

Country Snapshot

Government

Head of State	Jacob Zuma
Ruling party	African National Congress (ANC)
Main opositions parties	Democratic Alliance;Economic Freedom Fighters
Elections	Last elections were held on May, 2014; ANC won with 62% of the votes. Next elections due in May 2019.

Demographics and social indicators

Population	55.6 million (StatsSA, 2016)
Main Language	Zulu-23%;Xhosa-16%;Afrikaans-14%;English-10%
Life expect. at bitrth	62.34 years (CIA, 2015 est.)
Literacy %(adults>15)	94.3% (CIA, 2015 est.)
Urban population	64.8% (CIA, 2015)

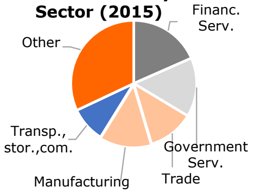
Economic structure

GDP in USD	USD 312.96bn (2015)
GDP per capita	USD 5,694.6 (2015)

GDP structure (% of the nominal GDP)

Financ. Serv.	18.4%
Government Serv.	15.2%
Trade	11.8%
Manufacturing	13.4%
Transp., stor.,com.	9.2%
Other	32.0%

Nominal GDP by Sector (2015)



	1980-89	1990-99	2000-09	2010-15
GDP, volume (%)*	2.2%	1.4%	3.6%	2.3%

* Average growth rates from the WEO (IMF)

Country Rating

	Rating	Last change	Outlook
S&P	BBB-	June 2014	Negative
Moody's	Baa2	Nov.2014	Negative
Fitch	BBB-	Dec. 2015	Stable

Business Development Indicators

	Last update
Global Competitiveness Index	
Ranking 49 (out of 140 economies)	2015-2016
Ease of Doing Business	
Ranking 73 (out of 189 economies)	2016
Human Development Index	
Ranking 116 (out of 188 economies)	2014
Corruption Perceptions Index (Transparency.org)	
Ranking 61 (out of 168 economies)	2015

Trade Structure - Main partners by destination/origin (2015)

Exports	% of total	Imports	% of total
Namibia	17.5%	Nigeria	32.5%
Botswana	17.4%	Angola	14.4%
Mozambique	9.8%	Swaziland	11.8%
Zambia	9.7%	Mozambique	8.8%
Zimbabwe	8.5%	Namibia	5.5%

Source: SARS (South African Revenue Service)

General assessment

Strengths	Weaknesses
. Abundant natural resources;	. Wide income disparities;
. Deep and sophisticated financial markets;	. High unemployment;
. Strong institutions;	. Energy constraints;
. Favorable currency composition of external debt;	. Tense industrial relations, with high probability of strikes in some sectors;
. Economic diversification;	. Scarce supply of infrastructure;
. Relevant dimension in regional terms.	. Inadequately educated workforce.

Trade structure - Top product groups (2015)

Exports	% total	Imports	% total
Machinery	17.5%	Mineral Products	57.8%
Mineral Products	13.9%	Textiles	7.0%
Vehc.aircraft & vessels	11.2%	Chemicals	6.7%
Chemicals	10.8%	Prepared foodstuffs	6.1%
Products Iron & Steel	9.5%	Products Iron & Steel	5.1%

Source: SARS (South African Revenue Service)

Outlook and Risks

. Recently, the IMF revised downwards the economic growth projection to 0.1% this year, recovering slightly to 1.1% in 2017. The outlook is marked by a considerable downside risks.

. The main risks are: heightened global financial volatility; deterioration of the political environment; impact on capital flows from sovereign credit rating downgrades; potential impact of the recent UK referendum to leave the EU; tighter global financial conditions.

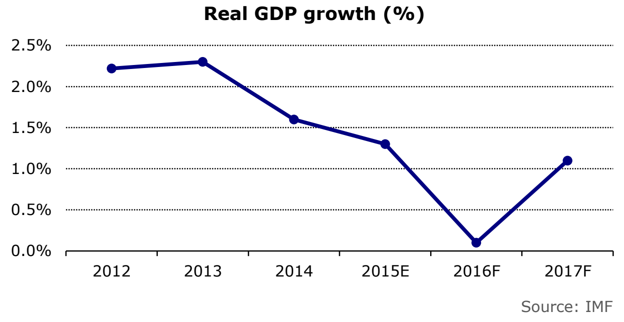
Key Macroeconomic Indicators

	Source	2012	2013	2014	2015E	2016F	2017F
GDP (real % change)	Article IV 2016	2.2%	2.3%	1.6%	1.3%	0.1%	1.1%
Nominal (bn USD)	WEO IMF	397.4	366.2	350.1	313.0	266.2	273.7
Nominal (bn of Local Currency - Rand)	WEO IMF	3,262.5	3,534.3	3,797.1	3,991.0	4,259.4	4,576.8
Real GDP per capita (USD)	WEO IMF	7,592.2	6,889.7	6,483.8	5,694.6	4,768.2	4,826.1
CPI (% change, anual avg.)	Article IV	5.7%	5.8%	6.1%	4.6%	6.7%	6.2%
Current account balance (% GDP)	Article IV 2016	-5.0%	-5.7%	-5.4%	-4.3%	-4.1%	-4.8%
Balance on Goods & Services (bn USD)	Article IV 2016	-7.3	-8.4	-6.5	-3.2	-3.4	-5.2
Exports of Goods & Services (bn USD)	Article IV 2016	114.4	113.4	109.4	96.7	96	97.5
Imports of Goods & Services (bn USD)	Article IV 2016	121.7	121.8	115.9	99.9	99.7	102.7
Balance on financial account (% GDP)	Article IV 2016	5.6%	3.8%	4.4%	3.3%	4.1%	4.8%
Portfolio Investment (% GDP)	Article IV 2016	1.7%	1.6%	1.3%	1.4%	0.6%	0.4%
FDI (% GDP)	Article IV 2016	0.4%	0.4%	-0.5%	-1.1%	-0.4%	-0.3%
Fiscal balance (% of GDP)	Article IV 2016	-4.0%	-3.9%	-3.7%	-3.9%	-3.7%	-3.6%
Gross Public Debt (% of GDP)	Article IV 2016	40.9%	44.0%	46.9%	49.8%	51.5%	52.6%
Total External Debt (% GDP)	Article IV 2016	35.7%	37.3%	41.3%	39.4%	50.6%	51.4%
USD/LCU (end-period)	Article IV 2016	8.5	10.5	11.6	15.6	15.8	-
Gross International Reserves (bn USD)	Article IV 2016	50.7	49.6	49.1	45.8	46.1	-
in months' imports	Article IV 2016	4.9	4.9	5.1	5.5	5.5	-
Unemployment rate (% labour force, average)	Article IV 2016	24.9%	24.7%	25.1%	25.4%	26.1%	26.7%

Sources: IMF (World Economic Outlook, Article IV July 2016)

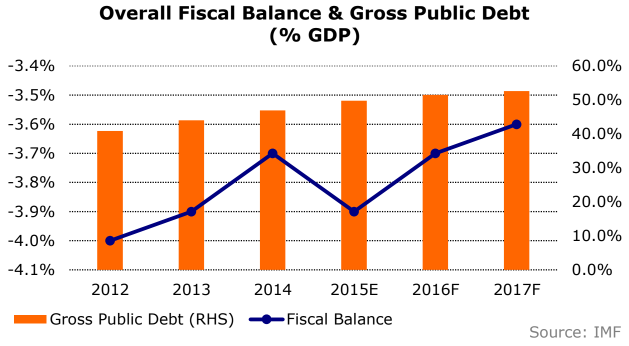
South Africa should continue to face substantial challenges

The real GDP decelerated to 1.3% in 2015, from 1.6% over the previous year, reflecting the subdued business and consumer confidence, weak external demand, supply-side constraints (especially in electricity and agricultural production), decline in the prices of some of the main exported commodities and the effects of drought conditions. The last effect was particularly impactful on the agricultural sector, which contracted 5.9% in the whole year. On the other hand, the mining sector expanded 3.2%, benefitting from the normalization in platinum production and lower frequency of strikes in other mining sub-sectors. On the expenditure side, private consumption benefitted from fewer days of strikes, a lower inflation rate and public wages increase. Net exports contracted, explained by a larger recovery of imports compared to exports, while weak business confidence and policy uncertainty affected private investment. For 2016, the IMF projected a 0.1% growth rate, recovering slightly to 1.1% in 2017. However, this outlook should face considerable risks. Firstly, the spillovers from Chinese economic transition, with impact on volume and price of exports (especially, mining exports). Secondly, tighter global financial conditions, given external financial needs and a great share of bond and equities owned by foreign investors. Additionally, we highlight other downside risks: the global financial volatility, deterioration of the political environment, potential impact on capital flows from sovereign credit rating downgrades and the likely impact of the recent UK referendum to leave the EU.



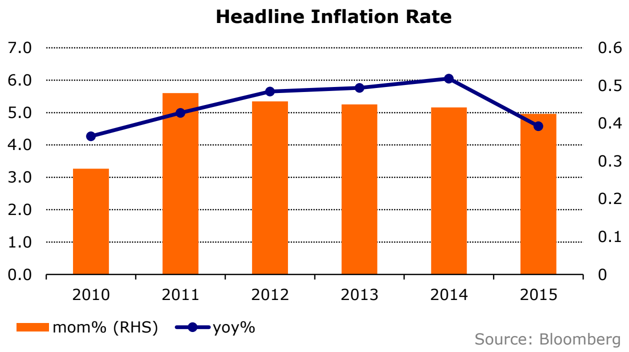
State Budget 2016/17 focused on fiscal consolidation

The adverse economic conditions, mainly the depreciation of the Rand and subdued commodity demand, have weighed on investor sentiment and purchase power of individuals. These effects have had a negative impact on the three largest tax bases: individual earnings, business profits and consumption. However, fiscal revenues increased 8.5% in 2015 compared to the previous year, reflecting some resilience of the tax system. Taking into consideration the consolidated revenue, the total amount surpassed the budgeted and revealed an 11% increase in comparison with 2014. At the same time, the consolidated expenditure was higher than projected, generating a 3.9% budget deficit and a debt-to-GDP ratio of 44.3% in 2015, according to the Government. The State Budget 2016/17 is focused on fiscal consolidation, with the central aim being the stabilization of debt-to-GDP ratio. The expenditure ceiling should fall by R25 billion in the next three years, mainly by curtailing public sector wages (this could be politically difficult, given the fact that the public sector has been the only sector to show robust employment growth in the last years), while fiscal revenues should increase by R18 billion this year and R15 billion in the next two. Taking into consideration these measures, the fiscal deficit should reach 3.2% of GDP in 2016/2017, while the debt-to-GDP ratio should hit 45.7% this year, according to the State Budget. However, some risks could jeopardize this intent: disappointing economic growth, continued electricity shortages, drought conditions and the structural barriers.



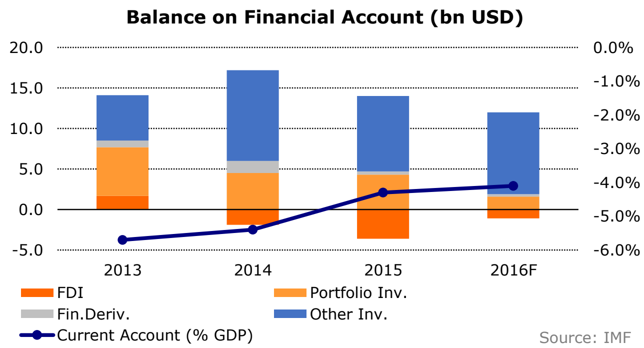
Inflationary pressures decreased in the last months

The Central Bank (SARB) raised the policy rate by 50 basis points (b.p.) in 2015 and 75 b.p. to 7% in 2016. The reasons behind these decisions include the increased inflationary pressures and elevated risks. In 2015, the inflation rate averaged 4.6%, below the figure recorded in 2014 (6.1%), explained by lower commodity prices, which mitigated the effects from the depreciation of the domestic currency, and the rise of electricity and food prices. Since the beginning of this year and until May, inflation rate averaged 6.4%, surpassing the upper-limit of 3%-6% target defined by the Central Bank, mainly due to base effects of fuel and food prices (affected by the drought conditions). However, the headline inflation has started to decline over the last months and is now close to the upper-limit of the range. For the whole 2016, the IMF anticipates a 6.7% rate (in line with SARB's estimate), reflecting the depreciation of the Rand against the USD, and the increase of food (affected by lower agricultural production), electricity and petrol prices.



Sluggish exports have been affecting the current account balance

South Africa has been recording a wide current account deficit, reflecting a weak export performance. In fact, sluggish exports (despite the depreciation of the Rand after the global financial crisis), as well as inelastic imports (related to infrastructure projects), have resulted in the widening of the current account deficit. Some explanations for the underperformance of exports include infrastructure inefficiencies, rigidities in the labor market, weaker external demand, softer commodity prices, strikes, uncompetitive domestic costs of production and logistical and energy constraints. Recently, the current account has started adjusting, mainly due to lower oil prices (South Africa is a net oil-importer).



This document is only for private circulation and only partial reproduction is allowed, subject to mentioning the source. This research is based on information obtained from sources which we believe to be reliable, but is not guaranteed as to accuracy or completeness. At any time BPI or any affiliated companies (or employees) may have a position, subject to change, in these markets. Unless otherwise stated, all views (including estimates or forecasts) herein contained are solely expression of BPI Economic and Financial Research and subject to change without notice.