

CREDIT

*notes*



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***Eastern Cape***

***World Markets  
Update***

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export destinations***

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# THE CONSUMER PROTECTION ACT: AN ACT OF VARYING APPLICATION, IS YOUR ORGANISATION PREPARED?

The Consumer Protection Act, the ground breaking legislation which will come into effect on 24 October 2010, imposes varying levels of obligations on suppliers, importers, distributors and manufacturers. Although the consumer rights under the Act only come into effect on 24 October 2010, organisations should be aware that certain of the provisions affect all goods supplied from 24 April 2010.

Broadly, the legislation seeks to protect consumers who are natural persons and small businesses whose turnover is below an annual turnover threshold which is yet to be determined.

The wide definitions of the terms “goods” and “transactions” in the Act are clearly intended to provide significant protection to the ‘man in the street’ and small enterprises. The Act does have certain exclusions related to goods or services

supplied to the State; under credit agreements in terms of the National Credit Act; services under an employment contract; collective bargaining agreements; and most financial services governed by FAIS and insurance services.

However, organisations should not be fooled into thinking that the threshold or any of the other exemptions mentioned automatically exclude them from most of the provisions of the Act. In fact, the opposite is true. In addition, the extent of the application of the Act will vary for organisations in different industries, with differing degrees of frontline activity and different product strategies.

Retailers whose customers are mainly natural persons have significant compliance regulations where the requirement for those businesses further up the supply chain will be more around allowable marketing practices and changed risk



# THE COLUMN

by Roger Munitich

GM: Marketing and R&D,  
Credit Guarantee

## BAD JUDGEMENT

A recent spate of companies finding themselves unwitting recipients of Default Judgements, has again shown up the fragility of our justice system.

Every legal persona deserves and it is a Constitutional right, to defend yourself in a court of law. However, the degenerate fraudsters have found a loophole and very junior legal 'practitioners' have been able to push through documentation under the noses of Clerks of the Court, ostensibly because you / your company has failed to file a motion to defend the action and they are officially 'rubber stamped'! Obviously, money must pass hands somewhere along the line, but suffice it to say that the first you may hear of the judgement is when one of your creditors refuses to supply you or worse, when a Sheriff appears on your doorstep with a Warrant of Execution in his hands. The process to have the judgement rescinded is a costly and time wasting exercise.

**Make it company policy to check your own public records from time to time.**

management requirements with suppliers and manufacturers. Therefore, the extent of the application of the Act is clearly not as simple to determine as it initially appears. The industries most impacted are retail (supplying, selling or distributing final goods which are not perishable, such as electronic goods, appliances, automobiles and furniture) and manufacturing. Probably the most dramatic aspect of the legislation is the strict liability and warranty provisions which the Act brings about in respect of goods sold to consumers.

The Act introduces an automatic 6 month warranty on all goods sold but the nature of the warranty is even more interesting, as it allows the consumer the choice of having the goods replaced, repaired or refunded. This warranty will have significant implications for business, with far-reaching financial and stockholding implications for all organisations involved in the supply chain.

In addition, the liability for damages caused by faulty goods is now based on strict liability, meaning a consumer will not have to prove any element of negligence to succeed in a claim and the claim does not even have to be brought against the organisation from which the faulty item was bought. What makes the warranty and liability provisions of the Act even more onerous for business is that they are jointly and severally applicable on all of the retailer, importer, distributor and manufacturer.

One may think that the services industry is less affected since these organisations provide services only; however, the parts and goods which are supplied during the provision of such services are still covered by the Act to the same degree as "goods" are covered.

Furthermore, the management of businesses may believe that since they deal only with organisations with annual turnover falling above the threshold to be determined by the Minister before the end of October 2010, their business would not be affected by the majority of the provisions of the Act but the legislation also sets new rules for many everyday activities of business.

These new rules will necessitate significant changes to current business operating models as they regulate aspects such as marketing activities, contractual content, fixed term contracts, customer loyalty programmes, gift vouchers, franchises, auctions, pre-payments, stockholding, labelling, pricing, delivery and returns.

The implication is that every aspect of companies will be affected, including procurement, legal, finance, risk, insurance and information technology.

These provisions will apply to all organisations in their business dealings irrespective of the threshold exemption to be determined in the regulations to the Act.

It is imperative for companies to take the first step to determine the extent to which the Act applies to them so that the new business risks can be determined and mitigated. The solution will have to be organisation wide, working through each of the company's functional areas so as to standardise compliance while optimising business productivity and the operational requirements of the organisation. 📄

### Issued on behalf of Deloitte.

Candice Holland

**Senior Manager:** Corporate and Commercial,  
Deloitte Legal, Deloitte & Touche

**Tel/Direct:** +27 (0)11 209 8598 or switchboard  
+27 (0) 806 5000

**Email:** caholland@deloitte.co.za



## RISKS KEEPING EXECUTIVES AWAKE AT NIGHT

**M**argin pressures are the most significant risk factor that companies will encounter over the next 12 months. This, together with political uncertainty, is keeping executives awake at night. This is according to the findings of the second CFO survey announced recently by Deloitte. The Deloitte 2010 CFO survey covered the full industry, turnover and experience spectrum of 200 of South Africa's top organisations nationally, including listed and unlisted entities in the private sector as well as major state-owned enterprises. This enabled the firm to examine the economic outlook of South Africa's corporate landscape through the eyes of CFOs.

In 2009, CFOs were predominantly focused on internal issues and preoccupied with those risks which could be controlled by the organisation during the downturn. Key risks that kept executives awake in 2008, namely political concerns and electricity supply, hardly featured on the radar screens of CFOs in 2009. External risks, e.g. volatility in key variables and weak demand, were considered harder to manage and created greater anxiety because they were regarded as less controllable. Looking back, 88% of CFOs considered that their risk management frameworks were effective in identifying and assessing the key risks facing their organisations. 92% believed they met their objectives in reducing or managing their risks within acceptable levels. Financial services, mining and construction showed the most positivity in this regard.

"The 2010 CFO Survey highlighted the following significant risks: margin issues, including the impact of electricity supply and pricing; market share, competitiveness and competition; financial health of suppliers and customers; and political factors," comments Hugh Harrison, CFO Survey Leader at Deloitte.

As far as the political, margin and electricity risks are concerned, it is clear that in many instances, these issues are inter-related, making detailed analysis complex. In the main, they focus on the twin key performance drivers of profitability through margins, and market share through competitiveness. Margin pressures were singled out by CFOs as being the most significant risk factor over the next 12 months. Although this is uniformly attributable to input cost pressures across all industries, construction, retail and TMT also noted significant pressure on the pricing/revenue side, with limited flexibility to maintain historic margins due to industry-wide increases in competition. Key inflationary cost concerns relate to: administered prices, especially electricity and transport; the lagged effects of wage settlements and recent union demands of several multiples of inflation; commodity price inputs, especially oil; and currency fluctuations and hedging costs.

"Although the electricity increases finally approved by NERSA fell below initial expectations, the cost and reliability of electricity supply remain the second largest risk factor to South African business performance," continues Harrison. CFOs agree that national electricity pricing policy presents a significant constraint to future economic growth; disadvantages the competitiveness of South African businesses; onerously increases the costs of doing business whilst detracting from the country's ability to attract essential investment. The inescapable fact is that the South African economy remains energy dependent for both existing industrial projects and for the proposed mega capital projects, resulting in domestic and commercial consumers continuing to subsidise key strategic industry investments.


During the recession, reduced consumption masked the seriousness of the situation, with little agreement or progress made towards increasing generating capacity and encouraging independent power production. Leadership battles at Eskom, together with only partial success in securing the necessary funding, forced several energy intensive industrial concerns to take power generating capacity into their own hands, at potentially uneconomic cost. Business remains unconvinced and critical of the rigour and transparency of government's consideration of the longer term strategic consequences of its electricity pricing policy. Absa economist Jeff Gable has gone on record stating that there is an apparent contradiction between the pursuit of an industrial policy that has growth aspirations in sectors that are power heavy in a country that's going to be electricity light.

In 2009, weak demand was one of the top three risks facing CFOs, coupled with the impact of destocking inventories, which totalled R37 billion in 2009. Although this has decreased in the current year, demand remains a concern. Restocking inventories has seen a swing of R40 billion, which has contributed meaningfully to certain organisations' performance. "Together with increasing competition, the ability to protect market share has become more of a priority to CFOs, but is constrained by margin flexibility and capacity," says Harrison. "Similarly, with inventories normalising, this is unlikely to contribute further to growth, particularly without a recovery in employment and related consumer spending."

Competitiveness was rated as the single largest industry concern facing South African firms that have ventured beyond our borders. For those with mainly domestic operations, however, this moved down to third place, highlighting the fact that they are relatively more shielded from the effects of competition and have other more pressing concerns to worry about. The effects of the financial crisis have served to lay bare this historic reliance on a 'tamer' domestic market. Several restraints to competition have been exposed during the recession, as well as during the recent increase in Competition Commission enquiries, including: significant pricing power enjoyed by many of the dominant players across industries; potentially insulated South African market dynamics because of the regulatory and exchange control regimes; and advantageous strategic cost structures. Taken together, these have significantly and artificially bolstered the apparent competitiveness of domestically focused South African organisations, at stark odds with those who have pursued strategies of growing offshore markets. The impact of exchange control and rigid structures around domiciles, has caused CFOs to question the impact of a South African domicile on their organisation's ability to compete in the global markets and the impact of this on their local share price.

In regard to the threat of competition, locally focused operations did not appear to be particularly concerned about the risks posed by foreign competition or new entrants. For domestic companies with a footprint outside South Africa, this was rated as a significant risk factor, specifically by the manufacturing and TMT industries. Product substitution was only seen as a concern for those industries facing market saturation and traditionally high margins such as TMT and financial services. For those industries subject to regulation, the increasing costs of compliance and potential political uncertainties have further contributed to a negative impact on margins and competitiveness. Because of the legislative and political frameworks impacting regulation in South Africa, although this is a significant concern, it surprisingly does not feature prominently at the top of CFOs' agendas.

According to Harrison, a significant further impact on margins and competitiveness arose from concerns regarding infrastructure decay and the need to find alternative solutions in the face of erratic and costly government delivery. This was of most concern to those South African companies with international ambitions and foreign companies operating in South Africa because of the impact on their ability to scale from their domestic base as well as the effect on the efficiency and costs of doing business.

Prior to the financial crisis, credit assessment for the majority of non-financial institution organisations relied on well established 'know your client' procedures and long-standing relationships, and therefore received relatively little management attention. With the impact of the crisis on the financial viability of both customers and suppliers, this has been elevated as a significant concern. Particularly in the manufacturing industry, organisations have become more conscious of the potential risks to margins of having to identify alternative, often foreign sources of procurement in the event of default by key suppliers. 

**Contact:** Hugh Harrison, CFO Survey Leader at Deloitte.  
**Tel No:** 011 806 6248  
**Mobile:** 082 370 2333  
**E-mail:** hharrison@deloitte.co.za

# IT Industry

The domestic recession forced many companies to cut back on expenditure in many areas, and this extended to not replacing computer equipment although the services side held up due to the fact that systems still need to be maintained according to Donna Furrmidge, Senior Manager Credit Guarantee. Consequently this industry has been experiencing a downturn even as the overall business cycle has ticked up with a number of large liquidations: Care Business closed their doors in early 2010 followed by Eclipse and listed concern Faritec after repeated efforts to keep the firm afloat.

Smaller resellers are now also struggling to meet contractual payment obligations, given that although they hung on through the depressed trading period in 2009, gross undercapitalization is catching up with them now. Further, expectations of a boost to sales from the Soccer World Cup appear to have resulted in just the opposite. Municipal departments have either a lack of funding or no budget allocation and together with misappropriation of funds is accounting for extensive delays in debtor payments.

Vishal Chuniwall, Senior Manager - Credit Risk at Mustek Ltd says that the IT industry has undergone cyclical change, resulting in a consolidation of distributors and a shakeup of more vulnerable value added resellers. They also cite the non-performance of certain government departments as contributing in part – or in fact hastening – the demise of many resellers. It should be noted that all recessions invariably involve a cleaning out of the unfit operators in many industries and this is healthy, with Mustek adding that consolidation by its very nature increases competition, lowers margins and creates opportunities for new entrants into the industry. As such the consumer has been and will continue to be the beneficiary of lower exit prices.


Mustek also notes that the replacement cycle for PCs has lengthened on average to four years with little incentive for users to upgrade any sooner, although the introduction of Windows7 has provided some stimulus with approximately 150 million licenses sold. Further impetus for speedier replacements has resulted from the release of Intel iCore processors which have increased processing speeds whilst lowering energy consumption,



providing an appetite for tech savvy and green conscious users to adopt the new technology adds Chuniwall. Mustek expect further integration within the mobile space as cloud computing gains momentum and windows mobile makes seamless integration possible, thereby increasing demand for cutting edge hardware. Finally, Mustek say that Government's increased emphasis on computer literacy such as the teacher laptop initiative will create opportunities for hardware vendors once the initiative eventually gets off the ground.

An ITWeb article reinforces the difficulties facing small distributors. Quoting IDC research analyst Hannes Fourie, traditional box-droppers are expected to see a decline in their distribution channel market share from 36% to 25% over the next four years as the retail sector erodes their space. He says that the 4,000 traditional distributors, who mainly focus on supplying PCs and related products into the small and medium enterprise (SME) market, need to adapt to the changing environment. Profit margins in the channel are slim and retailers can offer better prices, hence distributors will need to consider value-added services such as installation or maintenance contracts which don't involve initial investment. The failure of these smaller resellers could lead to the country's distribution giants and vendors' being left with millions in unpaid debt argues the article, with some vendors fending off this threat by moving to a cash-only selling model. Consolidation is likely as seen by Pinnacle Technology recently acquiring Axiz with the deal likely to grow both channel players' customer bases and product ranges according to ITWeb.

ITWeb also quotes Neil Rom, MD of Printacom Technologies, who concurs with the threats facing the channel and that consumers are cost-focused at present. Rom is reported as saying that the printing sector is down about 20% year-on-year although Oki managed to buck this trend. The article notes that Jason Goodall, MD of Dimension Data's Middle East and Africa business, says that 'pure technology spending on items such as computers, printers and networking is flat'. Goodall is also reported as pointing out that 'key relationships with vendors and customers are vital, as is a well-known brand name as companies will not risk placing orders with unknown entities that could fold'.

Tarsus Technologies CEO Pierre Spies says that the IT industry appears to have stabilised of late although some uncertainty exists. The general outlook for the larger resellers remains difficult and consequently they are considering various alternatives for sustainable growth. The biggest driver is the search for annuity income with the resellers driving maintenance and services contracts. Spies notes that Government spend has all but dried up after the World Cup and although the retail sector has been buoyant for quite some time, the World Cup had an adverse impact with June down approximately 30% on the month of May. It remains to be seen if this will be reversed in the months ahead. Consolidation in the reseller sector in the short to medium term is also expected by Spies. He does however point out that demand from the corporate sector has seen an uptick although cash flow management for both corporates through to the resellers will remain a major challenge. 



## GLOBAL ECONOMY – ALTERNATIVE EXPORT DESTINATIONS

**S**outh African exporters increasingly have to scour the globe for alternative export destinations following a severe crimp in demand from traditional markets. World trade volumes shrank by in excess of 11% last year and while a sharp rebound is forecast for this year and into 2011, the distribution of growth has changed immeasurably.

The term for the changed environment is the 'new normal', in effect a return to average global growth of 3.25% - 3.5% for the next three to five years, well below the 4.7% seen in the five years up to the 2008 slump according to Stephen Roach of Morgan Stanley Asia. What we are experiencing is a synchronized slowdown in the US, Europe and China, although most analysts only attach a 20% probability to the likelihood of a double-dip recession given that the soft spot is normal as economic activity takes a breather - after the sharp rebound - and adjusts to new realities.

Goldman Sachs' Jim O'Neil however doesn't see things as pessimistically, expecting a global growth trend of around 4% on the back of emerging markets.

In their latest World Economic Outlook Update, the IMF warns that downside risks to global growth are now much greater: "In the near term, the main risk is an escalation of financial stress and contagion, prompted by rising concern over sovereign risk. This could lead to additional increases in funding costs and weaker bank balance sheets and hence to tighter lending conditions, declining business and consumer confidence, and abrupt changes in relative exchange rates. Given trade and financial linkages, the ultimate effect could be substantially lower global demand."

Eurozone growth is barely expected to exceed 1% while the recovery in the US may already be topping out. Developing economies are

The table below outlines the IMF's growth forecasts (annual percentage change):

	2008	2009	2010	2011
World output	3.0	-0.6	4.6	4.3
USA	0.4	-2.4	3.3	2.9
Euro area	0.6	-4.1	1.0	1.3
Japan	-1.2	-5.2	2.4	1.8
Emerging economies	6.1	2.5	6.8	6.4
Central/Eastern Europe	3.1	-3.6	3.2	3.4
Developing Asia	7.7	6.9	9.2	9.5
Middle East/North Africa	5.3	2.4	4.5	4.9
Sub Saharan Africa	5.8	2.2	5.0	5.9
Western Hemisphere	4.2	-1.8	4.8	4.0

however expected to rebound quickly and sustain their recovery into 2011 with almost all emerging regions appearing to offer far better potential for exporters. India's 2010 growth of 9.4% - only 1% shy of China's expected performance - is only seen slowing to 8.4% next year while Brazil and Mexico are both seen expanding in excess of 4% in 2011.

MGI sees Africa's growth being spurred by external trends such as the global race for commodities, the continent's ability to forge new types of economic partnerships with foreign investors together with its increased access to international capital. This will be supplemented by internal social and demographic trends relating to the growing labour force, urbanization and the rise of middle-class consumers. Collectively they expect agriculture, resources, infrastructure-related industries and consumer-related industries (retail, telecommunications and banking) to have annual revenues of \$2.6tr by 2020.

In their recent Quarterly Correspondent, Coronation Fund Managers highlighted the attractiveness of a specific Chinese company called BaWang who produce herbal shampoos and have a local market share of 7.5%, the fourth largest in China. Per capita hair care consumption in China is put at 300ml per annum, well below the 2.1l for Germany and the 1l for South Korea. If as Coronation expects, disposable incomes will rise and see per capita hair care consumption rise closer to 1l, then BaWang and indeed other consumer product suppliers have a healthy outlook.

Coronation also identifies the fact that Colgate Palmolive generates 50% of its earnings from emerging markets. In the case of

toothpaste, per capita consumption is 470ml per annum in Brazil, 253ml in South Africa and just 56ml per year in India. Further, rural consumption - where the bulk of the Indian population reside - is far below 56ml p.a. and per capita consumption of just 100ml would imply a doubling in the industry's revenue.

Colgate Palmolive has a 50% market share in India and would benefit hugely if and when such growth emerges. While both of these examples focus on the investment attractiveness of the individual companies, they are premised on the attractiveness of specific industries and in turn on the rapidly improving incomes of millions.

Apart from the obvious focus on China and India, the IMF also points out that the newly industrialised Asian economies (Hong Kong, Korea, Singapore and Taiwan) have rebounded from a contraction of 0.9% in 2009 to an expected output growth of 6.7% and 4.7% in 2010 and 2011 respectively.

Further, the Asean-5 (Indonesia, Malaysia, Philippines, Thailand and Vietnam) are seen expanding 6.4% and 5.5% in 2010 and 2011 following 2009's 1.7% expansion.

The Economist Intelligence Unit also recently predicted that the CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa) would post annual growth of 4.5% over the next twenty years - below the 4.9% average for the BRICs - but above the 1.8% expected from the G7 economies.

But do not be blinkered about developing economies offering risk-free returns or that exchange rate fluctuations do not warrant vigilance. A report by Roubini Global Economics (RGE) notes that "in 2009 and the first half of 2010, low interest rates and an uncertain global outlook led to strong, volatile capital inflows into some of Asia's most promising economies. Policymakers in these places—which include, among others, Hong Kong, Taiwan, Singapore, South Korea, Indonesia and India—have searched for the best ways to control the on/off switch, to prevent volatility from undermining their economic growth. In 2011, capital flows could turn even more volatile if investors begin reversing carry trades in anticipation of G3 rate hikes."

RGE also points out that the European bank stress tests used a 'poor benchmark' of a 6% Tier 1 capital ratio, noting that apart from seven out of 91 banks which failed this bar, "there were at least 10 other marginal fails, with Tier 1 ratios of 6.3% or less. Had the threshold been 7%, 24 banks would have failed the test".

McKinsey Global Institute recently issued an upbeat report on the untapped potential of the African market:

Africa today	Africa tomorrow
\$1.6tr = Africa's collective GDP in '08, roughly equal to Brazil or Russia	\$2.6tr = Africa's collective GDP in 2020
\$860bn = Africa's combined consumer spend in '08	\$1.4tr = Africa's combined consumer spend in 2010
316m = new cellphone subscribers since 2000	1.1bn = number of Africans of working age in 2040
60% = Africa's share of total uncultivated, arable land	128m = number of African households with discretionary income
52 = number of African cities with >1m people	50% = proportion of Africans living in cities by 2030



# EASTERN CAPE

## Profile

The Eastern Cape was formed in 1994 out of the independent homelands of Transkei and Ciskei and the eastern portion of the Cape Province. It is mainly the traditional home of the Xhosa and was the birthplace of many prominent South Africans, such as Nelson Mandela, Oliver Tambo, Walter Sisulu, Chris Hani, Thabo Mbeki, Steve Biko and Charles Coghlan. Most of the province is mountainous with abundant grassland. The Eastern Cape is the second-largest province in SA in terms of surface area with a population of 6.5m.

District Municipalities in the Eastern Cape:

- Alfred Nzo District Municipality
- Amathole District Municipality
- Cacadu District Municipality
- Chris Hani District Municipality
- Nelson Mandela Bay Metropolitan Municipality
- O.R. Tambo District Municipality
- Ukhahlamba District Municipality

## Overview of the economy

The Eastern Cape is the fourth-largest economy in SA after Gauteng, Western Cape and Kwazulu-Natal as stated by the Eastern Cape

Provincial Treasury. The Eastern Cape is rich in natural resources and scenic beauty. More than 60% of the province is rural and it produces 70% of the world's mohair.

According to Trade Invest SA, the province attracted the second-largest portion of South Africa's total foreign direct investment between 2001 and 2005.

Two of SA's five Industrial Development Zones are situated in the province while several multi-billion-rand private-sector investment initiatives and a well developed tourism and automotive industry exist.

The services sector dominates the Eastern Cape's economy. During the period of 1995-2008, the primary sector contributed less than 3%, the secondary sector contributed  $\pm 30\%$  and the tertiary sector contributed more than 75% to the Eastern Cape's economy.

## Minerals

The Eastern Cape has few mineral deposits, but there are opportunities in the Coega Industrial Development Zone for metal production and processing of imported or South African ores.



*Kings Beach - Port Elizabeth*

## **Agriculture**

The Eastern Cape Provincial Government, as part of its Provincial Growth and Development Plan (PGDP), has identified agriculture as an economic growth sector for the province. This sector has large-scale investment potential that can contribute to job creation.

According to the Eastern Cape Development Corporation, the province currently employs over 70 000 farm-workers on commercial farms and a further 436 000 are engaged in small-scale and subsistence farming. The Eastern Cape is also the livestock province of the country and is home to 21% of South Africa's cattle, 28% of its sheep and 46% of its goats. In terms of agricultural crops, the province is a major producer of chicory, pineapples, tomatoes, citrus fruit, deciduous fruit and tea.



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Provincial research stated that the advantages of the Eastern Cape's agricultural sector include:

- The Eastern Cape has inter-seasonal production capacity because of the alternating seasons with the USA, Europe and the Far East;
- The bio-diversity of the province allows for a wide variety of primary and secondary agricultural production;
- The diversity in climate and topography of the Eastern Cape provides countless combinations of agricultural activity in different geographic locations.

## Manufacturing

General manufacturing in the Eastern Cape is based mainly in the urban areas of East London and Port Elizabeth as their strategic locations offer ease of logistics for both domestic and foreign markets and ready access to skilled and trained employees. General manufacturing makes up a significant portion of the provincial economy and is primarily driven by the automotive sector.

## Automotives and Components

Trade Invest SA states that the province's automotive producers export more than half of the motor vehicles produced in SA. The companies that operate in the Eastern Cape are Mercedes-Benz SA (East London), Volkswagen (Uitenhage), General Motors South Africa and Ford.

These operations support many subsidiary industries such as pressed steel, plastics and leather for car seats. Port Elizabeth, one of only five metropolitan municipalities in South Africa, has become a world leader in the production of catalytic converters.





*King Williams Town*

## Tourism

Tourism is one of the main economic drivers in the province. The Eastern Cape has a varied climate and landscapes that offers a wide variety of tourist attractions.

Many of the Eastern Cape's parks and reserves are being expanded with the added tourism potential of seeing "the Big 7" - which includes the "Big 5" linked to whale-watching and Great White Shark diving.

Tourist attractions include:

- Grahamstown, the city of angels, a historical, educational and religious centre. It also hosts the Grahamstown National Arts Festival, considered Africa's biggest arts festival.
- The endless golden beaches of Port Alfred and Kenton-on-Sea. Bungee jumping off the world's largest bungee jump, the Bloukrans Bridge.
- The pachyderms of the Addo Elephant National Park, the largest of four national parks in the province.
- Luxurious game lodges.
- The Red Location Struggle Museum in Port Elizabeth.

## Structural challenges in the Eastern Cape

A weak primary sector, spatial imbalances, continuing uneven development, poverty and unemployment; capacity constraints within key service delivery departments and municipalities and a growing

demand for government intervention against the significant budget constraints that have arisen are seen as some of the challenges facing the Eastern Cape's economy.

Extreme poverty is found in the former homelands, where subsistence agriculture predominates. Much of the agricultural land is fertile but under-utilised.

Statistics show that the Eastern Cape's population increased to  $\pm 6.7$ m, but the latest migration figures shows that more people are leaving than arriving due to poor job prospects and the impact of the recession on the economy creating a shortage of skilled workers. Statisticians expect the migration trend to continue.

Unemployment and poverty are regarded as one of the Eastern Cape's most challenging economic problems. More than 320 000 formal and informal jobs were lost between the first quarter of 2000 and the third quarter of 2009. This will pose some challenge for the government to alleviate poverty and underemployment in the province. The unemployment rate decreased to 26.8% in third quarter of 2009 but is still above SA's average unemployment rate. This can be attributed to the fact that the economy is mostly rural and the economic structure requires highly skilled workers, while the province is dominated by skilled, semi skilled and unskilled workers.

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The availability of electricity, water and sanitation infrastructure are also challenges for the provincial economy. In the 2009/10 budget, the government allocated R16.8 billion for infrastructure development, which would cover roads and logistics infrastructure, healthcare facilities, education and other social infrastructure.

### Eastern Cape Economic Outlook 2010

The Eastern Cape's economy contracted by 2.4% in 2009 due to the global financial crisis and the dominance by the automotive sector and its vulnerability to external shocks. Positive growth of 1.6% in 2010 and 3.5% in 2011 is expected as global recovery and consumption levels improve.

### Developments and investment opportunities


In May 2010 COEGA Development Corporation launched a R7.5m skills development programme with the Chemical Industries Education and Training Authority (Chieta) to train young apprentices. The program targets the development of scarce skills in the chemical industry.

Volkswagen South Africa announced that they will invest R560m in SA, with R500m being invested in the Uitenhage plant and R60m will be invested in the construction of a new dealer training academy in Midrand Gauteng. The R500m will be used to build a new press shop at the Uitenhage plant and construction will start in the fourth quarter of 2010.

R33m has been invested into a facility in the East London Industrial Development Zone. The facility will be able to produce 300 000 flat-panel solar water heaters and is expected to create 100 skilled manufacturing jobs.

Ford Motor Company SA plans to invest R3bn in the production of a new-generation pick-up at its Pretoria plant and the new Puma diesel engine at its Struandale plant in Port Elizabeth. The production of the new Puma diesel engine is scheduled for early 2011. This amount is double what the company originally planned to invest. The Eastern Cape's strategy for growth targets tourism as a key driver. In the province's 2009/10 budget, tourism was identified as one of the sectors to be promoted as part of a ten-year provincial growth and development plan.

The dominance of the automotive industry in the Eastern Cape makes it vulnerable to changes in demand for vehicles domestically and globally. As a result, the provincial government is now supporting diversification of such industries. Reports indicate that there is significant potential for new timber plantations and 100 000 ha of land is being targeted by Accelerated & Shared Growth Initiative South Africa Eastern Cape. A large percentage of the agricultural land of the province is fertile which presents opportunities for development in this sector.

The province's location on the south-eastern coast of Africa is proving to be an international asset as it creates an opportunity to cater to the shipping traffic that operates between Europe and Asia and the Far East. The province has two major airports in Port Elizabeth and East London with three ports playing an important role in the export of manufactured products including motor vehicles. 

**Monique Daseman, Economic Services,  
Credit Guarantee - August 2010**

# Credit Guarantee's guide to Africa / Middle East - August 2010

Researched and Compiled  
by Hlohelo Pule,  
Credit Guarantee,  
Economic Services

**Notes:** Cover = Credit Guarantee cover. Y = Cover available. CBC = Case by case. N = No cover available under normal circumstances or if there is no request for cover. SC = Special conditions. ILC = Irrevocable letter of credit. CILC = Confirmed irrevocable letter of credit. All medium-term transfers will be individually underwritten based on the specific nature and structure of the transaction.

**COUNTRY - Egypt | GOVERNMENT TYPE - Republic | POPULATION - 80.5m | 2009 POPULATION GROWTH RATE - +1.9%**



President Hosni Mubarak has been in power since 1981; his strongest challenger is the Muslim Brotherhood which is tolerated but officially banned. The Egyptian economy is the second largest in the Arab world after Saudi Arabia. The economy depends heavily on agriculture, tourism and cash remittances from Egyptians working abroad, mainly in Saudi Arabia and the Gulf countries. Growth has remained positive over the past two years and in the first half of 2010 there were signs of recovery even in those sectors hard hit by the crisis. The government's efforts to increase private participation in the economy revolve around the implementation of a multibillion-dollar public-private partnership (PPP) programme. The first major project under the scheme is the \$110m New Cairo wastewater treatment plant which reached financial close in early February. The poorly developed state of Egypt's infrastructure makes the programme's success crucial to both the country's aim to raise its growth ceiling from 7% to 8.5% by 2015 and its efforts to reduce the economy's reliance on government spending.

**SHORT-TERM COVER - Y**

**COUNTRY - Algeria | GOVERNMENT TYPE - Republic | POPULATION - 34.5m | 2009 POPULATION GROWTH RATE - +1.2%**



President Bouteflika was overwhelmingly re-elected to a third term in 2009 after the government amended the constitution in 2008 to remove presidential term limits. Longstanding problems continue to face President Bouteflika including large-scale unemployment, a shortage of housing, unreliable electrical and water supplies, government inefficiencies and corruption and the continuing activities of extremist militants. Weak global hydrocarbon prices during 2009 contributed to a 40% drop in government revenue, although the government continues to enjoy a financial cushion provided by about \$150bn in foreign currency reserves and a large hydrocarbons stabilization fund. Algeria's external debt is only about 1% of GDP. In May the Algerian cabinet approved a five-year €230.8bn investment plan. Approximately €104.9bn of this will be used to complete projects already under way while the balance would be used to finance new schemes. The investment programme is set to run from 2010 to 2014, and is to be the driving force behind government efforts to diversify the economy. Central to the new programme is the continuing upgrade of existing transport infrastructure alongside new transport projects. A total of €30.6bn has been allocated to the various segments of the transport sector. The lion's share will go to the rail sector, which the government considers vital to broadening the base of the Algerian economy and to linking its various industrial production hubs with the expanding land and sea transport centre.

**SHORT-TERM COVER - SC/ILC**

**COUNTRY - Iran | GOVERNMENT TYPE - Theocratic Republic | POPULATION - 67m | 2009 POPULATION GROWTH RATE - +0.9%**



Iran has launched a programme aimed at developing a nuclear fusion reactor. Asghar Sediqzadeh, head of the fusion research institute, said initial studies would last for two years and a reactor would take 10 years to build. Fusion is used in hydrogen bombs, but scientists have been unable to harness the energy created in such reactions. Iran is already under UN sanctions because of its nuclear activities but Iran maintains its nuclear programme is intended only for peaceful purposes. According to the IMF Iran's growth in 2010 will be 3% which is above 2009's 1.8% growth. In the non-oil sector Iran will grow 3.3% in 2010 which is more than the year 2.7% recorded in 2009. In the past two years due to various reasons including the increase in global prices and the depreciation of the dollar inflation stood at 25.4% and 10.3% respectively; however in 2010 this rate is expected to fall to 8.5%. The European Union will impose further sanctions on Iran against its vital oil and gas industry in an attempt to lure the country back to the negotiating table over its disputed nuclear program. EU foreign ministers will formally approve the sanctions on the 1st of August following Iran's repeated refusals to halt sensitive nuclear activities, which the West fears are aimed at building an armed device. Iranian President Mahmoud Ahmadinejad warned the EU against imposing unilateral sanctions, saying Tehran would react swiftly and cause "remorse". The new EU sanctions include a ban on the sale of equipment, technology and services to Iran's energy sector, restrictions on export-credit guarantee and insurance and increased monitoring of banks doing business with Iran.

**SHORT-TERM COVER - N**

## EXPORT DESTINATIONS

**COUNTRY - Yemen | GOVERNMENT TYPE - Republic | POPULATION - 23.4m | 2009 POPULATION GROWTH RATE - +2.7%**



In October 2009 Yemen exported its first liquefied natural gas as part of this diversification effort. In August 2009 the Yemen government reaffirmed its commitment to reforms in a plan detailing the country's top ten development priorities. Despite these ambitious plans, Yemen faces difficult long term challenges including declining water resources and a high population growth rate. According to Yemeni finance minister Nouman al-Suhaibi fuel subsidies and tax evasion are the biggest strains on Yemen's finances and need to be dealt with swiftly to allow the impoverished country to turn its economy around. Falling oil production will see economic growth decline to 5% in 2011 from a projected 7% this year and the country's new gas industry will not support the economy in 2010 as much as previously expected. About 70% of Yemen's GDP currently comes from oil exports, a stream of revenue that may be drying up too quickly to be replaced by gas exports. Meanwhile the other sectors of the economy — tourism, agriculture and fishing — are stagnant. This year's projected growth is due almost entirely to the completion of a liquefied natural gas terminal on the coast that has begun exporting gas from Yemen's interior to markets around the world. Officials in Sanaa see the project as an economic lifeline generating much-needed income as revenue from the country's oil supplies dwindle. The five-year, \$4bn project, funded by consortium investors including the French oil company Total, has been hailed as a prime example of the positive impact of foreign investment in the country.

**SHORT-TERM COVER - N**

**COUNTRY - Tunisia | GOVERNMENT TYPE - Republic | POPULATION - 10.5m | 2009 POPULATION GROWTH RATE - +0.9%**



Zine El Abidine Ben Ali is currently serving his fifth consecutive five-year term as president. Domestically Tunisia has sought to defuse rising pressure for a more open political society. Tunisia is an export-oriented country in the process of liberalizing its economy while politically it is a dictatorship in all but name. Tunisia has an authoritarian regime in the guise of a procedural democracy. President Ben Ali who has governed as President since 1987 has systematically diminished freedom of press and opposition political parties while keeping appearances of democracy. Tunisia has close relations with both the European Union — with whom it has an association agreement — and the Arab world. Tunisia is also a member of the Arab League and the African union. A joint announcement was signed in July between Tunisia and Japan on the achievement of a 5 megawatt-pilot solar power station at El Borma in the south of Tunisia. The project will be carried out with a Japanese donation of about \$20.7m and Japanese technology of power production from solar energy. Since 1977, programs of cooperation in various sectors were carried out between both countries and the new cooperation projects concern high added value sectors such as the use of renewable energies including solar energy. The memorandum of understanding relating to this project will be signed in December on the occasion of Tunisia's hosting of the 2nd Arab Japanese economic forum.

**SHORT-TERM COVER - Y**

**COUNTRY - Morocco | GOVERNMENT TYPE - Constitutional monarchy | POPULATION - 30.5m | 2009 POPULATION GROWTH RATE - +1.2%**



The recession in Europe prompted a decline in the flow of foreign tourists and remittances, two primary sources of foreign currency. A record agricultural harvest, strong government spending and domestic consumption combined to offset losses from weak exports and helped GDP grow by 5.1% in 2009. The head of the government's High Planning Commission forecast Morocco's economy would grow by an estimated 4% this year on strength in mining, manufacturing and construction. That would be below last year's expansion of 4.9% but faster than a 3.5% official forecast made at the start of the year, suggesting Morocco is fending off a persistently weak global economy better than expected.

**SHORT-TERM COVER - Y**

**COUNTRY - Saudi Arabia | GOVERNMENT TYPE - Monarchy | POPULATION - 29.2m | 2009 POPULATION GROWTH RATE - +1.75%**



Saudi Arabia has been ruled since its foundation by the Al Saud dynasty. King Abdullah succeeded the late King Fahd, his half brother, in August 2005. The Kingdom was ranked the eighth largest recipient of foreign direct investment (FDI) in the world in 2009 attracting \$36bn according to the World Investment Report (WIR) of the United Nations Conference on Trade and Development (UNCTAD), which was released in July. Saudi Arabia's economy will grow by 4% this year as oil production increases, while inflation in the biggest Arab economy will stabilise at an annual average of 5%. Saudi Arabia is currently undergoing a \$400bn stimulus program to boost its economy and create more jobs for the growing population of over 25 million. In 2008 the desert kingdom abandoned a 30 year wheat cultivation plan that had helped it cover its domestic needs to save water resources. Saudi Arabia is expected to import around 3 million tonnes of wheat a year by 2011/12.

**SHORT-TERM COVER - Y**

**COUNTRY - Syria | GOVERNMENT TYPE - republic under an authoritarian military-dominated regime | POPULATION - 22m | 2009 POPULATION GROWTH RATE - +1.9%**



President Bashar Assad has slowly moved to lift Soviet-style economic restrictions. He opened up the country to foreign banks and imports, authorized private higher education and empowered the private sector. But he has not matched his liberal economic policies with any political reforms. His powerful security services are in constant watch for criticism of the regime - they have been accused of combing Internet postings and any sign of religious militancy. Opening up a country economically while denying the population democracy and freedom is not uncommon in the Arab world. The economy remains highly controlled by the government. Long-run economic constraints include declining oil production, high unemployment, rising budget deficits, increasing pressure on water supplies caused by heavy use in agriculture, rapid population growth, industrial expansion and water pollution. According to an IMF forecast Syria's economic growth will rise to 5% in 2010 from 4% last year. The current account deficit is expected to narrow to 4% this year from 4.5% in 2009 and inflation will reach 5% in 2010. Syria earned about \$5.2bn in revenue from 6.1 million tourists last year when 12% more visitors arrived than in 2008. According to Tourism Minister Saadallah Agha al-Qalaa the industry will generate 12% of GDP this year. It already accounts for 23% of Syria's hard currency earnings and provides 13% of its jobs.

**SHORT-TERM COVER - N**

# World markets update

*Compiled by Monique Daseman,  
Economic Services*

The following credit classifications were recently updated. For more information on these and other countries please visit our website: [www.creditguarantee.co.za](http://www.creditguarantee.co.za) or contact our Export Department.

## How we rate them

Country classifications are based on a numeric and alphabetic basis associated with each country, with the numeric indicator showing the political rating of the country and the alphabet indicating the commercial risk. These range from 1 to 3 on the political rating with 1 being your lowest risk and 3 the highest. Likewise the A, B and C are relevant to the commercial rating – A being the lowest risk and C the highest risk.

Usually the two ratings are closely linked because the political rating of a country will impact directly on its commercial rating. Factors taken into account when assigning ratings include the following:

### Political rating

Assessing political and economic conditions and stability:

- Environment
- Economic policies
- Forex reserves – ability to generate
- Rule of law
- Access to legal system

- Banking and commercial infrastructure
- Past history as trading partner
- Utilising various sources of information such as D & B, Moody's, S+P, various publications, Internet, Berne Union, ICIA, PASA, IMF, World Bank, etc
- Negotiating country limits with reinsurers
- Country reports prepared by Credit Guarantee's economic researchers
- Credit Guarantee's country underwriting committee.

### Commercial rating

Commercial ratings are based on the financial strength of buyers in a particular country as well as their ability to repay amounts within terms afforded:

- Underwriting experience of other credit insurers on buyers in a particular market.
- Number of insolvencies / liquidations in a country.
- Access to funds for buyers in the market.
- Reliable credit information from the respective market.
- Trade references within markets.
- Global and domestic industry trends and their impact on a market.

COUNTRY	RATING	OVERVIEW AND CGIC (Credit Guarantee) EXPERIENCE & COMMENTS
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**MALAYSIA**



**2B**

In contrast to the decline in global tourism during the global economic crisis, data released by the Immigration Department indicated that the number of tourists that visited Malaysia in 2009 increased by 7.2% yoy to 23.65m. Malaysia Airlines was awarded "Best Airline in South-East Asia" in January 2010 at the Global Traveler magazines awards. Malaysia came in second as the "Best International Tourism Destination". Goldman Sachs Group Inc revised their growth forecast for Malaysia from 5.5% to 7.3% in 2010 as a result of a strong recovery in emerging markets and BMI expects a real GDP growth rate of 4.9% in 2010.

**PHILIPPINES**



**3C**

President Benigno "Noynoy" Aquino was voted president of Philippines in May 2010. Mr Aquino promised a new era of stable politics and economic prosperity. The problems that his administration will face include: enhancing the country's economic growth, poverty alleviation, high birth rates, communist and Muslim riots and home grown terrorism linked to al-Qaeda. The police stated that ten people were killed on polling day, but described the elections as one of the most peaceful political exercises ever held in the country. According to the Roubini Q2 2010 Outlook, the economy is expected to recover due to growth in exports and remittances. The high public debt and budget deficit caps will constrain the government's ability to boost the economy.

**PAKISTAN**



**ZZ**

Showing great concern over India's plan of constructing 93 dams on the Kashmiri-rivers and others, Islamabad Chamber of Commerce & Industry has called upon the government to immediately take up this issue with India as it will drastically reduce water flow to Pakistani rivers destroying the country's agriculture & economy at large. In a series of water-sector projects over the Chenab River in Indian-held Kashmir (IHK), India has given a go-ahead to yet another mega project, which will be completed by 2016. This construction project will hit lower-income Pakistanis the hardest. Given the fact that there is no site available in Pakistan to construct any storage or power generation infrastructure, India can fully manipulate river flows at its will. The agriculture sector has shown credible results due to good weather. Major crops wheat, rice and maize recorded impressive growth i.e. 7.7% against the target of 4.5%. Livestock and poultry also boosted GDP as there was no viral disease in 2009.

# COUNTRY CREDIT RATINGS

## COUNTRY RATING OVERVIEW AND CGIC (Credit Guarantee) EXPERIENCE & COMMENTS

### SINGAPORE



1A

Singapore has proved to be extremely stable, both politically and economically, and has been repeatedly rated by Transparency International as the least corrupt country in Asia and amongst the top ten in the world. The World Bank's "Doing Business 2010 Report," ranked Singapore's economy as no.1 for having the most open and liberal economy for international trade. The Singapore economy grew by 15.5% on a year-on-year basis in Q1 10 led by robust growth in the manufacturing sector. The electronics cluster enjoyed the strongest growth due to strong global demand for semiconductor chips. The construction sector also grew, reflecting continued growth in public sector construction activities. The Ministry of Trade and Industry (MTI) has projected real GDP growth between 3-5% in 2010. The demand for the country's exports is expected to show gradual recovery, which in turn will boost the manufacturing sector.

### SRI LANKA



3C

President Mahinda Percy Rajapaksa was re-elected as head of state for a second term on 26 January 2010. The government has indicated that it will continue to focus on reducing poverty by steering investment into disadvantaged areas, promoting agriculture and expanding the civil service. The World Bank expects real GDP growth of between 5% - 6% due to the inflow of foreign direct investments after the end of the civil war in 2009, an increase in the tourism industry and the large scale of reconstruction projects taking place in the North. In Q4 09 the hotel industry recorded growth of ±32% due to an influx of tourists. In July 2010 the IMF completed the second and third reviews of Sri Lanka's economic performance under the \$2.6bn Stand-By Arrangement, approved in 2009. This enables the disbursement of \$408m. Two hotel projects under the Kalpitiya Integrated Tourism resort to the value of \$10.5m and \$14.9m respectively, were signed by investors and the Sri Lanka Tourism Development Authority in May 2010. The five star facilities are expected to increase the number of stays and average spending of tourists in Sri Lanka.

### THAILAND



2B

Pro- and anti-Thaksin demonstrations continued throughout 2009 peaking in December when some 20,000 Thaksin supporters gathered in Bangkok to demand new elections. In March 2010 approximately 100,000 red shirts assembled in Bangkok and demanded that Prime Minister Abhisit dissolve Parliament and call new elections. Abhisit refused, but did agree to meet with opposition leaders. The ailing 82 year old King Phumiphon Adunyadet has remained silent during the protests. In July 2010 citizens in Thailand's capital, Bangkok, voted in a key by-election. The by-election is considered the first political test for a parliamentary seat in Thailand since anti-government protests were halted in May by the military. Police say a recent explosion in Bangkok killed one person and wounded at least 10 people, but they have not said whether it is tied to the country's political unrest. Following the clashes between soldiers and protesters in May 2010, hotel occupancy in Bangkok was down to 20% at a time when it is normally at 80% or 90%, government spokesman Puttipong Punnakan has said. Thai Finance Minister Korn Chatikavanij has forecast economic growth of between 4.5% and 5% this year, but the civil unrest is threatening to reduce that figure.

### TURKEY



2C

In the medium term Turkey's main challenge is unemployment. Despite the rapid growth after 2002, unemployment remained steady at 10%. It is now approximately 13%. The policies to tackle this include shifting protection from "jobs" to "workers" (e.g., reducing severance payments and broadening access to unemployment benefits) and addressing skills mismatches in the labor market through improved education and training. The IMF had previously predicted Turkey's growth for 2010 as 3.7% but have increased this to 5.2%.

### CHINA



2B

According to a Reuters poll, 21 out of 23 economists expect China's GDP to accelerate to 11.5% in Q1 10, which will be China's fastest year on year growth rate since the last quarter of 2007. The World Bank expects a lower growth rate of 9.5% in 2010 mainly driven by an increased demand for Chinese exports and a strong household consumption. China plans to invest R340bn in foreign countries in 2010. In March 2010, 26 SA and Chinese companies signed contracts to the value of R2.3bn. SA will mostly be exporting agricultural products, minerals and metals to China, with China selling mostly value added manufactured products to SA. At the recent China-SA Economic and Trade Forum China committed to implement measures to ensure that they import and invest in more value added manufactured goods from SA to improve bilateral trade.

### DENMARK



1A

Like the rest of the world Denmark was affected by the global economic crisis. As of October 2009, unemployment was rising and private consumption had contracted significantly. Danish exports weakened due to a loss of competitiveness; slow productivity growth and high wage growth making it more difficult for Danish firms to compete for new orders. According to Denmark's central bank, competitiveness has declined by 35% since 2000, as measured by relative unit labour costs. Denmark went into recession in mid-2007, before the global economic crisis, and the slowdown has been considerable. The Danish economy contracted by 1.1% in 2008 and 5.3% in the first half of 2009. In 2008, the budget surplus was \$11.79 billion but in 2009 the country had a deficit of \$668m. Unemployment is relatively low at 6.4%, but up from 3% in June 2008, and is expected to peak just under double digits in early 2011. Most local observers agree that Denmark is on the path to a slow recovery.

# COUNTRY CREDIT RATINGS

COUNTRY	RATING	OVERVIEW AND CGIC (Credit Guarantee) EXPERIENCE & COMMENTS
<b>FINLAND</b> 	<b>1A</b>	Finnish Prime Minister Matti Vanhanen resigned in June 2010 after seven years of leading a government known for its sound policies. Tarja Halonen became Finland's first woman president in 2000 and was re-elected in January 2006. Finland's parliament appointed Centre Party leader Mari Kiviniemi as the country's new prime minister, meaning Finland's two top posts would be held by women for the second time in its history. A report last year by the World Economic Forum said Finland had the sixth most competitive economy in the world. Along with Luxembourg, Finland is the only euro zone country to have stuck to EU fiscal rules requiring it to keep its government deficit below 3% of its GDP and its debt under 60% of GDP. Finland's economy slipped back into recession during the first quarter of 2010. During the January to March quarter, its economy contracted by a seasonally-adjusted 0.4%, after a decline of 0.2% in October to December of last year. It is the first euro zone country to re-enter recession after initially merging from it.
<b>BELGIUM</b> 	<b>1A</b>	In April 2010, Prime Minister Yves Leterme resigned for the third time since becoming prime minister in 2007. His latest government had lasted a mere five months. The Prime Minister had quit twice before but returned in November when Herman Van Rompuy, his popular replacement, was appointed the EU's first President. Belgium is expecting significant FDI into the country this year from South Korea where the company Jubilee is planning to open a production line for chocolate in Saintes in September 2010, and the American pharmaceuticals company Johnson & Johnson has decided to set up its European distribution centre for pharmaceutical products in La Louvière. This new investment will initially lead to the creation of 110 new jobs.
<b>ITALY</b> 	<b>1B</b>	Ratings agencies Moody's, Fitch and Standard & Poor have issued a stable outlook for Italy's long term debt. The outlook is dependent on the Italian government's ability to implement the policies needed to reduce government debt. In May 2010 the government approved an austerity package worth \$25.9bn for 2011 and 2012. The aim is to reduce the budget deficit to 2.7% by 2012. This includes a 3 year freeze on public hiring and pay, reducing state personnel by only replacing 1 in 5 of those who retire, improving tax collections and cutting ministerial budgets by 10%. The spending cut of $\pm 1.6\%$ of GDP is relatively low compared to Greece's that will have to cut government spending by 10% of GDP by 2014. IMF projections 2010: real GDP is expected to increase to 0.8%, unemployment is expected to increase to 8.7%, a government budget deficit of 5.2% of GDP is expected and the public debt is expected to increase to 118.6% of GDP.
<b>AUSTRIA</b> 	<b>1A</b>	President Heinz Fischer was re-elected as president on 25 April 2010. The government plans to increase tax revenues and implement spending cuts worth $\pm \$3.8$ bn to bring the budget deficit back within the EU's ceiling of 3% of GDP by 2013. Austria agreed to contribute $\pm \$2.8$ bn in the rescue package for Greece. This will also put upward pressure on the budget deficit. Austrian Institute for Economic Research outlook 2010: real GDP growth of 1.3% in 2010 and 1.4% in 2011, an unemployment rate of 5.2%, inflation rate of 1.4% and a government deficit of 4.7% of GDP is expected with a lower deficit of 4% of GDP in 2011.
<b>FRANCE</b> 	<b>1A</b>	President Sarkozy will be taking over the 12-monthly-rotating presidency of the G20 in November and the G8 presidency in 2011. Reports indicate that the president will try to use this opportunity to boost his popularity ahead of France's 2012 presidential elections. He wants a new "Bretton Woods" to remodel the international financial architecture and address Iran's nuclear ambitions. Some analyst are forecasting a tough second half in 2010 as the vehicle scrapping incentive scheme are at a lower level than the $\pm \$1220$ previously offered. The incentive scheme was introduced on the 19th January 2009. Cars older than 10 years, meeting a specific carbon emission standard can be traded in for a newer model at the subsidized price. The scheme further reduced from the $\pm \$835$ to $\pm \$600$ from the 1st July 2010, gradually phasing out by 2011. Arguments against the scrappage scheme are that it only boosts car sales temporarily; diverting consumer spending from other sectors in the economy as it only focuses on the motor industry. According to the Roubini 2010 outlook GDP is expected to increase to 1.3% led by private consumption as the main driver of growth.

### After the rebound output slows

(also see *Global Economy – Alternative Export Destinations* on pg6)

The Euro area and the European Union experienced Q2'10 growth of 1% quarter-on-quarter from 0.2% in Q1'10, while the year-on-year rate expanded to 1.7% from the 0.5% recorded in the first quarter. This was largely driven by Germany which saw growth of 1.1% q-o-q and 3.7% y-o-y. The OECD Composite Leading Indicators (CLI) registered 103.4 in June from 103.5 a month earlier (long-term average = 100), hinting at a possible peak in expansion. The CLI turned negative in the US for the first time since February 2009 while that for the Euro area edged up to 104.4 from 104.3 in May, largely on the back of Germany's indice rising to 106.8 from 106.2 in May 2010. This likely peak in the global economy was reinforced by the Markit/JPMorgan Global PMI output index which fell for the third consecutive month in July, with Q2'10 representing the strongest quarter of GDP growth for three years.

### Jobs down, strikes up

Large-scale strikes were averted during the world cup although the South African Chamber of Commerce and Industry (SACCI) warned recently that the current impasse between public service unions and government had the "potential to undermine the economy. SACCI is concerned that high demands are being made on employers at a time when liquidations of businesses are still unacceptably high - an indication that we are still not over consequences of the global downturn". A 25.3% unemployment rate should have been expected to induce productivity gains and/or state wage costs advancing at a far slower rate than was actually realised.

Compiled by  
**LUKE DOIG**  
Senior economist,  
Credit Guarantee



If one considers that of the 298,821 pupils that wrote mathematics for the 2008 National Senior Certificate that only 39.5% attained 40% or more (source SAIRR), with most of the balance (those not lured by the private sector) ending up as civil servants, then such increases in public sector wages are very difficult to justify.

*The table below presents average wage and salary increases compared to CPI and labour productivity (which is in effect flat) while the increase in the state's total wage bill is calculated in the final column.*

	Salary and wage increases - BER	CPI – Stats SA *	Labour productivity non-agric sectors – SARB ** (data series 7014)	State wage bill – SARB *** (data series 4862)
2002	11.7%	9.1%	-11.1	7.8%
2003	8.4%	5.8%	-12.6	8.8%
2004	9.1%	1.4%	0.5	11.7%
2005	7.1%	3.4%	-1.3	10.6%
2006	7.5%	4.6%	-4.7	10.7%
2007	6.7%	7.2%	0.1	7.6%
2008	12.8%	11.5%	1.9	14.7%
2009	9.3%	7.1%	1.5	15.8%
2010	9.0% expected	5.4% forecast	n/a	17.2%
2011	8.5% expected	6% forecast	n/a	n/a

\*Note: new inflation basket weights w.e.f. 2009; 2010 and 2011 are Reuters July Econometer forecast averages

\*\*Note: percentage change in annual labour productivity in non-agricultural sector (index, 2000 = 100); the source of the employment base data was changed in 2002 and 2004

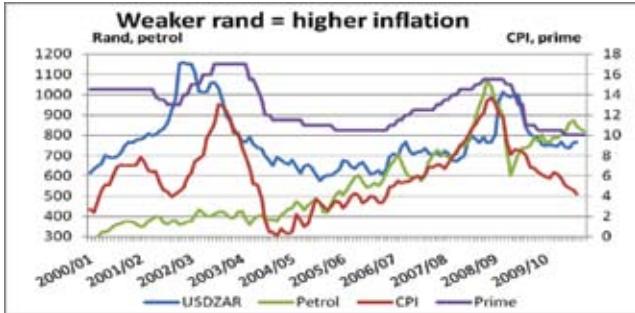
\*\*\*Note: the state's wage bill refers to the percentage change in the total compensation of employees for consolidated government (not per head) and includes the occupation specific dispensation adjustments; fiscal year to end-March

### Deleveraging by business

After seven months of year-on-year declines in credit extended to the private sector, May and June saw growth of 0.8% and 0.9% respectively. Credit extended to households did not enter negative territory during the harsh months of 2009 and after bottoming out at y-o-y growth of 2.6% in November 2009, has improved steadily to record growth of 4.9% in June 2010. Business on the other hand have been deleveraging since September 2009, with corporate credit extension falling by 5.7% in April before recovering marginally to -2.4% and -2.6% in May and June respectively. It would appear that consumer spending and household borrowing are slowly recovering although the fragile nature hereof is yet to feed through into more robust credit demand by businesses. The outlook is further clouded by persistently high indebtedness levels and bleak employment prospects.

### Domestic cycle tops out

After growing a robust 4.6% (saar) in Q1'10, growth cooled to 3.2% in Q2'10 on the back of contractions in mining and electricity gas and water; in fact the SARB's leading business cycle



indicator turned over in May at 130.6 from 131.3 a month earlier. Real retail sales are 3.1% stronger over the first six months of the year although an abysmal January result has seen wholesale sales crimp by 0.5% in real terms over the same period. The physical volume of manufacturing production and sales of manufactured goods (nominal value) grew 6.4% in the first half of the year. The hiatus in economic activity will hopefully be broken by the traditional Christmas sales impetus and we still expect growth of around 3% for the year as a whole.

### Monetary policy conundrum

The inflation outlook has improved – although the medium-term outlook is clouded by excessive wage demands and large increases in administered prices. The strength of the rand is helping in this regard although export prospects are negatively affected.

We are of the opinion that there has been sufficient latitude in order to lower rates further; monetary policy however has to be based on probabilities rather than possibilities and hence by its very nature is reactionary. It could be argued that a proactive approach some time back may have served to alleviate the slower growth trajectory – which impacts on job prospects – currently being experienced.

The domestic petrol price is influenced by the exchange rate and international crude oil prices, while a weaker rand precipitates higher inflation and fuel prices (all other things remaining equal). The spike in petrol prices in mid-2008 coincided with oil above \$140p/bl and a stronger rand of late has offset higher crude oil prices. Higher interest rates will follow a weaker rand. And so might the fuel price.

*“Our bus seats (to a place called the banana republic) were confirmed by the most nauseating business deal in recent memory” (Mondli Makhanya, Sunday Times, 15 August 2010)*



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#### Gauteng: Telephone 011 889 7000

Credit Guarantee House, 31 Dover Street, Randburg  
P O Box 125, Randburg, 2125  
Fax 011 886 1027 or 011 886 5715  
Business development consultants: Nazel Veldtman  
Malcolm Kourie, Llewellyn Paulsen  
Service consultants: Jacky Mzobe, Tracey Dansie

#### Western Cape: Telephone 021 421 7830

No 1 Thibault Square, 1 Long St, Cape Town  
P O Box 6018, Roggebaai, 8012  
Fax 021 419 7586  
Business development consultants:  
Claire Marx Willie van den Berg  
Service consultant: Danie van Niekerk  
Business investigator: Glenda Inskip

#### Eastern Cape: Telephone 041 363 4024

First Floor, Mutual Place, cnr Cape Rd & Langenhoven Drive,  
Greenacres, Port Elizabeth  
P O Box 27154, Greenacres, 6057  
Fax 041 363 3750  
Client services: Nici Large  
Business investigator: Brenda McEwan

#### Kwazulu/Natal: Telephone 031 265 0300

Suite 7, No 4 The Crescent, Westway Office Park, Westville  
P O Box 2756, Westway Office Park, 3635  
Fax 031 265 0323  
Client services: Lorraine Abbott  
Business investigator: Andrew Reed

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For subscriptions and information, please contact Vicki Sokolich at tel 011 889 7281, fax 011 686 9581 or e-mail at [vickis@cgic.co.za](mailto:vickis@cgic.co.za).

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2 Hermitage Terrace, Richmond, Johannesburg

Private Bag X20, Auckland Park, 2006

Tel: 011 726 3081/2 • Fax: 011 726 3017

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