

CREDIT

notes



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Corporate communications

***RSA Economic and
business review***

Canada

Western Cape

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COVER FEATURE



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HOW FRAUD HEALTHY IS YOUR COMPANY?

Fraud is a global scourge which costs the typical organisation 5% of its annual turnover, estimated at \$2.9 trillion globally. This is according to the 2010 annual report of the Association for Certified Fraud Examiners in the USA. The median loss in 1843 fraud cases worldwide between January 2008 and December 2009 was \$160,000 while a quarter of the cases involved losses of at least \$1 million.

Small organisations with limited anti-fraud controls were disproportionately more susceptible to fraud. The scale and magnitude of the problem is clear, bearing in mind that many of these cases were in developed economies with well resourced and funded law enforcement agencies.

"Against this backdrop, we in South Africa would be naive to ignore the problem," comments Graham Dawes, Director Risk Advisory at Deloitte. "In our view, it is critical that both public and private sector organisations take a proactive stance in combating fraud."

This proactive stance relies on knowing what is happening within the organisation from a detection and prevention point of view as well as what is happening in the fraud control environment. Knowledge underpins an organisation's strategy and can go a long way to ensuring that it remains 'healthy' in this area.

"During the last twelve months, we facilitated an online survey among our clients to enable them to assess their organisations in regard to fraud detection, prevention, reporting and basic controls," continues Dawes. "This survey was completed by just fewer than 10,000 participants from more than 20 companies and public sector organisations and yielded some interesting results."

The survey also tested the control environment at a very high level and allowed management to get a sense of their exposure to this type of risk.

- 99% of employees knew what fraud was with 88% knowing how to report it. This demonstrates a very good awareness of the offence itself with a large proportion of employees knowing where to report such activities.
- 14% of employees knew of fraud or dishonesty happening in the workplace and 91% of those who knew, said that management was aware of it. While this number as a percentage is less worrying, this represents approximately 1400 employees who knew of offences of this nature being perpetrated in the workplace.
- 41% of employees were aware of a person in the workplace who had been prosecuted for fraud or dishonesty. This number may well represent 4100 people in the organisations who have been prosecuted for fraud or dishonesty. The positive side of this is that action is being taken by organisations. However, the number does raise concerns around the prevalence of fraud across South Africa.
- 11% of employees knew of situations where controls could be overridden in the workplace, with 34% of these saying that it happened on an ongoing basis. Management was aware of the controls override in 85% of cases. Anti-fraud controls are one of the first lines of defence in preventing fraud. Any breakdown in these controls would be worrying, but this is especially so where this is with the knowledge of the management of the organisation.
- 21% of employees had personally been involved in preventing fraud in the last 12 months. This number is encouraging as it represents just under a quarter of the employees surveyed. It does, however, support the numbers above in terms of the prevalence of fraud in the workplace.
- 41% of employees did not know how to identify fraud red flags in their area but 15% believed that fraud could be happening in their immediate area. Employees are the first line of defence in the prevention and detection of fraud. It has been shown in many studies that most frauds are detected through tip-offs which are ultimately employees of the organisations who identify and report on the activities. With almost half of employees not knowing how to identify fraud red flags in their area, organisations are possibly missing a beat in managing their fraud risks using employees as the proverbial front line.
- Only 15% of employees had attended a fraud prevention and awareness workshop in the last 12 months. This supports the low levels of awareness of red flag indicators above. Our experience shows that there is a direct correlation between the levels of awareness and the levels of detection in an organisation.



“HOLD ONTO YOUR HATS” AS THE SAYING GOES...

Hijacking cars; hijacking
buildings and now hijacking
COMPANIES!

Who would ever have thought
this possible. But apparently,
in the South African context,
this is not only possible, but is
happening.

We have seen the Kalahari
Resources media exposé
and may have thought that
this was an isolated and
even perhaps, somewhat
exaggerated incident.

But now even a Deloitte
company has been hijacked
and one can only wonder how
many more will see the light
of day?

The brazenness of the
persons involved is quite
unbelievable – do they really
believe they will get away with
it? Apparently so – this is SA
after all.

So, have you checked your
company registration and
director details lately or do you
still sceptically believe that this
could never happen to you?

- 5% of employees believed that someone in the organisation was awarding work to friends or family. While the number is low, this does provide evidence of potential conflicts of interest in organisations being alive and well.

“The question should not be whether fraud is occurring in your company but rather to what extent and what you are doing to proactively manage it,” concludes Dawes. “Some of the numbers are cause for concern but one thing that all the participating organisations have in common is that they are taking steps in the right direction. By facing the problem head on and developing informed fraud mitigation and response strategies, an organisation is at a definite advantage.”

Issued on behalf of Deloitte

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POPI AND RECORD RETENTION

The Protection of Personal Information Bill (POPI) has been designed to regulate the processing of personal information (from collection through all processing steps to deletion), and to facilitate the cross border transfer of personal information, thereby preventing individuals' personal details from being abused or illegally accessed. One element of processing is the deletion of personal information, and in this respect, businesses will have to comply with the relevant POPI obligations.

Historically, South Africans have retained and archived a great deal of data, much of which contains personal information. Such data has typically been applied for numerous purposes. The Bill seeks to change this in that once the personal information has been used for the purpose for which it was originally obtained, it must be deleted.

“Once the Bill becomes law, one can only keep personal information, once the purpose for collection has passed, on one of the exception grounds. One such ground is where there is a legal obligation to keep it,” says Dean Chivers, Director Tax and Legal at Deloitte professional services firm. “Record retention requirements are scattered throughout most pieces of legislation, and businesses will need to develop their own record retention schedules from relevant legislation”.

Once a company has concluded its reason for receiving and processing personal information, and when the relevant legislated record retention period has expired, personal information could still be retained, if for purely statistical or historic reasons.

According to Chivers, once personal data must be destroyed, it must be destroyed in such a manner that it cannot be reconstructed, whether it is hard or soft copy data. In the European Union where data privacy laws have been in place for some time, privacy specific professional services have developed. One such service is the auditing and certification of destruction of personal data to ensure it occurs in a manner which is compliant with the purposes of the data privacy laws. Best practice in the European Union will likely become best practice here.

To facilitate compliance with the aspects of POPI relating to the destruction of personal information, it is recommended that a proper procedure be drawn up and verified by an expert. This procedure, along with certification of destruction, will make it very easy for a company to answer any challenge to its destruction of personal information.

“Just as experts in data destruction will develop, so will other areas within POPI become specialist areas, including data security, physical security and POPI process development,” continues Chivers.

“The sooner business begins to manage archived data and its destruction, the better,” concludes Chivers.

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UK anti-bribery legislation impact SA organisations – PwC

The United Kingdom succumbed to the criticism of its international counterparts related to its outdated anti-bribery legislation when it recently implemented the Bribery Act, which provides a new, modern and comprehensive scheme of bribery offences that will enable courts and prosecutors to respond more effectively to bribery both locally and internationally.

Many South African companies have not familiarised themselves with the details of the Bribery Act and are unaware of the implications that this new legislation could have on their businesses. As one of the toughest anti-bribery acts in existence, South African companies can't simply ignore this legislation as they might find themselves on the wrong side of the law.

Companies registered in the UK are facing three potential offences. A general offence of offering or receiving bribes, a specific offence of bribing or receiving bribes and an offence on failing to prevent bribery. However, these rules are not only aimed at UK companies.

Corporate entities which are not registered in the UK but which do business in the UK can also be charged with the offence of negligently failing to prevent bribery on their behalf. Equally, British citizens or ordinary residents in the UK can be charged with offering or receiving bribes and, with bribing a public official.

Maadian Botha, Advisory Partner from PricewaterhouseCoopers (PwC) says, "It doesn't matter where in the world these offences are committed, corporates and individuals who have dealings in the UK will be subject to compliance with the legislation. For this reason, it is vitally important for South African organisations to establish adequate processes and procedures for compliance with anti-bribery legislation."

The penalties for being found guilty of committing any bribery offence could see the offending party face unlimited fines or even be disbarred from tendering for government contracts. In addition, individuals could face a maximum 10 year prison sentence. This includes senior officers of companies held liable for their consent to corrupt activities.

The Corruption Perceptions Index (CPI) which measures the perceived level of public-sector corruption confirms the need of a stronger stance against corruption around the world. South Africa is rated at level 4.7 which is significantly better than Russia at 2.2 yet worse than the UK which is currently at 7.7.

"To effectively address the legislation and improve our international standing on the CPI, top management will need to drive the process and take the time to ensure that all levels of management adhere to the new procedures," says Botha.

Business leaders must take a proactive approach by raising anti-bribery awareness. Many functions need to be involved in developing and maintaining a working anti-bribery campaign including legal, compliance, internal audit, HR and finance. Compliance help lines and whistle-blowing facilities should be established to ensure that employees have access to adequate support mechanisms. Controls like these should however, be a part of the daily 'business as usual' operations of entities in South Africa, based on the requirements posed by the Prevention and Combating of Corrupt Activities Act, which came into operation during April 2004.

Regulators have already expressed their intent to take a tougher stance against bribery and corruption. SMEs intending to attract international investments should be taking note of these occurrences to ensure the success of their business and its contribution to the South African economy.

"Companies that implement policies in an attempt to address every possible scenario that could lead to corrupt activities will have their work cut out for them. Therefore, it is advisable to develop and embed clear values which require employees to make ethical decisions in any situation they may face," continues Botha

PwC highlights five key steps that South African business should be taking to develop a holistic anti-bribery programme.

Gain Board Commitment

For an anti-bribery programme to work, the board must indicate the importance of the programme and support the values by committing adequate resources to its development. In many cases, the board members should commit to training. Not only will this allow them to set a strong example for employees, it will also ensure that the board has a sound understanding of the anti-bribery legislation and its implications.

Conduct a global risk assessment

Existing guidelines call for organisations to identify high risk areas where potential exposure to bribery and corruption may exist. Smaller operations in developing countries like South Africa might have higher exposure to levels of risk. Higher risk areas should be addressed first.

Develop an anti-bribery implementation plan

Prioritising high risk areas is essential since the implementation of a comprehensive anti-bribery strategy could take many years. The implementation plan must contain sufficient detail and demonstrate to a regulator or a court that the organisation is committed to establishing its anti bribery programme.

Establish governance structures


The anti-bribery programme must have a number of functions who act as corporate gatekeepers. Their roles and relationships in terms of the anti-bribery programme need to be clearly defined. Oversight arrangements are another essential aspect that must be established. For example, involving a non-executive committee with a compliance remit, this may be the audit committee, the risk committee or a specific compliance committee.

Establish a values and rules hierarchy

Every organisation should create a code of ethics or code of conduct. If these already exist within the organisation, they should be reviewed and upgraded to meet the new requirements. All codes must be supported by policies which give a more detailed statement designed to ensure that the aspirations of the code of conduct are related to the operational business.

In addition to these five steps, organisations should also consider the following:

- Embedding the anti-bribery framework in the business;
- Review disciplinary and HR procedures;
- Manage third party compliance risks;
- Ensure adequacy of monitoring and reporting procedures;

Botha concludes, "Implementing these processes not only ensures that you comply with the legislation, it also provides organisations with the opportunity to restructure and promote ethical business practices. The need to commit sufficient time and resources to this process is worth emphasising again as companies which comply with anti-bribery legislations have the ability to attract international investment and secure new business." 

Source: *The Firehouse Communications*

Building, construction and steel industries report

For many years, inadequate attention was paid to investing in the capital infrastructure of the country; this is readily seen by the ratio of Gross Fixed Capital Formation to GDP (in current prices) which languished at around 15% until 2003 (see top graph). The sharp decline in real GFCF in Q1 - Q2 1999 of -25.4% and -15% respectively immediately followed the peak in interest rates of 25.5% in 2H'98. Following Government's realisation that the capital stock was under threat, real GFCF rates of greater than 10% over 2003 - 2008 saw the GFCF : GDP ratio improve to a peak of 23.5% in late 2008/early 2009. The spur for this infrastructural thrust was firstly the World Cup, but more importantly the fact that vital roads, rail, port and electricity infrastructure was crumbling.

As can be seen from the second graph, the private sector has always accounted for the bulk of fixed capital spending, occasionally reaching 75%. Government's share has continued to contribute ever less to fixed investment spending. Parastatal spend also languished for many years, contributing around 10% of all capex spend before taking off in 2005. Private sector spend still stands at 58% of the total versus the 42% of total government. The issue now is why did real GFCF collapse to a rate of just 2.3% in 2009 with current growth rates barely positive? In the medium term budget policy statement delivered in October, public sector infrastructure expenditure was put at:

- 2010/11 - R244.7bn
- 2011/12 - R263.0bn
- 2012/13 - R267.8bn
- 2013/14 - R280.3bn

In other words the much-vaunted R811bn three-year public sector infrastructure programme involves amounts far in excess of what has gone before it. The bottom graph clearly depicts how private sector capex spend, following strong real growth in 2005-08, has declined in real terms for the last six consecutive quarters. This obviously follows the very steep contraction in overall economic confidence in the wake of the global financial crisis.

The FNB Q3'10 Civil Construction Index is at 28 from 33 in Q2'10 and above the cyclical low of 25 seen in Q1'10 (> 50 = optimistic, <50 = pessimistic). "The low volume of work can be attributed to the fact that many projects were completed before the soccer world cup. Since then few new projects were started due to a variety of constraints at local government level, some public corporations and in the private sector. Some local governments appear to be delaying new projects, because their income from rates and taxes declined due to the recession, while capex budgets seem to have been reduced to cover current expenditure. Public corporations, such as Eskom and Transnet, had to defer some projects, partly because international capital markets became extremely tight after the global financial crisis. Management constraints may also have played a role." (www.ber.sun.ac.za, Civil Press Release, Sept 2010). The fact that monies have been budgeted for projects and then diverted to pay for current expenditure is scandalous. Similarly, Consulting Engineers SA's bi-annual economic and capacity survey revealed that the percentage of payments due to consulting engineers outstanding for longer than 90 days performed as per the attached table.

Raymond Lellyett, Senior Manager at Credit Guarantee, says that the steel industry is experiencing extremely tough trading conditions characterised by volatile steel prices and weak demand. "Margins are also under pressure as merchants attempt to unload higher priced stock in anticipation of price reductions" he adds, with Rand strength exacerbating the situation.

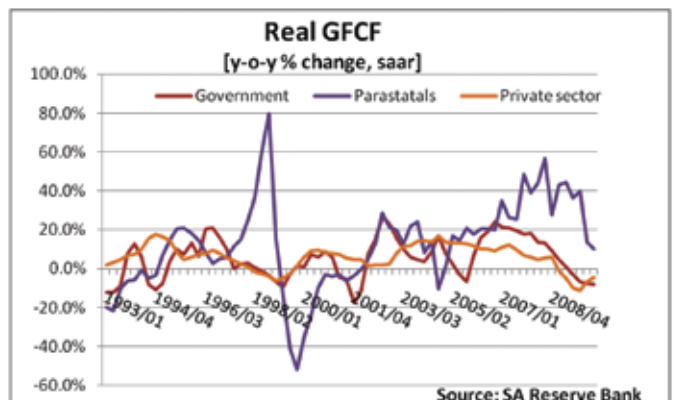
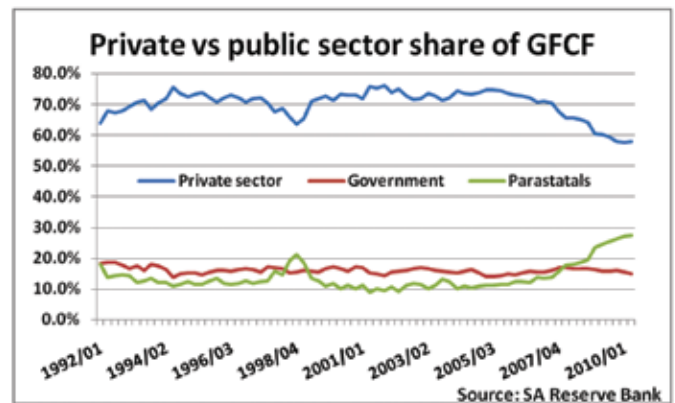
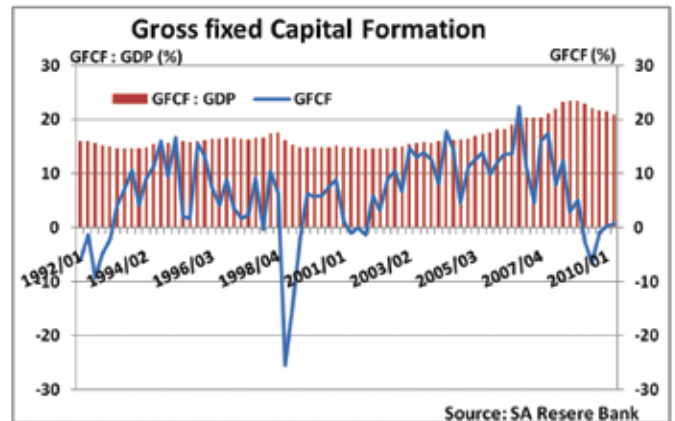
"Traditionally the months from September until the December close are when activity becomes frenetic as projects need to be completed; however this is not the case in 2010" states Lellyett. He continues:

"The only saving grace at present is the tonnage of steel needed to build the capacity required by Eskom. This however has not been without incident with a large fabricator getting into financial difficulty due to a relationship going sour."

"The mining sector has slowly started rolling out projects/upgrades and maintenance which were previously put on hold as a result of the economic climate. Recovering commodity prices have helped in this regard. Automotive manufacturing has been given a boost with VW deciding to manufacture the new Polo range in Port Elizabeth. This bodes well for component manufacturers who have seen activity levels decline during the last two years. The only worry is that the recent labour problems in the industry

Due from:	December 2009	June 2010
Central government	5.6%	11.6%
Provincial government	27.2%	14.4%
Local government	16.2%	16.4%
Parastatals	9.7%	49.7%
Private sector	15.2%	65.9%
Total	18.5%	23.4%

could result in delivery deadlines not being met and OEM's deciding to find alternative manufacturing capacity elsewhere in the world. Construction activity levels have dropped off from those leading up to the Soccer World Cup. Numerous problems are being experienced in the low cost housing sector due to payment delays caused by either the lack of funds or administrative inefficiencies" said Lellyett. Lellyett estimates that the high default levels currently being experienced in the sector were last seen in 1999. Further there is a high incidence of identity theft as people become desperate and companies tend to let their guard down as the need to make a sale becomes critical. Local construction group Aveng recently warned that they expect tough prevailing trading conditions to continue into 2012, although they did expect public-private partnerships to fast-track infrastructure development. The debacle with regards to water management infrastructure is one area where PPPs could allow private sector companies to transfer technology and enter new developmental areas. Aveng adds that the strong rand will cut the cost of importing capital intensive infrastructure components and that the developments within the mining sector were encouraging given recovering commodity prices and strong Chinese demand.





Cape Town cbd

WESTERN CAPE

Profile

The Western Cape is a topographically diverse province which stretches from the dry north-western coast to the heavily forested Garden Route regions of the Southern Cape via the mountains of the Cedarberg, the winelands of the Boland and the Overberg to the valleys of the Klein Karoo.

The province's population of approximately 5.3 million, with a diverse cultural demographic profile, live in an area of 129 370 square kilometres.

Major towns and cities

The Western Cape consists of one metropolitan municipality and five district municipalities subdivided into 24 local municipalities.

City of Cape Town Metropolitan Municipality

The City of Cape Town is known for the tourism and maritime industries. Cape Town was named Africa's best travel destination at the World Travel Awards in November 2009 and won the 2009 Virgin Holidays Responsible Tourism Award in the Best Destination category.

West Coast District Municipality

This region has a diverse economy with manufacturing activities in Saldanha that has one of SA's busiest ports, agriculture and forestry centred on inland towns like Moorreesburg (wheat) and Citrusdal (citrus farming), cement making in Piketberg and marine activities and fishing along the coast.

Cape Winelands District Municipality

This area produces approximately 70% of SA's wine with a good percentage of it being exported. The wine estates boost tourism with daily wine tours, adventure tourism and wellness spas. Manufacturing in this area focuses on the processing of grapes and fruit into wine, brandy and dried and tinned-fruit.

Overberg District Municipality

Cape Agulhas, Africa's southernmost tip only 3800 kilometres from the Antarctic coastline, is situated in the Overberg District and some of the world's best whale viewing is experienced in Hermanus. This region's agricultural activities include wheat, dairy, hops and flower cultivation.

Eden District Municipality

Tourism accounts for approximately 15% of the gross geographical product with the Garden Route and Klein Karoo as the main tourist attractions.

Central Karoo District Municipality

This is the largest district in the province with the smallest population which is due partly to the semi-desert conditions prevailing in this area. Sheep farming is the main economic activity.

Overview of the economy

According to the Bureau for Economic Research (BER) Quarterly Report, business and consumer confidence in the Western Cape increased in the 1st quarter 2010, with growth expected to be in line with SA. The Western Cape is likely to underperform in 2010 if growth nationally is led by the manufacturing and mining sectors. The Western Cape created 21 000 jobs in the 1st quarter 2010, the most by any province. According to the SA Yearbook 2009/10, the Western Cape had the lowest unemployment rate in the country at 19.7% in 2009, compared to the national average of 23.2%. In the 1st quarter 2010, unemployment reached 20.3%, which is lower than the national unemployment level of 25.2%. The wholesale and retail sector employed the most workers in the 1st quarter 2010, accounting for approximately 22% of total employment in the province.

Global Insight stated that the Western Cape had the biggest average annual growth of 4.2% during the past 10 years in SA, beating Gauteng with a growth rate of 4.1%. It is also rated as the most favourable destination for home owners as stated by First National Bank's home loans department.

The BER report indicates that the Western Cape reached an annual average growth rate of approximately 5% between 2000 and 2008, reaching 4.3% in 2008 and is estimated to have contracted by 1% in 2009. The finance, insurance and real estate sectors make the biggest contributions to the Western Cape's GDP contributing approximately 18.3% to regional GDP in 2008.

The BER's Business Confidence Index in the Western Cape increased from 34 to 44 in 1st quarter 2010 in line with the South African



Cape Town Waterfront

RMB/BER business confidence index of 43. This indicates a growing optimism in the Western Cape's business confidence. The BER expect a robust recovery for the SA economy of 3.4% in 2010 and expect the Western Cape's economy to mirror the national growth levels.

Risks to the BER's growth outlook for the Western Cape include:

- The South African growth could outpace growth in the Western Cape if growth is led by the mining and vehicle manufacturing sectors as these sectors contribute a small percentage of the provincial GDP.
- Income from agricultural exports could be hindered by the strong rand against the dollar and euro.

Positive factors influencing the BER's growth outlook include:

- The retail and wholesale sectors are more optimistic about business conditions than the South African retailers.
- Employment levels are expected to increase, boosting consumers' ability to spend.
- The recovery in the global economy is expected to boost recovery in the finance, insurance and retail sectors in the Western Cape that is expected to lead growth in the province.

The Western Cape has a well developed infrastructure with 3 ports situated in Saldanha, Cape Town and Mossel Bay and major airports include the Cape Town International Airport and George Airport. A number of SA's insurance and petroleum companies' headquarters are situated in the Western Cape.

Agricultural exports account for approximately 30% of the province's GDP. This sector is vulnerable to price fluctuations in the international economy and growth in this sector is dependent on growth in the international market.

Mining

Mining is becoming an increasingly important sector in the West Coast District Municipality with titanium, zirconium, phosphate and limestone being the most significant.

Agriculture

A variety of vegetables and grapefruit including apples, table grapes, olives, peaches and oranges are cultivated in the Western Cape. The agricultural sector accounts for about 60% of regional exports. The southern part of the province produces 3.1% of the world's wine and ranks as number nine in overall volume production, with 100 000 hectares under vine for wine production. The Western Cape is known as one of the world's finest grape-growing regions.

Agriculture is the main driver of growth in the Overberg District municipality, with wheat, dairy, deciduous fruit and onions identified as the main products. Barley, hops and flower cultivation are among the crops that are growing in popularity with local farmers in response to international demand.

Approximately 75% of the total fishing activity takes place in the Western Cape producing snoek, Cape lobster, abalone, oysters and mussels.

The Western Cape is the only province that exports horses; this earns the country millions of rands in foreign revenue. Other exports are ostrich meat, leather and ostrich feathers to Europe and other countries.

Manufacturing

The Western Cape's manufacturing sector is the third largest contributor to the national manufacturing sector after Gauteng and KwaZulu-Natal. The clothing and textile industry remains the main employer in this sector. Subsectors include: petrochemical products; food; beverages and tobacco; metals; wood and paper; publishing and printing. Because of the relatively large proportion of food and beverages in the manufacturing mix, this sector weathered the global economic crisis relatively well. The BER study reported only 2% of surveyed companies cut production in the second quarter of 2009.

Tourism

The Western Cape is a top international tourist destination due to its natural beauty, hospitality, cultural diversity and excellent wine. Tourism accounts for approximately 15% of gross geographical product in the Garden Route and Klein Karoo districts, while Knysna and Plettenberg Bay are the main tourist destinations.

Sporting activities are also great attractions as the Western Cape hosts many big events.

Development and investment opportunities

An increased focus has been placed on developing the various marine sectors in the province as this sector has a growing importance. The City of Cape Town's Metropolitan Municipality invested R4 billion in the container terminal and its capacity is expected to double by 2012. Transnet introduced a new R45 million cold storage facility at Cape Town's Multipurpose Terminal in 2009. This is expected to boost the competitiveness of the Cape fruit export industry.

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Boshendal Wine Farm



Cape of Good Hope

Feasibility studies are currently being conducted as various projects are being planned in Saldanha Bay over the next 20 years.

This will include increasing the port's bulk capacity, building a new renewable energy plant and exploiting its oil and gas potential. A huge housing project costing around R83 billion is also planned; it is expected to create 40 000 jobs and will primarily be funded by foreign investors. Saldanha Bay is the deepest natural harbour in the southern hemisphere and the perfect location for an industrial centre.

The film industry in the Western Cape is a vital part of the province's economy and has attracted various projects. The provincial government wants to increase their investment in this industry to increase competitiveness, attract more projects and create jobs. A world class film studio was built in Cape Town at a cost of R430 million in order to promote the Western Cape's ability to host and produce films and commercials. The 2010 Cape Town International Jazz Festival held in April is estimated to have contributed more than R475 million to the Western Cape economy, as determined by the Institute of Tourism and Leisure Studies at the North West University and Tshwane University of Technology. This includes the R43 million generated by the event itself through visitor spending and the impact of the festival on production and labour income. 33 500 people attended the festival and spent an estimated 6.3 nights in Cape Town.

The Western Cape government wants to attract investors into renewable electricity generation facilities as well as manufacturing as this would create more sustainable job opportunities. The province is currently deriving 95% of its electricity from fossil fuels but aims to generate about 15% of its total energy generation mix from renewable energy by 2014. The provincial government has stated that developers are already investigating 17 wind power projects. A German solar company, Concentrix, launched SA's first concentrated photovoltaic solar pilot plant, generating 60 kW, at the Aquila Game Reserve near Touws River.

Tenesol, the solar photovoltaic manufacturer, invested around R14 million to increase production capacity at its Cape Town facility. Engineering News reported that Tenesol is planning to invest a further R14 million in the Cape Town facility in 2011 to increase the production capacity to 100 MW peak per annum and continuously improve quality control.

The recent drought in the Eden and Klein Karoo district was the worst in 130 years. The provincial government worked with the national government to obtain funds to address this issue. The Western Cape Department of Agriculture launched a R26.9 million Eden District Drought Aid programme in the beginning of 2010 as the district was declared a disaster area in November 2009. Various seawater



City Hall, Cape Town

desalination projects are currently underway. This includes the R80 million that Petro SA contributed to a seawater desalination plant in Mossel Bay, expected to come on stream early 2011.

The 2010/11 Budget:

- R11.5 billion will be allocated to the Department of Transport and Public Works over the next 3 years focusing on infrastructure development, including schools, roads and hospitals in Khayelitsha and Mitchell's Plein.
- R1.4 billion will be allocated to the Department of Agriculture to increase agricultural production by 10% over the next 10 years and assist land reform beneficiaries with comprehensive support.
- The Department of Economic Development and Tourism will receive R770 million over the next 3 years to create jobs by stimulating trade and investment.
- The Department of Education will receive R38 billion over the next 3 years, the second largest share of the budget, with the focus on increasing grade 3, 6 and 9 literacy and numeracy levels by 10% between 2010 and 2012 and increasing the matric pass rate from 75.7% to 80%.
- R38.3 billion has been allocated to the Health Department with the priority to provide better healthcare.
- In order to fight crime, the Department of Community Safety receives R287.8 million, 50% of which will be allocated to promoting traffic safety.
- Housing will receive an allocation of R6.6 billion over the next 3 years.
- The Department of Environmental Affairs and Development Planning has been allocated R973 million over the next 3 years to optimise resource use efficiency.
- The Department of Cultural Affairs and Sport receives R289 million to encourage participation in civil and social life and empower communities.

Monique Daseman, Economic Services - November 2010



CANADA

Political environment

The country is both a constitutional monarchy and an independent democratic system led by the Queen of England, Elizabeth II, as the head of state. The Prime Minister is the head of the government and is appointed by the Governor General. Canada enjoys a stable political environment.

Economic environment

Canada is the second largest country in the world after Russia. The country has a population of 34.1 million, with a population density of only three inhabitants per square kilometre, one of the lowest in the world. Nearly 90% of Canadians live within 200 kms of the border with the United States, which means that Canada contains vast expanses of wilderness to the north. Canada has a literacy rate of 99%, and its people are environmentally conscious. This year the Human Development Index ranked Canada at 4th among 182 countries, on the Economic Freedom Index the country ranked 7th in 179 countries and on the Global Competitiveness ranking it is 9th among 133 countries.

The US and Canada have the world's most significant trading relationship. Immigration has helped to make Canada one of the world's richest nations with many recent immigrants coming from Asia. Canada's indigenous people make up less than 2% of the population. The way in which provincial governments share land and natural resources with native groups is an ongoing issue. The Winter Olympics held in Vancouver in February 2010 also gave a fillip to various industries, including the construction, food services and tourism sectors.

Main economic sectors

Services

The service sector employs some 60% of Canadians and accounts for over two thirds of GDP. The largest employer is the retail sector employing almost 12% of Canadians. The retail industry is mainly concentrated in a relatively small number of chain stores clustered together in shopping malls. The second largest portions of the service

sector are business services; this includes the financial services, real estate and communications industries. This sector of the economy has been growing rapidly in recent years. It is largely concentrated in the major urban centres, especially Toronto, Montreal and Vancouver.

The education and health sectors are two of Canada's largest but both are largely state-owned or controlled. The health care industry has grown rapidly and is the third largest service sector in Canada. Its rapid growth has led to problems as the government must find money to fund it. Canada has an important high tech industry, and also an entertainment industry creating content both for local and international consumption. Tourism is of ever increasing importance with the vast majority of international visitors coming from the United States. Though the recent strength of the Canadian Dollar has slowed tourist arrivals particularly from the USA, other nations such as China have increased tourism to Canada.

Energy

Canada is one of the few developed nations that are net exporters of energy - in 2009 net exports of energy products amounted to 2.9% of GDP. Canada is also one of the world's highest per capita consumers of energy. Hydroelectric power is an inexpensive and relatively environmentally friendly source of abundant energy. Cheap energy has enabled the creation of several important industries, such as the large aluminium industry in Quebec, Alberta and British Columbia.

Most important are the large oil and gas resources centred in Alberta and the Northern Territories, but also present in neighbouring British Columbia and Saskatchewan. The vast Athabasca Oil Sands give Canada the world's second largest reserves of oil after Saudi Arabia according to the United States Geological Survey (USGS). A historically important issue in Canadian politics is that while Western Canada is one of the world's richest sources of energy, the industrial heartland of Southern

To next page



Ontario has fewer native sources of power. It is, however, cheaper for Alberta to ship its oil to the western United States than to eastern Canada. The eastern Canadian ports thus import significant quantities of oil from overseas, and Ontario makes significant use of nuclear power.

Agriculture

Canada is also one of the world's largest suppliers of agricultural products, particularly of wheat and other grains. It is a major exporter of agricultural products to the United States but also to Europe and East Asia. As with all other developed nations, the proportion of the population and GDP devoted to agriculture fell dramatically during the 20th century. The industry receives significant government subsidies but Canada has been a strong supporter of reducing market influencing subsidies through the World Trade Organization.

Manufacturing

As of 2010, manufacturing accounts for 13% of Canada's GDP, a relative decline of more than 2% of GDP since 2005. Central Canada is home to branch plants of all the major American and Japanese automobile makers and many parts factories owned by Canadian firms such as Magna International and Linamar Corporation. Central Canada today produces more vehicles each year than the neighbouring US state of Michigan, the heart of the American automobile industry. Manufacturers have been attracted to Canada due to the highly educated population with lower labour costs than the United States. Canada's publicly funded health care system is also an important attraction, as it exempts companies from the high health insurance costs they must pay in the United States. Branch plants provide mainly blue collar jobs, with research and executive positions confined to the United States.

Natural resources

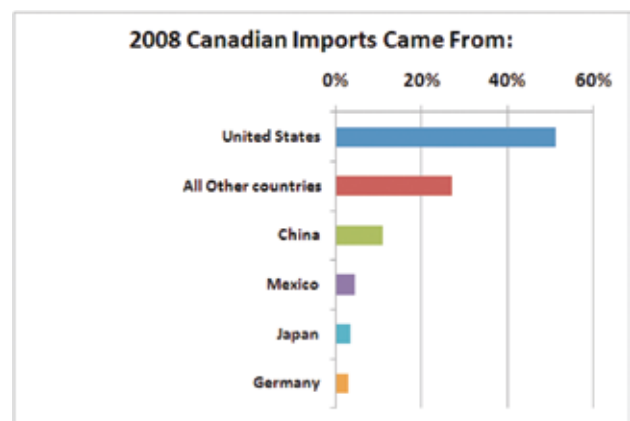
An abundance of natural resources gives Canada a unique advantage. Mining, forestry and oil have been the main exports for quite some time. Energy resources account for more than 50% of Canada's total resource wealth, followed by timber and mineral resources.

The country produces more than 60 minerals and metals, which comprise approximately a sixth of its total exports. Some of the metallic minerals Canada produces include gold, nickel, uranium, bismuth, zinc, cobalt, and cadmium. Potash, diamonds, and cement constitute the country's non-metallic mineral production. Coal is also a substantial mineral asset. Indeed, Canada today has proven oil reserves of 177.9 billion barrels, with 173.7 billion barrels in the non-conventional form of oil sands. These reserves are mainly found in the areas of Athabasca, Peace River and Cold Lake in Alberta. However, the total recoverable oil reserves (non-conventional) are

estimated at over 334 billion barrels. According to the US Energy Information Administration, Canada has enough reserves to last at least 150 years at the current rate of production. As nearly all of Canada's oil exports find their way into the United States, any slowdown in the US economy, like the current one, tends to affect Canada's energy exports. Due to the country's geographical positioning, shipping oil across the Pacific or the Atlantic to other markets is either much more expensive than exporting to the US or commercially unviable.

Current economic developments

According to Statistics Canada, the economy shrank 0.1% in July this year. Manufacturing, retail and wholesale trade, construction and forestry all posted decreases. Increases were recorded in the mining sector and, to a lesser extent, in some financial industries and the public sector. The decline in GDP was in line with economists' forecasts. The July report marked the first monthly contraction since August 2009, when GDP shrank 0.1%. That had been the only month to show a decline in economic activity since a 10-month string of reduced GDP readings between August 2008 and May 2009.



Data Source, Statistics Canada

<http://www.statcan.gc.ca/daily-quotidien/100406/t100406a1-eng.htm>

After nearly six years of exponential franchise growth in the United States, BrightStar, a full-service healthcare staffing agency that provides both medical and non-medical homecare, announced its expansion into Canada with the awarding of a Master Franchise. Based in Chicago (USA), BrightStar is a full-service healthcare staffing agency that provides medical and non-medical homecare



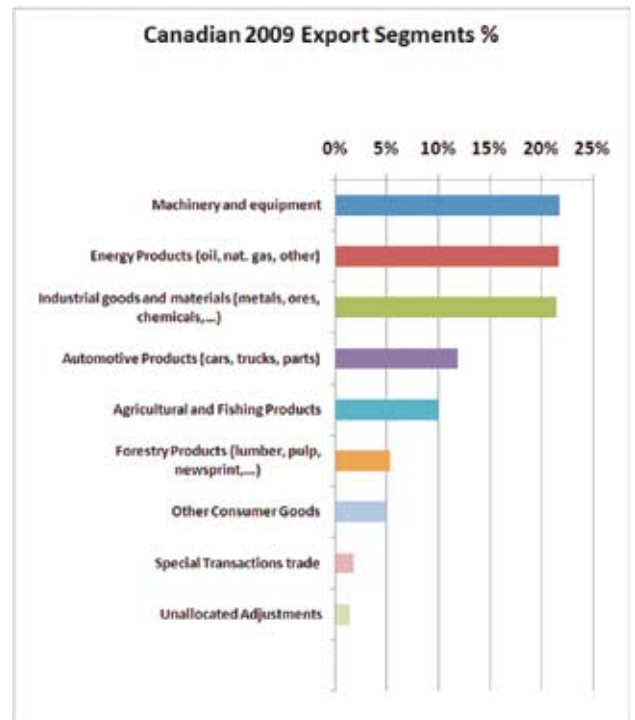
to private clients in their homes, as well as supplemental healthcare staff to corporate clients. Canada's strong economic growth is attracting business from the US, inter alia valuation specialist Duff & Phelps. Duff does high-stakes, high-profile valuation work such as aiding the Lehman Brothers bankruptcy examiner and advising the Congressional oversight panel on the TARP program. Until now it has had no presence in Canada but that will change with the purchase of Toronto's Cole & Partners. According to Duff, Canada is the fastest growing of the G7 economies and, therefore, it is important to have a presence there. Duff is looking to duplicate the full suite of Duff offerings in the USA which would include investment banking, financial advisory and tax work.

International trade

The US remains Canada's most important trading partner, followed by Japan and the European Union. In fact, the bilateral trade relationship between Canada and the US — valued at more than \$500 billion — is the largest in the world. However, the relationship is lopsided; for instance, in 2008, the US accounted for just 1.52% of all Canadian imports, but 78% of all Canadian exports came from the US. On the

other hand, only 16% of all US imports came from Canada, and 20% of all US exports went to Canada. Clearly, Canada's growth hinges heavily on the economic well-being of the US. As the US swiftly sank into a recession, Canada's energy exports slumped more than 50%. Global demand for its minerals also waned dramatically. In 2009, the total value of the minerals Canada produced plummeted more than 30% to \$32.2 billion from \$47 billion in 2008. All three major mineral categories — metals, non-metals, and coal — suffered from reduced production volumes and prices. Metallic mineral production declined close to 28.5%, while non-metallic mineral production shrank 40.9%. Among metals, only gold and uranium remained insulated.

- SA exports to Canada totalled R3.5 billion in 2008, R3.44 billion in 2009 and year to June 2010 totalled R1.6 billion
- SA imports from Canada totalled R8.2 billion in 2008, R4.4 billion in 2009 and year to June 2010 totalled R2.8 billion. ↘



Data Source: Statistics Canada
<http://www40.statcan.ca/l01/cst01/gblec04.htm>

Hlolohelo Pule, Economic Services - November 2010

Credit Guarantee's guide to Central and North America - November 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 - Barbados | GOVERNMENT TYPE - Republic | POPULATION - 284,560k | 2009 POPULATION GROWTH RATE - +0.4%



Barbados is one of the more populated and prosperous Caribbean islands. Political, economic and social stability have given it one of the highest standards of living in the developing world however a shortage of jobs has prompted many Barbadians to find work abroad with their remittances an important source of income.

Offshore finance and information services are important foreign exchange earners and thrive from having the same time zone as eastern USA financial centers and a relatively highly educated workforce. The government continues its efforts to reduce unemployment, encourage direct foreign investment (FDI) and to privatize remaining state-owned enterprises. The public debt-to-GDP ratio rose to over 100% in 2009 largely because a sharp slowdown in tourism and financial services which led to a wide budget deficit.

SHORT-TERM COVER - Y

COUNTRY - Costa Rica | GOVERNMENT TYPE - Republic | POPULATION - 4.2m | 2009 POPULATION GROWTH RATE - +1.35%



Costa Rica's population is estimated at 4.2m inhabitants and it maintains a high standard of living with extensive land ownership. Poverty and inequality are much lower in Costa Rica than the averages for Latin America. The country's strategic location between North and South America, direct ocean access to Europe and the East, as well as their fertile land and frequent rainfalls, are used as an economic advantage.

Costa Rica's successful transition from an agricultural based economy to a manufacturing and industrial economy attracted major international companies. FDI is expected to increase as economic recovery takes place with imports also expected to increase as domestic demand improves.

The Inter-American Development Bank granted Costa Rica an \$850m loan to finance the upgrade of Costa Rica's principle arterial highway.

SHORT-TERM COVER - Y

COUNTRY - El Salvador | GOVERNMENT TYPE - Republic | POPULATION - 7.2m | 2009 POPULATION GROWTH RATE - +1.65%



The economy is heavily dependent on remittances as about a third of all households receive these inflows. Other challenges facing the economy include the high levels of poverty, natural disasters and crime. El Salvador's economy is dependent on growth in the US economy as an estimated 2.3m Salvadorans are based in the US and 44% of the total exports are allocated to the US. The recent weak US employment figures in 1H10 could constrain inward remittances received, negatively affecting domestic demand which is El Salvador's biggest driver of GDP growth.

SHORT-TERM COVER - ILC

COUNTRY - Guatemala | GOVERNMENT TYPE - Republic | POPULATION - 13.3m | 2009 POPULATION GROWTH RATE - +2%



Illiteracy, infant mortality and malnutrition are among the highest in the region, life expectancy is among the lowest, in common with many of its neighbours, and the country is plagued by organised crime and violent street gangs. It is a major corridor for smuggling drugs from South America to the United States.

According to the IMF, Guatemala's economy may grow more than 2% this year as the government curtails stimulus spending to reduce debt. While Guatemala may need to increase spending to repair damaged crops and roads caused by tropical storm Agatha in May, the government remains "firmly committed" to fiscal restraint. The economy will likely recover gradually in 2010 and return to more normal growth rates by 2012.

SHORT-TERM COVER - Y

EXPORT DESTINATIONS

COUNTRY - Honduras | GOVERNMENT TYPE - Republic | POPULATION - 7.8m | 2009 POPULATION GROWTH RATE - +2%



Mr Lobo was sworn into office in January 2010 as Mr Zelaya went into exile, marking the closure of seven months of political chaos set off by his ouster by troops in June 2009. The USA and Latin American governments criticized the coup and many countries denounced Mr Lobo's election under a de facto government as illegitimate, but months of mediation and talks failed to reverse the coup and restore Mr Zelaya.

Congress approved a 36 months law allowing companies to hire part-time staff, despite opposition from labour unions. The initiative was admitted to the full Legislature this month as part of the National Employment Anti-Crisis Outreach, a project known as the Temporary Employment Act.

SHORT-TERM COVER - Y

COUNTRY - Nicaragua | GOVERNMENT TYPE - Republic | POPULATION - 5.8m | 2009 POPULATION GROWTH RATE - +1.78%



Mario Salinas, Nicaragua's Tourism Minister recently confirmed his intention to contact different Spanish hotel groups to promote the construction of new complexes in the Central American country. Nicaragua currently has 7,800 hotel rooms which are insufficient compared to other neighbouring countries, which offer around 38,000, representing a huge opportunity for companies interested in developing hotel projects in the country. Savvy investors are increasingly choosing Nicaragua as the ideal destination to start a business due to its dynamic economy, strategic location and natural beauty. More than US\$1 billion is expected to flow into the country in FDI in the next couple of years as a result of numerous FDI projects soon to be developed in different economic sectors.

In October 2009 the country's Supreme Court amended the constitution to allow President Daniel Ortega to stand for re-election, he is keen to secure another term in office when his current five-year period ends in 2011 - something that his political opponents have described as a dangerous move. Should he win the next election he will serve a third non-successive term as president.

SHORT-TERM COVER - ILC

COUNTRY - Jamaica | GOVERNMENT TYPE - Republic | POPULATION - 2.8m | 2009 POPULATION GROWTH RATE - +0.75%

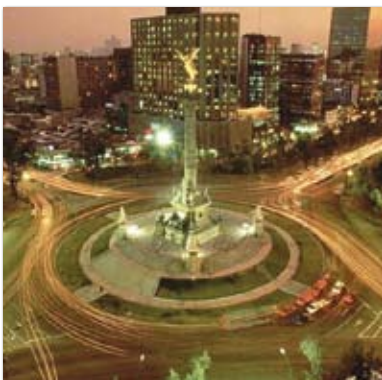


The head of state is Queen Elizabeth II, represented by Governor-General Patrick Allen. The Prime minister is Bruce Golding who was sworn in in September 2007 after leading his Jamaica Labour Party to victory in a closely fought election.

According to a new International Monetary Fund (IMF) report analysed by the Business Observer, Jamaica will have the seventh slowest growth rate in the world up to 2015, indicating missed opportunities for the debt-ridden country. Jamaica's debt-to-GDP, currently some 130%, is seen as a primary reason for suffocating its growth prospects as Government hasn't the money to pump into spending on construction and infrastructure. Jamaica's economic decline mirrors its decline in the UN Human Development Index (HDI) at 100 in 2009 from 92 in 2006. The Doing Business 2010 report (a joint publication of the World Bank, International Finance Corporation and PricewaterhouseCoopers) ranked Jamaica one of the 10 most difficult countries in the world to pay taxes - 174 out of 183 countries.

SHORT-TERM COVER - Y

COUNTRY - Mexico | GOVERNMENT TYPE - Republic | POPULATION - 111.2m | 2009 POPULATION GROWTH RATE - +1%



Monterrey, Mexico's richest city, has become a central battleground in the country's drug war as cartels open fire on city streets and throw grenades onto busy highways. Firefighters are putting ordinary Mexicans and foreigners at risk and raising the stakes for President Felipe Calderon as he faces pressure to protect a city generating 8% of Mexico's GDP.

Spending on alarm systems, personal bodyguards and risk consulting is booming in Mexico as companies aim to protect their assets. Spending on private security services in Mexico has risen by 11% this year when compared to the same period in 2009.

According to the National Council of Private Security, an umbrella group for the sector, security spending jumped 33% along the US-Mexico border, which has seen the most dramatic rise in violence since the government launched its offensive against drug cartels almost four years ago. While most Mexicans have not been touched personally by drug violence, even the perception of deteriorating security can have bottom-line implications but that is an opportunity for a security industry that the council estimates rakes in some \$1bn a year in Mexico.

SHORT-TERM COVER - CBC

COUNTRY - Panama | GOVERNMENT TYPE - Republic | POPULATION - 3.3m | 2009 POPULATION GROWTH RATE - +1.5%



Panama's economy grew 6.3% in Q2 '10 versus the same period a year ago. Panama posted strong gains across many sectors in the second quarter after tourism and construction were boosted by a \$5.25 billion expansion of the Panama Canal. Banking activity contracted 5.9% during the period from a year earlier.

The Panama Canal is expected to be widened in 2014, and when it is, Florida needs to be ready. That was the message, at least from business leaders at the recent Florida Chamber of Commerce's annual Future of Florida Forum in Orlando. A wider canal will allow larger cargo ships to cross from the Pacific Ocean to the Atlantic Ocean. Florida, of course, would like to see one of its ports be the primary destination for those ships. The consequences for missing out on such an opportunity could be staggering for Florida's economy.

SHORT-TERM COVER - Y

COUNTRY - USA | GOVERNMENT TYPE - Republic | POPULATION - 307m | 2009 POPULATION GROWTH RATE - +0.9%



The US economy lost another 95,000 jobs in September, as public sector cuts outpaced hiring by the private sector. According to the Labor Department figures, the fall was almost double August's 54,000 job loss number. The jobless rate held at 9.6%, but still marks the 14th straight month it has been above 9.5%.

The U.S. has fallen behind emerging markets in Brazil, China and India as the preferred place to invest, a Bloomberg survey shows, though the world's largest economy still ranks highest of all major developed countries. In the September poll of 1,408 investors, analysts and traders who are Bloomberg subscribers, respondents rate the U.S. fourth for potential returns over the next year, behind Brazil and China, tied for first, and India, in third place. Economic reports released since the June poll show U.S. GDP growth slowed to 1.6% in the second quarter from 3.7% in the first quarter. In the final quarter of last year, GDP grew at a 5% annual rate. Expectations for U.S. GDP growth next year have dropped to a median forecast of 2.5% in September from 2.9% in June, according to Bloomberg's monthly survey of economists.

SHORT-TERM COVER - Y

COUNTRY - Belize | GOVERNMENT TYPE - Constitutional monarchy | POPULATION - 307,900k | 2009 POPULATION GROWTH RATE - +2.2%



Queen Elizabeth II is the chief of state since 6 February 1952; she is represented by Governor General Sir Colville Young, Sr. (since 17 November 1993). The governor general is appointed by the monarch; following legislative elections, the leader of the majority party or the leader of the majority coalition is usually appointed prime minister by the governor general, the prime minister recommends the deputy prime minister.

The wholesale and retail trade sector continued to rebound for the third quarter in a row recording 8.2% growth. Figures show that there was a 3.7% increase in merchandise imports as consumer demand increased. In the agricultural sector, there was an impressive 35.3% increase in sugarcane production with the entire sector itself reflecting a 1.7% increase. There was, however, a decline in the production of citrus as a result of decreasing investment by citrus farmers as a result of increasing cost of fertilizers leading to lower yields compounded by shortage of labor in that industry. The petroleum sector also saw a decrease of 11.6% in production. All told, the economy appears to be rebounding from recession and Prime Minister Dean Barrow has predicted the economy will rebound in the latter part of 2010 and into the early part of 2011.

SHORT-TERM COVER - CBC

COUNTRY - Dominican Republic | GOVERNMENT TYPE - Republic | POPULATION - 9.6m | 2009 POPULATION GROWTH RATE - +3.5%



In 2010, the current head of the state electricity company called for the re-privatization of the electricity distributors. The World Bank records that electricity distribution losses for 2009 totaled about 40%, a rate of losses exceeded in only two other countries. Due to low collection rates, theft, infrastructure problems, and corruption, distribution losses remain high.

The Dominican Republic sold \$750 million worth of bonds due in 2021 in the country's first international dollar offering in more than three years. The notes, which have an average maturity of 10 years, yield 7.5%, according to data compiled by Bloomberg. The country will use proceeds to finance infrastructure projects and other sectors of the economy. The Dominican Republic's economy will grow 7.9% this year, after expanding 3.5% in 2009, according to Barclays Plc.

SHORT-TERM COVER - Y

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 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:

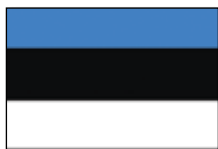
- Underwriting experience of other credit insurers on buyers in a particular market.
- Number of insolvencies / liquidations in a country.
- Access to funds for buyers in the market.
- Reliable credit information from the respective market.
- Trade references within markets.
- Global and domestic industry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

COUNTRY	RATING	OVERVIEW AND CGIC (Credit Guarantee) EXPERIENCE & COMMENTS
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CZECH REPUBLIC	2B	The government adopted a new fiscal consolidation package to increase government revenues by increasing Vat, excise duties and real-estate tax. This is expected to boost government revenues by 1.5% of GDP and help reduce the budget deficit. A steady recovery is expected to be led by exports. Private consumption is expected to remain weak as a result of rising unemployment, low wage growth and the negative impact of the increase in indirect taxes on consumption. Real GDP is expected to increase 1.6% in 2010 and 2.4% in 2011.
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ESTONIA	2B	Bankruptcies in Estonia increased by 632 companies to 1055 in 2009, 2.5 times higher than the level recorded in 2008 and the highest level in 10 years. This is expected to continue in 2010, but at a slower pace. Growth in 2010 is expected to be led by exports as the high unemployment rate will hinder domestic demand.
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HUNGARY	2B	President Pal Schmitt was elected as Hungary's president in June 2010 with Prime Minister Viktor Orban as head of government. The country remains vulnerable due to the high public debt estimated at 80% of GDP and their dependence on foreign financing. In October, Reuters reported that Hungary has no intention of exploring the possibility of a new loan agreement with the IMF. Central bank governor Andras Simor told public radio MR1 Kossuth in an interview that Hungary could finance itself from markets and there was no need for an IMF/EU-type lending agreement to finance the deficit and the current account.
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COUNTRY CREDIT RATINGS

COUNTRY	RATING	OVERVIEW AND CGIC (Credit Guarantee) EXPERIENCE & COMMENTS
LATVIA 	2B	The Latvian economy grew by 0.3% in Q110. The economy expanded for the first time since Latvia entered recession in 2008. For the 2010 budget the Latvian parliament has passed tax increases and spending cuts of around €700 million. Along with Lithuania, Poland, and Estonia, Latvia is considering participating in the Visaginas nuclear power plant in Lithuania to replace the Ignalina Nuclear Power Plant. Latvia faces a potential energy famine after it shut down Ignalina in 2009. Without any other policy, Latvia will have to rely more heavily on Russian gas and other sources of electricity.
LITHUANIA 	2C	Standard & Poor's (S&P) Ratings Services has revised its outlook on Lithuania by increasing its rating from negative to stable (credit rating is at BBB). This increase is due to the Cabinet's successful budget cuts and Lithuania's strong political will to keep its currency stable. The prohibition on foreign ownership of land for agriculture or logging is due to be phased out in 2011 in accordance with EU regulations.
LUXEMBOURG 	1A	The country enjoys an extraordinarily high standard of living - GDP per capita ranks third in the world, after Liechtenstein and Qatar and is the highest in the EU. Education performance is relatively weak as it does not match the demand for high-skilled workers thus making it more difficult for residents to find jobs. Reform policies are now in place to improve the education system.
MONACO 	1A	In July Monaco signed a Transfer of Information Exchange Agreement with Germany to reduce the chances of tax evasion. This will allow tax authorities to access information, including bank data to improve the enforcement of tax legislation. A recent study indicates that Monaco is the world's most expensive residential real estate market, followed by London and Paris. Qatar and Monaco have announced the launch of a joint venture international company that would purchase and administer hotels and tourist resorts in Europe, North America and the Middle East. Named Monaco QD International Hotels and Resorts management, the company will be based in Monaco, with Qatar as the major shareholder.
NETHERLANDS 	1A	The Second Chamber election was held on 9 June 2010. Talks on the formation of a coalition party are still underway. The change in government does not usually translate into the dramatic change in foreign and domestic policies. Private consumption is expected to remain weak until 2011, partly due to the uncertainty relating to the formation of the new government and their stance on fiscal consolidation measures that include tax rate increases and reductions in government spending. Excessive fiscal consolidation could further discourage consumer spending.
NORWAY 	1A	In February 2010 Hyundai won a \$1.16 billion contract to build a floating production and storage unit. In April 2010 Norway and Russia signed an historic agreement dividing the Barents Sea into 2 equal parts, defining maritime boundaries between Norway and Russia in the Arctic sea and resolving their 40-year old dispute. This agreement followed the June 5, 2009, three-year Memorandum of Understanding between Russia's Gazprom and Norway's Statoil to work together in exploring and developing their Arctic sea regions. The two companies are currently working on development of the Shtokman gas field.
POLAND 	2B	Poland received a major blow on 10th April 2010 when a plane carrying Polish President Lech Kaczynski, the country's central bank governor, its army chief, several senior military officers, and some members of Parliament, crashed near the city of Smolensk in Russia killing all 96 people on board. The Polish delegation was travelling to Russia to commemorate the 70th anniversary of the Katyn massacre. The role of the president is mostly ceremonial, though the incumbent has the right to veto legislation and has a say in foreign policy. Bronislaw Komorowski is Poland's new president after winning the July elections. GDP growth of 3.1% in 2010 and 3.5% in 2011 is expected according to the IMF. The country will host the 2012 Euro Football Championship with Ukraine. This spurred government to upgrade the country's notorious infrastructure which consists of bad roads and railways. Half of the €20 billion budgeted for the construction of railways, hotels and stadiums will come from domestic tax payers, while the EU will contribute the rest.

COUNTRY CREDIT RATINGS

COUNTRY

RATING

OVERVIEW AND CGIC (Credit Guarantee) EXPERIENCE & COMMENTS

PORTUGAL



1B

Portugal's debt-ridden economy will struggle to grow next year. Moody's credit agency cut the country's rating to A1 and forecast more austerity in 2011. The government is aiming to cut the budget deficit to 7.3% of GDP this year (from last year's 9.4%) and to 4.6% of GDP in 2011 by cutting the wages of top government officials and temporarily raise taxes in a bid to narrow its deficit faster than previously planned. This year approximately 45% of Portugal's electricity will come from renewable energy sources. In 2011 Portugal expects to become the first country to inaugurate a national network of charging stations for electric cars.

SWEDEN



1A

Sweden's economy grew at a higher than expected 3.7% in Q210, reflecting growing optimism of a strong economic recovery. Some economists warn that the recovery could be undermined by the austerity measures implemented in the EU countries, adversely affecting demand for Sweden's exports. The July Purchasing Managers Index however increased to 64.2 from 62.4 in June, indicating strong economic growth in the coming months.

GHANA



3C

The World Development Bank approved \$70m for the Electricity Company of Ghana. This will help with the repair of ageing substations and supply lines. The Jubilee offshore oilfield was discovered in 2007 with a minimum estimated reserve of 800m barrels. This is expected to boost GDP growth from the government's projected 6% in 2010 to 20% in 2011 according to Ghana's deputy finance minister. Ghana will start with oil production by the end of 2010 and is expected to reach a peak of 120 000 barrels per day, 4-6 months after production starts. This is expected to generate public revenue of ± \$800m per year over the next ten years and boost consumer spending by creating jobs. Ghana is looking for a total of \$9bn of investments over the next five years to boost their refining capacity and their gas industry.

KENYA



3C

The peaceful referendum of the new constitution has increased confidence in the country. President Kibaki refused to pass into law a bill that will allow the price-fixing of essential food and fuel prices. Kenya's parliament passed the bill in June 2010, allowing the finance minister to set maximum retail and wholesale prices of essential goods including fuel, maize flour, wheat, wheat flour, rice, cooking oil, sugar, paraffin, diesel and petrol. The Coffee Board of Kenya expects coffee output to fall by 13% during the 2009-10 seasons due to adverse weather conditions. Kenya Railways Corp, a state owned transport company, plans to finance the building of a \$200m commuter-train network in Nairobi, by issuing bonds. Construction is expected to start in October 2010 and be completed by 2013.

MADAGASCAR



ZZ

In the first half of 2010 Madagascar suffered the effects of multiple crises including lack of rainfall in the southern regions of Madagascar, a tropical storm and a continued period of political instability without an internationally recognised government. Feasibility studies done in SA confirm large reserves of ilmenite in south Madagascar and Exxaro hopes to start mining in 2014 with a projected output of 560 000 tonnes per annum.

INDONESIA



3C

S&P raised Indonesia's credit rating to BB from BB- in March 2010, with a positive outlook. S&P and Moody's both rank Indonesia two levels below investment grade, while in January 2010 Fitch Ratings raised its rating to one step below investment grade. This reflects Indonesia's resilience to the global economic crisis. A recovery in commodity prices is expected to support growth in Indonesia's exports as the world economy continues to recover together with increasing demand for raw materials from China and India.

Global uncertainty

Following the global recession, one would have thought that prospects concerning the path forward would be clear-cut. Questions around how many countries will be able to service debt, whether austerity measures should be deepened or stimuli extended, or how to assist local industries, abound. Protectionism was emerging prior to the crisis; currency wars will see this gather momentum. Will the massive pool of money and liquidity provided by monetary authorities around the globe lead to hyperinflation or will a lack of confidence lead to reduced aggregate demand and output and hence to deflation?

The IMF's October World Economic Outlook sees emerging economies growing 6.4% in 2011 from 7.1% this year and at 6.6% over 2012-15. This far surpasses the advanced economies' 2.2% next year from 2.7% in 2010 and the 2.5% expected for 2012-15. World trade volumes are forecast to grow 7% in 2011 from 11.4% this year and at 6.9% over 2012-15; import growth of emerging nations will be almost double that of developed nations at 9.9% next year and 9.2% over 2012-15.

Business demand recovering

Eleven months of deleveraging by business came to an end in August when credit extension to the corporate sector grew 0.2% y-o-y, followed by 2.5% in September. Credit extension to households grew at 6.3% y-o-y in September, a rate last seen in the first quarter of 2009.

Final consumption expenditure by households (FCEH): 1h'10 vs 1H'09

	Durables	Semi-durables	Non-durables	Services	Total
Nominal	11.5%	6.7%	7.4%	4.2%	6.2%
Real	9.4%	5.0%	1.7%	-1.8%	1.1%

Source: SA Reserve Bank Quarterly Bulletin

We believe that despite persistently high indebtedness levels and poor job prospects, that substantially lower debt service costs (as a percentage of disposable income) – already at 8% from 12% at the peak of the cycle – are in the offing. Indeed, from an annual level of 7.7% this year, this could well drop to 7.4% next year before accelerating slightly in 2012. While above the 6.5% level seen in 2004/5, this could nonetheless provide a much-needed boost to consumption expenditure.

Leading indicator cooling

After turning over in May and June, the SARB's leading business cycle indicator

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ticked up to 131 in July before cooling to 130.9 in August, albeit some 18.8% above the level recorded a year earlier. This implies domestic activity should stabilize in the short-term. The physical volume of manufacturing production grew at 5.3% y-o-y in August from rates of 9.3% and 7.2% in the previous two months respectively. This would appear to tie in with moribund purchasing managers' indices and with range-bound confidence indicators.

Monetary policy too restrictive

After bottoming out at 3.8% in July 2009, real prime (CPI less prime, see graph overleaf) has risen to around 6% at a time when prime has fallen from 10.5% to 9%. Certainly falling inflation – due to lower demand and a stronger exchange rate – is the main contributor hereto. The SACCI Business Confidence Index has over a slightly longer time-frame, picked up from 78.9 in March 2009 to a current 87.8. However, given the extremely benign inflation outlook – the latest Reuters Economist puts CPI at 4.9% in 2011 – and the dismal employment situation, it could be argued that a 1% cut in the Repo rate now would not be out of place.

Christmas sales outlook

Following on from a dismal retail performance last year, retailers are no doubt looking forward to an ongoing improvement in their trading environment. Rising producer prices and declining consumer inflation has meant that margins had to be managed extremely carefully but mercifully the financial position of individuals has improved over the course of the year. The 3.1% real decline in Christmas sales in 2009 (against our forecast of -3.8%) thankfully marked the trough in consumer spend with the 3.1% contraction in real household consumption expenditure in 2009 likely to recover to around 2.5% this year.

Prime has fallen a cumulative 6% so far in this cycle, with the additional 100bps decline in 2010 to date allowing for a recovery in retail sales over the course of the year. Nominal and real retail sales in the first eight months of 2010 have recorded growth of 6.3% and 4% respectively. Of concern was the slowdown in August with real growth of 4.6% y-o-y following June and July's 7.6% and 8% growth respectively. This raises the question of whether the domestic consumer can maintain such momentum given the additional impetus that foreign visitors provided during the World Cup. Job shedding last year severely cramped domestic

Final consumption expenditure by households (FCEH): 1h'10 vs 1H'09

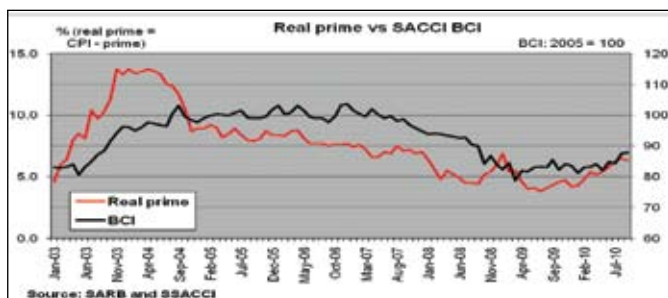
	2003	2004	2005	2006	2007	2008	2009	2010 f
Nominal – Rbn	57795	65864	73910	84639	92325	102964	105151	115500
% share	20.8%	21.0%	21.4%	21.2%	20.6%	20.6%	20.0%	20.6%
% increase		14.0%	12.2%	14.5%	9.1%	11.5%	2.1%	9.8%
Prime: yr-end (%)	11.5	11	10.5	12.5	14.5	15.0	10.5	9
Real – % increase		11.7	10.4	10.2	1.8	-0.9	-3.1	9
CPI – Nov/Dec	0.4	3.6	3.5	5.6	8.7	13.0	6.1	4.3

Source: Stats SA; CGIC analysis and forecast

demand with Gross Domestic Expenditure exhibiting a 1.8% real fall in 2009 but 1H'10 has seen a 2.5% real improvement. We remarked last year that the fall in debt servicing costs (as a percentage of disposable income) to below 8% this year may not have the desired impact as job security would remain a challenge in the minds of many. The run-up in household debt to disposable income to 80.6% and 80.2% in 2008 and 2009 resp. has fallen only marginally to 78.2% in Q2'10 but the debt service outcome to mid-7% will we believe, serve to assist consumer demand more than is perhaps accepted.

The impact of the downturn on consumer behavior is evident in the first table, which shows household expenditure on services (which accounts for 44% of current FCEH) declining in 1H10 in real terms. Consumers have either cut back on expenditure here, or competition has kept prices in check. Similarly, non-durables (essentially food and power/fuel, accounting for 40% of current FCEH) has seen only a 1.7% real improvement in 1H'10 as consumers buy-down in an attempt to allow for expenditure on durables (7.1% of FCEH) and semi-durables (8.9% of FCEH). Expenditure on vehicles, furniture, appliances and electronic goods (durables) has seen a remarkable resurgence this year, both on the back of lower interest rates and excitement surrounding the World Cup. This has gone hand in hand with a 5% real growth in spending on clothing, footwear, household textiles, tyres and vehicles parts (semi-durables) in 1H'10 following a 1.5% real fall in 2009.

The declining contribution of Christmas (November/December) to total retail sales to around 20% over the past two years – from 21.4% in 2005 - must be of concern to retailers but is essentially a reflection of the harsh economic climate that has prevailed. While nominal annual retail sales have risen from R250bn in 2002 to R524bn last year, the poor real Christmas sales outcomes of -0.9% and -3.1% over the last two years were caused by rising interest rates and inflation. There has been significant relief on both these



fronts and together with the improving financial position of consumers, implies that this year may well bring a smile to many manufacturers, wholesalers and retailers.

One issue that would potentially boost the situation relates to restocking, given that inventory levels have been ruthlessly rundown in tandem with plunging sales. Industrial and commercial inventories to GDP fell from 17.4% in 2007 to 14.2% last year and further to 12.5% and 12.3% in Q1'10 and Q2'10 (seasonally adjusted annualised rate). Recent wholesale sales data hint at a recovery of restocking in Q3'10. Following dismal nominal and real wholesale sales in the first eight months of 2010 5.2% and 0.7% resp., August saw the strongest y-o-y improvement of 10.9% nominally and 4.7% in real terms.

As argued above, we see scope for additional interest rate relief. Mitigating against this are fuel price increases. At first glance the 9.8% expected increase in nominal Christmas sales may appear over-optimistic, however above-average salary increases are providing a buffer in our opinion and we would not be surprised if the outcome crept into double digits. With retail inflation being so low - in some cases negative for certain sectors – the real increase could similarly exceed current expectations. Pursuit of a portion of this additional R10.35bn spend (compared to 2009) will have to be keenly fought for. Our advice to manufacturers and wholesalers at present would be to insist on short terms and to be wary of abnormally large orders.



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