



# CREDIT *notes*

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*Industry overview*

**Free State**

*Brazil*

**Export destinations**

**World Markets Update**



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# AFRICA'S TIME HAS COME

Does the African continent hold great investment potential for both domestic and international investors? The answer is a resounding, Yes. The fact that businesses in Africa weathered the economic downturn is a success story in itself. For a long time, there has been a perception of Africa as a continent carrying too high risk without the commensurate reward; the fact is this is perception born of fear of the unknown, lack of knowledge and understanding.

Africa is the second largest continent in terms of both area and population. It has a population of close to a billion people waiting for growth. Africa accounts for 30% of the world's mineral resources but less than 7% of the world's metal production; it has the 4th largest oil reserves in the world. 50% of the population is under the age of 20 which indicates that Africa will be the workforce of the world in the future. Many foreign investors are pleasantly surprised at the level of skills they find in Africa, and a more recent trend has been for a return of some of the African Diaspora.

Whereas in the past, African countries were seen primarily as a source of natural resources and low-cost labour, today they are first and foremost a new source of demand for all kinds of businesses. Seven out of ten companies wanting to expand into Africa (71%) polled state that one of their company's main reasons for operating in that market is to gain access to the domestic market. The second-highest reason (52%) is to act as a base for expansion into surrounding countries.

Very strong growth in Nigeria bolsters domestic demand. Even in other African countries, domestic consumers are the number one target, although access to natural resources remains a key reason.

"Africa has shown continuous and robust growth and this economic performance is attributable to African policy makers and the reforms they have implemented in their countries," says Anushuya Gounden, Head of Deloitte's Africa Desk.

"Twenty-eight countries in Africa have brought about regulatory reforms across sectors that make it easier to do business. Companies that are prepared to expect economic performance whilst employing effective risk mitigation strategies are reaping the benefits whilst others are standing on the sidelines."

According to the IMF, growth forecasts for the African continent for 2010 and 2011 are 4.3% and 4.5% respectively, while advanced countries are expected to achieve 2.1% and 2.4% respectively. "The case to invest in Africa appears to be obvious for some of us," says Gounden.

"If companies are looking to expand, there are generally three ways to enter a market: acquisition, joint venture or green fields operation," says Gounden. "Most multinationals that move into the continent look at a combination, depending on where they operate. But it is very important to seek advice from local experts on regulations, infrastructure requirements and brand/reputational issues. African countries typically have obstacles like the need for work permits (as in most places in the world), and exchange controls; there are fewer double taxation agreements than elsewhere and this has cash flow implications. Companies need to partner with advisers who offer both a global reputation and an on-the-ground network. Unlike previous decades, today Africa has highly competent professionals able to serve virtually every corner of the continent. There are law advisors, accountants, tax advisors, consultants and investment bankers with local knowledge – there is no need to go it alone."

"There are 53 different countries and legal jurisdictions, with different cultures and languages. You need local assistance backed by global methodology, to perform the research and networking, in order to create sustainable investment," she says.

There are key lessons when considering an expansion strategy:

1. Plan for more than you expect; most companies tend to go global conservatively. They start small with simple products or processes often primarily for export. Within a short time, they find the local workforce can do far more and the local market itself has far more potential than they expect.
2. Take off your local glasses. A common mistake made by even the most experienced global executive is to view global markets as an extension of their home country. Trying to replicate local human resource models, supply relationships and negotiations with government officials, are common pitfalls. Cultural nuances, local customs and market knowledge are crucial to success.





*The African Elephant drinking water at sunset*

3. Go for the cost and stay for the quality. Most companies deploy globally to reduce costs but they should be able to improve quality and productivity while tapping new methods of production.

If a company implements these lessons, it will reap significant benefits, e.g. increase profitability through operating cost reduction and new revenue sources; expand market share and the potential to penetrate whole new markets, tap into new qualified sources of production or direct component supplies. It will have increased flexibility and ability to respond to changing global demands and ability to reduce costs while improving quality and productivity.

It is not only multinationals that are interested in going into Africa; South African companies have been leading the way. Shoprite is Africa's largest food retailer, operating 1079 corporate and 270 franchise outlets across Africa, the Indian Ocean Islands and Southern Asia. Shoprite employs 8873 local nationals in its non-South African operations.

MTN is another South African born multinational operating in 17 countries in Africa (excluding the Middle East), and its success comes from rolling out sophisticated networks in some of the least developed countries in the world, offering meaningful distribution mechanisms to the informal environment, thereby providing a vital and innovative service to customers. They are clearly a group that took off their local glasses.

Africa is not the place to try to make a quick buck. Growth in Africa is picking up, but it is off a low base and there are still major challenges. A potential investor has to take a long-term view (at least 5 years) for the African growth story. India and China's success in Africa is primarily because they have taken such a long-term view.

"The challenge is to structure a new operation for long-term sustainable growth, with the correct mindset and management in place, whilst all the time, remaining agile to the swift changes that can occur," concludes Gounden.

**Issued on behalf of Deloitte**

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# THE COLUMN

by Roger Munitich

GM: Marketing and R&D,  
Credit Guarantee

## THE CONCEPT OF 'SELF-INSURING' AGAINST LOSSES IS ALWAYS AN OPTION FOR COMPANIES TO CONSIDER . . .

Assumption:- you put away (say) R800k in a fund somewhere and if you should accidentally write off your executive sedan, just delve into the fund and replace the vehicle – simple. That is of course assuming that you survived the impact completely unscathed and there are no other liabilities likely to crop up. No hospitals, therapy, loss of earnings, 3rd party involvements etc. Now we all know that this is not a common outcome.

So like your company's debtors book, self insuring or providing for potential losses assumes that there are also not likely to be any other coincidental liabilities that might crop up – no protracted legal action to institute, no costs of litigation etc. We also know that this is an unlikely scenario.

So yes, 'self insurance' might look like an attractive alternative on the face of it, but it needs to be properly structured in conjunction with your insurance company and intermediary, to ensure that your company has fully covered all aspects relating to your debtor risks.

# Deloitte predicts top trends for 2011 in the technology, media and telecommunications sector

- Tablets more than toys: What does the growing use of tablets for business purposes mean for enterprises and network providers?
- Free in-store Wi-Fi to enable comparative shopping, and augmented by social media to retain customers
- Gaming continues to grow, following the enterprise software market away from one-time licence sales to diversified revenues
- Public Wi-Fi becomes the mobile data carrier of choice as data volumes increase
- Are you getting the returns expected from social network advertising?

The Technology, Media and Telecommunications (TMT) practice at Deloitte today announced its 2011 predictions for the TMT sector. A key trend over the last ten years has been convergence where we see that the technology, media and telecommunications sectors are now more interconnected and interdependent than ever before. Consequently, developments in each sector are inextricably linked.

## The emergence of Tablets and Wi-fi as real players

Deloitte predicts that more than 50% of all computing devices sold globally will not be PCs and that 25% of all tablet computers will be bought by enterprises; that figure is likely to increase in 2012 and beyond. Whilst PCs will still be the workhorse computing platform, in a relatively short period of time tablets will replace computers for executives who are mobile. Security of data on the move will then be a serious consideration on the risk management menu. Also, as tablets are small and portable, they are a popular target so there are likely to be a host of security based solutions emerging to protect company and personal data. Business will soon realise that this item is appearing on their 'grocery' list increasing their IT costs due to the variety of different architectures and operating systems to support.

The volume of data uploaded or downloaded from portable devices via public Wi-Fi networks will grow at a much faster rate (25 to 50%) than the volume carried over cellular broadband networks.

The growth in Wi-Fi only devices sales will outstrip that of 3G devices. The bulk of this growth will be video data with Wi-Fi likely to become the default network for video applications. This could undermine the data revenue model of mobile and wireline operators. The answer is to 'own' all the channels (landline, mobile, Wi-Fi, and TV) to the customer which follow the lifestyle of the user versus fulfilling a primary technology function only.

It is also likely that South Africa will follow the trend in the USA where big retailers will begin offering free in-store Wi-Fi access to shoppers to enable in-store online comparison shopping. This will increase revenue, keep them in the store longer, guide them in the store, answer their questions and collect data about them. Retailers must understand and stay abreast of regulatory changes

and shifting public sensitivities about online tracking practices so as to strike a balance between maximising revenue and respecting customer privacy.

## Games

With access to broadband, Deloitte predicts that we will see significant growth in gaming. Consumers will surely have noticed how much more space in toy shops is now occupied by electronic media. The age profile for gaming also varies across the range with the older users having access to disposable income and the younger profile users influencing purchasing spend. We are also likely to see a decline in gaming hardware sales of almost 20% but an increase of gaming software revenue of 6%.

An increasingly large percentage of games revenue is likely to come from monthly subscriptions, peripherals, fees for services and in-game purchases and advertising in the free-to-play (F2P) and 'Freemium' markets.

The games industry appears to be following in the footsteps of the enterprise software market. Two decades ago, 90% of enterprise software revenues were one-time licence sales — equivalent to buying a game disc — and there were virtually no follow-on revenues or service fees. Today, many software companies derive more than half of their revenues from services and subscriptions, and licence fees are much less critical.

Although this change was disruptive to the industry, most enterprise software companies found that after the transformation they were still able to grow profitably while enjoying less revenue volatility. The games industry might be able to learn from their experience, leveraging best practices from the enterprise software industry while developing new best practices of its own.

With this increase, technology platforms for games are also likely to proliferate further as the smartphone market share grows in South Africa.

## Social network advertising

Deloitte's view is that the advertising revenues from social networks are likely to be very significant: total industry revenues of \$5 billion and year-on-year growth of 40% are impressive numbers. Yet revenues on a per-subscriber basis are unlikely to match search or traditional media in the next year or two. Also advertising rates are likely to remain low compared to other forms of online advertising as well as traditional media.

Nevertheless, owing to their low cost base, social networks might still achieve impressive gross margins despite their relatively low revenues-per-user, particularly when compared to the traditional media companies against which they are competing. A social network's cost of content is close to zero since it merely provides the infrastructure, while its users and third party application developers provide all the content.

# FOOD INDUSTRY

Riots over food have largely escaped South Africa but that hides the very large role that food plays, especially, in the lives of the poorer element of our society. Although food and non-alcoholic beverages has only a 15.7% weight in the overall Consumer Price Index, the IDC estimates that over 30% of household income is spent on such items by the lowest three income deciles. If one then takes into account transport costs, then the very real impact that escalating prices in these products will have, takes on a stark reality. There are many facets to this industry, with many being beyond the purvey of this remit, such as land reform and tenure, biofuels and the need for food security, competition and collusive behavior and pricing power of various industry players.

Despite being a net food importer, low overall inflation and a strong exchange rate have to date shielded South Africans from the record high in the United Nation's Food and Agricultural Organisation's (FAO) global food price index (the previous peak was reached in June 2008 – see graph below).

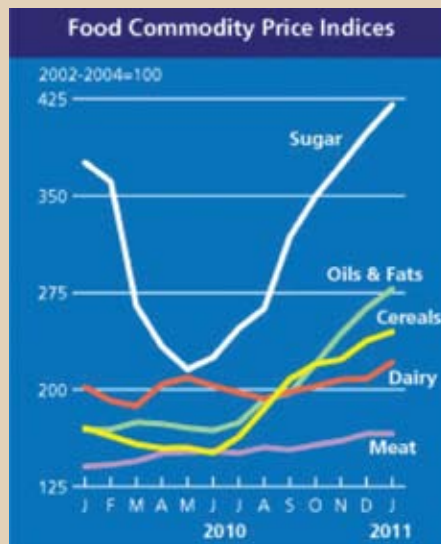


Why have global food prices risen so sharply? Has demand recovered in tandem with the rebound from the Great Recession? Are India and China's mushrooming middle classes to blame? As can be seen from the FAO food commodity graph alongside, the largest increases have been seen in sugar, oils, fats and cereals. In fact, the real concern appears to be with supply: high fuel prices has prompted a move towards subsidies for fuel alternatives with 40% of US maize production now destined for biofuels (Business Day, 25 January 2011). With global food production not increasing fast enough, this aggravates the supply-demand imbalance with price swings reflecting scarcity.

Warnings of a global food crisis have risen in tandem with the unrest seen in Tunisia, Egypt and Jordan. At the same time, the FAO has cautioned against export curbs that some surplus-producing countries employed during the 2007-08 crisis. This depresses local prices and curtails the incentive to produce more, whilst also adding fuel to the fire that commodity speculators feast upon.

Wheat prices have soared over 70% over the past year, after Russia banned exports and the flood damage in Australia and Canada. Further, almost 40% of China's wheat areas have been recently hurt by a dry spell and with global wheat harvests set to fall short of demand for a second year

running, stockpile hoarding becomes the order of the day. With the rise in the price of this staple, substitution towards another is inevitable, with rice now expected to track higher as desperate buyers seek alternatives.



However, as with escalating fuel prices on the back of higher global oil prices and a weaker rand, there is a very real possibility that local food prices may escalate sharply. In fact the exchange rate has moved from R6-58/\$ on 4 January 2011 to the R6-90/\$ region now. The previous proponents of a weaker rand are stunningly silent now. This may also be exacerbated by the new toll fees set to become operative in Gauteng in mid-2011. This is further amplified by the fact that logistics costs play a large role in South Africa given that transport from farmers to consumers contributes significantly to food prices.

The penalty imposed on Pioneer Foods to lower bread prices has had unintended consequences, with buyers obviously substituting the cheaper Sasko brand for previous Albany sales. When the discount expires (shortly), will Tigerbrands be able to recoup the substantial market share lost in the interim? And should Tigerbrands have had to respond by selling at below cost? Pressure has in turn also been placed on wheat millers for lower prices and who rightly, have refused, opting to focus on other sectors and product lines to move their grain. It is pleasing to see the competition commission becoming more pro-active in protecting the consumer.

Abattoirs are under severe pressure as the wholesalers and big chains dictate pricing, whilst farmers are not prepared to sell their stock at lower prices. This has the effect of increasing the already high price of red meat, making it even more unaffordable. Abattoirs are also cutting out the middlemen or finding alternative means of distribution, such as opening butcheries. This plays right into the hands of the poultry producers as people buy cheaper chicken; ultimately this

may lead to chicken shortages and/or red meat shortages if beef farmers decide to export. Furthermore, the impact of the furore surrounding reprocessed frozen chickens has yet to play itself out. Will new health guidelines for this practice be instituted – leading inevitably to higher prices, or will it be allowed to blow over?

Maize farmers have been complaining for many years that the low prices were making it uneconomical given the extent of cost input price rises. Once again the high rainfall will result in a high maize crop this year – so far from 1 May 2010 until 11 February 2011 11.8m tons has been harvested compared to 12.8mt tons in 2009/10 and the record of 14.4mt in the 1981/82 season. This should lead to lower maize prices which are currently considered too high for consumers. Consequently the high prices have caused a shift with consumers now purchasing the more reasonably priced rice. As a net importer of rice, rice prices have been shielded by the strong exchange rate to date.

High rainfall in the Vaal and Orange river catchment systems gave rise to extensive flooding in early January and again in February. Crop damages are estimated at R1bn and farm infrastructure damage at R1.5bn. The dry raisin crop from the region may be half of what it was last year while wine grape crops have also been decimated in some areas.

The imminent arrival of Walmart is causing debate, with some concerned that certain products which are procured locally may now be sourced from outside the country. However the flip side is that local producers now have the opportunity to supply Walmart worldwide.

Chantelle Davies, Senior Manager at Credit Guarantee says that many players in the industry require higher prices in order to survive. And from the above there appears to be more than one factor indicating that food prices will move higher over the course of the year. However, Davies detects a degree of worry emanating from the industry with regards to affordability by consumers. High unemployment is playing havoc with disposable incomes and there is a fight for every cent of consumer spend, with pressures springing up on all sides. If indeed flat sales arise this year, she warns that many producers and wholesalers may have to endure further margin squeezes or consider closing their doors.

The FAO has also warned of a possible regional crisis from floods, with the cyclone season at its peak. Afflicted countries include Botswana, Lesotho, Mozambique, Namibia, Zambia and Zimbabwe in addition to South Africa. Reports of harvest losses of 60% in some areas in Lesotho have been recorded, together with localised crop losses in areas along river banks in southern and middle Mozambique.



*Free State Stadium*

The Free State is South Africa's third-largest province with an estimated population of 2.7m. It is a landlocked region, with the capital Bloemfontein strategically situated between important highways, 400 km from Johannesburg and north of Lesotho. The province is known as the 'breadbasket' of the country with 3.2m hectares of cultivated land. It's the world's fifth-largest gold producer, with mining a major employer. The chemicals industry also plays an important role in the economy as it is home to Sasol, the giant synthetic fuels company.

## Major towns and cities

The province has five district municipalities that include: Xhariep, Motheo, Lejweleputswa, Thabo Mofutsanyana and Fezile Dabi. Motho is the province's most populated district.

The Motheo District is the central region and the most urbanised of the districts and contributes approximately one third of the province's GDP. The capital city of Bloemfontein is a major driver of the Free State's economy.

The Xhariep District is the southernmost region of the Free State and is a largely dry area with South Africa's largest dam, The Gariep Dam located here. Crops are produced in the northern parts of the district whereas sheep farming predominates in the south. Trompsberg has the second-biggest sheep-shearing barn in the country.

The Lejweleputswa District is also known as the Free State Goldfields with mining the main economic activity, but it is also the most important maize-growing area in South Africa. Bothaville is the self-proclaimed maize capital of South Africa as it hosts an annual maize industry festival and conferences as well as Grain SA's headquarters.

The Fezile Dabi District shares a border with Gauteng via the Vaal River. Sasol's petrochemical activities are the main drivers of economic growth in this region with Heilbron as another important industrial centre and Frankfort is known for its important agricultural processing work. A good proportion of South Africa's grain crop is sourced from this district.

Tourism and fruit farming are the two principal economic activities of the Thabo Mofutsanyana District which is characterised by beautiful

landscapes that include the two mountain ranges, the Maluti's and the Drakensberg and the wetlands in the north. The most famous asset is the Golden Gate National Park.

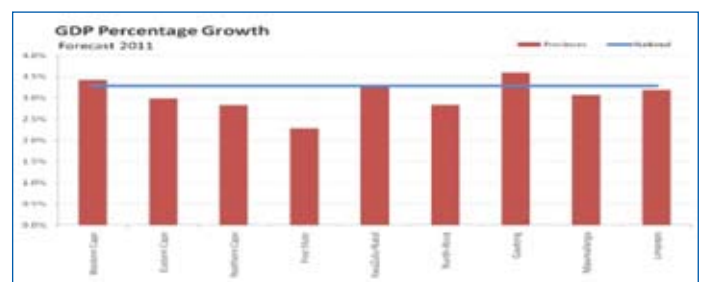
## Overview of the economy

The Free State government identified the following growth sectors: finance, real estate, services, wholesale and retail trade and manufacturing. The province will focus on improving tax revenue collections in 2011.

In December 2010 the Free State's manufacturing index, which largely consists of petrochemical activities, increased by 1.4% from 2009. Business activities increased in Q4'10 with economic growth estimated at 2.3% for 2010.

Sake24 and BoE Private Clients' Free State Barometer for December 2010 was 3.1% up from 2009. This was led by growth in the financial, property and business services sectors, with the construction sector recording a decline of 3.4%. The report forecasts positive growth for the province but stated that the Free State economy was still feeling the pressure of unemployment and high debt levels.

Global Insight expects the Free State's economy to reach a growth rate of  $\pm 2.4\%$  for 2011, the lowest growth rate in the country.



Source: Global Insight

## Sectoral Breakdown

Agriculture's contribution to the Free State economy declined as a result of diversification efforts by the provincial government. The sector contributes  $\pm 7\%$  to the provincial GDP and 14% to

## REGIONAL ANALYSIS



*Locomotive travelling through Ficksburg in the Free State*

SA's agricultural GDP. Agriculture is the province's second largest exporting sector after manufacturing. An estimated two thirds of the provincial gross agricultural income is derived from crop production. Agricultural produce in the province includes maize, wheat, sorghum, potatoes, sunflower, red meat, vegetables, dry beans, fruits, peanuts, wool, dairy and cherries.

Mining forms an important part of the province's economy. About 82% of the province's mineral production is derived from gold mining and 30% of SA's gold is obtained from this region. Large scale mining includes gold, diamonds and coal, whereas small scale mining includes clay, salt, limestone, granite, gypsum and sand/ stone aggregates. Large deposits of coal and SA's largest deposit of bentonite are also found in the province, with bituminous coal converted into petrochemicals in Sasolburg.

The Free State economy diversified from being agriculturally dependent to a more export-orientated manufacturing economy. The province has a competitive advantage in the production of certain fuels, waxes, chemicals and low cost feedstock from coal.

The tourism sector contributes ±3% to the Free State's economy and represents 5% of SA's tourism market. Well known attractions in the province include the Vaal Dam, Golden Gate Highlands National Park and the Gariep Dam as well as a number of large holiday resorts. Some of the tourist destinations in the province include areas like Bloemfontein, Clarens, Kroonstad, Parys and Welkom.

The Business Processes Outsourcing (BPO)/ Call Centre industry is experiencing considerable growth in the country. The Free State positioned itself to become the country's preferred business destination for BPO and call centre operations. Telkom's switching centres are situated in Bloemfontein, sitting on both national and international optical fibre routes. The Telkom network in the area is able to support operations of any magnitude. More centres are expected to open in Bloemfontein, taking advantage of the available infrastructure and talent pool.

The transport sector plays a crucial support role to the provincial economy mainly due to the province's strategic geographic position. The transport sector benefits from growth in other sectors including agriculture, manufacturing, mining and tourism

### **Challenges for the Free State economy:**

Challenges identified included the loss of jobs, limited funds to support a large number of struggling SMME's and the discovery of illegal dumping of medical waste in the province. Tax revenue declined as a result of a decline in consumers' ability to spend and a decline in tax revenue collected from the gambling industry that includes casino and horse racing taxes and liquor licenses. This is the province's main source of tax revenue.

### **Development and investment opportunities identified by the Free State provincial government:**

In agri-processing, a number of opportunities exist. Some products that are being explored include cherries, asparagus, vegetables, wholesale meat, leather and increased seed production. The Department of Agriculture's budget allocation will increase from R408m in the 2010/11 to R463m in 2011/12. Agri-processing activities identified for development include horticulture. These activities are expanding and becoming increasingly export orientated. Opportunities exist as most produce leaves the province unprocessed. SA's favourable soil conditions and the opposing seasons of the southern and northern hemispheres can be used as a competitive

advantage in this sector. The provincial government is developing a food processing industrial park. Services available will include logistical services, warehousing and cold storage facilities. Research into soya bean and indigenous crop production are being undertaken by the government and the Agricultural Research Council in a R45m venture. A fish hatchery project is to receive R45m from the Chinese government and is expected to be operating at full capacity in 2011.

According to the Global Africa Network, game hunting has also been identified as an important growth sector in SA with an annual value of R7.5bn. This motivated the conversion of several large farms in the Free State from stock to game farms in recent years.

The regional government will continue to focus on infrastructure spending to boost economic growth. This will include the building of roads, schools, houses, hospitals and other public buildings to boost social and economic growth. The total allocation for infrastructure for the 2010/11 financial year is R3.76bn. Some of the bigger projects planned are the Lake Gariep Initiative and the building of a rail link from Bloemfontein to Maseru. The provincial government is looking into the establishment of a R250m sports facility that will offer training facilities and other services to cater for high performance athletes.

The province invested R4.5bn in the Harrismith Logistical Hub that aims to provide multimodal transportation logistics (air, rail and road) in an attempt to reduce the cost of freight and traffic caused by trucks on the N3 highway, one of the busiest long-haul freight transport corridors in SA.

In September 2010, Kroonstad opened a R35m medical manufacturing facility that will include the production of bandages, gauzes, abdominal swaps, hospital linen, uniforms and linen savers. The facility is expected to boost job creation with the Free State government securing a capital investment of up to R10m in conjunction with Unicore Trading (Pty) Ltd. Facilities will also be set up in Parys and Sasolburg that will form part of the Free State's "manufacturing triangle". The Kroonstad facility is estimated to employ ±350 workers. The Parys facility will manufacture flash suits, fall arrest harnesses and belts, chemical suits and life jackets and is estimated to employ approximately 450 workers and the Sasolburg facility will be the medical product extrusion plant employing approximately 80-100 workers. The Free State province is the leading producer of biofuels with a number of ethanol plants under construction. A R1.9bn ethylene purification unit at Sasol's polymers plant is expected to come on stream in 2013.

The establishment of these manufacturing entities will have long term benefits for the Free State province. Amongst others will be transfer of new skills into the local community and the creation of new business opportunities including logistics that will add to the provincial budget income.

**Compiled by Monique Daseman – Economic Services**

# FEDERATIVE REPUBLIC OF BRAZIL



*Praia de Ipanema beach in Rio de Janeiro*



## Political environment

Dilma Rousseff is the first woman to be elected as Brazil's president. She is former chief of staff to, and favoured successor of, outgoing president Luiz Inacio Lula da Silva. In the October 2010 elections to succeed President Lula, she narrowly failed to win an outright majority in the first round. The result meant Ms Rousseff faced the second-placed candidate, Sao Paulo mayor Jose Serra of the main opposition Social Democracy party, in a run-off vote on 31 October.

Of particular importance will be elections for the presidencies of the two houses of congress where victories for the leading members of the ruling bloc would help to speed up the progress of legislation. A positive outcome would strengthen the executive's bid to cap the annual minimum wage increase in the face of major objections from the country's powerful labour unions.

## Economic environment

Brazil is the largest country in South America and a leader on the continent in terms of its economy. Brazil is also the ninth largest economy worldwide in the terms of GDP based on Purchasing Power Parity (PPP). The country is blessed with rich deposits of minerals and natural resources and is also one of the fastest growing economies in the world. The country boasts being the first country to engage in deep water oil research.

Brazil's government has said it will implement US\$30bn of spending cuts in order to curb inflation and help prevent the economy from overheating. Finance Minister Guido Mantega said all stimulus packages introduced since the onset of the global financial crisis would be removed. Social spending and infrastructure projects will not be affected, he said. The central bank recently raised interest rates to cool inflation. It raised rates from 10.75% to 11.25% - the first increase under President Dilma Rousseff and central bank head Alexandre Tombini, both of whom took office in January. Inflation was 5.9% last year and is forecast to remain above 5% in 2011. Brazil's economy grew more than 7% in 2010 and is expected to grow between 4.5% and 5% this year.

The World Bank says it is preparing to lend Brazil \$485 million in emergency relief after flooding and mudslides devastated parts of the country. The World Bank's Brazil director, Makhtar Diop, said the bank hopes to approve the first portion of the loan "in the coming weeks." He said the initial payout would be US\$290 million. The Brazilian government has allocated US\$460 million in aid. The disaster's death toll is now more than 700. The affected areas received the equivalent of a month's worth of rain in just a few hours. The hardest hit towns have been Teresopolis, Nova Friburgo, Petropolis and Sumidouro. Landslides

and floods are common in Brazil often affecting poor communities with shacks built on steep, unstable hills. In January last year more than 50 people died in mudslides in the beach town of Angra dos Reis, and at least 180 people died in landslides last April that devastated slum communities in Rio.

**PAC - Growth Acceleration Plan:** On 13 January 2010 President Lula signed an investment package to enable the construction of transportation, hotels and stadia for the 12 hosting cities World Cup 2014. This package of investment is often called "PAC da Copa" (World Cup PAC) by the press. Urban mobility (light trains, metro and rapid bus) will get most of the funding, around US\$ 7 billion. Out of this money, US\$ 5 billion will come from FGTS (Workers Pension Funds). The cities of Rio de Janeiro and Salvador will also receive US\$ 350 million to improve their port's passenger terminals. According to President Lula, all projects must be complete and operational by June 2013 for the Confederation Cup.

**PAC 2 - Growth Acceleration Programme, second phase:** Brazil's government announced the second phase of the growth programme for investments in infrastructure. The programme foresees investments of \$567 billion between 2011 and 2014. PAC 2 includes new investment projects for this period and post-2014, as well as unfinished projects initiated during the PAC 1 programme, to be finished by 2010. As for the transport sector, the objectives are to consolidate, expand and integrate a logistical network to ensure quality and safety within Brazil's roads, railways, ports, waterways, airports and urban roads. The Government intends to double the railway network to reduce transport costs and expand product competitiveness in the country.

## Main economic sectors

- Energy**  
 Brazil is the 9th largest energy consumer in the world and the third largest in the Western Hemisphere, behind the United States and Canada. Total primary energy consumption in Brazil has increased significantly in recent years. In addition, Brazil has made great strides over the past decade in increasing its total energy production, particularly oil. Increasing domestic oil production has been a long-term goal of the Brazilian government. The largest share of Brazil's total energy consumption comes from oil (48%, including ethanol), followed by hydroelectricity (35 %) and natural gas (7%). The large share of hydroelectricity in Brazil's energy mix represents the dependence of electricity generation on hydroelectric dams. Natural gas is currently a small share of total energy consumption, but attempts to diversify electricity generation from hydropower to gas-fired power plants should cause natural gas consumption to grow in coming years.



*Rio carnival in Rio de Janeiro*



*A view of the Christ Statue in Rio de Janeiro at night*

Spain's largest energy company and worldwide leader in wind production has announced that it will acquire 99.7% of Elektro, a private utility company in Brazil, from Ashmore Energy International (AEI) for US\$2.4 billion in cash pending the approval of the Brazilian Electricity Regulatory Agency (ANEEL).

- **Agriculture**

Much of the arable land is controlled by a handful of wealthy families, a situation which the Movement of Landless Rural Workers (MST) seeks to redress by demanding land redistribution. It uses direct protest action and land occupation in its quest. The agricultural sector is very well developed and it produces a surplus of agricultural products using modern and mechanized methods and good varieties of seeds. Almost 15% of the labour force is involved in agriculture and it contributes 3.5% of the total GDP. The southern semi-temperate region of the country which has very good irrigation facilities and high levels of rainfall concentrates on the cultivation of food grains and oil seeds. The northern less fertile land is the major producer of cocoa, tropical fruits and forest products. The country's soybean production is ranked second in the world and it is a major exporter. It also exports other agricultural products which are produced in very high quantity, mainly coffee, sugarcane and meat. Wheat, rice, corn and citrus are also among the important crops produced in the country.

According to a report carried by Bloomberg, Brazilian company and the world's biggest iron ore exporter, Vale SA, has focused a significant amount of its investments in fertilizers to meet rising Brazilian demand. The plans will see Vale establish at least two new projects in Brazil by 2015 as part of a \$12 billion expansion into the fertilizer industry. Vale's global fertilizer sales manager noted that Vale keeps a close eye on market tendencies, and the growing purchasing power of the middle class means more food demand even as there's less arable land per capita. Bloomberg stated that analysts believe Vale is keen on tripling its fertilizer output to 25 million metric tons by 2017 as a rising population's food needs increase demand by 3.8% a year in Brazil and 3% worldwide.

- **Transport**

The rail industry budget is around US\$48 billion for the next five years. US\$22 billion will be spent in the High Speed Rail Line project and the remaining in other different projects such as monorail systems, Light Rail Vehicles and expansion of metro lines. The building of the high-speed rail line linking the cities of Campinas, São Paulo and Rio de Janeiro, for example, will guarantee major business opportunities in the sector. Also, there

are major investments planned for the rail/metro transport systems in connection with Rio 2016 Summer Olympic Games. Delivering these projects will present a logistical and financial challenge, however the three levels of government (City, State and Federal) are fully committed to this.

- **Mining**

There is great expectation that President Dilma Rousseff is likely to increase royalty payments by mining companies operating in the country. Royalities currently stand at 2%, which by international standards is comparatively low. Tariffs may rise as high as 10% in 2011 but given the considerable profits being made by mining companies - Vale reported record net income of US\$6bn in Q310 - it will not have a detrimental effect on mining activity in the country. Brazil's mining industry association has stated that mining companies are set to invest a record US\$62bn in Brazil between 2010 and 2014; a significant increase on the previous forecast of US\$54bn for the same period. Some US\$20bn of the investment is expected to come from iron ore.

In 2010 it was announced that a huge new reserve of phosphates had been discovered in the state of Mato Grosso, located in the country's south west. According to the State Governor the area could yield as much as 430 million tonnes of phosphates as well as 11.5 billion tonnes of iron ore. Furthermore, Brazilian mineral exploration and development company Amazon Mining Holding announced in December 2010 it had discovered phosphate at its Cerrado Verde Potash project.

Petrobras is to invest upwards of US\$4.5 billion in R&D in the coming five years. The investment is geared at advancing ultra-deepwater oil production. The Brazilian state owned energy firm has instituted collaborative research and development programs with Brazilian Varsities to deal with the challenges of deep sea drilling. Petrobras expects it will invest between US\$800 million and US\$900 million per year over the next five years. Other companies intent on establishing R&D centres in Brazil to tackle deep water drilling include IBM, Schlumberger Ltd and General Electric Co. Petrobras last year inaugurated a US\$700 million expansion of its Cenpes research facility.

Chinese companies have expanded their presence in Brazil's mining sector in recent months. Rousseff and other top officials have expressed growing concern over what they see as 'an increasingly one-sided economic relationship with China'. The Mining and Energy Ministry has been working on a proposal to revamp mining industry rules which could include the introduction of auctions to award exploration permits. Currently, the government awards permits based on requests put forward by miners.

## Current economic developments

The government says the Belo Monte dam, which will soon be under construction, is crucial for development and will create jobs as well as provide electricity to 23 million homes. The 11,000-megawatt dam would be the biggest in the world after the Three Gorges in China and Itaipu, which is jointly run by Brazil and Paraguay. Environmentalists say the dam in the Amazon River basin will harm the world's biggest tropical rainforest. Brazilian Energy Minister Edison Lobao said the population which would be affected by the Belo Monte dam will be compensated and resettled.

Net foreign direct investment (FDI) inflows into Brazil surged to a record high of US\$15.4 billion in December. Admittedly, December's record-breaking investments were boosted by the one-off purchase of a 40% stake in Repsol YPF's Brazilian operation by China Petroleum and Chemical Corporation for US\$7.1 billion.

## International trade

Surging imports last year helped narrow Brazil's trade surplus by 20% to US\$20.3 billion, Trade Ministry's figures show. Purchases of foreign goods rose 42% to US\$182 billion, while exports increased 31.4% to US\$202 billion.

Brazil may raise exports by 13% this year to US\$228 billion, according to the ministry. The trade surplus will shrink by 53% to US\$9.52 billion this year, according to the median forecast in a central bank survey of about 100 economists. Brazil will take trade measures to curb imports of products that can be manufactured domestically, said a government official who spoke on condition of anonymity because the measures are still under study. Brazil will seek to strengthen its commercial defence mechanisms without engaging in protectionism, said the official, without providing more details. The government is also considering tax breaks to encourage investment and boost exports.

Guangdong Province, the economic powerhouse in southern China, imported more resource products from Brazil to feed its fast growing economy. According to the local customs house, Guangdong's imports from Brazil rose 11.8% year on year to US\$1.77 billion in 2010. The total included US\$800 million worth of farm produce, up 20.2% year on year and US\$320 million worth of iron sand and concentrate, up 24.1%.

- SA exports to Brazil totaled R5.3bn in 2008, R2.9bn in 2009 and year to November 2010 totaled R4.8bn.
- SA imports from Brazil totaled R13.9bn in 2008, R10.6bn in 2009 and year to November 2010 totaled R9.1bn.

**Researched and compiled by**  
**Hlolohele Pule, economic services –**  
**Credit Guarantee Insurance**



*The Christ Statue in Rio de Janeiro*

# Credit Guarantee's guide to Latin America – February 2011

Researched and Compiled by Monique Daseman, 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. S.C. = 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 - Bolivia | GOVERNMENT TYPE - Republic /social unitarian state | POPULATION - 9.9m | 2011 POPULATION GROWTH RATE - +1.72%**



Bolivia is one of the poorest and least developed countries in Latin America. Real GDP increased from 3.4% in 2009 to 3.8% in 2010. Bolivia has the second largest natural gas reserves in South America and is the region's top exporter of fuel. In December 2010 the price of fuel increased as fuel subsidies ended. With President Morales' attempt to further increase the price of fuel, major protests followed that led to the president reinstating fuel subsidies. President Morales privatised the natural gas industry to secure state control and increased taxes on foreign companies deterring foreign investors. Brazilian state-run energy giant Petrobras plans to look for oil and natural gas in Bolivia. Bolivia is a key supplier of natural gas to Brazil, supplying ±70% of the natural gas consumed in Sao Paulo, Brazil's industrial hub. India's Jindal steel is set to start exporting 1m tons of Bolivian iron ore in March 2011. This will be Bolivia's first iron ore exports

**SHORT-TERM COVER - Y**

**COUNTRY - Brazil | GOVERNMENT TYPE - Federal republic | POPULATION - 201m | 2011 POPULATION GROWTH RATE - +1.1%**



Recently elected President Dilma Rousseff took to office in January 2011. She aims to maintain the policy measures of the previous government with the focus on inflation targeting by the Central Bank, a floating exchange rate and fiscal restraint. Brazil's strong growth and high interest rates makes it an attractive destination for foreign investors. A draft legislation to limit foreign investments in Brazilian mines is reported to be in the offing. Details on how foreign ownership will be limited, was not specified. The recent floods in Rio De Janeiro killed ±829 people and left 25,000 people homeless. Real GDP growth increased from -0.2% in 2009 to 7.5% in 2010 and the country managed to reduce unemployment from 8.1% in 2009 to 7% in 2010. Foreign investments are hindered by the government's increased involvement in the economy, corruption and bureaucracy. Brazil is still considered as one of the most attractive emerging countries in which to do business.

**SHORT-TERM COVER - Y**

**COUNTRY - Chile | GOVERNMENT TYPE - Republic | POPULATION - 16.7m | 2011 POPULATION GROWTH RATE - +0.8%**



The World Bank regards Chile's economy as a favourable business environment with an open economy and attractive to foreign investments. The Chilean government is consistently trying to improve the country's competitiveness and attractiveness through Free Trade Agreements (FTA). Chile has signed ±58 FTAs in total. Chile holds the world largest copper reserves. The country is expected to steadily increase copper output within the next two years on the back of the new mine projects and upgrades. Chile's exports accounts for more than one fourth of GDP, 50% of which is copper. The economy grew more than 5% in 2010. Government expenditure is expected to increase mainly due to reconstruction work needed after the devastating earthquake suffered in February 2010. The government expects the economy to grow between 5% and 6% in 2011. The government's proposal of a 17% fuel price increase was met with violent protests resulting in the government agreeing to a 3% increase.

**SHORT-TERM COVER - Y**

**COUNTRY - Columbia | GOVERNMENT TYPE - Republic | POPULATION - 44.2m | 2011 POPULATION GROWTH RATE - +1.1%**



Colombia's economy grew 4.4% in 2010. The Santos administration continues to pursue free trade agreements with Asian and South American partners and awaits the approval of a Canadian trade accord by Canada's and the EU's parliaments. Colombia is the world's second largest coffee producer. The country expects output from Antioquia, the country's largest coffee producing region, to be lower than last year due to heavy rainfalls. Supply constraints led to the price of coffee futures increasing to a 13-year high. President Santos is calling for a review of the mining regulations and safety procedures following a string of fatal mining accidents with the most recent one killing 20 miners. Coal unions voted in favour of a strike at Cerrejon, Colombia's biggest coal exporter following a failed attempt to reach a new compensation deal. 2011 economic growth is expected to be led by growth in the hydrocarbon and mining sectors.

**SHORT-TERM COVER - ILC**

## EXPORT DESTINATIONS

**COUNTRY** - Costa Rica | **GOVERNMENT TYPE** - Democratic republic | **POPULATION** - 4.5m | **2011 POPULATION GROWTH RATE** - +1.3%



Costa Ricans have a relatively high standard of living with extensive land ownership. The economy is heavily invested in the agricultural sector, but the government is trying to diversify economic activities through high value goods including microchips and tourism, broadening the export earnings base. Inflation is expected to increase, increasing the cost of doing business in the country. The inflationary increase is a result of the government's efforts to maintain the narrow currency band peg against the dollar. The border dispute with Nicaragua has been referred to the International Court of Justice. This created political tension but a resolution is considered likely. A cause of concern for foreign businesses is the high levels of corruption evident in the business environment. President Chinchilla is expected to push for fiscal reform in 2011 to boost revenue, possibly through revised tax legislation, to fund an increase in security services and education costs.

**SHORT-TERM COVER** - Y

**COUNTRY** - Cuba | **GOVERNMENT TYPE** - Communist state | **POPULATION** - 11.4m | **2011 POPULATION GROWTH RATE** - +0.2%



President Castro announced a cabinet re-shuffle beginning 2011 in an attempt to reform the public sector. The government announced it would eliminate 500,000 state jobs by March 2011 and has expanded opportunities for self-employment. President Castro said such changes were needed to update the economic model to ensure the survival of socialism and improve public finances. Real GDP increased from 1.4% in 2009 to 1.5% in 2010. GDP composition by sector: services 73%, industrial sector 23% and the agricultural sector 4%. The EIU forecast GDP growth to reach an average of 4% in 2011-15. The US recently eased their restrictions on remittances to permit American citizens to send up to \$2,000 a year to non-family members in Cuba to support private economic activity, but this does not alter the long-standing trade embargo in place. The president announced in December that they expect to unfreeze hundreds of foreign business accounts that have been blocked in Cuban banks for two years due to a liquidity crisis.

**SHORT-TERM COVER** - N

**COUNTRY** - Dominican Republic | **GOVERNMENT TYPE** - Democratic republic | **POPULATION** - 9.8m | **2011 POPULATION GROWTH RATE** - +1.3%



The country's political outlook has been dominated by President Fernandez' speculated bid for re-election in the 2012 elections. This created mixed reaction as the 2009 constitution prohibits consecutive re-election. The government diversified the economy with more focus on the services sector specifically the tourism sector as it is one of the biggest employers in the country. The economy is very dependent on the US as 60% of their exports are destined for the US markets and remittances from the US equal a tenth of GDP. Real GDP growth increased from 3.5% in 2009 to 4.2% in 2010, one of the fastest growing economies in the Latin American region. President Fernandez met with executives from India's Export-Import Bank to discuss the possibilities of financing several of his country's productive areas. The IMF approved the fourth review of its \$1.7bn, 28-month stand-by arrangement, enabling the disbursement of about \$168m as the country met all the performance criteria. The EIU expects an average economic growth rate of 4.8% for 2011-2015. An EIU poll revealed growing frustration among Dominicans with the direction the government is taking the economy.

**SHORT-TERM COVER** - Y

**COUNTRY** - El Salvador | **GOVERNMENT TYPE** - Parliamentary republic | **POPULATION** - 218 519 | **2009 POPULATION GROWTH RATE** - +1.4%



Tension within the government is increasing due to disagreements over policy controls. The textile industry in El Salvador registered growth of 32% in 2010. The Chamber of the Textile, Clothing and Free Zones in El Salvador (CAMTEX) has estimated growth of 12% for 2011. The textile industry is considered to have huge potential for generating employment. The weak growth momentum is expected to continue in 2011 with real GDP growth expected to increase from 1% in 2010 to 1.3% in 2011. Fitch Ratings issued a BB- rating in July 2010 on El Salvador's sovereign credit rating with a negative outlook due to the country's weak growth outlook, narrow income base and fiscal inflexibility. Fitch expects El Salvador's growth to reach 2.1% and 2.5% in 2011 and 2012 respectively.

**SHORT-TERM COVER** - ILC

## EXPORT DESTINATIONS

**COUNTRY** - Paraguay | **GOVERNMENT TYPE** - Constitutional republic | **POPULATION** - 6.3m | **2009 POPULATION GROWTH RATE** - +1.3%



President Fernando Lugo is expected to serve out his term as he is recovering from lymphatic cancer. President Lugo is reaching out to opposition parties in Congress to improve political effectiveness. Paraguay's economy has a large informal sector. It is the sixth largest soy producer in the world and vulnerable to changes in global commodity prices. The economy suffered an economic decline of -3.8% in 2009 due to a decline in global commodity prices. The government's various stimulus packages resulted in a real GDP growth rate of 6.5% in 2010. The EIU forecast economic growth of 4.4% in 2011. BMI expects growth to be led by private consumption and fixed investment. Growth in the country is limited by the high levels of political uncertainty, corruption, limited progress on structural reform and poor roads and electricity infrastructure.

**SHORT-TERM COVER** - Y

**COUNTRY** - Uruguay | **GOVERNMENT TYPE** - Constitutional republic | **POPULATION** - 3.5m | **2011 POPULATION GROWTH RATE** - +0.4%



Efforts by President Mujica to reform the civil services are expected to spark protests by different unions, but the overall political environment is expected to remain stable. Uruguay has one of the fastest growing economies in the region. The country managed to avoid a recession and keep positive growth rates, mainly through higher public expenditure and investment that resulted in GDP growth exceeding 7% in 2010. The country has a business friendly environment with low levels of corruption, but bureaucracy can deter foreign investors. The IMF's outlook for Uruguay remains positive with a 5% growth outlook for 2011. The country's 2011-2014 budget focuses on reducing public debt and improving infrastructure, education and social programs. The IMF recommended more transparent budget changes and prudent fiscal spending. Chile's Arauco unit and the Finnish paper maker Stora Enso announced a plan to invest \$1.9bn in a Uruguayan pulp mill, the country's biggest foreign investment to date. The mill is expected to boost Uruguay's GDP by 2% once it is fully operational in 2013. The government is planning to develop wind farms that will the aim to produce 25%-28% of its electricity needs by 2015. Uruguay hopes to install 500 MW of wind power capacity by 2015. Uruguay's state-owned water utility plans to invest \$500m during the 2011-2014 period. The EIU expect real GDP growth to slow down from the 8.3% growth in 2010 to a more sustainable growth of 4.6% in 2011.

**SHORT-TERM COVER** - Y

**COUNTRY** - Venezuela | **GOVERNMENT TYPE** - Federal republic | **POPULATION** - 27m | **2011 POPULATION GROWTH RATE** - +1.5%



Venezuela's economy has seen increasing levels of government interference in various sectors including agribusiness, oil, steel, finance and construction as the government wants to increase its control over the economy. The country is highly dependent on oil revenues, accounting for  $\pm 30\%$  of GDP. A decline in oil output led to an economic contraction of -2.8% in 2010. Brazil reaffirmed its support for Venezuela as it called for the quick integration of Venezuela into Mercusor. Roubini Global economics forecast a 2% real GDP growth in 2011 led by government spending and investments in oil projects. The possibility of a devaluation of the currency in the short run is high as pressure on the artificially strong exchange rate builds up. This will increase the risk of defaults on foreign exchange-denominated debt.

**SHORT-TERM COVER** - N

# World markets update

Compiled by Hlohelo Pule,  
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

### UGANDA



3C

Elections were held in February 2011 - the electoral commission announced that President Yoweri Museveni had won 68% of the votes, allowing him to extend his 25-year hold on power. The president has promised to expand the country's power generation capacity from 600MW to 3800MW within the next 5 years. The 5-year plan will also include the rebuilding of roads and railway lines. .

The World Bank identified 3 development challenges facing Uganda's economy: increased infrastructure investment in the transport and energy sector that is critical for economic growth as well as better public service delivery and management. More focus should also be placed on fertility reduction, quality education and skills development and job creation.

### KENYA



3C

The government expected a 4.5% growth in the economy in 2010 and 5.7% in 2011, from an estimated 2.6% in 2009, Finance Minister Uhuru Kenyatta said. The tourism industry, the second largest contributor to GDP has recovered remarkably from the slump of post-election violence in 2008 and the economic downturn that followed. Tourist arrivals rose 14% from January to August 2010. The Ministry of Tourism reported an 85% jump in earnings in the 1H10 compared to the same period in 2009.

According to the World Bank's new report, Investing Across Borders 2010, Kenya leads in restricting foreign ownership in more sectors than most other economies in Sub-Saharan Africa. The report, however, notes that unlike in most other countries, domestic as well as international passenger air transportation remains fully open to foreign capital participation.

Nearly 70% of Kenyans that voted in the August referendum endorsed the new supreme law. The new legal framework addresses issues such as corruption, political patronage, land grabbing and tribalism, which have plagued the country for decades. Standard & Poor's raised Kenya's credit rating to B+ from B, saying the country's political risks have fallen after the promulgation of a new constitution. Kenya's economic outlook has also improved and GDP is expected to expand 5.4% in 2011.

# COUNTRY CREDIT RATINGS

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

### ZIMBABWE



**ZZ**

The Zimbabwean economy has shown trademark signs of excessive government involvement. It performs poorly and is characterised by instability, volatility and economic policies that are overly influenced by political considerations and state interference. The country's previously established economic infrastructure has crumbled under an oppressive regime. Zimbabwe's economic climate has become increasingly hostile to foreign investment.

The Africa Export Import Bank (Afreximbank) and the Zimbabwe government have jointly unveiled a US\$70 million loan facility to revive the country's economy mainly through its agriculture and manufacturing industries. According to the agreement Afreximbank will inject US\$50 million while the Zimbabwean government will add US\$20 million to the fund and the money would be channeled through banks. Three of largest opportunity areas are the mobile market, both at the retail and infrastructure levels, providing last mile access through advanced technologies such as Wi-Fi and laying down broadband infrastructure to connect to the undersea cables circling Africa. Increasing the available bandwidth will do much to stimulate the economy.

### BURKINA FASO



**3C**

Burkina Faso is a very poor country with limited natural resources; approximately 90% of the population is engaged in subsistence agriculture. Many Burkinabé live and work abroad with as many as 4 million living in or migrating annually to neighbouring Ivory Coast for seasonal agricultural work. Remittances are a substantial source of income. Inadequate communications, poor infrastructure and a high rate of illiteracy have slowed development. The economy is dominated by the primary sector and services. The primary sector (agriculture, livestock, forestry and fisheries) accounts for 34.5% of GDP. It is followed by trade, transport and communications (17.1%). Manufacturing is not highly developed (12% of GDP) and although the mining sector has grown very strongly in the last two years, it still accounts for only a small share of GDP (2.8%).

Despite the effects of the energy, cotton, food and financial crises, the economy registered positive growth in 2009 as real GDP expanded by 3%, down from 5.2% in 2008. Owing to the cotton sector's difficulties, gold has become Burkina Faso's leading export product. Gold accounted for 41% of total exports in 2009 and its share is projected to rise to 45% in 2010 and 55% in 2011.

### TUNISIA



**ZZ**

The country is being led by interim President Fouad Mebazaa, the former parliamentary Speaker. Six ministers from ousted President Ben Ali's old administration have reappeared in the new unity government of Prime Minister Mohammed Ghannouchi, himself an ally of the former president who has served as premier since 1999. Mr Mebazaa and Mr Ghannouchi say they have now quit Mr Ben Ali's RCD party. In a first for Tunisia, Prime Minister Ghannouchi included three opposition politicians in the interim government. Moody's Investors Service has downgraded Tunisia's local and foreign currency bond ratings by one point and changed the outlook to negative from stable, citing recent political instability and uncertainties caused by the toppling of the previous government. Moody's said that a protracted political crisis could be especially damaging because of the economy's reliance on tourism and foreign direct investment. "The recent events will affect fiscal performance and real growth in 2011," according to the ratings agency. Risks to the government's debt payments seem limited for now. It said that there are only two international government-issued bonds, due in April and September of 2011 amounting to a total of \$775 million. The government still holds \$1.6 billion at the Central Bank of Tunisia as a result of the recent partial privatization of Tunisia Telecom. Official foreign reserves exceed \$9 billion. The risk of capital outflows is limited as the Tunisian dinar isn't convertible and capital controls are in place. Tunisian government's rating was cut to Baa2 from Baa3 Moody's said.

### MALAWI



**3C**

France has cancelled about 10.8 million debt of the Malawi government on condition that Malawi uses the money for geological mapping of the country. Geological mapping was last conducted in the 1980s – which showed Malawi had no potential in mining – and will now be revived and help government identify possible areas with mineral deposits that will hopefully attract FDI and earn forex. The French Ambassador said his government has decided to channel the debt relief to the mining sector to boost Malawi's economy. Malawi is to undertake the geological mapping project between January 2011 and 2016

According to Reserve Bank Governor Perks Ligoya, Malawi's central bank will be able to cut interest rates this year from their current 13% because of the southern African nation's steadily easing inflation: "with progress made in reducing annual average inflation to 7.4 % and the continued downward trend in headline inflation, now at 6.3% in December, I have no doubt that interest rates will be cut further this year," he told Reuters.

# COUNTRY CREDIT RATINGS

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

### CARIBBEAN AND FRENCH ANTILLES

#### MARTINIQUE

1B



As part of France, Martinique is part of the European Union and its currency is the euro. Its official language is French. Martinique and Guadeloupe are each separate overseas departments of France; collectively they are referred to as the French Antilles and have held the same political status as mainland France for more than 60 years and receive considerable financial support from central government.

GDP per capita in Martinique is 17,196. France and the European Union are not unaccustomed to this standard of living. Martinique is well equipped even if not well organised (airports, ports, hospitals, roads). Europe has supported agricultural exports via duty free access, the upgrading of farming to meet standards, irrigation and has partially offset the island's structural disadvantages by providing European funding. The majority of farms in Martinique are privately run by small-holders. An estimated 48% of the total area of the island is arable land, while 25% is forest.

The EU is contributing €100m to the Martinique Rural Regional Development Programme for the period 2007-2013. From now on, all players involved in the agricultural sector will have access to finance including associations, companies and agricultural processing micro-companies.

#### JAMAICA

3C



Jamaica will have the seventh slowest growth rate in the world up to 2015, according to a new IMF report analysed by the Business Observer, indicating missed opportunities for the debt-ridden country. Jamaica attained only 1% annual growth over 30 years whilst neighbours have grown at 5%. The problem is that Jamaica has cultivated a society that embraces poverty and distrusts wealth.

Finance Minister Audley Shaw told Reuters in October that Jamaica plans to tap international credit markets for at least \$400 million to repay debt maturing in May 2011. Shaw said the Caribbean country was seeking to pay 7% to 8% yield on any new debt issue. The IMF, World Bank, the Inter-American Development Bank and the Caribbean Development Bank have pledged a total of US\$2.4 billion to support Jamaica's economic recovery program.

FDI into Jamaica fell by 26% in 2009 to just over US\$1 billion, according to figures released by the United Nations Conference on Trade and Development (UNCTAD). According to UNCTAD "Small Island Developing States" (SIDS) struggled to attract FDI because of the small size of the domestic markets in these countries combined with limited natural and human resources and high transaction costs. Jamaica is confident that increased FDI in mining, tourism and other sectors will increase in 2011. This will also increase imports; however continued FDI and gradually rising forex reserves should offset the impact of the current account deficit on the balance of payments.

### AUSTRALASIA

#### NEW ZEALAND

1A



New Zealand has a population of over 4 million people with a relatively high standard of living and an estimated GDP per capita of US\$31,067 in 2010, comparable to that of Southern Europe. The country was ranked 20th on the 2009 Human Development Index and 1st in social capital and 10th in overall prosperity in the 2009 Legatum Institute prosperity index.

New Zealand's rising currency is creating difficulties for many of the nation's exporters, particularly those that aren't benefiting from a rise in commodity prices, Prime Minister John Key said. Key's government is looking to overseas sales of milk, meat and lumber, which make up 30% of the economy, to buoy economic growth as domestic demand remains sluggish. Finance Minister Bill English has said the recovery will not be consumption-led because households are opting to save more money rather than boost spending.

New Zealand will host the 2011 Rugby World Cup with 12 cities hosting games. With limited stadium developments required to host a Rugby World Cup, there is greater certainty over costs. This results in reduced financial risk for the event and is likely to increase the return on investment for the host nation.

#### FIJI ISLANDS

3C



Various research projects by Fiji-based Akura Limited identified strong indications that oil and gas deposits exist in the country. The full results of the prospects will be known within the next few years and could cost up to \$1m. Vatukoula Gold Mine also discovered more gold deposits with higher output expected for 2010 as gold production more than doubled to 40 975 ounces up to August 2010.

Local manufacturers raised their concerns regarding the hikes in commercial electricity tariffs that reduced their competitive advantage against exporters from Indonesia, Malaysia and others in the region. The local exporters request to the Commerce Commission to reduce rates for exporting companies was rejected.

The Rice Company of Fiji announced that they are hopeful that the government's promotion of rice farming will boost rice milling activity in the country as the company imports 30 000 tonnes of rice every year at a cost of \$40m.

# COUNTRY CREDIT RATINGS

## COUNTRY

## RATING

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

### VANUATU

2B



Among the Pacific Islands, Vanuatu has been the most resilient in the face of the global economic crisis. Its economy grew by 4% in 2009, sharply lower than the 6.6% average growth for the previous five years. Growth of about 4% is also expected for 2010. This solid performance in the face of the global downturn has been underpinned by activity in two key sectors: tourism and construction. The tourism industry boomed in 2009 with visitor arrivals up 14.6% on the previous year; the boost was a result of tourists avoiding flood stricken Fiji and the substitution of short-haul holidays for long-haul holidays by Australians and New Zealanders. While these record numbers will probably not be matched in 2010, the industry is still expected to retain some of the gains made the previous year.

Vanuatu's road network is currently getting a much-needed overhaul thanks to a US\$66 million windfall. Vanuatu is the only Pacific Island country eligible for funding under the Millennium Challenge Account (MCA). According to the Asian Development Bank's latest 'Private Sector Assessment' of Vanuatu, road density is low; only 20% of roads are sealed and maintenance has traditionally been inadequate. The MCA funding means that by April 2011 the entire ring road around the main island of Efate will be sealed, as will 57km of the East Coast Highway on the island of Espiritu Santo. Part and parcel of Vanuatu's compact with the Millenium Challenge Corporation is that road maintenance will improve with AusAID funding a US\$11 million complementary three-year program.

### PAPUA NEW GUINEA

3C



Challenges facing the economy include: low investor protection, an HIV epidemic with the highest infection rate in East Asia and the Pacific and land tenure issues.

A major liquefied natural gas (LNG) production facility is set to start exporting in 2013/2014, but has recently been challenged by violent protests. This is estimated as one of PNG's biggest investment projects led by a consortium with an American oil company. The project has the potential to double GDP and triple their export earnings.

BMI also reported the joint venture agreement between Origin Energy (Australia's second biggest electricity and gas retailer) and PNG Sustainable Development Program to potentially develop a 1800MW hydropower project in PNG. The benefits of this project could stretch from economic (providing reliable electricity to rural areas of PNG, generating income from the export of electricity to Australia and the creation of jobs) to social (including access to better health and education services).

### FRENCH POLYNESIA

2B



Tourism is an important money-earner for this group of islands, with travellers preferring Tahiti and Bora Bora. The economy relies on tourists, modern communications, foreign aid and sometimes Reality TV shows to support its economy. The tourist economy which contributes about 25% of GDP of French Polynesia has declined in recent years with some hotels closing for refurbishment, others closing permanently, thereby putting further economic pressure on the local economy. Tourism numbers in 2010 are the lowest for a number of years.

French Polynesia is seeking tenders for providing satellite connectivity options for its domestic telecommunications satellite network "POLYSAT".

Pearls are a major export and contribute over 50% of exportable income.

### Local cycle stabilizing

The December 2010 leading business cycle indicator edged up to 131.5 after falling for two consecutive months in October and November. The coincident indicator continued its recovery and was echoed by Q4'10 GDP rising to 4.4% (seasonally adjusted and annualized rate) from 2.6% in Q3. This would tend to indicate that the local cycle will stabilize, with the Reuters Consensus 2011 GDP outlook coming in at 3.6% from 2010's 2.8% outcome. The issue is whether expectations of growth above 4% in 2012 and 2013 can be realised given the headwinds confronting taxpayers and businesses alike. (See graph on pg 19)

### Consumer spending fragile

We have contended that debt servicing costs of below 8% of disposable income would support consumer spending, despite absolute debt levels remaining high at above 78% of personable disposable income. Our Christmas retail sales forecast of 9.8% and 9% nominal and real respectively, despite being regarded as optimistic, were only slightly above the outcomes of 9.2% and 8.2% respectively. There is some anecdotal evidence that the rate of improvement in household expenditure and hence in retail sales, has tapered off in Q1'11. This in turn is due to large increases in fuel prices and the traditional beginning of year budget adjustments as households fund higher school, medical aid and associated costs. After announcing a modicum of personal income tax relief, income tax revenues from individuals will nonetheless rise 10.8% in 2011/12, with total tax revenue to GDP forecast to rise from 25.2% in 2010/11 to 26.2% in 2013/14. Grandiose plans to fund health, pension and military veterans further clouds the outlook.

General fuel levies have risen from R21.5bn in 2000/01 to R34.3bn in 2010/11 and a forecast R36.9bn will be raised in 2011/12. In fact R133.5bn has been raised from this source in the last five fiscal years. The problem is that additional fees and levies are foisted on taxpayers on top of this, while very little goes into ongoing maintenance to pre-empt having to establish ad hoc pothole programs. The imminent Gauteng toll scheme is a case in point, with no thorough cost/benefit analysis having been conducted prior to calculating tariffs.

Compiled by  
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credit demand from households which should ultimately support consumer spending, and in turn business activity. Obviously the extent and sustainability of this will be impacted by factors mentioned above, as well as future price developments, political machinations ahead of municipal elections and global events.

### Manufacturing output steady

The Kagiso Purchasing Managers Index continued its early 2011 recovery, climbing to 54.6 and 54.8 in January and February respectively after the slowdown to 51.7 in December 2010. Expected business conditions fell month-on-month but remained above 60, while the employment component rose above 50 for the first time in ten months.

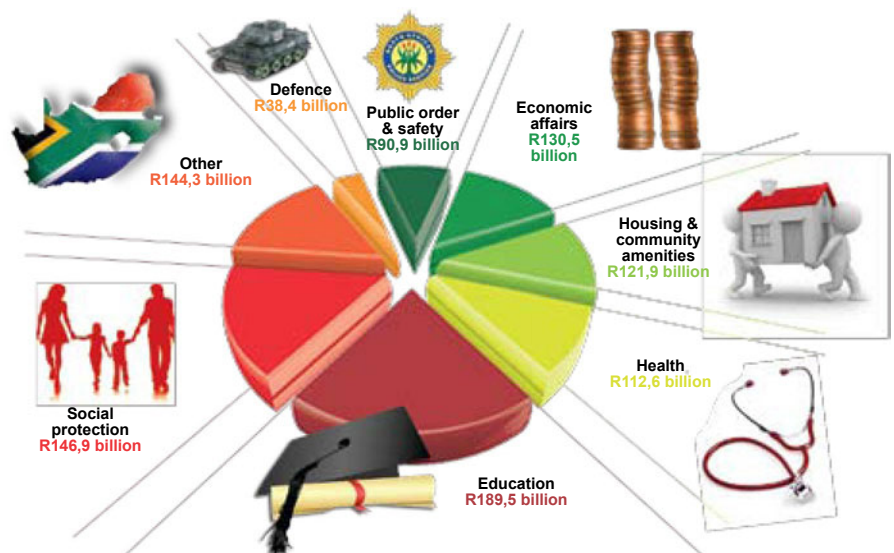
Relatively robust export orders appear to be supporting the more moderate domestic demand, but this again may be thwarted by a strengthening currency.

### Credit demand recovering slowly

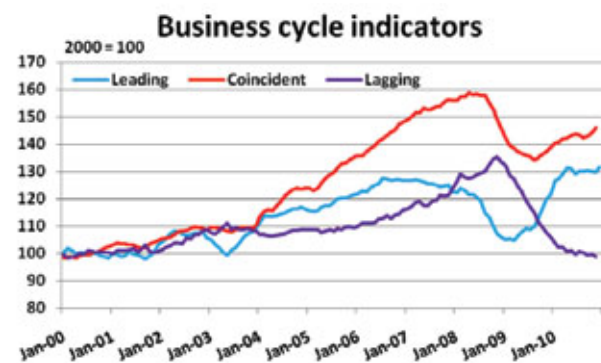
Credit extended to the domestic private sector has averaged around 5% growth over the past three months, driven largely by demand from households with year-on-year growth of around 7%. Credit growth to the corporate sector picked up from 1.8% in November 2010 to 4.1% in December 2010 before slowing slightly to 2.5% y-o-y in January 2011. One view is that as the job market stabilises, improving personal balance sheets will see greater

### Defaults improving off a high base

There appears to be universal acceptance that most debt indicators are moving in the correct direction, and certainly we would like to see such a trend continuing. However if one considers that civil default and consent judgments against businesses only fell 1.7% and 3.6% in number and value terms respectively in calendar 2010 compared to 2009, we would caution that businesses and consumers alike are facing numerous headwinds as outlined above.



Sectoral Government spending in 2011/12



Source: SA Reserve Bank

The 24.8% spike in the January 2011 liquidation total, however concerning, must be seen in context. Note that the 257 recorded liquidations in Jan 2011 are 11.4% below that of Jan 2009. Further, the almost 14% decline in the level of failures for the three months ended Jan 2011 compared to the same three months a year earlier will hopefully cement itself as the year progresses.

Default probabilities are high in historical terms and hence susceptible to shocks. Credit Guarantee's leading indicator relating to threatening losses does however indicate that the number of companies experiencing distress is still of concern. The hangover of claims from 2009/10 is still working its way through the system with Credit Guarantee's claims payments for January and February 2011 reaching R42,9 million against R40.0 million the year before.

The 33% fall in personal insolvencies from 2009, is a most welcome development. The bulk of the income tax relief was aimed at the lower to middle income earners and hopefully this will in turn seep through into improved demand in the months ahead.

## Global outlook unclear

There are many positive signs emanating from abroad, especially the fact that February saw the global economy expand at the fastest pace since April 2006 with JPMorgan's Global All-Industry PMI Output index attaining a level of 59.4 from 58.3 in January. This signaled the 19th consecutive month of growth. This was reflected in improved South African 2010 export levels of almost 15% in value terms, which in turn reversed the trade deficit of R27.3bn in 2009 into a surplus of R5bn last year. This trend continued in January 2011 with exports rising 22.2% y-o-y. However uncertainties remain: the Middle East and North African political situation remains fragile; global inflation is rising, especially that of food; the European Union still needs to finalise an amended debt package; China and India are trying to cool down their economic motors and many advanced economies continue to show only muted growth potential. Add a volatile – and strengthening – exchange rate scenario and exporters will need to be fleet of foot to procure foreign orders and ensure prompt payment.

## Guarded optimism

The environment is challenging; service costs will continue to rise and with inflation having reached a lower turning point, the possibility of a hike in interest rates later in the year cannot be excluded. The growth outlook is moderating following the relatively robust recovery from the recession and the challenge for many businesses will be the acquisition of new business.



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