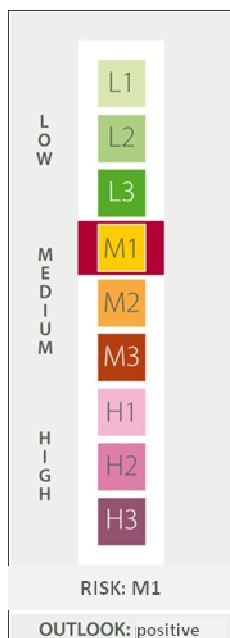


SOUTH AFRICA

Last update: June 2010





EXECUTIVE SUMMARY

Political risk. President Zuma, a political pragmatist, intends to fulfil his electoral promises of far-reaching social and economic improvements while also fostering macroeconomic stability and reassuring the international financial community.

Economic risk. South Africa's economy has come out of recession and returned to positive growth, driven by foreign demand for raw materials and intermediate goods. However unemployment, household indebtedness and strained public finances will force the government to pursue cautious monetary and fiscal policies.

Financial and operational risk. Domestic economic difficulties are putting pressure on its financial system, which remains, on the whole, sound and profitable. In terms of operational environment, high crime rate and increasing labour challenges are critical factors.

Opportunities in the country. Economic recovery and continuous investments by the public sector have increased the opportunities for business in South Africa, especially in the sectors of infrastructure and services related to tourism, which have benefited from the hosting of the Football World Cup in June and July.

SELECTED ECONOMIC INDICATORS

	2007	2008	2009e	2010f	2011f
Real GDP (% change)	5.5	3.7	-1.8	3.3	4.0
Consumer prices (% change, average)	7.1	11.5	7.1	5.0	4.6
Central government balance/GDP (%) *	0.9	-1.2	-6.8	-6.0	-5.6
Balance of payments					
Exports (\$ bln)	75.8	85.2	65.7	73.3	78.7
Imports (\$ bln)	-81.5	-89.5	-65.4	-74.9	-83.6
Trade balance (\$ bln)	-5.7	-4.3	0.3	-1.6	-4.9
Current account balance (\$ bln)	-20.5	-19.6	-11.4	-12.9	-16.6
Current account balance/GDP (%)	-7.2	-7.1	-4.0	-3.7	-4.6
Total external debt (\$ bln)	75.3	71.8	79.0	86.1	92.9
Total external debt/GDP (%)	26.3	26.0	27.6	24.8	25.6
Debt service/Exports (%)	6.9	7.1	6.4	5.7	5.5
Reserves (\$ bln)	29.6	30.6	35.6	35.7	37.0
Reserves (months of imports)	3.1	3.0	4.7	4.2	4.0
Exchange rate ZAR/USD (average)	7.1	8.3	8.5	7.6	8.0

Source: IIF, May 2010

e: estimates; f: forecasts; stime; p: previsioni * Fiscal year ends 31 March

RATING

Standard and Poor's	BBB+
Moody's	A3
Fitch	BBB+

OPERATIONAL BUSINESS INDICATORS

Business Climate Indicators	Current	Previous
Doing Business 2010	34/183	32/183
Index of Economic Freedom 2010	72/183	61/183
Corruption Perceptions Index 2009	55/180	54/180
Agreements and Treaties		
Convention of Washington		-
Convention of New York		In force
Bilateral agreement on the promotion and protection of investments		In force
Bilateral agreement to avoid double taxation on income		In force

SACE TERMS OF COVER

OECD Category: 3/7

Sovereign risk	without conditions
Bank risk:	without conditions
Private risk:	without conditions

SACE GUARANTEES 31 MARCH 2010

South Africa

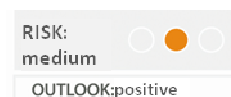
Committed (€ mln)	163.7
Outstanding (€ mln)	111.8
- of which issued (€ mln)	111.8



POLITICAL RISK

Domestic affairs. The African National Congress (ANC) party won the elections last April and will govern the country for another five years. However, the arrival of Jacob Zuma as President heralds a definite break with the past, reflecting the growing influence of the progressive wing of the ANC, which firmly supports Zuma. Nonetheless, this will also complicate the implementation of Zuma's pragmatic approach, directed at balancing demands for reform coming from his supporting base with requests by the moderate faction of the ANC and the international financial community for fiscal and monetary discipline and a free market policy continuity. Divisions within the ANC are further accentuated within the coalition government, with the ANC's two allies, the Congress of South African Trade Unions and the South African Communist Party, pressing it to keep its promises to improve conditions in education, healthcare, employment and rural development and to reduce the crime rate.

International relations. South Africa continues to play an important role in international politics, in spite of the fact that short-term policies are mainly directed towards solving the country's domestic economic and social problems. The government, however, remains committed to tackling political and economic issues in southern Africa, especially the political crisis in neighbouring Zimbabwe. South Africa is a member of the Southern African Development Community (SADC), the Southern African Custom Union (SACU) and the Common Market Authority (CMA). In recent years it has established stronger economic and financial ties with China and Middle-Eastern countries.



ECONOMIC RISK

Economic activities. South Africa's economy stepped out of recession in 2009. It turned to positive growth since the last months of 2009 and is forecast to increase by more than 3% in 2010; all sectors made a positive contribution, especially the mining and manufacturing industries, bearing out the fact that economic recovery is being driven by renewed demand for exports. Domestic demand is growing more slowly, despite drastic cuts in interest rates in 2009 (the repo rate was cut by a further 50 basis points in March 2010 and now stands at 6.5%, its lowest for 30 years), held back by unemployment, which has risen to 24.5% (an estimated 870 thousand jobs were lost in 2009), and strong growth in household indebtedness (which is currently around 80% of available income). This weakness is offset by the government's continuous fiscal stimulus packages which have led to large-scale investments in energy and transport infrastructure. South Africa's hosting of the 2010 Football World Cup in June-July will create further opportunities for growth, especially in the tourism industry and related services.

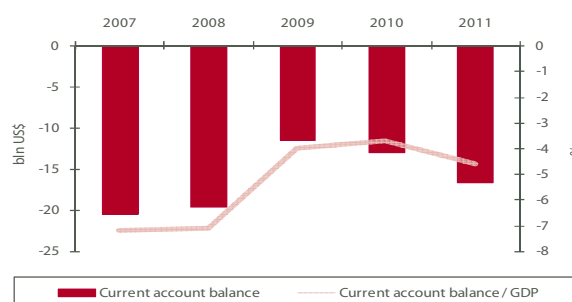
Fiscal policy and inflation. South Africa has continued to maintain a counter-cyclical fiscal policy, balancing the support to growth and the medium-term macroeconomic sustainability. Expansionary public spending continues to be used, especially channelled in infrastructure, rural development and social services (education and healthcare), while estimated revenue were higher than estimated; the budget deficit is therefore expected to show a relative contraction to -6% of GDP in 2010, mainly funded by internal sources (primarily bonds). Effective monetary and fiscal policies and weak internal demand have facilitated a reduction in price pressure (in April the year-on-year inflation rate was 4.8%), bringing inflation to within the target range of 3-6%; however, with the gradual weakening of the rand and a 25% increase in electricity tariffs as from July, prices look set to rise again in 2010.

Balance of payments. In 2009 the economic recession led to a contraction in the demand for imports that exceeded the concurrent drop in exports, thus reducing the trade and current balance deficits. The expected recovery in 2010 will once again increase the external unbalances, which will be easily funded by a recovery in portfolio inflows and continuing solidity of foreign direct investments.

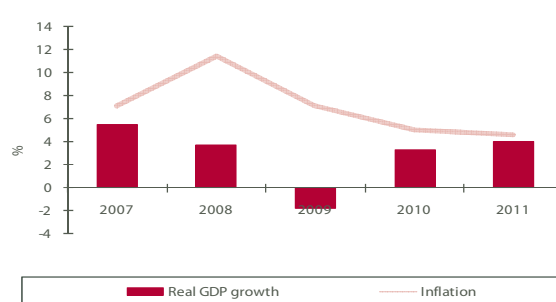
External debt and international reserves. South Africa's foreign debt position remains positive, with over half of its debt denominated in rand. Likewise, its exchange rate reserves (USD 35.7 billion) are sufficient to cover the cost of imports for more than four months.

Exchange rate. South Africa has a floating exchange rate that is highly susceptible to short-term internal and international circumstances. Following the significant strengthening of the rand in 2009 (when it rose by 26% against the US dollar and peaked in April 2010 at R 7.3 : US\$ 1), the South African currency is expected to weaken gradually over the coming months.

Current account balance



GDP growth and inflation



FINANCIAL RISK

RISK:
low

OUTLOOK: stable

System structure. South Africa has the most advanced financial system in the sub-Saharan region. The banking sector mainly comprises 14 South African banks, six foreign-controlled banks and 15 branches of foreign banks. The system is highly concentrated, with the four largest banks (Standard, ABSA, FirstRand, Nedbank) holding 85% of overall bank assets, for a total of more than USD 240 billion. The banking sector is controlled by the South African Reserve Bank, while the Financial Services Board governs non-bank financial services.

Performance. The system is sound, backed by an adequate regulatory and legal framework and is profitable, well-capitalised and has a good level of reserves. Exposure to foreign assets is low (indebtedness in foreign currencies accounts for just 7% of bank liabilities). This has limited the negative impact of global financial crisis. Vulnerabilities associated with weaknesses in the national economy remain, such as high levels of household indebtedness (approx. 80% of available income), which has resulted in a significant increase in non-performing loans (these now account for 6% of total loans) and the concentration of deposits by large-scale corporations, which are now in difficulty.

Stock market. The JSE Securities Exchange SA (JSE) is the world's fourteenth largest exchange in the world in terms of market capitalisation. The crisis had a significant but temporary impact: the JSE lost 26% of its market value between July and November 2008 due to flight of capital, and spreads increased by 440 basis points, but financial activity started to recover in April 2009 and spreads decreased, confirming the crucial role of the JSE.

OPERATIONAL RISK

RISK:
medium

OUTLOOK: stable

Legal system. South Africa has a well-developed and efficient legal system. Its policy of black economic empowerment is aimed at increasing the participation of historically disadvantaged South Africans in the economy through the redistribution of ownership and management of private enterprises previously controlled by a minority. It envisages specific rules (such as procurement quotas) for foreign enterprises that work with public companies or in sectors such as mining and tourism. The authorities have made significant progress in the fight against money-laundering and corruption.

Attitude towards foreign investors. There are no significant currency restrictions or controls for foreign investors, except for certain limitations with regard to interests in strategic areas, such as banking and the automotive sector. The government has officially rejected the recent proposal put forward by the ANC Youth League to nationalise the country's mining industry. The Trade and Investment South Africa agency has been set up for foreign investments; it provides incentives and has established several Industrial Development Zones, dedicated duty-free areas around coastal or inland ports for exporters.

Infrastructure, safety and natural disasters. Infrastructure is generally adequate and attracts continuous investments, as in the case of the production and supply of electricity. The notoriously high crime rate is somewhat damaging to the country's image abroad. In 2009 there were several protests in connection with wage claims by municipal workers and operators in transport, pharmaceuticals, construction and telecom sectors.

RELATIONS WITH IFIs

International Monetary Fund. South Africa currently has no loan agreements with the IMF. Relations between the two parties are limited to periodical consultations.

World Bank. Ongoing projects include a project loan approved in April 2010 for USD 3.75 billion to the South African energy utility company Eskom. The loan will be used to co-finance the Medupi power plant and solar and wind power projects.

ITALY-SOUTH AFRICA BUSINESS RELATIONS

Trade. In 2009 Italian exports contracted by 25% compared to the previous year, to just over € 1 billion; imports from South Africa also fell by 38%, to € 1.6 billion. Italy's trade deficit with South Africa thus narrowed considerably, to € 565 million, from € 1.2 billion in 2008. Italian exports to South Africa are mainly concentrated in the mechanical engineering sector, followed by chemicals and means of transport; Italy mainly imports metallurgical and metal products and mining products from South Africa. In the first two months of 2010 (latest available data) there was an 8.7% year-on-year reduction in Italian exports to South Africa, while imports increased by 21.7%.

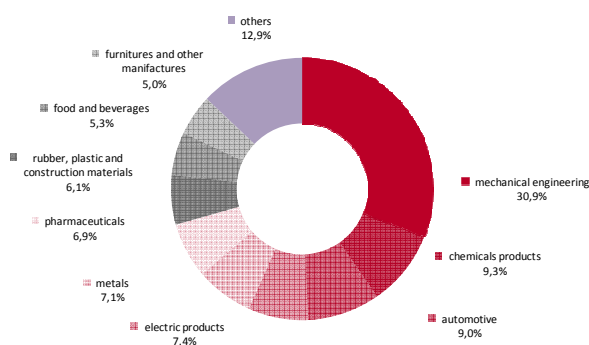
Foreign direct investments. In recent years a number of medium and large-sized Italian companies have outsourced activities to South Africa, mainly in the steel production, mechanical and agro-industrial sectors. There is also a large entrepreneurial Italian community in South Africa, mainly active in the construction and granite-mining industries and in the provision of commercial, haulage, tourist and company services.

OPPORTUNITIES IN SOUTH AFRICA

South Africa is fairly developed in most areas and therefore there are opportunities in almost every sector. There has been much investment in infrastructure over the last five years, however, with the possible exception of airports and stadiums, these investments are likely to continue. Therefore, there remains opportunities for companies to benefit from this. Key government target areas remain the following:

Main sectors and relevant SA companies	Examples of business opportunities
Roads and civil works (SANRAL - www.nra.co.za)	Roads, logistic and transportation infrastructure, residential and commercial construction
Energy (Eskom - www.eskom.co.za)	Coal, pump storage, renewable energy sources (wind, solar)
Freight Transportation (Transnet - www.transnet.co.za)	Port upgrades, rail network (tracks, rolling stock, signaling)
Water (TCTA - www.tcta.co.za)	Dams, transportation of water
Oil / gas / refineries (Petro SA - www.petrosa.co.za)	Exploration off shore, but also further a field, big potential refinery project
Passenger rail (PRASA - www.prasa.com)	Tracks, rolling stock, signaling, stations
Petro Chemical (Sasol - www.sasol.com)	Big investment plans
Housing (-)	Low cost housing, infrastructure for hospitals and schools

Italian exports to South Africa by sector (2009, %)



Italy - South Africa trade balance (2000-2009, mIn€)

