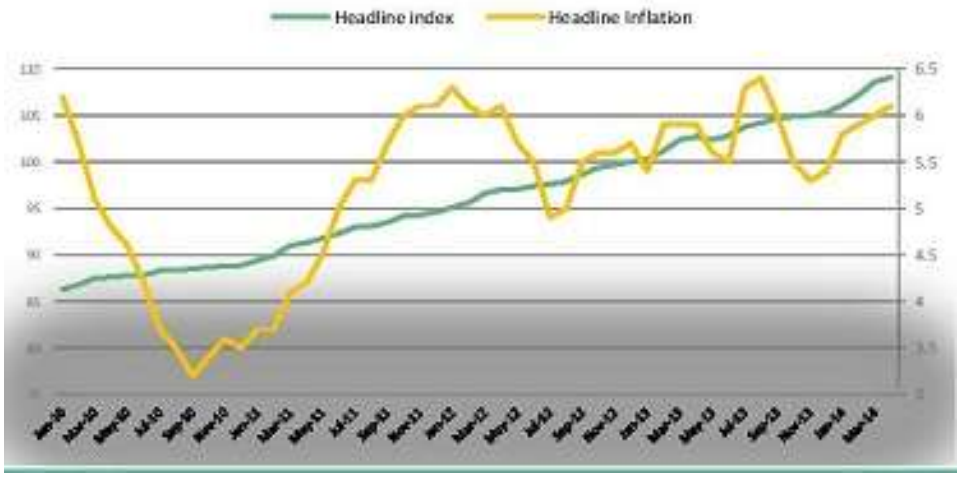
SA Inflation – Lower Food Inflation

By Coface, the international credit insurer

SA's annual headline consumer inflation at 4,0% in March from 3,9% in February was lower than the markets expectations. The lower rate relative to forecasts stemmed from lower-than-expected food prices.

Food accounts for 14,2% of SA's inflation basket and is the biggest single category in the basket. On a monthly basis prices were up 1,4%. March is a heavy survey month, with categories such as domestic workers' wages, education, and actual rentals for housing as well as owners' equivalent rent being surveyed.

Domestic workers' wages were up 1,1% over the month, education prices were up 9,3% m-o-m and actual as well as owners' equivalent rent were up 1,5% and 1,6% respectively.



The biggest driver of the monthly number though was the transport category which added 0,5 percentage points. Within the transport category was the petrol price that rose 9,6% m-o-m that exerted the most upward pressure. Core inflation at 5,7% y-o-y in March remains sticky (see Chart 1 above).

While it is still early in the year and not many conclusions can be made, core inflation has averaged 5,8% in the first three months of this year, compared to the 4,1% averaged by headline inflation. This suggests that underlying inflation remains relatively high and headline inflation has been subdued by the fall in the oil price.

Once the petrol price recovers (as it has done in March), inflation will rise rapidly. Inflation reached its trough in February and is now on an upward trend that will see it end the year at just below the Reserve Bank's 6% upper target range. The increase will be on the back of a weaker rand dollar exchange rate, a higher oil price and rising food prices stemming from a poor maize crop.

Debt

In responding to low economic growth over the last seven years, the government allowed for continued expenditure growth and a wider budget deficits. This policy has now run its course and government has begun an exercise of rebalancing the debt with a combination of cost containment measures and measures being put in place to improve government expenditure efficiencies.

With substantial debt payments becoming due, the government has begun looking for additional funding avenues. Over the next three years the total amount of money owed by government is expect to increase by R550 billion to R2.3 trillion in the 2017/2018 financial year.

The biggest contributor has been domestic debt contributing to more than 90% of total government debt. Interest on state debt is expected to rise from R115 billion for the year ended February 2015 to R153 billion in the 2017/2018 financial year.

Treasury expects net loan debt to stabilise in the 2017/2018 financial year at around 45% of GDP from 45.6% in December 2014. This number is likely to grow beyond expectations relating to increased capital expenditure by state owned companies over

the next few years.

Gross external debt has risen from US$136 million in December 2013 to US$145 million in December 2014. In 2014, the IMF conducted a debt sustainability analysis on South Africa using 70% of debt-to-GDP as a benchmark after which a country is regarded as risky according to the IMF. The analysis has shown that South Africa's public debt is sustainable, however, will be vulnerable should government's measures to consolidate public debt not come to fruition.

About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2013, the Group, supported by its 4,440 staff, posted a consolidated turnover of €1.440 billion. Present directly or indirectly in 98 countries, it secures transactions of over 37,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 350 underwriters located close to clients and their debtors.
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Coface SA. is listed on Euronext Paris – Compartment A

ISIN: FR0010667147 / Ticker: COFA

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