

Description : STANDARD & POOR'S RATING

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The Ministry of Finance has learnt with surprise and regret that Standard & Poor's has not upgraded South Africa's foreign and local currency ratings. Their decision and motivation is not something with which we can agree.

In the statement motivating their decision, Standard & Poor's were positive about a number of factors including:

- government's commitment to disciplined fiscal and monetary policies, as well as market-based reforms;
- South Africa's manageable debt burden;
- South Africa's robust banking sector;
- The strengthening political stability.

In terms of the factors constraining the rating, we recognise that certain of these remain challenges:

- growth has not matched expectations
- employment creation is still a major concern.

However, on many of the indicators that S & P's mentioned concern, there seem to be contradictions with the salient facts of South Africa's current economic fundamentals. South Africa has made substantial progress in bringing down both the inflation rate and the fiscal deficit. Trends in inflation, as well as inflation projections certainly do not indicate high inflation expectations. (The average for PPI in 1995 was 9,6%, in 1996, it was 6,9% and the most recent figure is 3,2% year on year.) On the question of South Africa's external liquidity position, we would note the difference between our current account deficit, at 2%, and the 4,5% and higher deficit of many BBB rated countries. In terms of our reserves, when S&P's confirmed our rating in October 1996, the reserves were standing at R10,3bn. With reserves now standing at R30,9 billion, this figure has tripled. The statement does not take cognisance of the fact that our budget deficit has come down markedly over the past two years, and that our debt burden is far less onerous than many other countries in the same group. Furthermore, we do not agree with S&P's view on provincial spending pressures and what this means for the deficit.

S & P's long-term foreign currency ratings remain out of line with other recent ratings despite the fact that our position has fundamentally improved since we received ratings from Moody's (Baa3); Duff and Phelps (BBB-); and Nippon (BBB), which are all investment grades.

South Africa remains committed to prudent monetary and fiscal policies and we believe that the policies that we have adopted will lead us onto a sustainable growth path.