

DEPARTMENT OF FINANCE
Republic of South Africa

Asset and Liability Management

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**MOODY'S RAISES SOUTH AFRICA'S RATING OUTLOOK
FROM STABLE TO POSITIVE**

Moody's Investors Service has announced that they have changed their rating outlook for South Africa's Baa3 country ceiling for foreign currency debt and the Ba1/NP ceilings for foreign currency deposits, as well as the Baa1 domestic currency rating, from stable to positive.

Moody's improved outlook was motivated by government and the South African Reserve Bank's further substantiation of a cohesive and sound macroeconomic framework. They also reflect the prospects for a strong economic recovery over the next several years, which is envisaged to strengthen South Africa's virtuous fiscal performance and the country's debt repayment capacity.

Moody's projects that the growth upturn will not have significant negative consequences for the external trade accounts or the balance of payments, which would allow the substantial improvement in the country's liquidity position to continue. The agency pointed to the rapid growth in manufacturing exports and vigorous expansion in the non-agricultural economy as evidence of the fruits of the industrial restructuring as well as of the trade and financial market liberalization that have been implemented. Moody's also praised the South African Government's preparedness to mold its education and labour policies with a view to maximizing skill development and employment growth. This, in their view, will represent an opportunity to sustain the economic expansion beyond the short term.

Moody's indicated that they would welcome further progress in the areas of labour market liberalization and privatization of State owned enterprises. They also expressed concerns about the prevalence of HIV infection and crime. On balance, however, Moody's remains positive about the pro-active political and economic management that is likely to accelerate the pace of growth and diminish the country's social inequalities.

Moody's concerns are noted and are being addressed by Government on an ongoing basis.

The Department of Finance is delighted that the improving economic and political conditions are recognised by the rating agencies.