

SOUTH AFRICA'S RATINGS UNDER CONSIDERATION FOR UPGRADE

PRESS RELEASE

LONDON, 12 October 2001 -- Moody's Investors Service is placing on review for possible upgrade South Africa's Baa3/Ba1/Not Prime foreign currency country ceilings for bonds and deposits, as well as the Republic of South Africa's Baa3 foreign currency and Baa1 local currency debt ratings. The agency said that the South African government's macroeconomic policy track record has been impressive beyond expectations in recent years, particularly in the fiscal policy arena but increasingly in monetary and exchange rate policy as well.

The Baa3 foreign currency country ceiling was first assigned in October 1994, and all the ratings have carried a positive outlook since February 2000.

Moody's points out that the improved fiscal position has permitted cuts in tax rates and increased infrastructure spending that should help stimulate faster economic growth and enhance delivery of urgently-needed social services. The increased diversification of the industrial base, high productivity gains, and a competitive exchange rate have boosted export growth, allowing the current account to remain healthy in spite of the removal of South African trade barriers. As a result, the foreign currency debt-to-GDP ratio has stayed relatively low and external debt service manageable in spite of the continual weakness of the rand.

The acceleration of the privatization program is likely to be delayed over the near term, given the weak global market environment, dashing hopes for complementary direct investment inflows. Still, South Africa's liquidity position has improved steadily, including a steep reduction in the foreign exchange open position as the Reserve Bank refrains from active intervention in the foreign exchange market.

Moody's review will focus on the extent to which the improved policy environment is likely to encourage increased foreign and domestic investment that would expand South Africa's potential for faster job creation and growth and thereby further narrow income inequality. In addition, the agency said that it will analyze projections concerning the impact of HIV/AIDS on the country's social and economic fabric, and the extent to which the government can or will respond to the crisis.

Additional issues to be addressed in the review will be the prospects for improving education and job skills through various public and private programs, as well as efforts to deal with the high crime rate, all of which are crucial in order to enhance the investment environment. Finally, Moody's will discuss with the government and the private sector their views on the future of the political system as the relationship between the ANC partners matures and opposition parties broaden their support.