NATIONAL TREASURY
REPUBLIC OF SOUTH AFRICA

PRESS RELEASE

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SOUTH AFRICA'S SOVEREIGN RATING OUTLOOK REVISED TO POSITIVE

Fitch Ratings, the international rating agency, has revised the Outlook on South Africa's sovereign ratings to Positive from Stable. The Long- and Short-term foreign currency ratings are 'BBB–' (BBB minus) and 'F3', respectively; the Long-term local currency rating is 'BBB+'. The change in Outlook reflects South Africa's strong track record on macroeconomic policy, especially the positive trend in public finances, which will deliver further improvements in the country's credit fundamentals, as well as the increased resilience of the South African economy to domestic and external shocks. A continuation of current trends will likely result in an upgrade of South Africa's sovereign ratings within the next 12 to 24 months. This is a sounding vote of confidence in our economy. It would contribute to the lowering of the borrowing costs for the government and other South African issuers.

Fitch highlighted the following factors as contributing to changing the outlook from stable to positive. Sound macroeconomic policies and fiscal discipline have resulted in regular undershooting of budget deficits and a declining public debt to GDP ratio as well underpinning improvements in external debt and liquidity indicators during the past four years. General government debt at 44% of GDP is close to the median for 'BBB' category countries and, in contrast to many other similarly rated sovereigns, is predominately denominated in local currency. This factor limits the negative impact of adverse exchange rate movements on public and external debt ratios, as well as indicating a relatively deep and secure source of local financing. A moderate external debt burden– net external debt is around 20% of GDP and has fallen from 90% of current account receipts in 1997 to around 55% in 2002– combined with small current account deficits, limit South Africa's reliance on external financing, an important rating strength.

Fitch further notes that trade reforms, which have led to an increasingly diversified exports sector and encouraged corporate sector restructuring, combined with a more than 30% deprecation of the real exchange over the last five years, have resulted in a more open, internationally competitive and resilient economy.

Last year's sharp fall in the rand demonstrated the robustness of the macroeconomic policy regime. Although inflation is now above target and South Africa Reserve Bank may struggle to get it on target next year as well, the authorities demonstrated they are willing to allow a free float of the exchange rate. This contrasts sharply with previous episodes of rand weakness when the SARB actively intervened in the foreign exchange market, often in the forward market, to defend a particular value of the rand, so leaving a legacy of a negative net international reserve position. The net open forward position (NOFP, forward liabilities minus net foreign exchange reserves) also continues to decline and should be eliminated by the end of FY2002/2003. This will contribute to a more stable currency and allow the SARB to build its international reserves, although external liquidity remains weak in peer group terms and the rand will still be prone to periodic volatility.

Despite the decline in global demand and weakening confidence at the time of the rand's sharp decline in the second half of last year, growth, which has become increasingly export driven, held up relatively well at 2.2% and is expected to pick up this year and next, benefiting from the boost to external competitiveness. The increasingly credible macroeconomic policy regime and improvements in credit fundamentals are improving South Africa's ability to absorb external shocks. Nevertheless, as a small open economy with a continuing, albeit diminished, reliance on commodity exports, it will continue to be sensitive to developments in the global economy.

Fitch cautioned, however, that South Africa's sovereign ratings remain constrained by still relatively low levels of external liquidity as well as formidable social and structural challenges such as very high unemployment, skills shortages, high crime and the HIV/Aids epidemic. These continue to deter foreign and domestic investment and hinder efforts to raise South Africa's potential growth rate, critical if a sustained and marked improvement in living standards necessary to underpin political and social stability in the long-term is to be realised.

Though Fitch believes that the recent proposals regarding mineral rights are likely to be moderated and made more business friendly, it does highlight that the regulatory and business environment is not settled, while given the current investor climate the Telkom IPO cannot be assured.

The Government is aware of the challenges facing South Africa and is confident that the necessary structural reforms are in place to ensure acceleration in social delivery.

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