national treasury

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PRESS RELEASE

RATING OUTLOOK BY FITCH RATINGS AGENCY

Today, 10 November 2008, Fitch Ratings Agency published a revised rating outlook for South Africa from stable to negative. This follows a revision announcement in June this year when Fitch lowered its outlook to stable from positive.

It is important to emphasise that Fitch Ratings affirms South Africa's long-term foreign currency ratings of BBB+. This revision therefore does not constitute a rating downgrade. This revision must be seen in the context of the current global financial turmoil and its impact on emerging markets. The shift to a negative outlook takes place alongside 17 other emerging markets.

Unlike a number of developed and emerging market countries, the South African government has not found it necessary to support its banking sector through the current financial crisis due to sound regulation, good capital adequacy ratios and sufficient liquidity conditions prevailing in the banking system. In its Financial Stability Assessment Report released early this year the International Monetary Fund concluded that "South Africa's financial system is fundamentally sound and well-capitalised".

The banking system is underpinned by a sound macroeconomic policy framework. The South African authorities adopted a counter-cyclical fiscal stance as a means of cushioning the economy. The Medium Term Budget Policy Statement released on October 21, indicated a shift in the fiscal position to a small deficit in fiscal year 2009/10, partly as a result of financing Eskom's expansion, with a decline in the deficit projected as the economy recovers. While more public borrowing will be required compared to previous years, the overall rise in debt is small. Annual debt service costs are projected to continue to decline to below 2 percentage points of GDP. Reserve accumulation over the last 8 years has resulted in a net foreign liquidity position of about US$33 billion.

Economic growth is expected to moderate in 2009 compared to the last three years, as export returns slow and household consumption remains weak. The fiscal position remains sound, implying the capacity to offset further economic weakness if required.

While growth remains positive and driven by continued investment by the public and private sector, the current account deficit is forecast to remain fairly large. Since the price of oil has fallen faster than the commodities that South Africa exports, South Africa's current account deficit is expected to moderate somewhat going forward.

South Africa took some tough decisions early on to slow household consumption expenditure, helping to reduce inflationary pressures. Inflation pressures have since abated, reflecting the success of monetary and fiscal policy and as oil and food prices have moderated.

Capital inflows into the bond market have been strong in the past week, suggesting that international financial conditions continue to stabilise. Recent foreign direct investment inflows further suggests that South African growth prospects continue to be favourably viewed by foreign investors. The rise in investment from 15 to 22 per cent of GDP over the past six years suggests that potential growth is likely to be higher in the future and South Africa is well placed to benefit from a recovery in the global economy.

Government is actively involved in assisting state owned enterprises to finance their investment needs in an appropriate way. SOEs whose infrastructure programmes have significant import content have been encouraged to borrow from export credit agencies in the countries they are importing intermediate inputs from. The response has been overwhelmingly positive. Eskom, the one SOE with a big and critical investment programme, has been negotiating two loans which are dollar denominated: a $500 mil (US) loan with the AfDB and a $5 billion (US) with the World Bank. The AfDB loan negotiation is at an advanced stage.

As testimony to some of the positive prospects for the SA economy, as recently as last week Telkom sold 15 percent of its shares in Vodacom (a mobile telecommunication network) to Vodafone, UK for R22.5 billion. This transaction represents an expression of confidence in the SA economy.

The Fitch Ratings Agency suggests that if South Africa's growth slows down as it predicts it will be hard for the authorities to maintain sound macroeconomic and fiscal policy. This is not supported by our recent history and overlooks certain material facts about the current macroeconomic and fiscal frameworks. The current macroeconomic projections of growth, revenue flows, and inflation already take into account all of the factors that are raised by the Fitch Ratings Agency. As the MTBPS shows the budget framework sets aside R36 billion in a contingency reserve, including to accommodate any unforeseeable shortfall in revenue collection if the economy slows further. South Africa is confident that it would not be downgraded during this period as our economic fundamentals are sound, our policies and robust and our economic institutions vigilant. South Africa’s low debt ratio, large cash holdings and significant foreign exchange reserves also cushions the economy during times of global turbulence.

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