



**MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA**

MEDIA RELEASE

Moody's revises South Africa's A3 rating outlook to negative from stable

The decision by Moody's Investor Services (Moody's) today to maintain our A3 investment grade rating in the current economic climate is significant, even though it has revised its outlook from stable to negative for South Africa's local and foreign currency government debt ratings. The revised outlook must be seen in terms of the adverse global rating environment, where ratings are dominated by downgrades on the back of fiscal difficulties prevailing in Europe and elsewhere.

Moody's cites slower economic growth than previously expected coupled with growing political risk to low budget deficits as the main reasons for the change in outlook. The recent Medium Term Policy Statement (MTBPS) presented on 25 October 2011 reaffirmed South Africa's recovery and reform in the face of uncertainty. Slowing world economic growth, unresolved financial crisis in the euro area and the sluggish recovery in the United States all point to extended difficulties in the global outlook.

However the fiscal framework is supportive of the economy over the medium term, while strengthening interventions aimed at boosting sustainable long-term growth. The fiscal position will be reinforced over the medium term with the improvement in revenue performance and real increase in spending. The fiscal guidelines proposed in the 2011 Budget Review are the foundation of the fiscal stance.

Prior to this action, outlook on South Africa's rating had been stable since July 2009 when South Africa's local and foreign currency government debt ratings were unified at A3.

Moody's acknowledges in its statement that South Africa's economic stewardship has been effective for more than a decade and that our fiscal and economic policy parameters have remained in line with expectations. We are disappointed

that even in spite of this acknowledgement, they have changed the outlook on our rating from stable to negative.

We disagree with the assessment of political risk in South Africa. We note that the decision to revise the outlook comes after a recent clear fiscal policy statement of government, the Medium Term Budget Policy Statement tabled in October.

The MTBPS is a political decision on the prospects in our economy and the fiscal policy choices that government has made with explicit support of the ruling party, the African National Congress.

Political debate and a vigorous exchange of policy options must be expected in a democracy. This cannot be construed as political instability or “the political leadership’s unwillingness to definitively reject demands from certain segments of the political spectrum”.

The South African government will continue to prioritise higher economic growth and job creation at the core of its economic policy, within a transparent investment and sustainable fiscal framework.

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