MEDIA STATEMENT

NATIONAL TREASURY STATEMENT ON FITCH RATINGS DOWNGRADE

Fitch Rating Agency (Fitch) has today downgraded South Africa's long term foreign currency credit rating to "BBB" from "BBB+", the long term local currency credit rating to "BBB+" from "A" and the short term credit rating to "F3" from "F2". Fitch has placed the country on a stable credit outlook.

Fitch cited the following factors as reasons for the downgrade:

- South Africa's economic growth performance has deteriorated which it said was likely to affect public finances and exacerbate social and political tensions;
- A secular decline in competitiveness which reflects wage settlements above productivity and infrastructure constraints which it believes to have contributed to a widening current account deficit;
- The country's public finances have deteriorated; and
- Social and political tensions have increased.

Fitch has indicated that the stable outlook is due to its belief that South Africa's credit strength will limit the speed, magnitude and the likelihood of a further potential downgrade over the typical two-year outlook horizon.

Some of the drivers of the downgrade have their roots in the protracted crisis in the Eurozone, South Africa's significant trading partner. Government is aware of the challenges of poverty and unemployment the country is facing.

At its recent conference, the ruling African National Congress (ANC) endorsed the National Development Plan (NDP), which identifies the constraints to faster growth and presents a roadmap to a more inclusive economy that will address South Africa's socio-economic imbalances and challenges. The conference resolutions give certainty on economic policy, which the Fitch report does not seem to fully appreciate. Government will prioritise the implementation of the NDP with the aim of achieving higher levels of growth.

The 2012 Medium Term Budget Policy Statement (MTBPS) published in October sets out a disciplined fiscal framework that keeps the expenditure envelope that was published in February unchanged. It balances support for the economy in the immediate term with fiscal consolidation over the medium to long term. It provides for a sustained investment in growth inducing infrastructure.

The budget framework set out in the MTBPS demonstrates government's unambiguous commitment to maintaining debt and expenditure growth within sustainable levels. These principles will continue to underpin South Africa's fiscal stance.

The South African government is consistently making efforts to address the concerns identified in Fitch's rating review which is aimed at mitigating growth and socio-economic concerns.

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