NATIONAL COUNCIL OF PROVINCES

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER: 91 [CW141E]

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91. Mr M Khawula (KwaZulu-Natal: IFP) to ask the Minister of Finance:

How does South Africa's financial borrowing power in 2016 compare to its counterparts in Brazil, Russia, India and China in view of the slow economic growth in the past five years?

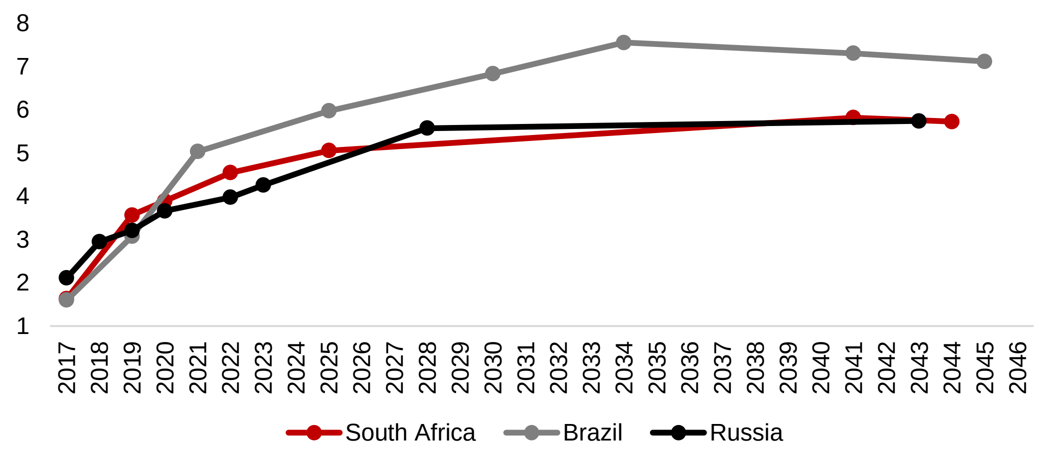
CW141E

REPLY:

It must be noted that slow growth is a problem afflicting many parts of the globe, South Africa is no exception. However, we also acknowledge that there are several domestic factors that constrain growth. When looking at the cost of raising debt, there has been a general increase during 2015. For most of the world, interest rates have steadily continued to increase in anticipation of the United States (US) Federal Reserve (US Fed) implementing its interest rate hiking programme. This is especially true for emerging market credit as investors require additional risk premiums on their investments.

South Africa local debt capital markets are more developed than any of our BRICS partners. Most of the government borrowing requirement (approximately 90 percent) is met in the domestic market. However, it is difficult to compare the financial borrowing power of the BRICS nations as they all use different domestic currencies and funding instruments. The problem is compounded as the Indian and Chinese governments do not actively fund in the international US dollar bond market. When looking at the US dollar yield curves of Brazil, Russia and South Africa i.e. yield curve for these countries' bonds issued in the US dollar market, it is observable that Russian and South Africa credit quality is similar, with Russian yields performing slightly better in the shorter dated maturities. Brazilian yields are higher than both Russia and South Africa for maturities longer than 3 years. The sovereign yield curve of Brazil, Russia and South Africa has been included in graph 1 below.

Graph 1: US Dollar Yield Curve



Credit Default Swap (CDS) spreads showing the markets perceptions of risk indicate that the risk perceptions of South Africa remain within that of the other BRICS nations. The higher the

CDS value, the higher the implied risk. Looking at table 1, South Africa is slightly worse than Russia, however perceived as being less risky than Brazil.

Table 1: Credit Default Swaps

Country	5 year	10 year
Brazil	406.6	475.0
Russia	299.5	358.3
India	156.9	217.5
China	128.0	171.2
South Africa	326.5	393.0

The sovereign credit ratings for the BRICS nations have been included in table 2 below. Currently, both Fitch and S&P have South Africa on one notch above non-investment grade, while Moody's has it on two notches above non-investment grade. While South Africa managed to maintain investment grade ratings from all credit rating agencies in the last round of reviews due to its credit rating strengths, there have been a number of concerns raised by the rating agencies that could put the sovereign's rating at risk of further downgrades during the next reviews. South Africa's Domestic (Rand) Long Term Rating is at least two notches above sub-investment grade, providing some breathing space for the rand-denominated portion of government's debt – which accounts for approximately 90 per cent of the debt portfolio. Both Brazil and Russia have credit ratings below investment grade, whilst only China has better credit ratings than South Africa.

Table 2: Sovereign Credit Ratings

Country	Foreign Long Term Rating				Domestic Long Term Rating			
	Moody's	S&P	Fitch	R&I	Moody's	S&P	Fitch	R&I
Brazil	Ba2	BB	BB+	BBB	Ba2	BB	BB+	No Rating
Russia	Ba1	BB+	BBB-	No Rating	Ba1	BBB-	BBB-	No Rating
India	Baa3	BBB-	BBB-	BBB	Baa3	BBB-	BBB-	No Rating
China	Aa3	AA-	A+	A+	Aa3	AA-	A+	AA-
South Africa	Baa2	BBB-	BBB-	BBB+	Baa2	BBB+	BBB	A-