R&I

NEWS RELEASE

Apr 13, 2018

R&I Affirms BBB/BBB+/a-2, Changes Outlook to Stable: Republic of South Africa

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: **Republic of South Africa**

Foreign Currency Issuer Rating: BBB, Affirmed
Rating Outlook: Stable, Changed from Negative

Domestic Currency Issuer Rating: BBB+, Affirmed
Rating Outlook: Stable, Changed from Negative

Foreign Currency Short-term Debts: a-2, Affirmed

RATIONALE:

South Africa still sees anemic economic growth, but began to show signs of recovery, driven by the solid global economy. The inauguration of a new administration following the changes of leader of the governing African National Congress (ANC) and president is expected to help dispel policy uncertainty and regain confidence among businesses. While outstanding debt will likely stabilize a few years later than projected in 2017, its levels would remain acceptable for the ratings given the most recent forecasts. Supported by the deep and efficient capital market, the volume of capital inflows should be largely maintained. In light of these factors, R&I has affirmed the Foreign and Domestic Currency Issuer Ratings and changed the Rating Outlooks back to Stable.

In order to keep unifying the ANC, it would be essential for new president Cyril Ramaphosa to restore party strength and meet reform expectations in a well-balanced manner toward the general elections in 2019. R&I believes that the political situation in South Africa continues to entail some policy risks that warrant attention. The ratings will likely come under downward pressure again, if the economy materially slows down due, for example, to a setback in economic recovery or a reemergence of political risk.

Thanks to the solid global economy, South Africa's real gross domestic product (GDP) in 4Q 2017 grew strongly after an interval of many years, which has finally given rise to expectations for economic recovery. The growth was attributable to, among others, an upturn in agricultural and manufacturing production, in addition to an improvement in trade terms that provided overall support. The full-year growth of 1.3% is still low, but higher than the 1.0% forecast in the FY2018 (April 2018 to March 2019) budget. With the business community's favored ex-deputy president Ramaphosa elected as leader of the ANC (subsequently sworn in as president), corporate confidence has been improving. While a future turnaround in investment can also be envisaged, such developments would hinge on whether the new administration is able to create a supportive environment for private investment by boosting business confidence through firm policy execution.

The parliament of South Africa decided to start discussions on constitutional amendments that enable the expropriation of white-owned land without compensation. Given the conditions attached to the expropriation, it does not seem that the amendments are intended to allow the literal execution of the expropriation. Even so, attention should be paid to how discussions will develop, because this is a risk factor that could delay a recovery in policy confidence.

For FY2018-FY2020, budget deficits are projected to be almost flat at around 3.5% of GDP. While the estimates appear to reflect considerations for economic trends, a revision may be made to incorporate a better economic situation. The return of Nhlanhla Nene as finance minister has greatly reduced uncertainty about the consistency of fiscal policy. Furthermore, former finance minister Pravin Gordhan was appointed as minister of public enterprises, which have been posing a fiscal risk in recent years. R&I favorably views these decisions because they indicate the new administration's strong commitment to fiscal issues. The central government's outstanding gross debt is projected to stabilize at 56% of GDP in

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FY2022 and net debt (gross debt less cash on hand) at 53% of GDP in FY2023, which is three years later than estimated in the FY2017 budget, amid the challenging fiscal management environment. If stabilized in line with the renewed projections, the debt levels would be kept acceptable for the current ratings.

The current account deficit, which has recently narrowed to 2-3% of GDP, is anticipated to widen again over the medium term. The stability of financing will therefore remain important. The country's highly liquid capital market benefiting from mature regulatory settings underpins stable funding, though the capital comes mainly through portfolio investment rather than direct investment. Given the level of external debt, R&I is not concerned about external liquidity for the immediate future.

The political regime led by the ANC is still unlikely to wobble. Moreover, R&I does not anticipate material changes in the ANC's policy stance. Since President Ramaphosa took office, political uncertainty in South Africa has diminished substantially. To continue to unify the ANC, however, he would be forced to make various political compromises on some occasions, as has been the case. President Ramaphosa will face a crucial period to restore confidence among the public and businesses by carrying out reforms aimed at transparent and efficient administrative operations.

The primary rating methodology applied to this rating is provided at "R&I's Analytical Approach to Sovereigns". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.
https://www.r-i.co.jp/en/rating/about/rating_method.html

R&I RATINGS:

ISSUER:	**Republic of South Africa**
	Foreign Currency Issuer Rating
RATING:	**BBB, Affirmed**
RATING OUTLOOK:	**Stable, Changed from Negative**
	Domestic Currency Issuer Rating
RATING:	**BBB+, Affirmed**
RATING OUTLOOK:	**Stable, Changed from Negative**
	Foreign Currency Short-term Debts
RATING:	**a-2, Affirmed**

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