



NEWS RELEASE

Apr 28, 2010

R&I Affirms A-, Changes Outlook Stable: South Africa

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

ISSUER: Republic of South Africa
Foreign Currency Issuer Rating
R&I RATING: A- (Affirmed)
RATING OUTLOOK: Stable (Changed from Negative)

Domestic Currency Issuer Rating
R&I RATING: A (Affirmed)
RATING OUTLOOK: Stable (Changed from Negative)

Foreign Currency Short-term Debts
R&I RATING: a-1 (Affirmed)

RATIONALE:

In addition to being one of the world's preeminent mineral resources suppliers, South Africa has also made steady progress in attracting industry, including automobile manufacturing, and its gross domestic product (GDP) accounts for around one-fourth of Africa's total GDP. Per capita GDP is nearly US\$6,000. As South Africa's black citizens have participated in economic activity in growing numbers, consumption has been invigorated and infrastructure investment also has increased, and the country had continued to achieve steady growth based largely on domestic demand. Although the real GDP growth rate in 2009 was negative under the impact of the global economic crisis, R&I judges the economic growth trend is unaltered. Capital inflows remain steady, even as the global financial environment undergoes wrenching adjustments. Macroeconomic management continuity has been maintained even through changes of political leadership, and if the economic scenario based on the recovery trend does not go greatly awry, R&I believes the government can sufficiently achieve its projected fiscal deficit reduction plan. In consideration of such factors, R&I has affirmed both the Foreign Currency Issuer Rating and the Domestic Currency Issuer Rating, and has returned the Rating Outlook to Stable from Negative, where it had been since October 2008.

Although South Africa's economy slipped into recession for the first time in 17 years from the fourth quarter of 2008, as performance was hindered by a sharp decline in manufacturing in particular, real GDP for full-year 2009 contracted by just 1.8%. In contrast to the government's forecast of 2.3% growth in 2010, the economic growth rate is expected among private sector forecasters to be in the range of 2.5-3.5%. While several factors including completion of investment related to the World Cup are anticipated to slow the growth of investment in public works, the economy is expected to return to a growth track from 2011 onward.

The government's fiscal position, which had been improved substantially by higher tax revenues generated by the robust economy, has been affected by the economic slowdown as well. The general government fiscal balance moved from a 1.7% surplus compared with GDP in FY2007 (April 2007-March 2008; the same applies below) to a deficit of 1.0% in FY2008. In FY2009, when the government responded to the economic crisis with a budget deficit equivalent to 4.2% of GDP, the deficit appears to ultimately have reached 7.3% of GDP because of a larger-than-expected drop in tax revenues particularly from corporation taxes and the value added tax (VAT). According to

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the outlook the government released in its FY2010 budget, the size of the deficit reduction over the next three years will be comparatively gradual at 2.2% of GDP.

Given such a fiscal projection, government debt will climb as well. Outstanding public debt at the end of FY2008 was low at 27% compared with GDP, however, and the government projects a peak-out at about 45% in FY2015. One strong point is the fact the debt burden is still light and the government can adopt measures with comparatively broad leeway from a fiscal management perspective. R&I continues to see whether the government can steadily implement the necessary expenditures, while cutting the budget deficit as envisaged, controlling debt service burdens that are expected to increase.

In recent years the current account deficit as a percentage of GDP had expanded to the 7% range, driven by factors such as high oil prices and vigorous public works investment. Because of adjustments in the domestic economy, in 2009 the trade account balance turned positive, albeit small in size, and the current account deficit fell to 4.0% of GDP. As the government proceeds with infrastructure investment, import pressure is expected to continue accordingly, but with moderation in consumption compared with past years the deficit will probably linger in about the 4-5% range for some time.

No major disruptions have been noted from a financing perspective. As capital began flowing into emerging markets following the financial and economic crisis, portfolio investment, which recorded a big net outflow in 2008, attracted sizable net inflows in 2009. Although these inflows somewhat lack a sense of stability because the funds ebb and flow according to foreign investors' risk appetite, the resulting overall capital inflow has not been as unstable as it appears, supported by South Africa's mature capital market infrastructure including its regulatory environment. Against this backdrop of steady capital inflows, foreign reserves at the end of 2009 stood at US\$39.7 billion, up considerably from US\$34.1 billion at the end of 2008. Given the ratio of reserves to short-term external debt at 1.86, conditions in which external liquidity would dry up quickly are difficult to envisage.

R&I believes that appropriate debt management and the capabilities to carry out a consistent policy package based on a long-term policy vision will be required in order for South Africa's government to solve its enormous social problems, which are exemplified by the high rates of unemployment and crime. After the administration of President Jacob Zuma took office, the first budget for FY2010 has eliminated market concerns regarding fiscal discipline for the time being. The National Planning Commission (NPC), which is expected to serve as a coordinator among the policies of all government ministries, has been established in the Office of the Presidency in a form headed by Trevor Manuel, the former Minister of Finance, and the committee members are expected to be appointed shortly. Given that the supervisory authority over each ministry and agency is not granted, the key to securing the commission's effectiveness probably will depend upon how much presidential support the NPC receives in the course of its functioning. How will the commission move to coordinate and execute policies that will involve various trade-offs? R&I will pay close attention to whether the NPC can fulfill its role as expected in a more fluid political situation than before.

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.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

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R&I RATINGS:**ISSUER:** Republic of South Africa**FOREIGN CURRENCY ISSUER RATING:****A- (Affirmed)****RATING OUTLOOK:****Stable (Changed from Negative)****DOMESTIC CURRENCY ISSUER RATING:****A (Affirmed)****RATING OUTLOOK:****Stable (Changed from Negative)****FOREIGN CURRENCY SHORT-TERM DEBTS:** **a-1 (Affirmed)**

In principle, an Issuer Rating is R&I's opinion on an issuer's overall capacity to repay its financial obligations as agreed and is assigned to all issuers. The rating of individual obligations includes the prospect of recovery and reflects the terms and conditions of the agreement and it may be lower or higher than the Issuer Rating.

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