

## Highlights of the Sovereign Rating on the Republic of South Africa

### Updated Rating

Long-term Local Currency: A<sub>i</sub>+,

Long-term Foreign Currency: A<sub>i</sub>+

Outlook: Negative

### Previous Rating

Long-term Local Currency: A<sub>i</sub>+

Long-term Foreign Currency: A<sub>i</sub>+

Outlook: Negative

Ratings updated on

July 31<sup>st</sup> 2016

### Rating Opinions

United Ratings has decided to maintain the long-term local and foreign currency ratings of the Republic of South Africa (hereafter “South Africa”) at A<sub>i</sub>+, with Negative outlook. Although the impeachment against President Zuma was defeated, the ruling position of the ANC was weakened, and political uncertainties are in prospect. Influenced by various factors including the drought, the country’s economic growth is decelerating. The depreciation of South Africa Rand appears to favor the export of non-mining commodities, but it is difficult for the country to cut back on its major deficit in current account. In summary, no significant changes are observed in the payment ability of the South African central government in local and foreign currencies, while a downturn in that regard is expected in the short run.

### Reasons for Downgrading Ratings

- The impeachment against President Zuma was defeated, However, the ruling position of the ANC was weakened.
- Impacted by various factors including the drought, economic growth continues to slow down and is expected to hit a new low in 2016.
- The fiscal deficit is assumed to contract, but the fiscal status is still laden with challenges, such as economic slowdown, decrease in tax revenues, expansion of fiscal expenditure, etc.
- The tight monetary policy may inhibit economic growth, but is favorable to the external financing; and the overall risk of the banking sector is still under control.
- The depreciation of Rand is favorable to the export of non-mining goods, but also leads to the continuous high deficit in current account.

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## Outlook

To sum up, the ruling position of the ANC could be further weakened after the municipal elections, thus hampering the implementation of government policies. Even if the impacts brought by the drought weakens, the economy might be recovering only to a limited extent and still subject to impacts of the global economic instability. The contracted monetary

policy seems to be in favor of external financing, but the fiscal status is still facing a number of challenges, and the high-level deficit in current account is never easy to narrow. In light of the above-mentioned points, United Ratings maintains the outlook of South Africa's long-term local and foreign ratings in 1-2 years at Negative.

### Key Indicators of the Sovereign Rating for the Republic of France

	2011	2012	2013	2014	2015	2016 <sup>f</sup>
Nominal GDP (billion USD)	416.5	396.7	368.0	351.5	314.6	289.2
GDP per capita (USD)	7,973.4	7,507.4	26,889.4	6,512.8	5,773.2	5,260.0
Real GDP growth (%)	3.3	2.2	2.3	1.6	1.3	0.5
Inflation rate (%)	5.0	5.7	5.8	6.1	4.5	6.5
Total lending/GDP (%)	193.7	204.7	241.6	265.7	292.0	295.5
Domestic credit growth (%)	2.4	10.2	2.5	9.5	8.0	7.4
M2 growth (%)	7.2	3.9	9.7	8.6	9.7	7.1
Budget balance of governments/GDP (%)	-3.6	-4.5	-3.9	-3.8	-3.4	-3.3
Primary balance governments/GDP (%)	-1.7	-2.6	-2.0	-1.7	-1.0	-1.1
Public debt/GDP (%)	38.2	41.0	44.0	44.1	44.4	43.3
Current-account balance/GDP (%)	-2.2	-5.1	-5.9	-5.3	-4.4	-4.5
Total foreign debt/GDP (%)	28.1	36.5	37.8	41.0	41.9	44.9
Total external debt/Current-account credit (%)	31.1	45.1	44.3	48.6	54.3	54.5
Short-term foreign debt/Total foreign debt (%)	17.6	19.2	19.6	24.3	22.3	19.5
International reserves/Total foreign debt (%)	41.8	35.0	35.7	34.1	34.8	34.3
Gross external financing requirement/GDP (%)	8.1	11.6	14.8	14.6	17.1	16.4

Source: Sovereign Rating Database of United Ratings.

Note: "f" stands for forecasts.