SOVERIGN CREDIT RATING

Rated Entity: Republic of South Africa
Rating Type: Sovereign Rating: Unsolicited Credit Rating
Date: 23 September 2022

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Overview

- The South Africa sovereign rating is underpinned by resilient macroeconomic and non-economic fundamentals.
- South Africa's trade with major trading partners bounced back post Covid-19 lockdown disruptions. South Africa's current account recorded a high surplus in March 2022 as compared to December 2021 attributable to improved export performance and higher commodity prices.
- The financial sector is stable with banks holding adequate capital and the liquidity is sufficient for external obligations.
- Tax revenue improved in 2021 and in the first two quarters of 2022.
- Natural resource endowments for South Africa remain a key asset for wealth generation, resource rents and diversification of the economy.
- South Africa is facing headwinds in terms of rising interest rates, energy adequacy and prices as well as increasing inflation prospects.
- The country's fiscal position is relatively weak which is attributed to Covid-19-related spending in 2020 and 2021. Contingent liabilities, government guarantees to state-owned enterprises, possible public sector wage bill and discussions of the universal basic grant can upset the gains placed by government to manage and contain rising government debt.
- Environmental sustainability as captured by the just transition drive (decarbonisation) might affect key mining and manufacturing industries.
- We are rating South Africa at BBB long term and B+ short term with a stable outlook.

Ratings Summary

Rating Category	Rating	Outlook	Rating Summary
Long Term	BBB	Stable	The Republic of South Africa (RSA) long and short-term issuer ratings are rated BBB and B+ respectively. The outlook is Stable.
Short Term	B+	Stable	

Ratings History

Date	Rating Category	Rating	Outlook
23-Sept-2022	Long Term	BBB	Stable
23-Sept-2022	Short Term	B+	Stable

Rationale

SAR's ratings take into account South Africa's performance in terms of both macroeconomic and non-economic fundamentals. The ratings take into account the direction and assessment of the South African economy in terms of key indicators and variables such natural resource endowments, climate change risks, social and socio-economic fundamentals, economic growth, government debt (domestic and foreign currency denominated), gross loan debt and contingent liability profile, budgetary performance and adequacy of fiscal flexibility, external performance, monetary and fiscal policy stance, liquidity position and institutional and governance framework.

The ratings are also supported by the country's reconstruction and recovery plan which aims to address some of the country's challenges such as high unemployment, poverty and income inequality, energy, and water crises, as well as deteriorating infrastructure and logistics networks. In terms of the government's plans, the following priority interventions will be made:

- Aggressive infrastructure investment;
- Employment-orientated strategic localization, reindustrialisation, and export promotion;
- Energy security;
- Support for tourism recovery and growth;
- Green economy interventions;
- Mass public employment interventions;
- Strengthening food security; and
- Macroeconomic interventions.

Outlook

The South African economy grew by an estimated 4.9% in 2021, driven by recovery in finance on the supply side and fixed investment on the demand side. Headline inflation picked up to 4.5% in 2021 from 3.3% in 2020, on the back of higher food and transport prices, and the policy rate was therefore increased to 3.75% in November 2021 from 3.5% in 2020. The budget deficit reached a record 10% of gross domestic product (GDP) in 2020 due to additional expenditure to mitigate the impact of Covid-19. The fiscal deficit was estimated to have declined to 5.8% of GDP in 2021, reflecting higher revenue and rationalised expenditure. The current account surplus was estimated at 3.8% of GDP in 2021 from 2% in 2020, attributable to improved export performance and higher commodity prices.

External reserves increased from $54.5 billion in July 2021 to $58.4 billion in August 2021 (about 5 months of import cover) boosted by the special drawing rights (SDR) allocation. South Africa's total public debt was estimated to have declined marginally to 70% of GDP in 2021 from 71% of GDP in 2020 given the fiscal consolidation. The financial sector is stable with banks holding adequate capital – 15.8% in March 2020 and 18.07% in January 2022, compared with 18.04% in December 2021 – well above the 10.5% minimum regulatory requirement. Poverty remains high, however, affecting 50% of the population, with the unemployment rate recorded at 35% in August 2022.

The economy is projected to grow by 1.9% and 1.4% in 2022 and 2023 respectively, lifted by growth in trade, tourism, mining, and manufacturing. Inflation is projected to rise to 5.8% in 2022 due to rising oil prices and likely increases in food prices resulting from the Russia–Ukraine conflict, but to decrease to 4.6% in 2023. The fiscal deficit is also projected to increase to 6.2% of GDP in 2022 before falling to 5.1% of GDP in 2023 due to the consolidation measures, including higher tax revenues and an educed wage bill. The current account deficit is projected to be 1.4% of GDP in 2022 and to swing to a surplus of 0.1% in 2023 due to the recovery in export demand and expected fall in commodity prices.

According to the National Treasury (2022), government expects to achieve a primary surplus where revenue exceeds non-interest expenditure by 2023/24. In 2024/25, main budget non-interest expenditure will grow slightly above CPI inflation. The consolidated budget deficit is projected to narrow from 6% of GDP in 2022/23 to 4.2% of GDP in 2024/25. Gross loan debt will stabilise at 75.1% of GDP in 2024/25. Debt-service costs consume an increasing share of GDP and revenue and are expected to average R333.4 billion a year over the medium term.

Total consolidated government spending will amount to R6.62 trillion over the next three years, and the social wage will take up 59.4% of total non-interest spending over this period. Additional allocations of R110.8 billion in 2022/23, R60 billion in 2023/24 and R56.6 billion in 2024/25 are made for several priorities that could not be funded through reprioritisation. These include the special Covid-19 social relief of distress grant, the continuation of bursaries for students benefiting from the National Student Financial Aid Scheme, and the presidential employment initiative. The bulk of the spending is allocated to learning and culture (R1.3 trillion), social development (R1 trillion) and debt service costs (R1 trillion) over the Medium-Term Expenditure Framework (MTEF).

Over the next three years, consolidated Government spending is expected to grow at an annual average of 3.2%, from R2.08 trillion in 2021/22 to R2.28 trillion in 2024/25. As public debt stabilises, Government will progressively reduce debt and the burden it places on the economy.

Given the revenue improvement, Government proposes R5.2 billion in tax relief to help support the economic recovery, provide some respite from fuel tax increases and boost incentives for youth employment. Most of the relief is provided through an adjustment in personal income tax brackets and rebates. In addition, there will be no increase in either the general fuel levy or the Road Accident Fund levy. Progress continues to be made in rebuilding the South African Revenue Service.

The fiscal outlook is subject to significant risks. Elevated risks to the fiscal outlook include:

- A global and domestic economic slowdown, resulting in lower revenue and greater calls for fiscal support.
- Rising borrowing costs due to inflation and higher global interest rates.
- The materialisation of contingent liabilities from state-owned companies.
- Higher-than-budgeted compensation increases.

Rating Discussion

The Economic and financial variables showed that sovereign credit ratings encapsulate a number of macroeconomic indicators, namely per capita income, inflation, external indebtedness, growth (GDP growth), and an indicator for economic development.

Fiscal Flexibility:

The budget highlights the Government's limited fiscal flexibility amid a challenging economic environment. The budget shows a further erosion in fiscal strength. The Budget/Deficit to GDP (Fiscal balance to GDP) has increased from 4.5% in 2019 to 13.3% in 2021.

The debt to GDP ratio has increased from 37.9% in 2000 to 69.5% in 2022. Consequently, public debt ratios will rise from a low of 69.5% of GDP in 2021 to around 75.2% in 2029. External debt ratios are also forecast to rise as borrowing is stepped up to finance public investment and the current account deficit. Contingent Liabilities to GDP/ Off Budget remains at 16% of GDP. It is important to note that the mooted universal grant as well as rising public sector wage bill remain areas of major concern in terms of negatively impacting fiscal stability. The current fiscal position cannot cater for universal social grants.

The General Government Revenue as a Percentage of GDP (%) has increased steadily over the years from 21.3 % in 2000 to 26.7% in 2022.

Economic Performance:

The South African economy has been characterised by relatively low growth since the "Great Recession" of 2007-2009, which started in the United States and soon spread to the rest of the world, hitting South Africa particularly hard. South Africa's annual economic growth averaged 3.58%; following the contraction of 2009, average annual economic growth slowed to 1.72% and has remained relatively weak since then. The Covid-19 pandemic made a dire situation worse when it led to a decline in GDP of 6.43% in 2020, the largest on record since 1960. While growth recovered to 4.9% in 2021, the dislocations caused by the pandemic, in terms of output, investment, employment, and productivity, are expected to persist into the medium term, possibly beyond.

After two consecutive quarters of positive growth, real GDP decreased by 0,7%1 in the second quarter of 2022 (Q2: 2022). The devastating floods in KwaZulu-Natal and load shedding contributed to the decline, weakening an already fragile national economy that had just recovered to pre-pandemic levels.

South Africa's GDP per capita increased from R61 000 in 2000 to R74 781 in 2021. An economy with a high GDP per capita or favourable growth outlook is more likely to provide the government with stable tax revenues in times of financial stress. Higher levels of prosperity also afford its government more flexibility to reduce spending or raise tax revenues without risking the basic subsistence of a large part of the population.

Conversely, a country with limited prospects for increasing the per capita income of its citizens will likely experience persistent revenue shortfalls, prompting the Government to borrow regularly – either in its domestic capital markets or abroad – to bridge the inevitable deficits.

Foreign Direct Investment, Net Inflows (% of GDP) have declined considerably between 2001 to 2021, from a level of 5.4% to 1.3%. The levels of Gross Domestic Savings (% of GDP) has remained on levels averaging 17% from 2000 to 2021. The low levels of savings threshold over the years places the country to be more reliant on foreign direct investment and more attuned to more borrowing.

Monetary policy stability, as represented by inflation rate, might negatively impact capital flows to South Africa as an emerging market as investors lose confidence in the value of the returns to be derived from the weakened, and often volatile, local currency. From 2000 to 2021 the headline inflation was at levels of 5.5 % and reached 7% in mid-2022 which led to rising interest rates and tightening monetary policy.

In particular, in an unstable monetary policy environment, foreign investors are particularly concerned with the erosion of local currency denominated returns in an environment of high inflation rates.

The Broad Money to Total Reserves Ratio levels have decreased from 9.3% to 5% from the year 2000 to 2022. When the Central Bank decreases the reserve ratio, it lowers the amount of cash that banks are required to hold in reserves, allowing them to make more loans to consumers and businesses. This increases the nation's money supply and expands the economy. Over the course of this year, this ratio has decreased.

From the period 2000 to 2021 the Bond Yields in nominal terms have declined from 13.8% in 2000 to 9.8% in 2021. In September 2022, South Africa's 10-year government bond yield was approximately 10.5%, the highest since September 6th, as investors weighed the prospect of larger rate hikes for longer from the Federal Reserve. The yield on SA's R186 bond which matures in December 2026, fell by 6 basis points in August 2022 to close at 8.76%. The yield on its 2032 bond fell even more to 10.64% in August 2022. The drop in yields, which move inversely to prices, came against the backdrop that the Reserve Bank will normally push yields higher in expectation of tighter monetary policy. On the other hand, yields on emerging market bonds rise during heightened risk aversion.

Meanwhile, South Africa's central bank is set to raise its key interest rate by 75 basis points at its September 2022 meeting following a similar move in July, to boost the weakened Rand and stabilise inflation expectations. The annual headline CPI inflation rate moderated to 7.6% in August from a three-year high of 7.8% in July, amid lower fuel prices, but still above the upper limit of the central bank's target range of 3 – 6%.

With inflation having reached multi-decade highs globally, financial markets are factoring in aggressive interest rate hikes from central banks despite a darkening economic backdrop.

Trade

South Africa's openness, as presented by external trade in goods and services, is one of the key determinants of FDI flows. The country's Exports of Goods and Services (% of GDP) has increased from levels of 24.4 % in 2000 to 31.1% in 2021. This demonstrates the ease and ability to access a larger external market which is critical in attracting export seeking FDI.

The current account balance as percentage of GDP has over the period of 2003 to 2019 averaged a negative 2.7%. It slightly improved in 2020 and 2021.

Country's outlook and mood

Labour productivity in the primary sector has increased between 2006 and 2010 whereas capital productivity has declined from 2005. Labour productivity increased more than capital productivity, a differential that can be linked to the growth in the capital intensiveness nature of the primary sector, particularly in the mining sectors, and thus it can be inferred that the growth in labour productivity had been at a cost of employment. Labour productivity and capital productivity in the secondary sector has increased between 1993 and 2008 and declined from 2010. Both labour productivity and capital productivity in the tertiary sector increased in tandem from 1993 to 2008, stabilised between 2008 and 2019 and increased slightly post Covid-19, from 2021.

In South Africa, there is a shift of labour away from this high-productivity industry such as manufacturing toward higher-productivity activities such as the financial and business services and transport sectors – both tertiary sectors.

The level total labour productivity index moved from 80.5 in 2000 to 110 in 2021. The level of total capital productivity index has fluctuated over the period.

The level of access to electricity index has increased from 72 .3 in 2000 to 84.7

Natural Endowments

South Africa will continue to leverage its natural resource capital to spur development. Natural capital resources account for and use profits from mining and extractive industries to further diversify its economy. Considering the natural endowments in terms of Total Resource Rents as a percentage of GDP, this can illustrate how available resources and reserves can enhance the ability of the South African economy to raise further Government revenue. The level of Total Resource Rents has increased from 2.9% to 5.6 % under current fiscal regimes applicable to the extractive sector.

Exports of major commodities such as ores and metals are a major source of foreign currency to the South African economy. Ores and Metals Exports (% of Merchandise Exports) has increased from 10.6% to 36.8% from 2000 to 2021. Government economic recovery plans have placed beneficiation at the centre of masterplans to revive the economy, depending on the availability of adequate energy supply and concomitant implementation.

Government and Regulatory Performance, and Governance

The Central Bank Independence weighted index has remained stable at 0.45. A cause for concern is the increase in government transfers to state-owned entities (SOEs) which has increased from R70.4 billion in 2000 to R530 billion in 2021.

Logistics

One of the key considerations for manufacturing investment is the potential cost advantage of the host economy. Good infrastructure is expected, not only to improve productivity, but to also reduce the cost of doing business. Investors were also more likely to invest in economies that invested in future production capacity, as represented by investment in productive capacity.

The quality of rail, water, electricity, roads and logistics and transport networks remain cause for concern in the South African economy. Based on the Quality of National Public Infrastructure Logistics performance index, South Africa has fallen below 2.3. The scale for Quality of National Public Infrastructure Logistics performance index: 1=low to 5=high.

Environmental Sustainability

Environmental sustainability if not well managed poses a threat to a country's financial, economic and socio-economic position. Greenhouse gases from human activities is the most significant driver of observed climate change since the mid-20th century. Behind the phenomena of global warming and climate change lies the increase in greenhouse gases. The devastating effects of global warming leads to droughts, floods, and other environmental disasters. These occurrences have far reaching adverse impacts on the fiscal position, specifically regarding off-budget and unplanned expenditure items such as contingent liabilities. Contingent liabilities place immense pressure on the debt situation of sovereign states, more especially because the impact of unplanned natural occurrences and disasters are usually financed from off-budget expenditure. Furthermore, the reconstruction and recovery interventions triggered by natural disasters involve budget expenditure outlays which can weaken the fiscal position of a government.

The incorporation of climate change risks, both physical and transition risks, into sovereign credit assessments is of critical importance. Risk possibility that certain industries or natural resources that may now be regarded as a credit-positive sovereign asset would depreciate significantly in value as society moves toward cleaner energy sources, and therefore negatively affect sovereign creditworthiness. Recent global policy actions promoting the green agenda could also speed up such a transition and pose a significant challenge to economies that are less diversified.

The variable included in the modelling framework: climate risk attributed to greenhouse gas emissions. Greenhouse gases as a percentage of Total Emissions in South Africa has averaged 16% from 2000 to 2021.

Macroeconomic Performance

After two consecutive quarters of positive growth, real gross domestic product (GDP) decreased by 0,7% in the second quarter of 2022 (Q2: 2022). The devastating floods in KwaZulu-Natal and load shedding contributed to the decline, weakening an already fragile national economy that had just recovered to pre-pandemic levels. The South African economy has also been dealt a series of harmful blows, including:

- The devastating floods in parts of KwaZulu-Natal, which damaged critical infrastructure and business operations, affecting external trade in the process.

- Very frequent load shedding over prolonged time periods, which has been highly detrimental to the South African economy and society.
- Strike actions in a number of critical sectors, including energy, transportation, and mining.
- Fast-rising prices at the producer and consumer levels, primarily but not exclusively driven by imported inflation, which are affecting the spending capacity and propensity of households and business enterprises.
- More aggressive interest rate hikes as the South African Reserve Bank's (SARB) Monetary Policy Committee seeks to anchor inflation expectations. Consideration for strategies to deal with cost-push inflation may be considered by the Government as SAR views interest hikes to be more suitable for demand-pull inflation.
- Stubbornly high unemployment rates and the low probability of meaningful job creation materialising in the short term.
- Falling business and consumer confidence, as already captured in the respective indices for the second quarter of 2022, with adverse repercussions on spending, production, and investment activity.
- Increased uncertainty over the economy's short-term prospects, with weaker rates of growth now anticipated and a technical recession in 2022 becoming a reasonable possibility.

Figure 1: Main budget primary balance

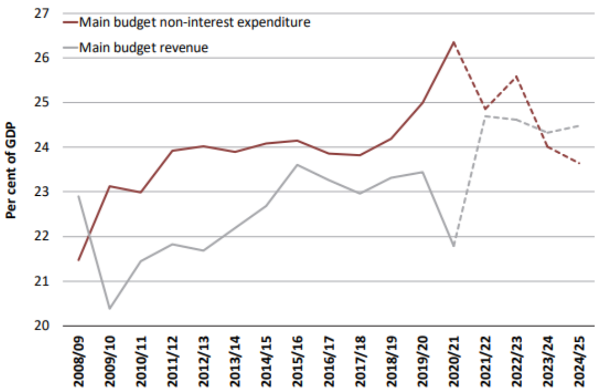
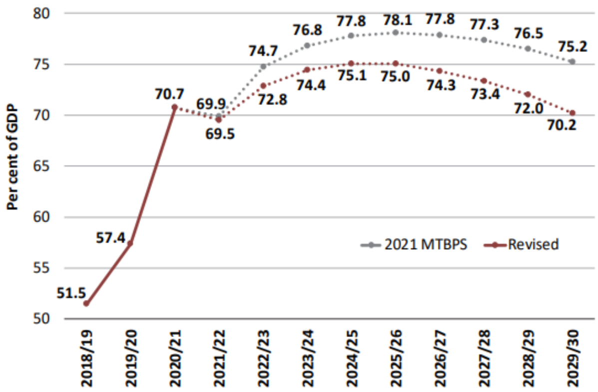


Figure 2: Gross Debt to GDP outlook



Source: National Treasury, 2022

Leading Risk Variables and Indicators

Table 1 below presents a snapshot of some of the leading risk variables and indicators used in the study out of a total of 82 risk determinants/leading risk variables. A cross-section of risk determinants was included such as environmental, natural resource, economic, social, and social risk variables was applied in SAR modelling framework.

Table 1: Economic Indicators / Leading Risk Variables

	2014	2015	2016	2017	2018	2019	2020	2021
Nominal GDP (bil. $)	381	347	324	381	405	388	335	420
Nominal GDP (R millions)	4 133 873	4 420 793	4 759 555	5 078 190	5 357 640	5 605 034	5 521 075	6 206 253
Nominal GDP per Capita (R Values)	75 870	79 917	84 775	89 103	92 600	95 455	92 772	103 211
Real GDP Growth	1,41	1,32	0,66	1,16	1,49	0,11	-6,43	4,91
Real GDP per Capita (R Values)	75 870	9 917	84 775	89 103	92 600	95 455	92 772	103 211
Real Investment Growth	-3,22	4,01	-8,39	2,98	-0,70	-0,41	-24,73	7,80
Investment/GDP	18,30	18,00	17,40	16,40	15,90	15,30	13,70	13,00
Savings/GDP	13,70	14,30	14,30	14,20	13,60	13,40	14,70	16,60
Exports/GDP	29,00	27,71	28,16	27,34	27,49	27,34	27,78	31,11
Real exports Growth	3,65	3,06	0,41	-0,27	2,81	-3,41	-11,95	9,89
Unemployment Rate	24,89	25,15	26,54	27,04	26,91	28,47	29,22	33,56

Table 2: Fiscal Indicators / Leading Risk Variables

	2014	2015	2016	2017	2018	2019	2020	2021
Balance / GDP	-5.3	-4.3	-2.7	-2.4	-3.0	-2.6	2.0	3.7
Primary Balance / GDP	-1.8	-1.5	-1.0	-0.5	-0.9	-0.9	-2.5	-5.7
Revenue / GDP	24.3	24.8	23.8	23.5	23.3	23.6	23.6	22.2
Expenditure / GDP	28.9	29.3	27.7	27.0	27.4	27.8	29.7	32.1
Interest / Revenues	10.12	10.31	11.29	11.33	12.64	13.22	15.22	15.83
Debt / GDP	43.7	46.6	44.9	46.2	48.5	51.5	57.4	70.7
Debt / Revenues	145	148	156	167	176	197	256	236
Net Debt / GDP	37.7	40.1	41.6	44.0	47.0	52.7	64.7	64.9
Liquid Liabilities / GDP	41.75	43.88	43.59	43.98	44.61	45.93	53.23	55.36
Contingent Liabilities (R Millions)	575,317	601,380	664,197	723,400	828,703	1,056,174	1,079,282	1,154,438

Table 3: Monetary Indicators

	2014	2015	2016	2017	2018	2019	2020	2021
CPI Rate	6.13	4.54	6.57	5.18	4.52	4.12	3.21	4.61
GDP Deflator Growth	5.40	5.50	7.00	5.50	4.00	4.50	5.30	7.10
Exchange Rate, year-end (ZAR/$)	10.80	12.80	14.70	13.30	13.20	14.40	16.47	14.79
Claims on Private Sector (annual growth as % of broad money)	6.80	7.90	4.70	4.70	4.60	5.20	1.50	4.30
Banks' claims on resident non-govt sector / GDP	129.17	127.50	124.63	127.24	118.64	118.22	112.00	115.00
Bank Liquid Reserves to Bank Assets Ratio **(%)**	3.45	3.14	3.50	3.46	3.33	3.39	3.20	3.31
Broad Money (% of GDP)	65.24	67.30	66.31	66.14	66.21	67.15	74.60	75.34
Total Reserves (% of total external debt)	34.49	36.79	32.77	29.00	29.66	29.70	32.21	32.53
Real Effective Exchange Rate Index (2010 = 100)	77	75	70	79	81	78	71	77
Gross International Reserves / Money Supply Plus External Debt Service	0.02	0.05	0.20	0.18	0.20	0.19	0.19	1.32
Deposits plus Non-Government Credit / GDP	3.57	3.67	3.28	4.65	5.89	5.38	2.31	2.36

Key Attribute Scoring

Table 4: SAR Methodology - Pillars

Pillars	Pillar Scores
1-Economic and Financial performance	**6**
2-Governmnet and Regulatory Performance, and Governance	**5**
3-Country's outlook and mood	**7**
4-Infrastructure	**6**
5-Technology and Innovation	**7**
6-Crime, Security and Health	**3**
7-Environmental Sustainability	**4**
8-Natural Endowments	**5**

Some of the pillars and attributes' scores were adjusted by varying notches, which are brought on by changes in the underlying economic, financial and policy conditions that they encapsulate, demonstrating SAR's active analytical monitoring process.

The following attributes were notched upwards:

- Economic performance
- Monetary flexibility
- Monetary stability
- Quality of the legal and regulatory environment
- Governance
- Country's global competitiveness
- Work force productivity

- Research and technology outputs
- Resources: natural resources; air; water and minerals
- Optimisations of the natural resources and beneficiation

The following attributes were notched downwards:

- Perceived quality of life
- Standard of living

SAR Sovereign Rating Results For RSA

The table below demonstrates the conversion of SAR's model points into the SAR rating scale. The points are from 0 up to 1000 while the corresponding ratings are from D to AAA. Scores from 500 and above are investment grade while scores lower than 500 are in the speculative grades.

Table 5: Conversion Table

	SAR Tier Grade	Points Allocation			Long Term	Short Term
Investment Grade BBB- & Higher	1-Exceptional (Prime): ≥ 80%	Tier 1: 800+	1	≥800	AAA	A+
	2-Very Good (High Grade):	Tier 2: 700 – 799	2	767 – 799	AA+	
	70%-79%		3	734 – 766	AA	
			4	700 – 733	AA-	
	3-Above Average	Tier 3: 600 – 699	5	667 – 699	A+	A-
	(Upper Medium Grade):		6	634 – 666	A	
	60%-69%		7	600 – 633	A-	
	4-Average	Tier 4: 500 – 599	8	567 – 599	BBB+	B+
	(Low Medium Grade):		9	534 – 566	BBB	
	50%-59		10	500 – 533	BBB-	
Speculative Grade BB+ and lower	5-Below Average:	Tier 5: 400 – 499	11	484 – 499	BB+	B
	(Non-Investment Grade		12	467 – 483	BB	
	Speculative):		13	451 – 466	BB-	
	40% -49%		14	434 – 450	B+	
			15	418 – 433	B	
			16	400 – 417	B-	
	6-Poor	Tier 6: 300 – 399	17	467 – 499	CCC+	C
	(Substantial Risks):		18	434 – 466	CCC	
	31%-39%		19	400 – 433	CCC-	
	7-Very Poor	Tier 7: 200 – 299	20	267 – 299	CC+	
	(Extremely Speculative):		21	234 – 266	CC	
	≤ 16%-30%		25	200 – 233	CC-	
	8-Default: ≤ 15%	Tier 8: 0 – 199	26	0 – 199	D	D

SAR's rating on South Africa in the long term is BBB and in the short term B+ (Average Investment Grade). The Outlook is regarded as stable for both the short and medium term.
This means South Africa is rated at Investment Grade. The BBB rating represents South Africa's adequate repayment capacity in terms of its ability to meet its debt obligations.

Regulatory Disclosures

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Date of initial rating: 23 September 2022
Date of previous rating: Not applicable

Integrity of the Rating Process

- SAR employees comply with all applicable laws and regulations governing their activities in the jurisdictions in which they operate, without exception.
- SAR and its employees will, at all times, deal fairly and honestly with issuers, rated entities, investors, market participants, and the public.
- SAR will hold its employees to high standards of integrity at all times.

Data Sources

In this section, we describe data sources for the pillars and attributes as well as their constituent variables. The data for the rating above were compiled using public information on the leading indicators / risk variables from several prominent local and international institutions. Data from the following institutions was used:

- African Development Bank (ADB).
- International Monetary Fund (IMF).
- National Treasury.
- South African Mineral Council.
- South African Reserve Bank Quarterly Bulletin (SARB), various editions.
- Statistics South Africa (StatsSA).
- World Bank: World Development Indicators
- World Economic Forum.
- World Economic Outlook (Database).

SAR determines its Sovereign Risk Scores by making use of publicly available quantitative data.

Methodology Reviews

SAR endeavours to continuously improve its methodologies, therefore SAR will regularly review its methodologies and publish them for public comments. Such changes can include the addition or removal of indicators, editorial changes, model calculations, variable weights, and the mapping of risk scores to the final risk categories.

SAR also consults external experts to review its models and comments are considered. SAR will reflect any changes in future versions of its methodologies which are made available on www.saratings.com.

Disclaimers

No part of this rating was influenced by any other Sovereign Africa Ratings business activities. The rating committee determined this rating based solely on its independent assessment of the credit risks and merits of the issuer or issue being rated in accordance with Sovereign Africa Ratings published methodology.

This credit rating is unsolicited. The entity that was rated did take not part in the credit rating process. Sovereign Africa Ratings did not have access to the rated entity's or a connected third party's non-public papers. Sovereign Africa Ratings has used data from sources it considers to be dependable, but it cannot guarantee the correctness or sufficiency of any data used.

The rated entity or connected third party was informed of this credit rating before it was issued.

The SAR rating framework is based on a transparent methodology for measuring a sovereign’s credit risk. SAR’s assessment of a sovereign’s creditworthiness is derived based on quantitative and qualitative approaches. The ratings process is to a large extent based on analytic models and uses publicly available data and issuer-provided data where available.

Glossary of Terms

Agent	Anyone representing a Rated Entity or a Rated Entity agent, whether an individual or a group.
CRA	Credit Rating Agency
Credit Rating	A Credit Rating is an opinion made by a CRA based on a predetermined ranking system of rating categories regarding the creditworthiness of an entity, a debt or financial obligation, debt security, preferred share, or other financial instrument, or of the issuer of such a debt or financial obligation, debt security, preferred share, or other financial instrument.
Credit Rating Action	Any of the following is a credit rating action: 1. the process through which a credit rating is given to a rated entity or obligation, including credit ratings given during a subsequent rating process. 2. When relevant conditions are thought to have been satisfied in the anticipated ratings process, a provisional note is removed from a credit rating. 3. a change to a credit rating (i.e., upgrade or downgrade). 4. placing a credit rating under review, reconfiguring an active review, or removing a credit rating from review (i.e., Credit Rating Confirmation). 5. the assignment of, or modification of, an Outlook linked to a Rated Entity or several Credit Ratings. 6. a Credit Rating Affirmation. 7. a Credit Rating Withdrawal.
Current account balance	Exports of goods and services minus imports of the same plus net factor income plus official and private net transfers.
Employee(s)	An Employee is any full-time or part-time employee of SAR or any of its subsidiaries and associated companies.
Foreign Direct Investment (FDI)	Direct investment conducted by non-residents.
Gross domestic product (GDP)	Total market value of goods and services produced by resident factors of production.
GDP per capita	GDP divided by population.
Issuer	Issuer is any entity that issues debt, a credit commitment, debt-like obligations, or securities. Examples of such entities include special purpose vehicles, companies, governments, and local governments.
Lead Rating Analyst (Lead Analyst)	Lead Rating Analyst is a term used to describe an analyst who is primarily responsible for providing details about a credit rating and/or for communicating with the issuer(s) regarding a specific credit rating or regarding the credit rating of a financial instrument issued by that issuer, as well as, when appropriate, for creating recommendations for the rating committee in relation to that credit rating.
Manager(s)	Manager(s) are employees who oversee managing personnel.
Net general government debt	General government debt minus general government liquid financial assets.
Net external liabilities	Total public- and private-sector liabilities to non-residents minus total external assets.

Outlook	An Outlook is an opinion regarding the likely path of an issuer's rating could take over the medium term.
Prohibited Recommendation	Any proposals or recommendations made either formally or informally, regarding the design of financial instruments on which a CRA is envisioned to issue a Credit Rating may be made by an employee to a Rated Entity or its Agent to improve the Rated Entity's rating. This includes suggestions about the Rated Entity's corporate or legal structure, assets, liabilities, or activities.
Rated Entity (ies)	A Rated Entity is any entity rated by a Credit Rating Agency (CRA)
Review	A review is an indication that a rating may be changing in the not-too-distant future.
SAR	Sovereign Africa Rating (Pty) Ltd is authorised to conduct business as a credit rating agency as per the Credit Ratings Services Act of 2012 of the Republic of South Africa.
Special Drawing Rights (SDR)	The SDR is an international reserve asset, created by the International Monetary Fund in 1969 to supplement its member countries' official reserves.
Security	Security refers to any type of financial instrument, including stocks, bonds, debentures, notes, options, equity securities, convertible securities, warrants, derivative securities (Derivative), and warrants.
Subsequent Ratings Process	Ratings after that Process is the process of determining the Credit Ratings to be assigned (together with the related outlook or review status, if applicable) solely based on the Credit Ratings of a programme, series category/class of debt, or principal Rated Entity that already exist.