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Research Update:

South Africa Long-Term Local Currency Rating Lowered To 'BBB'; Foreign Currency Ratings Affirmed; Outlook Still Negative

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Overview

- South Africa continues to depend on resident and nonresident purchases of rand-denominated local currency debt to finance its fiscal and external deficits. Its financing needs have risen beyond our previous expectations, with general government debt set to increase by an average of 4.9% of GDP over 2016-2018, to reach gross debt of 54% of GDP in 2019. The proportion of rand in global foreign exchange turnover has also declined to just below 1% on average over the past three years.
- We also believe political events have distracted from growth-enhancing reforms, while low GDP growth continues to affect South Africa’s economic and fiscal performance and overall debt stock.
- We are therefore lowering our long-term local currency rating on South Africa to 'BBB'. We are affirming all other ratings.
- The negative outlook reflects the potentially adverse consequences of persistently low GDP growth for the public balance sheet.

Rating Action

On Dec. 2, 2016, S&P Global Ratings lowered the long-term local currency rating on the Republic of South Africa to 'BBB' from 'BBB+' and affirmed the 'A-2' short-term local currency ratings. We affirmed the long-and short-term foreign currency ratings at 'BBB-/A-3'. The outlook on the long-term ratings remains negative.

At the same time, we affirmed the 'zaAAA/zaA-1' South Africa national scale ratings.

Rationale

We have lowered the long-term local currency ratings on South Africa because its fiscal financing needs are increasing beyond our previous base-case expectations, while the proportion of rand turnover in the global foreign exchange market has declined over the last three years.

South Africa continues to depend on resident and non-resident purchases of rand-denominated local currency debt to finance its fiscal and external deficits. Its financing needs have increased beyond our previous base case, with general government debt set to increase by an average of 4.9% of GDP over 2016-2018, compared to our previous estimate of 4.1% for the same period. The proportion of rand in global foreign exchange turnover has also declined to just below 1% on average over the past three years. More broadly, we believe political events have distracted from growth-enhancing reforms and persistently low GDP growth continues to dampen per capital wealth levels and the country's fiscal performance.

Nevertheless, the ratings on South Africa reflect our view of the country's large and active local currency fixed-income market, as well as the authorities' commitment to gradual fiscal consolidation. We also note that South Africa's institutions, such as the judiciary, remain strong while the South Africa Reserve Bank (SARB) maintains an independent monetary policy.

South Africa’s pace of economic growth remains a ratings weakness. It continues to be negative on a per capita GDP basis. While the government has identified important reforms and supply bottlenecks in South Africa’s highly concentrated economy, delivery has been piecemeal, in our opinion. The country’s longstanding skills shortage and adverse terms of trade also explain poor growth outcomes, as does the corporate sector’s current preference to delay private investment, despite high margins and large cash positions.

We have marginally revised down our real GDP growth assumptions for South Africa to 0.5% for 2016 and 1.4% for 2017 (last June we forecast 0.6% for 2016 and 1.5% for 2017). Our revised projections are contingent on global growth, and, in particular, South Africa’s terms of trade. The economy remains directly and indirectly linked to demand for commodities, especially from China. We estimate that real GDP per capita will stand at US$5,300 in 2017.

While we believe the electricity sector has improved--with no load shedding since winter 2015 reflecting new capacity and lower demand--delivery on labor and mining sector reforms and other planned growth-enhancing measures continues to be slow. We think the government will soon enact the Mining and Petroleum Resources and Development Amendment Bill (MPRDA), which parliament recently passed into law. However, the mining charter is still under discussion and may drag over the next year.

The government has set up a commission into minimum wages, which has provided a starting point for negotiations with business and labor unions. Other implemented labor measures have given more power to labor tribunals to resolve disputes. Other matters, such as secret balloting, have been cascaded to labor unions to amend their individual constitutions. Nevertheless, prolonged and damaging strikes are likely to be curtailed over the next two to three years because the gold and platinum sectors signed multiyear wage agreements, which are likely to keep strikes to a minimum.

South Africa has a strong democracy with independent media and reporting. We also believe it will maintain institutional strength, particularly regarding the judiciary, which provides checks and balances and accountability where the executive and legislature has appeared less willing to do so.

That said, political tensions are still high. The former finance minister, Nhlanhla Nene, was removed from office on Dec. 9, 2015; the Constitutional Court ruled against President Jacob Zuma on March 31, 2016; and the ANC lost some of the key cities (Johannesburg, and Tshwane [Pretoria]) in the Aug. 3 municipal elections. Furthermore, the National Prosecuting Authority pursued fraud charges against the current finance minister, Pravin Gordhan, and other former SARS employees in October

2016, before dropping them in the same month, and a North Gauteng High Court ruling led to the publication of the “State of Capture” report, which sheds light on alleged corruption between private individuals and public office bearers. We believe that against this backdrop, tensions and contestations are increasing in the run up to the ANC’s December 2017 elective conference. We think that ongoing continued tensions and the potential for event risk could weigh on investor confidence and exchange rates, and potentially affect government policy direction.

South Africa’s gross external financing needs are large, averaging over 100% of current account receipts (CARs) plus useable reserves. However, they are declining because the current account deficit is narrowing. The trade deficit is declining on the lower price of oil (which constitutes about one-fifth of South Africa's imports); weak domestic demand; and a notable increase in exports from the mining and manufacturing sectors and a slower pace of increase in imports.

We believe sustained real exports growth is likely to be slow over 2016-2019 on persistent supply side constraints to production. Import growth will be compressed, amid currency weakness and the subdued domestic economy. Therefore, we estimate current account deficits will average below 4% of GDP (or 11% of CARs) over 2016-2019. However, South Africa funds part of its current account deficits with portfolio and other investment flows, which can be volatile. Such volatilities could result from global changes in risk appetite; foreign investors reappraising prospective returns in the event of growth or policy slippage in South Africa; or rising interest rates in developed markets. We also observe that the proportion of rand in global foreign exchange transactions has fallen below 1% over the past few years. A few anticipated large FDI transactions should help reduce the share of debt financing as a percentage of South Africa’s net external deficit over the next few years.

Since 2015, South Africa’s net external asset position has been benefiting from a weaker currency (valuation effects) given that some external liabilities to non-residents are denominated in local currency. We expect external debt net of liquid assets will average below 50% of CARs over 2016-2019, and the banking sector will remain in a net asset position.

Despite the weak economic environment constraining tax revenue collections, we believe the government remains committed to a fiscal consolidation path over the medium term through expenditure and revenue adjustments. On the expenditure side, the nominal expenditure ceiling provides an anchor and limit to overall government spending. While tight, it can accommodate unforeseen expenditure pressures within the existing framework. On the revenue side, treasury tax collection targets have often performed better than suggested by nominal GDP growth, pointing to tax buoyancy that is somewhat resilient to weaker economic growth trends. Nevertheless, the treasury's annual change in general government debt in the past has tended to be higher than the reported deficit by at least 1% of GDP in the past five years. Therefore, we project the annual change in general government debt will average at 4.9% of GDP over 2016-2018. The government has delayed for two decades plans to finance and build nuclear power plants, which could have negatively impacted the fiscal metrics.

General government debt, net of liquid assets, increased to around 45% of GDP in 2015 from about 30% in 2010, and we expect it will stabilize at around 49% of GDP only in 2018-2019. Although less than one-tenth of the government's debt stock is denominated in foreign currency, nonresidents hold about 35% of the government's rand-denominated debt, which could make financing costs vulnerable to foreign investor sentiment, exchange rate fluctuations, and rises in developed market interest rates. We project interest expense will remain at about 11% of government revenues this year.

We currently view South Africa's contingent liabilities as limited. Nevertheless, in our view, the government faces risks from non-financial public enterprises with weak balance sheets, which may require more government support than we currently assume. ESKOM (BB/Negative/--) benefits from a government guarantee framework of South African rand (ZAR) 350 billion (US$25 billion)--about 9% of 2016 GDP. ESKOM has used approximately ZAR190 billion of this guarantee amount to date. Over the last year, the government has given ESKOM support in the form of a ZAR23 billion equity injection, and converting a ZAR60 billion loan to equity to boost the firm's capital. Other state-owned entities that we think could pose a risk to the fiscal outlook include national road agency Sanral (not rated), which is reported to have revenue collection challenges with its Gauteng tolling system, and South African Airways (not rated), which may be unable to obtain financing without additional government support. As part of governance reforms, a new board was established to help turn the airline around. However, broader reforms to state owned enterprises are still under discussion and we do not expect implementation in the near term.

South Africa continues to pursue a floating exchange rate regime. The SARB (the central bank) does not have exchange rate targets and does not defend any particular exchange rate level. We assess the SARB as being operationally independent and its policies as credible. It uses an inflation-targeting framework for its monetary policy. The bank also uses open market operations to manage liquidity, including sterilizing its purchases of foreign exchange inflows. The repurchase (repo) rate is the bank's most important monetary policy instrument.

Despite lower oil prices, a weaker exchange rate and higher electricity prices have increased inflationary pressures. The central bank expects inflation to remain higher than its 3%-6% target range in 2016 and early 2017 while these transitory shocks dissipate. The SARB has tightened by 75 basis points (bps) of cumulative hikes in 2016. Domestic capital markets are well developed, in our view, with depository corporation claims on residents' nongovernment sector accounting for about 80% of GDP. Local currency debt market capitalization (dominated by government bonds) accounts for 60% of GDP.

The South African banking sector’s performance has remained reasonably strong. Key financial metrics improved across the board domestically, returns on equity improved to 17.1% in August 2016 from 16.5% one year earlier, and over the same period capital adequacy improved to 12.2% from 11.0%. This can be partly attributed to the positive endowment effect from higher interest rates but also improving cost controls and lower risk costs.

South Africa remains a middle-income country with a diversified economy and wide income disparities. The ratings are supported by our assumption that South Africa will experience continued broad political institutional stability and macroeconomic policy continuity. We also take into account our view that South Africa will maintain fairly strong and transparent political institutions and deep financial markets. The ratings are constrained by the need for further reforms, low GDP growth, volatile sources of financing, structural current account deficits, and sizable general government debt.

Outlook

The negative outlook reflects the potential adverse consequences of persistently low GDP growth on the public balance sheet, in the next one to two years.

We could lower the ratings if GDP growth or the fiscal trajectory does not improve in line with our current expectations, for example if South Africa enters a recession in 2017 or wealth levels continue to decline in U.S. dollar terms. We could also lower the ratings if we believed that institutions had become weaker due to political interference affecting the government's policy framework. Downward rating pressure would also mount if net general government debt and contingent liabilities related to financially weak government-related entities exceeded our current expectations. A reduction in fiscal flexibility may also lead us to further narrow the gap between the local and foreign currency ratings.

We could revise our outlook to stable if we observed policy implementation leading to improving business confidence and increasing private sector investment, and ultimately contributing to higher GDP growth and improving fiscal dynamics.

Key Statistics

Table 1

Republic of South Africa Selected Indicators

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
ECONOMIC INDICATORS (%)										
Nominal GDP (bil. ZAR)	2,748	3,022	3,245	3,539	3,796	4,038	4,300	4,600	4,959	5,361
Nominal GDP (bil. $)	375	416	395	367	350	316	287	301	314	339
GDP per capita (000s $)	7.4	8.1	7.5	6.9	6.5	5.8	5.1	5.3	5.5	5.8
Real GDP growth	3.0	2.9	2.5	2.8	1.7	1.2	0.5	1.4	1.8	2.1
Real GDP per capita growth	1.5	1.4	1.0	1.2	0.1	(0.5)	(1.0)	(0.1)	0.3	0.6
Real investment growth	(3.9)	5.5	2.6	7.0	1.5	2.5	(3.1)	1.3	2.2	1.5
Investment/GDP	19.5	19.7	20.0	21.1	20.8	20.6	19.4	19.2	19.4	19.2
Savings/GDP	18.0	17.5	14.9	15.2	15.5	16.3	15.6	15.8	15.8	15.7
Exports/GDP	28.6	30.5	29.8	30.9	31.3	30.5	30.3	30.8	31.3	31.9
Real exports growth	7.7	3.5	0.8	3.6	3.3	4.1	0.6	3.0	3.6	3.8
Unemployment rate	24.9	24.7	24.9	24.7	25.1	25.4	26.1	26.2	26.0	25.9

Table 1

Republic of South Africa Selected Indicators (cont.)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
EXTERNAL INDICATORS (%)										
Current account balance/GDP	(1.5)	(2.2)	(5.1)	(5.9)	(5.3)	(4.3)	(3.8)	(3.5)	(3.6)	(3.4)
Current account balance/CARs	(5.0)	(7.0)	(16.4)	(18.0)	(15.9)	(13.1)	(11.4)	(10.4)	(10.6)	(10.0)
CARs/GDP	29.9	31.7	31.3	32.7	33.5	33.0	33.0	33.4	33.9	34.3
Trade balance/GDP	2.2	1.6	(1.1)	(2.1)	(1.7)	(0.9)	(0.3)	(0.3)	(0.5)	(0.4)
Net FDI/GDP	1.0	1.1	0.4	0.5	(0.5)	(1.1)	1.0	(0.3)	(0.3)	(0.3)
Net portfolio equity inflow/GDP	0.7	(2.1)	(0.8)	(0.1)	0.3	1.5	1.3	1.3	1.3	1.3
Gross external financing needs/CARs plus usable reserves	98.9	100.7	104.5	109.6	107.5	110.2	106.5	103.1	103.2	103.0
Narrow net external debt/CARs	1.4	3.7	21.5	19.0	26.5	24.1	31.3	31.4	30.8	28.8
Net external liabilities/CARs	84.0	31.2	42.7	11.1	20.3	(0.7)	(3.8)	0.9	0.7	5.4
Short-term external debt by remaining maturity/CARs	28.9	27.1	29.4	37.9	37.2	48.9	47.5	41.1	38.6	35.0
Reserves/CAPs (months)	4.0	3.7	4.1	4.3	4.4	5.0	5.3	5.1	4.8	4.4
Reserves (mil. $)	43,839	48,923	50,688	49,696	49,094	46,593	47,200	47,501	47,501	47,161
FISCAL INDICATORS (%, General government)										
Balance/GDP	(4.3)	(3.7)	(4.2)	(3.8)	(3.6)	(3.8)	(3.5)	(3.2)	(2.8)	(2.6)
Change in debt/GDP	6.8	6.5	5.5	6.2	5.6	5.4	5.1	5.0	4.5	3.3
Primary balance/GDP	(1.9)	(1.1)	(1.5)	(1.0)	(0.6)	(0.6)	(0.1)	0.4	0.8	1.1
Revenue/GDP	27.8	27.9	28.0	28.5	29.0	30.2	30.3	30.6	31.0	31.5
Expenditures/GDP	32.0	31.5	32.2	32.3	32.6	34.0	33.8	33.8	33.8	34.1
Interest /revenues	8.7	9.1	9.7	10.0	10.4	10.5	11.4	11.6	11.8	11.7
Debt/GDP	36.0	39.3	42.1	44.8	47.4	50.0	52.0	53.6	54.2	53.5
Debt/Revenue	129.8	141.0	150.5	157.2	163.5	165.4	172.0	175.3	174.9	169.9
Net debt/GDP	29.9	32.7	36.4	39.6	42.4	45.1	47.2	48.5	49.0	49.1
Liquid assets/GDP	6.2	6.6	5.7	5.2	5.0	4.9	4.9	5.2	5.3	4.4
MONETARY INDICATORS (%)										
CPI growth	4.3	5.0	5.6	5.7	6.1	4.6	6.3	5.7	5.4	5.4
GDP deflator growth	6.4	6.8	4.7	6.0	5.5	5.1	6.0	5.5	5.9	5.9
Exchange rate, year-end (ZAR/$)	6.63	8.14	8.50	10.49	11.58	15.55	15.00	15.60	16.00	16.00
Banks' claims on resident non-gov't sector growth	6.1	5.6	10.6	6.0	9.0	11.0	8.0	8.0	8.0	8.0
Banks' claims on resident non-gov't sector/GDP	78.7	75.6	77.9	75.7	76.9	80.2	81.4	82.1	82.3	82.2
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	2.5	2.8	3.5	3.9	4.6	5.9	4.0	4.0	4.0	4.0
Real effective exchange rate growth	15.5	(2.1)	(5.4)	(10.5)	(6.3)	(0.6)	N/A	N/A	N/A	N/A

Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid assets held by nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Republic of South Africa Ratings Score Snapshot

Key rating factors	
Institutional assessment	Neutral
Economic assessment	Weakness
External assessment	Neutral
Fiscal assessment: flexibility and performance	Weakness
Fiscal assessment: debt burden	Neutral
Monetary assessment	Strength

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). Section V.B of S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 23, 2014, summarizes how the various factors are combined to derive the sovereign foreign currency rating, while section V.C details how the scores are derived. The ratings score snapshot summarizes whether we consider that the individual rating factors listed in our methodology constitute a strength or a weakness to the sovereign credit profile, or whether we consider them to be neutral. The concepts of "strength", "neutral", or "weakness" are absolute, rather than in relation to sovereigns in a given rating category. Therefore, highly rated sovereigns will typically display more strengths, and lower rated sovereigns more weaknesses. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in assessment of the aforementioned factors does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the assessments.

Related Criteria And Research

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 01, 2016
- Criteria - Governments - Sovereigns: Sovereign Rating Methodology - December 23, 2014
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers - May 07, 2013
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments - May 18, 2009

Related Research

- Sovereign Risk Indicators - Oct. 13, 2016. An interactive version is available at http://www.spratings.com/SRI

- Default, Transition, and Recovery: 2015 Annual Sovereign Default Study And Rating Transitions - May 24, 2016

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision. After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee agreed that all key rating factors were unchanged.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria and Research').

Ratings List

	Rating	
	To	From
South Africa (Republic of)		
Sovereign Credit Rating		
Foreign Currency	BBB-/Negative/A-3	BBB-/Negative/A-3
Local Currency	BBB/Negative/A-2	BBB+/Negative/A-2
South Africa National Scale	zaAAA/--/zaA-1	zaAAA/--/zaA-1
Transfer & Convertibility Assessment	BBB+	BBB+
Senior Unsecured		
Foreign Currency	BBB-	BBB-
Local Currency	BBB	BBB+
Short-Term Debt		
Foreign Currency	A-3	A-3

Ratings List Continued...

Republic of South Africa Sukuk No. 1 Trust		
Senior Unsecured		
Foreign Currency	BBB-	BBB-

Regulatory Disclosures

- Primary credit analyst: Gardner Rusike, Associate Director
- Rating committee chairperson: Moritz Kraemer, PhD
- Date initial rating assigned: Oct. 3, 1994
- Date of previous review: June 3, 2016

Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings' published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

This credit rating is solicited. The rated entity participated in the credit rating process. S&P Global Ratings had access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

Glossary

- Consumer price index: Index of prices of a representative set of consumer goods regularly bought by a typical household.
- Contingent liabilities: Obligations that have the potential to become government debt, or affect a government’s credit standing if they materialize.
- Current account balance: Exports of goods and services minus imports of the same plus net factor income plus official and private net transfers.
- Current account receipts (CARs): Proceeds from exports of goods and services plus factor income earned by residents from nonresidents plus official and private transfers to residents from nonresidents.
- Date initial rating assigned: The date S&P Global Ratings assigned the long-term foreign currency issuer credit rating on the entity.
- Date of previous review: The date S&P Global Ratings last reviewed the credit rating on the entity.
- Debt burden assessment: Reflects a sovereign's prospective debt level, as indicated by the general government debt relative to GDP (including assessment of contingent liabilities), the interest cost of the debt relative to general government revenue, and debt structure and funding access.
- Depository corporation claims: Claims from resident depository corporations

(excluding those of the central bank) on the resident nongovernment sector.

- Economic assessment: Based on the analysis of economic structure and growth prospects. Reflects income levels (GDP per capita), economic growth prospects, and economic diversity and volatility.
- External assessment: Based on the analysis of external liquidity and international investment position as well as the status of a sovereign's currency in international transactions. Reflects a country's ability to obtain funds from abroad necessary to meet its public- and private-sector obligations to nonresidents.
- Fiscal performance and flexibility assessment: Reflects the sustainability of sovereign's fiscal deficits. Based on the prospective change in general government debt, calculated as a percentage of GDP, taking into account long-term trends and a government's fiscal flexibility and vulnerabilities.
- Foreign direct investment (FDI): Direct investment by nonresidents.
- GDP per capita: GDP divided by population.
- General government: Aggregate of the national, regional, and local government sectors, including social security and other defined benefit public-sector pension systems, and excluding intergovernmental transactions.
- General government debt: Debt incurred by national, regional, and local governments and central bank debt.
- General government interest: Interest payments on general government debt.
- General government liquid financial assets: General government deposits in financial institutions (unless the deposits are a source of support to the recipient institution), widely traded securities, plus minority arms-length holdings of incorporated enterprises that are widely traded plus balances of defined-benefit government-run pension plans or social security funds (or stabilization or other freely available funds) that are held in bank deposits, widely traded securities, or other liquid forms.
- Gross domestic product (GDP): Total market value of goods and services produced by resident factors of production.
- Gross external financing needs: Current account payments plus short-term external debt at the end of the prior year, including nonresident deposits at the end of the prior year plus long-term external debt maturing within the year.
- Institutional assessment: An analysis of how a government's institutions and policymaking affect a sovereign's credit fundamentals by delivering sustainable public finances, promoting balanced economic growth, and responding to economic or political shocks. Reflects the effectiveness, stability, and predictability of the sovereign's policymaking and political institutions; transparency and accountability of institutions, data, and processes; the sovereign's debt payment culture; and security risks.
- Monetary base: Local currency in circulation plus the monetary authority's local currency liabilities to other depository corporations.
- Monetary assessment: The extent to which a sovereign's monetary authority can fulfil its mandate while supporting sustainable economic growth and attenuating major economic or financial shocks. Based on the analysis of the sovereign's ability to coordinate monetary policy with fiscal and other economic policies to support sustainable economic growth; the credibility of monetary policy, and the effectiveness of market-oriented monetary mechanisms.
- Narrow net external debt: Stock of foreign and local currency public- and private-sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial sector loans to, deposits with, or investments in nonresident entities.

- Net general government debt: General government debt minus general government liquid financial assets.
- Net external liabilities: Total public- and private-sector liabilities to nonresidents minus total external assets.
- Official reserves: Monetary authority liquid claims in foreign currency (including gold) on nonresidents.
- Real GDP per capita: Constant-price per capita GDP.
- Terms of trade: Price of goods exports relative to price of goods imports.
- Usable reserves: Official reserves minus items not readily available for foreign exchange operations and repayment of external debt.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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