Research Update:

South Africa Ratings Lowered To 'BB-' From 'BB' As COVID-19 Further Impairs Fiscal And Growth Prospects; Outlook Stable

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Overview

- COVID-19-related pressures will have significant adverse implications for South Africa's already deficient growth and fiscal outcomes.
- Its fiscal deficits will remain elevated, and the cost of servicing rising public debt will increase to about 6.5% of GDP by 2023.
- In addition, contingent liabilities from state-owned enterprises constitute a significant additional risk to the public balance sheet.
- We have lowered our long-term foreign-currency rating on South Africa to 'BB-' and our long-term local-currency rating to 'BB'.
- The outlook on both the foreign- and local-currency ratings is stable, as South Africa's credit strengths--particularly a credible and consistent central bank, a flexible actively traded currency, and deep capital markets--should facilitate a gradual, albeit painful, external and fiscal adjustment.

Rating Action

On April 29, 2020, S&P Global Ratings lowered its long-term foreign-currency sovereign credit rating on the Republic of South Africa to 'BB-' from 'BB' and affirmed the 'B' short-term foreign-currency sovereign credit rating. The outlook is stable.

At the same time, the long-term local-currency sovereign credit rating was lowered to 'BB' from 'BB+', and the 'B' short-term local-currency sovereign credit rating was affirmed. The outlook is stable.

We maintained the long-term South Africa national-scale rating at 'zaAAA' and affirmed the 'zaA-1+' short-term national-scale rating alongside a re-calibration of the national-scale rating scale.

We revised our transfer and convertibility assessment for South Africa to 'BB+' from 'BBB-'.

As a "sovereign rating" (as defined in EU CRA Regulation 1060/2009 "EU CRA Regulation"), the ratings on South Africa are subject to certain publication restrictions set out in Art 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Calendar Of 2020 EMEA Sovereign, Regional, And Local Government Rating Publication Dates," published Dec. 20, 2019, on RatingsDirect). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In this case, the reason for the deviation is the rapidly worsening global and domestic economic conditions related to the evolving COVID-19 health crisis. The next scheduled publication on the sovereign rating on South Africa will be on May 22, 2020.

Outlook

The stable outlook reflects the balance between pressures related to very low GDP growth and high fiscal deficits, against the sovereign's deep financial markets and monetary flexibility.

Downside scenario

We could lower the ratings again if South Africa's economic prospects fail to recover during the forecast period and financing pressures mount. We could also consider another downgrade if the rule of law, property rights, or enforcement of contracts were to weaken significantly, undermining the investment and economic outlook.

Upside scenario

We could raise the ratings if the government's reform efforts were to credibly arrest the rise in the government debt-to-GDP ratio. An upgrade could also occur if there is a substantial improvement in job creation and productivity gains, leading to higher real per capita GDP growth.

Rationale

South Africa's already contracting economy will face a further sharp COVID-19-related downturn in 2020. In the second half of 2019, the economy shrank, due partly to a set of severe rolling power blackouts. The COVID-19 health crisis will create additional and even more substantial headwinds to GDP growth, owing to a strict five-week domestic lockdown, the markedly weaker external demand outlook, and tighter credit conditions. As a result, we now project the economy to shrink by 4.5% this year compared with our November 2019 estimate of growth of 1.6%.

A proactive policy response, including South Africa's decision to go into a strict lockdown relatively early, has so far limited the health impact of COVID-19. Early gains in tackling the virus will be built upon, with the gradual phased reopening of the economy next month. Nevertheless, the broader economic fallout will be very difficult to handle, and South Africa entered the crisis from a weak fiscal and economic position.

On April 21, President Ramaphosa unveiled a large COVID-19-related social-relief and economic-support package totaling about 500 billion South African rand (ZAR), which is about 10% of GDP. However, the additional direct financing impact of the new expenditure measures are closer to ZAR170 billion (3.4% of GDP), while ZAR130 billion constitute reallocations from existing,

already budgeted, expenditures. There is ZAR200 billion allocated via government guarantees for a loan scheme, which will require no immediate government spending, though it will add to the government's already material contingent liability risks.

The extraordinary package will be partially financed through the issuance of concessional debt from international financial institutions (IFIs). This includes about $4.2 billion (ZAR80 billion) that we believe South Africa can access under the IMF's emergency (COVID-19-related) Rapid Funding Facility. We expect further funds could be sourced from other IFIs, including the New Development Bank (the BRICS Development Bank), the AfDB, and the World Bank. In addition, authorities are planning to tap about ZAR40 billion from the Unemployment Insurance Fund (UIF), which had investments worth ZAR165 billion at the time of its last audited statements dated March 2019. We expect any residual funding gap will likely be financed through domestic rand-denominated debt issuance. Moreover, the Treasury has several deposits at the central bank that could be used if there are any issuance concerns, though any drawdown on an US$8 billion dollar-denominated deposit would lead to lower gross international reserves, negatively affecting external buffers.

Authorities are aiming to source much of the COVID-19-related health and social expenditures through re-prioritizations of expenditures from areas such as travel, training, and events. In our view, this could prove overly ambitious if the virus spread worsens or there is a second wave of infections. In addition, a significant planned saving in the 2020/2021 budget was a politically contentious reduction in public-sector wage hikes, which is estimated to save ZAR160 billion but is being challenged by powerful unions.

The appreciably weaker macroeconomic environment will also weigh heavily on South Africa's fiscal revenues. We expect its headline fiscal deficit will widen to 13.3% of GDP in 2020--the widest in the country's democratic history. We estimate this will lead to net debt levels rising to over 75% of GDP by the end of 2020. Our anticipation of an only tepid economic recovery means that public financing needs will likely remain elevated throughout the forecast period. As a result, the debt-to-GDP ratio is unlikely to stabilize within this timeframe, rising to 84.7% by 2023, raising questions around debt sustainability. Another legacy of the COVID-19 shock will likely be a far higher annual interest bill. By 2023, we project that interest expenditures consume an even larger share of public resources, increasing to 6.5% of GDP (22% of total government revenues) versus 4.1% of GDP (14% of total revenues) last year.

Year-to-date capital flight out of emerging market assets has been particularly acute in South Africa, which has been reliant on nonresident portfolio investors to fund its current account deficits. The outflows have led to the rand losing about a quarter of its value this year, one of the largest moves of any major emerging market currency.

As an energy importer, the drop in oil prices will ease some external pressure, but this will be roughly offset by the lockdown-induced closure of the export sector, including most mines. Overall, on the back of a timely depreciation in South Africa's real effective exchange rate as well as weak growth, we expect the current account will narrow sharply this year to negative 1% of GDP this year and average negative 2.2% in 2020-2023. However, interest paid to nonresident holders of domestic government debt are set to rise to about $10.2 billion (3.3% of GDP) by 2023 from $8.0 billion (2.3% of GDP) last year.

Nonresident participation in South African capital markets is foremost in local-currency government debt, and the limited foreign-currency public obligations remain a credit strength. This means the outflows will mechanically lower the stock of external debt owed by South African residents vis-à-vis nonresidents. However, because we measure external indebtedness by netting out liquid central bank reserves and scaling by current account receipts (CAR), the fall in both of these will more than offset the former effect. We project narrow net external debt will worsen to 75% of CAR by the end of 2020 before plateauing to an average of 71.5% over 2021-2023.

South Africa's external assets (stock of assets) are overwhelmingly denominated in foreign currencies, whereas its external liabilities are predominantly denominated in rand. Therefore, a weakening rand improves South Africa's net external creditor position relative to the rest of the world. South Africa's largest claim on nonresidents is its outbound direct investment, which is equivalent to 131% of GDP. The return on South Africa's investment in companies abroad largely offsets the foreign-currency payments the government makes to nonresident holders of its domestic debt, and on balance, South Africa is forecast to maintain a small net external asset position of 10% of current account receipts by 2023.

The recent portfolio outflows and other pressures have led to a pronounced steepening of the domestic yield curve, which threatens to tighten domestic credit conditions to the wider economy and further drag on growth. The scale of the selloff was large enough to prompt central bank intervention in late March, whereby the South African Reserve Bank (SARB) committed to an open-ended program of government bond buying in the secondary market to "provide liquidity and promote the smooth functioning of domestic financial markets." The program has been broadly successful and is modest in size compared to the deep domestic local-currency bond market. South Africa's creditworthiness continues to enjoy considerable support from its central bank, which we assess as highly credible and independent.

Dramatically lower oil prices in 2020 and lower inflationary pressures have also given the SARB room to make series of sizeable rate cuts, which have totaled 225 basis points so far this year. In combination with a set of temporary capital-relief measures implemented by the Prudential Authority, this will ease some of the credit pressures, at the margin. Flexibility to delay payroll taxes will also provide some near-term liquidity to struggling firms. Nonetheless, these will not be sufficient to offset the cumbersome demand and supply shock.

Contingent liabilities are more likely to require government financing in 2020, owing to the broad-based slowdown across most sectors of the economy, which could add pressure to the fiscal balances. Stress is most extreme at South African Airways (SAA), which was already restructuring and appears unlikely to survive without new cash injections, in our opinion. Nonetheless, we do not project any new government financing to the entity beyond servicing its relatively small government-guaranteed obligations, which we already include within general government debt. State-owned utility company ESKOM will likely face near-term liquidity challenges in light of lower energy demand throughout the lockdown. We continue to view the already sizable pre-existing support package for Eskom as insufficient to meet remaining fiscal-year funding requirements.

We estimate South Africa's GDP per capita at close to US$4,800 in 2020, a sharp fall from about US$6,000 in 2019. Real GDP per capita has been shrinking since 2014, exacerbated by the depreciation of the rand. Despite considerable progress on alleviating poverty since the end of apartheid, South Africa remains one of the most unequal societies in the world, with the poorest 60% of the population controlling less than 10% of wealth. Even though unemployment remains very high, the public sector received an above-inflation pay hike last year. Meanwhile, heavy unionization in key sectors such as mining creates an insider/outsider labor market that is inflexible and further constrains GDP growth, in our opinion.

Environmental, social, and governance (ESG) factors relevant to the rating action:

- Health and safety

Key Statistics

Table 1

South Africa-Selected Indicators

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Economic indicators (%)										
Nominal GDP (bil. LC)	3,805	4,050	4,359	4,654	4,874	5,078	4,967	5,391	5,740	6,085
Nominal GDP (bil. $)	351	317	296	349	368	351	289	333	356	372
GDP per capita (000s $)	6.5	5.8	5.3	6.2	6.4	6.0	4.8	5.5	5.8	5.9
Real GDP growth	1.8	1.2	0.4	1.4	0.8	0.2	(4.5)	3.5	1.5	1.4
Real GDP per capita growth	0.3	(0.4)	(1.2)	(0.2)	(1.3)	(1.6)	(6.0)	1.9	(0.1)	(0.2)
Real investment growth	0.7	2.5	(3.5)	1.0	(1.4)	(0.9)	(8.5)	2.8	2.8	1.8
Investment/GDP	20.7	21.1	19.4	18.7	18.4	18.0	16.1	16.4	16.7	16.7
Savings/GDP	15.7	16.5	16.5	16.1	14.9	14.9	15.1	14.2	14.0	13.9
Exports/GDP	31.5	30.2	30.6	29.6	29.9	29.9	27.7	27.6	27.9	27.8
Real exports growth	3.6	2.9	0.4	(0.7)	2.6	(2.5)	(5.9)	3.5	2.8	2.0
Unemployment rate	25.1	25.4	26.7	27.5	27.1	28.7	30.0	29.9	29.6	29.6
External indicators (%)										
Current account balance/GDP	(5.1)	(4.6)	(2.9)	(2.5)	(3.5)	(3.0)	(1.0)	(2.2)	(2.7)	(2.8)
Current account balance/CARs	(15.1)	(14.2)	(8.8)	(8.1)	(11.1)	(9.4)	(3.4)	(7.6)	(9.2)	(9.5)
CARs/GDP	33.6	32.6	32.6	31.4	31.9	32.2	30.1	29.5	29.7	29.5
Trade balance/GDP	(1.4)	(1.2)	0.7	1.4	0.5	0.8	2.5	1.6	1.2	1.1
Net FDI/GDP	(0.5)	(1.3)	(0.8)	(1.5)	0.4	0.4	0.4	0.4	0.4	0.4
Net portfolio equity inflow/GDP	2.9	3.1	3.1	1.6	(0.1)	0.3	(0.5)	1.0	1.0	1.0
Gross external financing needs/CARs plus usable reserves	107.0	110.9	105.4	104.3	108.9	108.9	101.7	108.5	108.8	108.9
Narrow net external debt/CARs	17.9	8.4	29.6	45.6	45.3	55.6	75.3	70.3	70.9	73.2
Narrow net external debt/CAPs	15.5	7.3	27.2	42.2	40.7	50.8	72.9	65.4	64.9	66.9
Net external liabilities/CARs	11.7	(54.4)	(32.9)	(43.8)	(46.5)	(36.7)	(44.0)	(31.4)	(19.9)	(9.7)
Net external liabilities/CAPs	10.2	(47.7)	(30.2)	(40.5)	(41.9)	(33.6)	(42.6)	(29.2)	(18.2)	(8.8)
Short-term external debt by remaining maturity/CARs	37.0	49.4	46.6	41.1	44.8	49.3	62.7	53.3	50.1	48.9
Usable reserves/CAPs (months)	4.4	5.0	5.2	4.8	4.7	5.0	7.3	5.4	5.1	5.0

Table 1

South Africa-Selected Indicators (cont.)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Usable reserves (mil. $)	49,094	45,891	47,187	50,748	51,645	55,033	47,476	49,140	49,852	50,223
Fiscal indicators (general government; %)										
Balance/GDP	(3.7)	(3.7)	(3.6)	(4.1)	(4.1)	(6.8)	(13.3)	(7.7)	(7.8)	(6.6)
Change in net debt/GDP	5.3	5.7	4.4	4.8	6.1	8.0	15.3	8.4	8.6	7.4
Primary balance/GDP	(0.7)	(0.5)	(0.2)	(0.6)	(0.3)	(2.7)	(8.3)	(1.9)	(1.7)	(0.1)
Revenue/GDP	28.8	30.0	29.5	29.0	29.7	29.5	28.1	30.2	29.5	29.5
Expenditures/GDP	32.5	33.7	33.1	33.1	33.7	36.3	41.4	37.9	37.3	36.1
Interest/revenues	10.5	10.6	11.4	12.0	12.6	13.8	17.5	19.0	20.7	22.0
Debt/GDP	48.4	50.9	52.2	54.4	58.1	63.7	80.2	82.4	86.0	88.5
Debt/revenues	168.1	169.6	177.1	187.4	195.8	216.1	285.4	272.9	291.6	300.1
Net debt/GDP	43.4	46.5	47.6	49.4	53.2	59.0	75.6	78.1	82.0	84.7
Liquid assets/GDP	5.0	4.4	4.7	5.1	4.9	4.7	4.6	4.3	4.0	3.8
Monetary indicators (%)										
CPI growth	6.2	4.5	6.3	5.3	4.7	4.1	3.9	4.4	4.5	4.5
GDP deflator growth	5.5	5.2	7.2	5.3	3.9	4.0	2.4	4.9	4.9	4.6
Exchange rate, year-end (LC/$)	11.58	15.55	13.68	12.32	14.38	14.03	17.00	16.00	16.25	16.50
Banks' claims on resident non-gov't sector growth	9.0	11.0	4.5	5.9	6.4	5.9	(5.0)	2.0	5.0	5.0
Banks' claims on resident non-gov't sector/GDP	76.7	80.0	77.7	77.1	78.3	79.6	77.3	72.6	71.6	71.0
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	4.6	5.9	5.1	4.7	5.5	5.9	6.0	6.0	6.0	6.0
Real effective exchange rate growth	(6.1)	(2.5)	(6.3)	12.8	1.7	(3.5)	N/A	N/A	N/A	N/A

Sources: Statistics South Africa, International Monetary Fund (Economic Indicators), South African Reserve Bank, International Monetary Fund (External Indicators); The National Treasury(Fiscal Indicators); International Monetary Fund,South African Reserve Bank(Monetary Indicators).

Ratings Score Snapshot

Table 2

South Africa--Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	4	South Africa has a relatively clearly defined political structure, and checks and balances are strong, with a division of powers and an independent judiciary. South Africa also benefits from a free press and relatively sophisticated deep financial markets. Nevertheless, under the previous (pre-February 2018) government, institutions had been eroding rapidly and graft was increasing. Funding requirements for new policy priorities and redistribution could weaken support for sustainable public finances and undermine economic growth. The ease of doing business is moderate.
Economic assessment	5	Based on GDP per capita (US$) and growth trends as per Selected Indicators in Table 1. Weighted average real GDP per capita trend growth over a 10-year period is at negative 1.09%, which is well below that of sovereigns in the same GDP category.
External assessment	3	Based on narrow net external debt, as per Selected Indicators in Table 1. We consider the South African rand to be an actively traded currency, accounting for 1.07% of global foreign exchange market turnover. South Africa's current account financing is dependent on foreign portfolio flows. These flows can be subject to changes in sentiment and a risk of marked deterioration in external financing.
Fiscal assessment: flexibility and performance	6	Based on the change in net general government debt (% of GDP), as per Selected Indicators in Table 1. The country faces shortfalls in basic services and infrastructure, as reflected, for instance, by its low ranking on the UNDP's human development index. South Africa falls in the medium human development category.
Fiscal assessment: debt burden	6	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue), as per Selected Indicators in Table 1. Contingent liabilities are classified as medium under our criteria, with the sovereign having material exposure to ESKOM and significant likelihood of extraordinary government support.
Monetary assessment	2	The rand is a free-floating currency. The central bank has a track record of independence and uses market-based monetary instruments such as repo rate; CPI as per Selected Indicators in Table 1. The central bank has the ability to act as lender of last resort for the financial system.
Indicative rating	bb	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	-1	The negative notch of flexibility reflects that economic pressures remain (noting the very high exchange rate volatility), or the external score might come under pressure from widening current account deficits. The rand's share of global foreign exchange turnover is just above 1% and vulnerable to no longer being classified as an actively traded currency.
Final rating		
Foreign currency	BB-	
Notches of uplift	1	Default risks apply differently to foreign- and local-currency debt. South Africa has well-developed domestic capital markets and an independent monetary policy with a track record of a free-floating exchange rate, with a very active local fixed-income market with secondary market trading. Foreign participation in rand-denominated debt suggests the depth of the market and its diverse investor base.
Local currency	BB	

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). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score 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 scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

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's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

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

Downgraded; Outlook Action; Ratings Affirmed

	To	From
South Africa		
Sovereign Credit Rating		
Foreign Currency	BB-/Stable/B	BB/Negative/B
Local Currency	BB/Stable/B	BB+/Negative/B
Transfer & Convertibility Assessment	BB+	BBB-
Senior Unsecured	BB-	BB
Senior Unsecured	BB	BB+
Republic of South Africa Sukuk No. 1 Trust		
Senior Unsecured	BB-	BB

Ratings Affirmed	
South Africa	
Sovereign Credit Rating	
South Africa National Scale	zaAAA/--/zaA-1+
Senior Unsecured	zaAAA

Regulatory Disclosures

- Primary credit analyst: Ravi Bhatia, Director
- Rating committee chairperson: Patrice Cochelin
- Date initial rating assigned: Oct. 3, 1994
- Date of previous review: Nov. 22, 2019

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 did participate in the credit rating process. S&P Global Ratings did have 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.

Materials Used In The Credit Rating Process

Sufficient information in general consists of both (i) financial statements that describe the Issuer's financial condition, results of operations and cash-flows, and (ii) a description of the activities and obligations of the entity including of its governance and legal structure.

This credit rating was disclosed to the rated entity or related third party before being issued.

S&P Global Ratings' regulatory disclosures (PCRs) are published as of a point-in-time, which is current as of the date a Credit Rating Action was last published. S&P Global Ratings updates the PCR for a given Credit Rating to include any changes to PCR disclosures only when a subsequent Credit Rating Action is published. Thus, disclosure information in this PCR may not reflect changes to data within PCR disclosures that can occur over time subsequent to the publication of a PCR but that are not otherwise associated with a Credit Rating Action.

Glossary

- Consumer price index (CPI): Index of prices of a representative set of consumer goods regularly bought by a typical household.

- 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 (CAR): 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 fulfill 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.

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