

AA-credit rating for City

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The City has improved its credit rating over last year's rating, says Fitch Ratings



Johannesburg has received good news from the international agency Fitch Ratings, which has upgraded its credit ratings, saying its outlook is stable.

INTERNATIONAL rating agency Fitch Ratings has upgraded Johannesburg's long-term credit rating to AA-, from last year's A+ rating, and its short-term rating to F1+(zaf) from F1(zaf).

A rating provides a relative measure of a city's creditworthiness. The best long-term rating is AAA, while the best short-term rating is F1+(zaf). The F1(zaf) rating refers specifically to the city's ability to pay its short-term debt.

Stating that the City's outlook remained stable, the agency said: "The upgrade reflects the City of Johannesburg's strengthening operating performance, driven by a growing tax base and subsidies from the national government."

The rating "also reflects higher provisions for asset depreciation, which help to self-finance its investments, now approaching R5-billion, up from R1-billion in [financial year 2004]".

Responding to the upgrades, City Treasurer William Mathamela said: "We are very excited about the investor confidence that the rating has shown - it means the City has done a lot of good work."

Fitch said the rating considered the City's long-term challenges to be "income inequality and low labour participation", which limited tax generation and collection.

Further upgrades

"The ratings could be upgraded further if easing macroeconomic tensions help to alleviate rising cost pressures on the municipality's operating performance, and if the sale of its R2-billion net debtor-book is completed successfully, providing the municipality with corresponding liquidity."

The agency warned that ratings might be negatively affected if borrowing exceeded projections, which would lead to declining debt collection, and restricted tax revenue growth, if gross domestic product (GDP) growth weakened.

"[Johannesburg's] operating performance continues to be strong, underpinned by tax and fee collection rates of about 95 percent," Fitch Ratings indicated.

The City was committed to keeping expenses below 7 percent of expenditure, it said, but this would be influenced by a slowdown in GDP growth which would, in turn, limit the City's ability to pass on to consumers increasing costs of water, electricity and other service costs.

Fitch suggested that local economic growth should hover around 3 percent per year, given a boost from the public works in preparation for the 2010 World Cup.

"Estimated income per capita of about R60 000 is approximately 40 percent above the national average and should help to underpin an average operating revenue growth of close to 10 percent. Tax and fee rates linked to inflation and the continual expansion of the tax base should help to maintain a good match between revenue and spending."

Mathamela said the 3 percent was too low for a city the size of Joburg - it would probably be around 4 to 5 percent.

However, the rise of commodity prices and frequent power cuts could have a negative effect on the local economy, causing operating costs to rise, said Fitch.

Mathamela was particularly happy to have the asset register complete, because it provided a higher provision for depreciation, and investors now knew the total assets of the City, giving them increased confidence in its growth prospects. "The past year has been a good year."

There were long-term challenges for the City, however, Fitch said. The fact that the national government oversaw revenue and expenditure weakened its manoeuvrability. On the other hand, the 2007 Municipal Fiscal Power Act had allowed cities to raise revenue by means of a 2 percent business levy for inner city regeneration.

"Income inequality and the still high percentage of population infected with HIV remain the main burden on future economic growth, with their demand for higher social and health costs over the medium term."

There were other factors that would slow growth. "A potential burden stems also from pension and potential unfunded liabilities, which the City seeks to control by implementing self-insurance policies.

Joburg's population is believed to be around four million. It remains the financial hub of the country, contributing about 16 percent of GDP and some 15 percent of employment. The City's GDP will remain at an average 6 percent annually until 2010, contends Fitch.

Visit the [Fitch Ratings](#) website for the full report.