

A+ credit rating for Joburg

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In a display of confidence in the City's ability to repay its debts, the international credit rating agency Fitch has upgraded its long-term credit rating. Its upcoming unsecured bond issue has also been rated 'stable'.

RATING agency Fitch has upgraded Johannesburg's long-term credit rating to A+ from A, while it has confirmed the City's short-term credit rating at F1.

This means that Fitch, one of the world's leading credit rating agencies, rates Joburg's outlook as "stable". A rating provides a relative measure of a city's creditworthiness; the best long-term rating for a country is AAA while the best short-term rating is F+. The F1 rating refers specifically to the city's ability to pay its short-term debt.

And, the City's upcoming unsecured bond issue has been given a long-term rating of A+.

"The upgrade reflects the City of Johannesburg's strengthening operating performance, driven by higher tax collection rates and a growing economy," Fitch says.

"At the same time, the clean-up and updating of the asset register results in more assets on the balance sheet and higher provisions for depreciation, which help to self-finance investment spending. The ratings also consider long-term challenges, such as income inequalities and low labour participation, which tend to limit tax generation while requiring subsidies."

Fitch indicates that a consolidation of the collection rate to 95 percent will enhance the rating, while "downward pressure may stem from weaker-than-budgeted financial performances".

Show of confidence

Jason Ngobeni, the City's treasurer and the acting executive director for economic development, says the rating is "highly appreciated" and the result of different interventions Johannesburg has pursued over the past years. "It is a further show of confidence in the work being done to ensure financial stability."

Particularly coming from a situation in 2001 of "financial distress", this rating indicates the "good work being done by everyone". "Although it is not a *fait accompli*, the good story continues to be told," Ngobeni adds.

A city with confidence

The City's operating margin, adjusted for amortisation (depreciation) provisions, continues to strengthen, Fitch says. At the end of 2006, it accounted for about 14 percent of the annual operating revenues, up from 6 percent in 2003. "Supported by growing tax collection rates and a tax base, the trend is expected to continue over the medium term."

Higher provisions for asset depreciation are contributing to a growing self-financing capacity for investment, estimated at around R3-billion until 2010. "Transportation, energy, water, housing and

security are projected to be among the sectors absorbing the largest share of spending," the agency indicates.

It estimates that the City's gross domestic product will remain at an average 6 percent a year until 2010, which will outgrow the country's average. Income inequalities and a high HIV infection rate will influence the City's capacity to spend on social care and curb its tax growth potential. "Moreover, the reduction of the bad debt provision to R850-million in 2006 from about R1-billion in financial year 2005 may prove premature if the collection rate does not consolidate at the level reported in financial year 2006, fuelling the already high stock of uncollectible receivables."

Ngobeni explains, too, that "lenders and investors have been given further assurance that the City balance sheet is in a stronger position".

Joburg has a population of about 3,3 million, about 7 percent of the national total of 48 million people. It contributes 16 percent of the country's gross domestic product and is the financial hub of South Africa, contributing 15 percent to national employment. Most large corporates have their headquarters in Joburg.

Visit the [Fitch website](#) for an updated credit report.