



MEDIA STATEMENT

NATIONAL TREASURY'S RESPONSE TO STANDARD AND POOR'S DOWNGRADE OF SOUTH AFRICA'S LONG-TERM FOREIGN CURRENCY AND LONG-TERM LOCAL CURRENCY CREDIT RATINGS

We note Standard and Poor's (S&P) decision to downgrade South Africa's long term foreign currency credit rating to "BBB" from "BBB+" and the long term local currency credit rating to "A-" from "A". S&P has maintained the negative credit outlook on the rating.

S&P gave the following reasons for the downgrade:

- The recent strikes in the mining sector were likely to feature in political debates in the run up to the 2014 general elections and thereby increasing policy uncertainty;
- Underlying social tensions that may result in amplified spending pressures, thereby undermining the fiscal consolidation path; and
- Weaker business and investment climate which may weigh on South Africa's economic growth prospects.

S&P said the negative outlook reflects the medium term political, economic and fiscal ramifications of South Africa's social tensions, which could deteriorate further. Moreover, the difficulty of addressing the socio-economic imbalances could be exacerbated by increasing external pressure arising from slowing global growth and the risk aversion of investors.

While there are risks to growth, our fiscal framework continues to be guided by the three principles that were reiterated in the 2012 Budget in February. These are:

- Counter cyclicity
- Debt sustainability, and
- Intergenerational equity

On Wednesday 10 October 2012, Cabinet approved the fiscal framework for the next three years, the details of which will be announced by the Minister of Finance on 25 October 2012.

We believe that our fiscal plan is realistic and achievable. There is no historical evidence to support S&P's assertion that "...underlying social tensions [will] increase government spending pressure...". Indeed, our young democracy has seen several elections within the ruling party and government. None of these have impacted policy and budgeting in the manner that S&P suggests.

Government will continue to invest in infrastructure with the view of enhancing the productive capacity of our economy and the competitiveness of our industries. This will be done in a manner consistent with fiscal sustainability.

On the industrial action, government is working with all parties to bring about an immediate end to the wildcat strikes. All parties understand that our country cannot afford these kinds of disruptions to economic activity in these difficult times.

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