national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Response to the rating actions by Fitch Ratings (Fitch) and Standard and Poor's (S&P)

Government has noted the ratings decisions of Fitch and S&P, on Friday, 4 December 2015.

FITCH
Fitch has downgraded the foreign currency credit rating of South Africa to 'BBB-' from 'BBB'. The local currency credit rating has also been downgraded to 'BBB' from 'BBB+'. The outlook has been revised to stable from negative.

According to Fitch, the downgrade reflects:

- South Africa's GDP growth performance and estimates of growth potential that have weakened further, exacerbated by further delays in the availability of new electricity capacity;
- Deteriorating general government debt portfolio in response to weaker revenues that highlight the challenge of reducing the budget deficit and stabilising the ratio of government debt/GDP; and
- Current account deficit which has remained persistently large despite weak domestic demand and the sharp depreciation of the rand.

S&P
S&P has affirmed South Africa's long and short term foreign and local currency bond ratings at 'BBB-/A-3' and 'BBB+/A-2' respectively, while revising the outlook to negative.

S&P is of the view that South Africa's pace of growth will remain low due to:

- Persistent electricity shortages;
- Continued weak business confidence;
- Labour disputes escalating; and
- The possibility of reduced fiscal flexibility owing to contingent liability risks from State-Owned Companies (SOCs) with weak balance sheets.

GOVERNMENT RESPONSE

Government is aware that the country's economic growth performance needs to be improved in a sustainable manner and has therefore made the resolution of the energy challenge an immediate priority. The implementation of the National Development Plan (NDP) remains the cornerstone of our economy.

Government is acting to alleviate the most binding constraints to growth and has set out a series of urgent economic reforms to build a more competitive economy. These include:

- Continuing to invest in economic infrastructure;
- Reforming the governance of the SOCs, rationalising state holding and encouraging private-sector participation;
- Effecting labour market reforms that can help to avoid protracted strikes;
- Expanding the independent power producer programme;
- Encouraging affordable, reliable and accessible broadband access;
- Promoting black ownership of productive industrial assets;
- Finalising amendments to the Mineral and Petroleum Resources Development Act (2002), and continuing dialogue with the industry; and
- Reviewing business incentive programmes in all economic sectors to ensure that resources support labour-intensive, job creating outcomes.

Progress has been made on stabilising the energy supply, in particular, maintenance practices have been improved; short term power purchase programme contracts of 1 350 MW of electricity has been approved for 2015/16; and request for proposals of 2 500 MW of coal-fired power has been issued. The renewable independent power producer (IPP) programme has been a major success with substantial energy added to the energy grid.

Labour relations have improved in 2015, with much lower work days lost due to industrial actions when compared to 2014. The Commission for Conciliation, Mediation and Arbitration (CCMA) is taking an active role in settling disputes.

With regards to the fiscal framework, government has stuck to its spending limits for the past three years and is on track to stay within the expenditure ceiling in 2015/16. Government's central fiscal objective over the medium term is to stabilise the growth of debt as a share of GDP. Continued revenue growth, strict adherence to the planned expenditure ceiling, as well as the proposed long-term fiscal guideline of linking government spending with long term growth are projected to result in gross debt stabilising at 49.4 percent of GDP in 2018/19.

Whilst Fitch and S&P rates our foreign currency debt riskier than our local currency debt, government's total foreign currency debt as percentage of total debt is currently below 10 percent and government holds foreign currency deposits that are sufficient to meet its current and medium term foreign currency commitments.

Government continues to support the capital expenditure programmes of SOCs, while working to improve their governance and financial sustainability. Work is underway to develop a uniform legislative framework to regulate SOCs.

Government remains committed to reducing the binding constraints on the economy and thereby placing the country on a higher growth trajectory.

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