Moody’s affirms South Africa’s ratings

Moody’s Investors Service (Moody’s) affirmed South Africa’s government bond long and short term ratings of ‘Baa2 / P-2’ respectively and assigned a negative outlook.

Moody’s is the only solicited rating agency that assigns the same rating for both the domestic and foreign currency denominated debt, Baa2 – a rating that is two notches above sub-investment grade.

The investment grade credit rating affirmation marks an end to the review period that started on 8 March 2016, when Moody’s placed the country’s ratings under review for possible downgrade.

There are three reasons for Moody’s to affirm the ratings:

1. South Africa’s economic growth will start recovering beyond 2016 after reaching its trough this year

   Government’s response: Government will continue to collaborate with the business, labour and the civil society to restore confidence in the economy and address the structural constraints to economic growth. The National Development Plan remains the catalyst for growth and the 9 Point Plan will ensure that the milestones are achieved including:
   - Promoting a stable and cooperative labour relations environment;
   - Encouraging development of energy-efficient, job-creating industries;
   - Lowering the cost of doing business, removing regulatory constraints and acting swiftly to remove policy uncertainty;
   - Boosting investment through launching Invest SA; and
   - Implementing reforms to ensure that state-owned companies are financially sound, operate efficiently, are well-managed and properly governed.
2. *The adoption of more aggressive consolidation measures in the 2016 Budget will increase the likelihood that general government debt to GDP will stabilise in the current year*

*Government’s response:* Government’s decision to implement fiscal consolidation to return public finances to a sustainable path while protecting core social and economic programmes was correct. This was done through tax policy adjustments to boost revenue, moderate current expenditure and reprioritise budgets. Furthermore, government’s recent track record of achieving fiscal targets gives credence to the future fiscal plans especially maintaining an expenditure ceiling and recapitalising state-owned companies in a budget neutral manner.

3. *According to Moody’s, the recent political developments are testament to South Africa’s institutional strength compared to its peers*

*Government’s response:* South Africa’s monetary and fiscal institutions remain sound over time. Despite adverse political developments in recent months, government continues to demonstrate determination to bring the public finances under control and ensuring that programmes such as nuclear and the National Health Insurance Scheme are financed at a scale and pace that is affordable.

Moody’s warned of the need to implement the structural and legislative reforms agreed to by government, business and labour. The future trajectory of the rating will be highly dependent on government’s success in enhancing medium term growth prospects, stabilising debt and restoring investor. The country’s outlook can be changed from negative to stable if government delivers on commitments that support growth and achieve fiscal targets, the agency said.

**CONCLUSION**

Government is intensifying efforts and focus on inclusive economic growth, job creation and improving investor confidence through addressing structural constraints. Collectively working with business, civil society and labour, government will continue to demonstrate its commitment to translate plans into concrete actions that will ensure South Africa remains an investment grade country.

**Issued on behalf of National Treasury**

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