



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Fitch affirms South Africa's ratings at BBB- and revises the outlook

Fitch has affirmed its 'BBB-' ratings on South African government's long term debt held in foreign and local currencies. The short term debt held in foreign and local currencies was also been affirmed at 'F3'. The rating outlook has been revised to negative from stable.

Efforts made by South Africa to keep the country on an investment grade have paid off. Government, business, civil society, labour and politicians continue to work hard to build a foundation for faster growth. During and since the tabling of the Medium Term Budget Policy Statement the following has taken place:

- *Government continues to fast-track the implementation of micro reforms in sectors with potential to boost short-term growth including tourism, agriculture and oceans economy.*
- *Government has ensured sustainable public finances while promoting economic growth by setting limits to government debt and expenditure, while supporting stronger public and private sector investment.*
- *Government has not only adhered to the expenditure ceiling set during the 2016 Budget, but has reduced it further and proposed additional tax measures aimed at ensuring that government debt stabilises in the medium term. Further, government is committed to reducing waste so that spending produces the intended results, through procurement reforms. Over the next three years, the legal and regulatory framework will be strengthened to improve the relationship between expenditure and outcomes which is essential in an environment of slow growth and limited resources.*
- *Cabinet has endorsed the private sector participation framework for state-owned companies and the guidelines for the remuneration and incentive standards for directors of these companies.*
- *Cabinet approved the revised Integrated Energy Plan and was published for public discussion to afford stakeholders and interested parties to engage with it.*
- *The Advisory panel on the minimum wage led by the Deputy President published a report proposing a national minimum wage of R3 500 per month. The report represents a balanced, thoughtful and constructive approach to addressing the challenge of inequality and unemployment.*

All these developments have ensured an investment grade status for South Africa. If we continue at this pace and with such strong collaborations (government, business,

labour, civil society and the general public) with a common goal, we will revise course and place South Africa on a sustainable path of faster and inclusive growth.

There are however risks to South Africa's investment grade status as highlighted by Fitch:

- *Fitch believes that political risks to standards of governance and policy making have increased and expects them to remain high at least until the electoral conference of the African National Congress (ANC) in December 2017, undermining the investment climate, thereby constraining GDP growth.*
- *Fitch mentioned that additional spending on student bursaries as a result of student protests was absorbed by using the contingency reserve, some one-off financing and a re-prioritisation of other expenditures, but the protests showed that social pressures could lead to further spending needs.*
- *According to Fitch, political noise may undermine government efforts to improve the governance of state-owned companies, which could affect the plan to stream-line their portfolio.*

However, government notes the announcement and the risks highlighted by Fitch. Preserving an investment grade rating may contain the increase in borrowing costs and input costs for government, corporates and individuals. This outcome ensures that:

- *Government continues to spend more of its resources on social programs rather than debt costs*
- *Ordinary South Africans retain the purchasing power of their income and the value of their assets*
- *There is investor and consumer confidence*

The fact that the country's investment grade status has been maintained demonstrates the resilience of the country and its people, especially during difficult times, to achieve a common mission. In this regard, government sincerely thanks all South Africans for their efforts in ensuring that the country does not lose its investment grade status and we urge all South Africans to continue this close working relationship with government over the period ahead.

Issued on behalf of National Treasury

Date: 25 November 2016