national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Moody's leaves South Africa's government bond long and short term ratings of 'Baa2 / P-2' unchanged

Moody's Investors Service (Moody's) left South Africa's government bond long and short term ratings of 'Baa2 / P-2' unchanged with a negative outlook, two notches above sub-investment grade. This is after the agency decided not to have a formal review process given their recent affirmation of the sovereign rating in May 2016.

Government notes the decision taken by Moody's and would like to thank, not only those who took part in the review process, but also to all South Africans who continue to support a common goal of promoting social transformation and more inclusive economic growth.

The South African economy is showing resilience, supported by strong and independent institutions. Other credit rating strengths are:

- The Constitution and the Public Finance Management Act (1999) entrench a centralised, accountable framework for fiscal management;.
- South Africa's inflation targeting policy, implemented by the South African Reserve Bank since February 2000, has helped to anchor inflation expectations and reduce interest rate volatility;.
- The floating exchange rate regime continues to provide the economy with buffers against external shocks, while at the same time limiting the risk of excessive domestic exposure to foreign currency liabilities;
- Government has low foreign currency-denominated debt with long maturities (accounting for around 10 per cent of total government debt and only 4 per cent of GDP) which is much lower than most of its peers. The domestic bond market is deep and liquid, reducing debt-refinancing risks. Loans and guarantees by subnational government are limited and subject to national legislation. Provinces are almost entirely funded through transfers from national government. Borrowing by local governments is capped and limited to major metros with significant revenue-raising powers;
- The fiscal framework is underpinned by credible macro-fiscal forecasts. The South African Revenue Service (SARS) has consistently improved the efficiency of the tax system and has generally exceeded revenue collection targets. And despite new spending pressures, government has maintained the expenditure ceiling;

- The National Treasury's long-term model suggests that existing core social spending priorities (e.g. education, health and social grants) are sustainable over the coming decades. In addition, the Government Employee Pension Fund is well funded;
- South Africa exports are increasing, particularly to Asia and Europe. Increasing foreign investments by SA companies are resulting in higher dividends from their offshore investments. Therefore, the deficit on the current account of the balance of payments improved from 5.3 per cent of GDP in the first quarter of 2016 to 3.1 per cent of GDP in the second quarter of 2016;
- The banking system is strong and well regulated with capital adequacy ratios well above the minimum regulatory capital requirement of 15 per cent;
- South Africa improved seven places to reach 49th in the Global Competitiveness Report for 2015/16, reversing a four-year downward trend.

Furthermore, government has a very good track record on fiscal policy. Over the medium term, the fiscal strategy proposes the following to ensure sustainable public finances:

- Spending ceiling – The MTBPS proposes R26 billion in reductions to the expenditure ceiling over the next two years, while protecting social spending.
- Tax revenue measures – Proposed tax measures amount to R43 billion over the next two years (proposed in the 2016 Budget and the MTBPS).
- Spending to boost economic growth – Government has budgeted R987.4 billion for infrastructure over the medium-term expenditure framework (MTEF) period, with large investments continuing in energy, transport and telecommunications.
- Spending pressures will be accommodated through the contingency reserve Improving the quality of spending – In an environment of slow economic growth and limited resources, 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.
- Monitoring and controlling costs – The cost-containment measures introduced in December 2013 were issued to guide spending on consultants, travel, catering, entertainment and venue hire. These measures, linked with procurement reforms and budget reductions introduced during the same period, have succeeded in curtailing spending on non-essential goods and services. In real terms, spending on these items has fallen by 7.7 per cent. This includes a 12.6 per cent real decline in spending on consultants since 2012/13.

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.

While a lot has been achieved, government together with business, labour, civil society and the South African public will continue to fast-track reforms aimed at making South Africa an increasingly attractive investment destination.

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