



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Rating announcements by Moody's and S&P following recent political developments

Government notes the sovereign rating announcements by Moody's and S&P. South Africa currently has R2.2 trillion in public debt. Approximately 10%, or R220 billion of this debt, is denominated and repaid in foreign currency, such as US Dollars and Euros. Yesterday, S&P lowered its credit rating for this portion of our public debt to below investment-grade.

Our rand-denominated debt – which constitutes 90 per cent of the debt portfolio – remains investment-grade rated. Moody's, which continues to rate government debt two notches above sub-investment grade has indicated their intention to review the rating.

The main reasons for the downgrade and the negative assessment by S&P were:

- Recent executive changes have put at risk fiscal and growth outcomes.
- Assessment of contingent liabilities to the state.
- The view that political risks will remain elevated this year, and that policy shifts are likely, which could undermine fiscal and economic growth outcomes more than they currently project.

The decision by Moody's to initiate a review for downgrade was prompted by the abrupt change in leadership of key government institutions. According to Moody's, this action has raised questions regarding:

- Progress on reforms previously identified as essential to sustain South Africa's fiscal and economic strength, and the effectiveness of South Africa's policymaking institutions.
- The more immediate implications for growth and public debt given the potentially negative impact on fragile domestic and external investor confidence.

While the executive leadership of the finance portfolio has changed, government's overall policy orientation remains the same. As I indicated during the press conference on Saturday 1 April 2017, "*government has been, and will remain, committed to a measured fiscal consolidation that stabilises the rise in public debt*".

I would like to reassure you that the fiscal trajectory our country has been pursuing – which I have been party to as a member of the National Executive – will continue. Our fiscal objectives remain unchanged, as set out in the 2017 MTEF. We are committed to vigorously pursuing economic growth in an inclusive way.

While we recognize and will address the concerns raised by the agencies, the following credit rating strengths – which they have acknowledged – should give all of us confidence:

- The Constitution and the Public Finance Management Act (1999) entrench a robust, centralised, accountable framework for fiscal management;
- A stable monetary policy framework;
- 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. We have an efficient tax collection capability. 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;
- We've resolved the energy challenge in the short term, and now have sufficient electricity supply for current demand.

Going forward, we will be devoting significant energy to engaging with business leaders, organized labor, investors, ratings agencies and other opinion makers domestically and internationally to highlight the positives of our economy and growth prospects.

Furthermore, we will act with urgency to accelerate inclusive growth and development so that we can reverse the triple challenge of poverty, unemployment and inequality.

Ultimately, what these credit rating reviews highlight, is that we need to reignite our nation's growth engine. Growth is a prerequisite for us to address all of our economic challenges. I will be working with my counterparts in the economic cluster to ensure

policy coordination and alignment between economic, industrial and competition policy. We must also continue to work together to stabilize the governance and financial sustainability of our state owned enterprises.

In conclusion, we acknowledge that yesterday's announcement was a setback. Despite our current challenges, now is not a time for despondency. We have many strengths that we can leverage to grow our economy inclusively. We will act decisively as government, in collaboration with all economic and social partners.

Issued on behalf of National Treasury

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