national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Moody's Investors Service (Moody's) downgrades South Africa's ratings to 'Baa3' – still an investment grade rating - and maintains a negative outlook

Government notes the decision by Moody's to downgrade South Africa's long-term foreign and local currency debt ratings to 'Baa3' from of 'Baa2' and maintain the negative outlook, an investment grade rating. This rating action concludes Moody's decision to place the sovereign under review for a possible downgrade.

According to Moody's, the downgrade was driven by:

- *The weakening of South Africa's institutional strength;*
- *Reduced growth prospects reflecting policy uncertainty and slower progress with structural reforms; and*
- *The continued erosion of fiscal strength due to rising public debt and contingent liabilities*

The negative outlook reflects continued downside risks for growth and fiscal consolidation associated with the political outlook. Over the medium-term, economic and fiscal strength will remain sensitive to investor confidence and hence uncertainty surrounding political developments, including prospects for structural reforms intended to raise potential growth and flexibility in fiscal expenditures, according to Moody's.

While the ratings are still investment grade, the negative outlook indicates that the risk of further downgrades is still there. On that note, government calls on all South Africans, including the private sector and trade unions to work even harder together to address these concerns. The foundation for a higher growth path and socio-economic development has already been made:

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- The National Development Plan (NDP) continues to anchor all policies of government.
- The 9 Point Plan has been approved as a catalyst for growth in the immediate horizon, and is being implemented.
- Reforms to address the structural challenges that limit the economic growth potential are already being implemented and progress has been made, especially on labour reforms.
- Reforms to address governance and financial weaknesses besetting state-owned companies (SOCs) are being implemented. Cabinet has:

  - Endorsed a private-sector participation framework to guide collaboration between SOCs and the private sector on infrastructure projects;
  - Adopted a guideline for the remuneration and incentive standards for directors of SOCs;
  - Approved the broad thrust of a guide for the appointment of boards and executive officers;
  - Recommended further consultation on the first draft of a new government shareholder policy, which will culminate in overarching legislation for SOCs; and
  - Noted the proposal to determine and cost the developmental mandates of SOCs.

- Other key policies that are being concluded that have the potential to raise investment include:

  - The Mining Charter;
  - The broadband spectrum;
  - The revised draft of the Integrated Energy Plan and the base case and assumptions of the Integrated Resource Plan;
  - Amendments on the Labour Relations Act;
  - Draft First Amendment of the Immigration Regulations; and
  - The Regulation of Land Holdings Bill and Communal Land Tenure Bill.

Policy transparency and continuity remain on top of government's agenda and the ruling party in 2017. The outcomes of the conferences of the African National Congress in June and December 2017 are not expected to translate to policy changes. The publicly announced draft policies should cement concerns of policy deviations in the next five years.

The urgent priority is reigniting confidence as well as reclaiming and maintaining the investment grade ratings. The Minister of Finance will ensure that the joint work of government, business, labour and the civil society continues at a faster pace. The commitment is on improving investor and consumer confidence through fast-tracking the implementation of the structural reforms on economic growth.

Government would like to thank all stakeholders who participated in the rating review process and hope that such collaborations will continue.

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