national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Government's response to the rating actions of S&P Global Ratings (S&P) and Moody's Investors Service (Moody's)

Government has noted the rating decisions of S&P and Moody's on Friday, 24 November 2017.

S&P

S&P has lowered South Africa's long term foreign and local currency debt ratings by one notch each to 'BB' and 'BB+', respectively, citing:

- *Weak real nominal GDP growth that has led to further deterioration of South Africa's public finances beyond the rating agency's previous expectations.*

Nonetheless, the rating agency has changed the outlook to stable from negative citing:

- *that the stable outlook reflects their view that South Africa's credit metrics will remain broadly unchanged next year; and*
- *their view that political distraction could abate following the party congress of the governing African National Congress (ANC) in December 2017, helping the government to focus on designing and implementing measures to improve economic growth and stabilize public finances.*

MOODY'S

Moody's has placed South Africa's long-term foreign and local currency debt ratings of 'Baa3' on a 90-day review for a downgrade. The ratings carry a negative outlook.

According to Moody's*, the decision to place South Africa's rating on review for a downgrade was prompted by a series of recent developments which suggest that South Africa's economic and fiscal challenges are more pronounced than Moody's had previously assumed. According to the rating agency, growth prospects are* *weaker and material budgetary revenue shortfalls have emerged alongside increased spending pressures.*

The rating agency has further indicated that *the review will allow it to assess the South African authorities' willingness and ability to respond to the above rising pressures through:*

- *growth-supportive fiscal adjustments that raise revenues and contain expenditures;*
- *structural economic reforms that ease domestic bottlenecks to growth; and*
- *improvements to SOE governance in light of government exposures to contingent liabilities.*

GOVERNMENT RESPONSE

Government has noted the decisions of S&P and Moody's and is mindful of the implications on the economy and investor sentiments going forward.

Extensive engagements were held between all the rating agencies and government, both prior to and following the 2017 Medium Term Budget Policy Statement (MTBPS). There can therefore be no doubt of government's strong commitment to addressing the structural constraints to growing the economy and improving public finances. The Presidential Fiscal Committee (PFC) is seized with the task of restoring business confidence in the immediate term and executing decisively growth-enhancing measures previously announced. Speculative grade ratings have negative implications for economic growth, borrowing costs for the economy as a whole, state owned companies' ability to borrow and the ordinary person on the street.

Restoring business and consumer confidence, and catalyzing inclusive growth is the top priority of government. To this end, government is working urgently and diligently on practical steps to provide the necessary policy certainty, environment conducive to investment, and predictability that the country so desperately needs. Decisive actions in managing government expenditure and closing the revenue gap are critical for achieving sound public finances.

In the MTBPS chapter on Fiscal Policy, we indicated that additional spending cuts or tax increases of R40 billion (0.8 per cent of GDP), would be required from 2018/19, in order to stabilise public debt below 60 per cent of GDP over the next decade. Over the next two weeks, the PFC and Cabinet will consider a package of measures to this effect, to be implemented from 2018. Specific details on these measures will be announced in the 2018 Budget.

Measures are being considered to improve access to higher education for all deserving students. The President has directed that these be implemented in a fiscally sustainable manner. Given the nation's financial constraints, this necessarily implies a phased approach focusing on the neediest students. Work is underway between The Presidency, National Treasury and the Department of Higher Education and Training to finalise the new model for funding higher education, which will be announced in the near future.

The 2018 Budget will outline decisive and specific policy measures to strengthen the fiscal framework, as an important contributor to improved confidence of all stakeholders, and a return to inclusive growth. While progress has been achieved on most of the 14 Confidence Boosting Measures, decisively strengthening governance at Eskom – with the appointment of a highly trusted and capable board as a first step – is an urgent priority.

Government will address the root causes of the revenue gap of R50 billion arising from the underperforming economy and a possible erosion of revenue collection capability. In this regard, a judicial commission of enquiry is being undertaken.

National Treasury remains the centre where budgeting occurs as provided for in the Constitution. It is also important to clarify that the Mandate Paper developed by the Department of Performance, Monitoring and Evaluation serves to set priorities for the whole of government, ensuring alignment with the National Development Plan. The PFC streamlines decision-making, and provides the necessary authority to co-ordinate and ensure adherence to the fiscal framework by the entirety of government, driven at the Cabinet level. This in no way undermines the role of National Treasury in the budget-setting process.

Going forward, government will continue to engage with all stakeholders, and the general public on all key developments as progress continues towards the finalisation of the 2018 Budget.

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