national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Government's response to the rating action of S&P's Global Ratings (S&P)

Government notes S&P's decision to affirm South Africa's long term foreign and local currency debt ratings at 'BB' and 'BB+' respectively, and to maintain the stable outlook.

According to S&P, the rating affirmation is underpinned by the following drivers:

- *"Despite upward revisions, South Africa's economic growth remains tentative, and the government's debt burden continues on a rising path".* The rating agency indicated that *"South Africa's ratings are constrained by the weak pace of economic growth, particularly on a per capita basis, as well as its large fiscal debt burden and sizable contingent liabilities".*
- *"After the recent political transition, authorities are pursuing key economic and social reforms, but we consider the economic and social challenges the country faces as considerable".*

The stable outlook reflects S&P's view that "*economic growth will pick up modestly over the next year, while government debt will remain above 50 per cent of GDP. The outlook also reflects government commitment to pursue economic and social reforms*".

According to S&P, "*the ratings are supported by the country's monetary flexibility, large domestic financial sector, and deep capital markets, alongside moderate external debt, with very low levels of external debt denominated in foreign currency*".

OVERNMENT RESPONSE

Government notes S&P's assessment of challenges and opportunities the country faces in the immediate to long term and is determined to achieve improved ratings in the period ahead.

Since the Elective Conference of the ruling party in December 2017, both business and consumer confidence have improved. The February 2018 Budget further supported the improved investment climate in the country.

In support of inclusive growth, underpinned by the National Development Plan (NDP), the following progress, amongst others, has been achieved thus far:

- The appointment of a new board and permanent chief executive officer at Eskom in addition to the signing of all outstanding power-purchase agreements with independent power producers.
- The appointment of new boards at South African Express (SAX), Denel and Transnet, coupled with ongoing appointments of competent individuals at executive management level.
- The appointment of an acting commissioner at the South African Revenue Service.
- The appointment of the new head of the Directorate for Priority Crime Investigation, also known as the Hawks.
- There is a parliamentary process under way on Land Reform.
- To date, the Budget Facility on Infrastructure has considered 64 large infrastructure projects of which 38 has been assessed.
- Public sector wage negotiations were concluded on 21 May 2018 with the tabling of a multi-year wage agreement without disrupting the compensation ceiling. Parties have up to 21 days to sign the wage offer.
- The Financial Sector Regulation Act was signed into law in August 2017 which aligns the financial sector practices in South Africa with global best practice.
- The Insurance Act was signed into law in November 2017 which makes the industry more accessible to new entrants and aligns the sector with international standards.

Going forward, government will engage S&P on their areas of concern. Taking steps to improve business confidence even further, achieving higher economic growth, fast-tracking the SOC reform agenda, and ultimately restoring the country's investment grade credit rating, remains a top priority.

In pursuit of this agenda, government will enhance its collaboration with business, labour and civil society in positioning South Africa as an attractive investment destination while also creating an enabling policy environment for inclusive economic growth.

Issued by National Treasury
Date: 25 May 2018