



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Government's response to the rating action by Fitch Ratings (Fitch)

Government notes Fitch's decision to affirm South Africa's long term foreign and local currency debt ratings at 'BB+' and to also revise the outlook to negative from stable. South Africa's foreign and local currency credit ratings by Fitch remain below investment grade.

According to Fitch, the outlook revision reflects the following:

- *A marked widening in the budget deficit as a result of lower GDP growth and increased spending, including state-owned companies' (SOCs) support that increases the agency's projections for government debt/GDP and heightens the difficulty of stabilising debt/GDP over the medium-term.*
- *Renewed downward revisions to GDP growth in 2019 also raise new questions about South Africa's GDP growth potential.*

Government is aware of the strain and risk that SOCs, particularly Eskom, present to the fiscal framework. Government is urgently working on stabilising Eskom while developing a broad strategy for its future. Additionally, government will have to make tough decisions in order to reverse the country's debt trajectory and improve economic growth prospects.

Nonetheless, the rating agency has acknowledged that government is making efforts to boost growth, through amongst others; the investment drive initiated by the President, measures to accelerate infrastructure investment, measures to reduce costs in transport and telecommunications as well as improvements in visa regulations in order to strengthen tourism. Furthermore, the agency acknowledges that the credibility of the South African Reserve Bank and its inflation targeting regime remains an important credit strength, and government's debt structure helps to reduce refinancing and exchange rate risks.

As communicated by the Minister of Finance in the Special Appropriation Bill, a team of officials led by Directors-General of National Treasury and Public Enterprises

have considered a number of options as a solution to Eskom's debt challenge in order to ensure its sustainability, and the most viable of these will be communicated in due course.

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