national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Government's response to the rating action of Moody's Investors Service (Moody's)

Government notes the decision by Moody's to affirm South Africa's long term foreign and local currency debt ratings at 'Baa3' and also revise the outlook to negative from stable. South Africa's credit ratings by Moody's remain investment grade (one notch above non-investment grade).

According to Moody's, the outlook revision reflects the following:

- The material risk that the government will not succeed in arresting the deterioration of its finances through a revival in economic growth and fiscal consolidation measures.
- The challenges the government faces are evident in the continued deterioration of South Africa's economic growth and public debt burden trends, despite on-going policy responses.

The 'Baa3' credit rating affirmation reflects South Africa's deep, stable financial sector and robust macroeconomic policy framework, set against on-going challenges related to weak potential growth and strong fiscal pressures. The agency further acknowledges the South African Reserve Bank's demonstration of a good track record in implementing credible and effective monetary policy and preserving financial stability.

The rating affirmation affords South Africa a narrow window to demonstrate faster and concrete implementation of reforms that are already underway aimed at lifting growth and returning public finances to a more sustainable path. Economic reforms have to be implemented without delay. Government has made progress on the measures that the President announced in September 2018: visa regime to support tourism, approval of the revised Integrated Resource Plan providing certainty around government's preferred energy mix, and release of telecommunications policy directive for spectrum licensing providing a framework to enable the regulator to issue licenses.

While the progress is encouraging, Government is fully aware that short- and medium-term reforms are urgently required to improve economic performance over the next several years. The discussion document titled 'Economic Transformation, Inclusive Growth, and Competitiveness: Towards Economic Strategy for South Africa' was released by the National Treasury in August 2019, and a revised version on 30 October 2019, putting forward an approach to promote investment, job creation and restore growth momentum. The document aims to address the largest binding constraints such as network industries, export-focused reforms and increasing competition in the economy.

Enquiries: Communications Unit
Email: media@treasury.gov.za
Tel: (012) 315 5046

The 2019 Medium Term Budget Policy Statement acknowledges that debt stabilisation involves difficult decisions that imply short-term costs for the economy and the fiscus. Growth in government's compensation bill needs to be addressed and additional revenue measures may be needed in order to reduce government's debt burden. Moody's expects tax collection performance to improve over the medium term as the South African Revenue Service's efforts to improve tax compliance yield some results. Options to be considered in addressing government's wage bill include pegging cost-of-living adjustments at or below CPI inflation, halting automatic pay progression and reviewing occupation-specific dispensations for wages. Government will discuss these matters with labour in due course.

Additionally, Government is providing medium-term support to Eskom to secure energy supply and to honour the state's contractual obligations. The National Treasury and the Department of Public Enterprises are instituting a series of measures to bring discipline to the utility's finances, encourage Eskom to run their power stations better, improve operational efficiencies and to step up the timelines for restructuring the business into three entities to facilitate transparency, cost efficiencies, optimal investment in infrastructure and improved operational efficiencies. Following the release of the Eskom Special Paper on 29 October 2019, most operational changes are expected to be implemented before the end of 2021.

While the Minister of Finance, Mr Tito Mboweni, had hoped for a different outcome, he acknowledged the rating action by Moody's with a heavy heart. In his words, "Fellow South Africans, now is the time to roll our sleeves and do what we have to do. It is now or never. We need all hands on deck. Government, labour, business and civil society, we need each other more than ever before. This country is ours and it is only us who can turn it around".

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Enquiries: Communications Unit
Email: media@treasury.gov.za
Tel: (012) 315 5046