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 downgrade South Africa's long term foreign and local currency debt ratings to 'Ba1' from 'Baa3' and maintain the negative outlook. South Africa's credit ratings by Moody's are now one notch below investment grade.

According to Moody's, the following are key drivers behind the downgrade:

- *Structurally very weak growth and constrained capacity to stimulate the economy.*
- *Inexorable rise in government debt over the medium term.*

The negative outlook reflects the risk that economic growth will prove even weaker and the debt burden will rise even faster and further than currently expected, weakening debt affordability and potentially, access to funding.

The decision by Moody's could not have come at a worse time. South Africa, like many other countries, is seized with containing the outbreak of the coronavirus (COVID-19). The impact of COVID-19 is felt across various sectors of the economy including the financial markets which experienced a significant sell-off in equities, bonds and exchange rates as investors retreated to safe haven securities amid the uncertainty.

The sovereign downgrade will further add to the prevailing financial market stress. These two events will truly test South African financial markets. South Africa's deep, stable financial sector and robust macroeconomic policy framework have always been flagged as a credit strength, including the South African Reserve Bank's demonstration of a good track record in implementing credible and effective monetary policy and preserving financial stability.

The sovereign downgrade will further see South Africa being excluded from the FTSE World Government Bond Index (WGBI) and the government bond market will experience further capital outflows as fund managers with investment grade mandates will be forced to sell South African government bonds. Non-residents currently hold approximately 37% (R800 billion) of the total domestic government bonds and the number is expected to substantially decline with the combined impact of COVID-19 and the downgrade. The interest rate for government, households and the broader economy is also expected to increase as a result. While some market participants argue that the impact of a sovereign downgrade has already been priced in, it is difficult to stipulate with certainty the extent.

“Therefore, to say we are not concerned and trembling in our boots about what might be in the coming weeks and months is an understatement,” Minister of Finance, Mr Tito Mboweni, said.

In the immediate period, South Africans under the leadership of his excellency Mr Cyril Ramaphosa have rallied together to fight COVID-19 to ensure South Africa emerges triumphant from the pandemic. The President announced a number of measures to offset the COVID-19 impact on the economy and its people including a 21-day lockdown which commenced on March 27 to combat the spread of the virus. In relation to financial markets functioning, the South African Reserve Bank has also announced a set of interventions to stabilize financial markets and provide much-needed stability.

In addition, over the short to medium term, government remains committed to implementing structural economic reforms to address the weak economic growth, constrained fiscus and the ailing state-owned companies. Government is providing medium-term support to Eskom to secure energy supply and to honour the state’s contractual obligations. National Treasury, in partnership with the Department of Public Enterprises, is instituting a series of measures to stabilise finances at the various state-owned companies. The sustainability of government finances remains important and critical to attain and maintain, not only for credit ratings’ sake, but more importantly for the sake of South Africans.

“It is with a heavy heart to note that all three major credit ratings agencies currently rate South Africa at sub-investment grade. However, every crisis presents an opportunity. The opportunity we have today is to unite and work together to address our challenges. We as a people have overcome insurmountable challenges in the past and we can still overcome. We shall rise. We have to rise. We owe it to ourselves,” Minister Mboweni said.

Government urges all South Africans to unite, remain positive and continue to work hand-in-hand to turn the economy around.

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