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), FITCH RATINGS (FITCH) AND MOODY'S INVESTORS SERVICE (MOODY'S)

Government notes the following credit rating decisions made by the 'big three' rating agencies (S&P, Fitch and Moody's):

S&P has affirmed South Africa's long term foreign and local currency debt ratings at 'BB-' and 'BB', respectively. The agency maintained a stable outlook.

According to S&P, lockdowns associated with combating the Covid-19 pandemic plunged South Africa into its sharpest quarterly economic contraction in the second quarter of 2020, leading to a large widening of the fiscal deficit and rapidly rising government debt. Nevertheless, there are indications that the economy is beginning to rebound in the third quarter.

Fitch has downgraded South Africa's long term foreign and local currency debt ratings to 'BB-' from 'BB'. The agency maintained a negative outlook.

According to Fitch, both the downgrade and negative outlook reflect high and rising government debt exacerbated by the economic shock triggered by the Covid-19 pandemic. Further, the very low trend growth and exceptionally high inequality will continue to complicate fiscal consolidation efforts.

Moody's has downgraded South Africa's long term foreign and local currency debt ratings to 'Ba2' from 'Ba1'. The agency maintained a negative outlook.

According to Moody's, the downgrade reflects the impact of the pandemic shock, both directly on the debt burden and indirectly by intensifying the country's economic challenges and the social obstacles to reforms. Furthermore, South Africa's capacity to mitigate the shock over the medium term is lower than that of many sovereigns given significant fiscal, economic and social constraints and rising borrowing costs.

Government's policy priorities remain economic recovery and fiscal consolidation, as outlined in President Cyril Ramaphosa's Economic Reconstruction and Recovery plan and the Medium-Term Budget Policy Statement released in October. The social compact agreed to between government, business, labour and civil society prioritises short-term measures to support the economy, alongside crucial structural economic reforms.

"The decision by Fitch and Moody's to downgrade the country further is a painful one. The downgrade will not only have immediate implications for our borrowing costs, it will also

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constrain our fiscal framework. There is, therefore, an urgent need for government and its social partners to work together to ensure that we keep the sanctity of the fiscal framework and implement much-needed structural economic reforms to avoid further harm to our sovereign rating." Minister of Finance, Mr Tito Mboweni, said**.**

Rating agencies have indicated that South Africa's rating strengths include a credible central bank, a flexible exchange rate, an actively traded currency, and deep capital markets, which should help counterbalance low economic growth and fiscal pressures.

Government implores on all members of society to adhere to all the necessary health and safety protocols to avoid a second wave of COVID-19 infections which would have significant adverse implications for the economy and plans to boost employment.

Sub-investment grade implications – what does it mean for the average South African

The Covid-19 pandemic shock hit South Africa at a difficult time. Recent downgrades saw South Africa reaching its lowest credit rating levels from the 'big three' rating agencies since 1994. Economic growth has continued to decline irrespective of the attempts to reduce structural constraints.

Financial strain to the government caused by the pandemic, weak economic growth, high wage bill as well as continuous support to the financially weak State-owned Companies have weakened public finances and led to government accumulating debt. Currently, government has accumulated debt stock of nearly R4 trillion and spends approximately R226 billion on interest costs.

If the cost of borrowing money for government increases, it means that government will have to either cut back on social spending or tax more the few people that are employed, which is bad for the country.

Further downgrades will extend the impact of lockdown restrictions. These restrictions led to many workers being laid off from work since companies were temporarily closing doors and cutting back on operational costs. Without any disposable income and increasing costs of goods, it will be difficult to maintain the standard of living. Continuous rating downgrades will translate to unaffordable debt costs, deteriorating asset values (such as retirement, other savings and property) and reduction in disposable income for many.

Rating downgrades associated with Covid-19 have also resulted in many small businesses closing down and laying off a number of workers. Operational costs together with borrowing costs are expected to increase, supporting the motive to pass through the costs to consumers or further laying off workers.

The recent rating outcomes mean that South Africa needs to fast track growth-enhancing strategies in order to rectify the accumulation of debt and minimize the costs associated with negative sentiments. Operation Vulindlela is a key initiative in this regard and demonstrates Government's commitment to fast-tracking the implementation of critical reforms that raise economic growth and improve fiscal sustainability.

Issued by National Treasury
Date: 21 November 2020

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