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) AND FITCH RATINGS (FITCH)

Government notes the following credit rating decisions made by S&P and Fitch:

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

According to the agency, South Africa's near-term economic performance and current account are experiencing a cyclical uplift as a result of a combination of base effects following a large economic contraction in 2020 and improving terms of trade from higher commodity prices.

However, structural constraints, a weak pace of economic reforms, and slow vaccination rates will continue to constrain medium-term economic growth and limit the government's ability to contain the debt-to-GDP ratio.

Fitch affirms South Africa's long term foreign and local currency debt ratings at 'BB-'. The agency maintained a negative outlook.

According to Fitch, South Africa's rating is constrained by high and rising government debt, low trend growth and exceptionally high inequality that will complicate consolidation efforts. The negative outlook reflects continued substantial risks to debt stabilisation despite the better than expected fiscal outturns in the fiscal year ending March 2021.

Government acknowledges the pressures the country's credit ratings face and remains committed to addressing them. Additionally, Government is aware that it needs to fast track growth-enhancing strategies. 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.

Rating agencies have indicated that South Africa's rating strengths include a credible central bank, a flexible exchange rate, an actively traded currency, deep capital markets as well as a favourable debt structure (low share of foreign currency debt) with long maturities, which should help counterbalance low economic growth and fiscal pressures.

As highlighted in the 2021 Budget, Government's fiscal strategy puts South Africa on course to achieve a sufficiently large primary surplus to stabilise debt. Over time, debt stabilisation will reduce borrowing costs and the cost of capital, attracting investment that can support the economy.

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Government implores on all members of society to adhere to all the necessary health and safety protocols in place to minimise a rise in Covid-19 infections. South Africa plans to accelerate its vaccination roll-out programme with Phase two having commenced on 17 May 2021, with the aim of inoculating five million citizens aged over 60 by the end of June 2021. Successful vaccination of the population will help prevent the spread of the pandemic as it poses downside risks to the economic outlook.

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