national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Standard and Poor's lowers South Africa's ratings, revises outlook to stable

The National Treasury notes the rating decision announced today by Standard and Poor's (S&P) Ratings Agency.

S&P lowered South Africa's long-term foreign currency credit rating to 'BBB-' from 'BBB' and the long-term local currency rating to 'BBB+' from 'A-'. In addition, S&P has revised South Africa's outlook to stable from negative.

S&P's main reasons for revising down South Africa's rating arise largely from slow GDP growth, the platinum strike and the risks this might pose for the fiscal consolidation path.

At the outset, government acknowledges the negative impact that the strike has had not only on mining output, but also on industries that have linkages to the sector as suppliers of goods and services and those that process raw materials supplied by the affected mines. It is for this reason that government did everything in its power to support efforts aimed at resolving the strike.

Further, notwithstanding the announcement by S&P, government's ability and commitment to service its debt has not changed. The foreign component of South Africa's debt - to which the new rating of BBB- applies - is under 10 per cent of the total debt stock. Redemptions of foreign currency denominated debt that fall due within the next 3-5 years are relatively small. We have accumulated a sizable amount of foreign currency deposits, which almost fully cover our foreign currency commitments over the medium term. We are confident that capital markets will be accessible to raise foreign currency funding, when we plan to do so.

While the ratio of domestic currency denominated debt held by foreigners has grown substantially over the past few years (to around 37 per cent) and contributes to external vulnerability, recent evidence shows that when foreign investors sell the bonds, domestic investors usually find them to be attractive, especially when the other market dynamics such as the exchange rate and bond price adjustments come into play. This is attributed to the depth and liquidity of South Africa's capital market, which has enabled us to raise funding during the toughest of times. But we are not complacent.

Regarding the risk that slowing growth poses for revenues and the fiscal consolidation path, government remains resolute in its commitment to reduce the budget deficit in line with the public commitment made in the Budget Review

published in February. Admittedly, unforeseeable cyclical factors such as the prolonged strike in parts of the platinum sector might sometimes cause marginal short-term deviations from the forecasted path. However, government will not deviate materially from the long-term fiscal consolidation path, which it considers consistent with long-term fiscal sustainability.

On the question of growth, the work programme of the fifth democratic governemnt will be centred on the accelerated implementation of the National Development Plan (NDP). Accordingly, the Deputy President, Mr Cyril Ramaphosa, has been assigned the task of chairing the National Planning Commission and has overall oversight of the implementation and enforcement of the NDP across governemnt.

The process of translating the NDP into detailed programmes and projects by assigning state organs specific responsibilities for which they will be held accountable at the highest level is far advanced. The necessary reforms to unlock the potential of the South African economy to grow at rates that would accelerate the reduction of unemployment, poverty and inequality are set to be implemented with higher vigour and determination. In our view, it is premature for any pronouncement at this stage on the likely performance of the government that has just taken office.

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