



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Response to ratings actions by Standard and Poor's and Fitch

Government has noted ratings decisions by Standard and Poor's Rating Services (S&P) and Fitch Ratings (Fitch) on Friday.

S&P

S&P has affirmed South Africa's long- and short-term foreign currency sovereign credit ratings at "BBB- / A-3". The agency also affirmed the local currency ratings at "BBB+/ A-2" and maintained a stable outlook on the rating.

S&P cited the following factors for affirming the sovereign rating:

- An expectation of a slight improvement in GDP growth in 2015-2017;
- An expectation that the National Treasury will keep to its "hard expenditure ceiling" and thereby contain fiscal deficits and general government debt levels in the medium term; and
- The view that President Jacob Zuma's second term will continue to ensure political and institutional stability, and broad policy continuity, and that South Africa will maintain fairly strong and transparent institutions, and deep financial markets.

However, S&P said constraints to South Africa's sovereign credit rating included subdued GDP growth, a relatively high current account deficit, sizeable general government debt and potentially volatile portfolio flows.

The agency said the decision to maintain a stable outlook reflected the view that a slight rebound in GDP growth in the medium term will help contain South Africa's fiscal and external balances within S&P's current expectations.

FITCH

Fitch has affirmed South Africa's long-term foreign and local currency Issuer Default Ratings at 'BBB' and 'BBB+' respectively, and kept the outlook negative. This decision retains South Africa's rating two levels into investment grade. The rating agency said the investment grade rating is a reflection of the following factors:

- Low rates of foreign-currency debt and deposit dollarisation. The floating exchange and inflation targeting regime helps the economy absorb shocks;
- A well-capitalised banking system and deep local capital markets that support flexibility of financing
- The structure of government debt is largely denominated in local currency (91 per cent) and has an average maturity of 12 years, limiting exchange rate and financing risk;
- South Africa scores better than the 'BBB' range median on the World Bank's governance indicators and its Doing Business survey; and

However, Fitch is of the view that South Africa's twin budget and current account deficits are leading to rising public and external debt ratios, while weak economic growth is constraining living standard and the capacity to improve social conditions as well as stabilizing public finances.

GOVERNMENT RESPONSE

Government recognises the need to steer South Africa's economic growth trajectory onto a more robust course. Important structural reforms are underway in major economic sectors that will boost the economy's growth.

The Medium Term Strategic Framework (MTSF) sets out government's actions over the next five years to achieve such a goal. The MTSF plans target a thriving business sector and a strong civil society. As a result, growth enhancing initiatives and programmes aimed at improving the competitiveness of the renewable energy sector and sustaining job creation are prioritised.

The 2014 Medium Term Budget Policy Statement echoes the National Development Plan's (NDP) agenda to increase private and public sector partnerships, required for more robust economic growth.

Government will keep to the expenditure ceiling set out in the MTBPS and is committed to reducing the budget deficit and stabilizing government debt levels in the medium term.

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