Rating Agency Communication Plan

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Information on rating agency & implications

Rating Agency Communication Plan

1. What has been achieved so far by South Africa

Efforts made by South Africa to keep the country's an investment grade have paid off. Government, business, civil society, labour and politicians continue to work hard to build a foundation for faster growth. There has been progress in several areas:

- To ensure sustainable public finances while promoting economic growth, government's macroeconomic and fiscal framework sets limits to government debt and expenditure, while supporting stronger public and private sector investment.
- Government has worked to stabilise Eskom and increase the participation of independent power producers (IPPs). The IPP programme has been very successful and can certainly be replicated in other sectors of the economy.
- To attract private sector investment, government needs to improve the ease of doing business in South Africa. Initiatives in this regard include: easing the regulatory burden, reducing time spent on compliance and paperwork, strengthening competition law, and enhancing the environment for small businesses.

Since the tabling of the Medium Term Budget Policy Statement (MTBPS) the following has taken place:

- Cabinet has endorsed the private sector participation framework for state-owned companies and the guidelines for the remuneration and incentive standards for directors of these companies.
- Cabinet approved that the revised Integrated Energy Plan be published for public discussion to afford stakeholders and interested parties to engage with it.
- The Advisory panel on the minimum wage led by the Deputy President published a report proposing a national minimum wage of R3 500 per month. The report represents a balanced, thoughtful and constructive approach to addressing the challenge of inequality and unemployment.
- Government as a whole continues to fast-track the implementation of micro reforms in sectors with the potential to boost short-term growth including tourism, agriculture, and the ocean economy.

2. What does this mean for South Africans

Currently the economy of South Africa is not doing well. Economic growth has been declining despite attempts to reduce structural constraints. Many companies are not hiring; while others are expanding their businesses outside South Africa; the drought the country experienced last year did not help growth; and the labour market rigidities continue to constrain employment growth.

The recent political noise has resulted in the weakening of the rand exchange rate and increasing government yields; the former translated to higher prices of goods and services.

Government is hard at work in boosting economic growth by working together with business, civil society and labour to demonstrate its commitment to translate plans into concrete actions that will ensure South Africa remains an investment grade country.

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Government has however accumulated a lot of debt in the past several years in an attempt to sustain the country through hard times created by the collapse of the US banks in 2008. Currently government spends close to R150 billion in interest costs (a budget that is almost the same as for social grants and health) with debt of over R2 trillion. If the cost of borrowing money for government increases, it means that government will have to either cut social spending or tax the few people that are working even more, which is bad for the country. However, such positive news may offset the increasing cost of borrowing, thereby enable government to continue with its spending plans.

The ratings outcomes mean that South Africa as a country is given some time to fast-track growth enhancing strategies to minimise the costs associated with negative sentiments.

For the poor, this outcome means that low-skilled work may be preserved for now since companies may postpone closing doors and moving businesses outside the country. The impact of the increasing cost of goods and services may be partially offset by the preserved disposable income following positive sentiments.

For the middle-class and wealthy households, positive sentiments may translate into manageable debt costs, preserved value of their assets (such as retirement contributions, property and other types of savings) and no loss of disposable income.

For business, positive sentiments are likely to result in investment and sustain the current employment levels. The borrowing costs and input costs are likely to remain relatively the same, reducing the need to either pass through the costs to consumers or reduce employment.

3. What are the next steps?

<u>Government should ensure that:</u>

- The spending ceiling is adhered to – The MTBPS proposes R26 billion in reductions to the expenditure ceiling over the next two years.
- Tax revenue measures are implemented – Proposed tax measures amount to R43 billion over the next two years (proposed in the 2016 Budget and the MTBPS).
- The proposed budget on infrastructure to boost economic growth should be spent efficiently – Government has budgeted R987.4 billion for infrastructure over the medium-term expenditure framework (MTEF) period, with large investments continuing in energy, transport and telecommunications.
- Spending pressures are accommodated within the current baseline and do not result in a breach of the spending ceiling.
- The quality of spending is improved, efficient and goes a long way – In an environment of slow economic growth and limited resources; government is committed to reducing waste so that spending produces the intended results, through procurement reforms. Over the next three years, the legal and regulatory framework will be strengthened to improve the relationship between expenditure and outcomes.

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- The costs are monitored and controlled – The cost-containment measures introduced in December 2013 were issued to guide spending on consultants, travel, catering, entertainment and venue hire. These measures, linked with procurement reforms and budget reductions introduced during the same period, have succeeded in curtailing spending on non-essential goods and services. In real terms, spending on these items has fallen by 7.7 per cent. This includes a 12.6 per cent real decline in spending on consultants since 2012/13.
- Reforms relating to state-owned companies, labour markets, improving policy certainty and economic growth are fast-tracked.

Business must ensure that:

- The SMME investment fund of approximately R1.4 billion is available to provide small businesses with access to finance and mentorship.
- It continues to support government and labour in public platforms such as investor roadshows and in prioritising finding solutions to address constraints in sectors with high employment and export potential.
- The framework for private participation in public infrastructure spending is finalised.

4. Conclusion

All these to be successful will require united effort towards concrete delivery in these priorities which will lay a solid foundation for all South Africans to break through the cycle of poverty, inequality and unemployment in a sustainable manner.