CEO Initiative reaction to Standard & Poor's ratings decision

26 May 2018

The CEO Initiative welcomes Standard & Poor's (S&P) decision to retain South Africa's sovereign debt ratings at BB and BB+, for debt denominated in foreign and local currency respectively, and the outlook on stable. While these ratings remain sub-investment grade, there has not been further slippage into sub-investment territory, which would make borrowing even more expensive than it is.

Fitch Ratings and Moody's have previously both rated South Africa's foreign currency debt as sub-investment grade. Fitch has rated the country's local currency debt – which represents approximately 90% of South Africa's borrowings – as sub-investment grade, while Moody's is the only major rating agency that has this category of debt rated as investment grade.

S&P acknowledged that the country's growth profile is below that of its peers, but believes "the recent political transition and policy proposals could support firmer economic growth and stabilising public finances over the medium term". It also considers South Africa's monetary flexibility, freely floating exchange rate and deep financial markets as credit strengths.

Earlier this year, S&P doubled its growth forecast for South Africa from 1% to 2% on average for 2018 - 2021.

"We believe we are starting to see encouraging signs of progress following several months of hard work from government, labour and business towards the goal of shared and sustainable growth that benefits all who live in the country," says Jabu Mabuza, Co-Convenor of the CEO Initiative.

The CEO Initiative has been working with government and labour for more than two years on efforts to improve South Africa's credit rating, not as an end in itself, but as an outcome of structural reforms that will restore the country to faster, more sustainable and more inclusive growth.

"Since S&P's last review of the country in November 2017, there has been swift action and notable progress in several areas that were in need of urgent reform," says Mabuza.

Progress includes:

- Changes to the national executive aimed at restoring stability to key portfolios;
- Restoring governance at state-owned enterprises (SOE) through the appointment of new boards and executive staff at key organisations, as a key first step to resolving the strategic and funding challenges facing many SOEs;
- The presentation of a credible, fiscally responsible Budget that demonstrated a reasonable plan to reduce the government deficit over the next three years to a more sustainable level and the intent to rein in government borrowing and excessive expenditure at key departments;
- The creation of the Zondo Commission to confront state capture and improve investor confidence, due to start public hearings in August;
- Restoring the credibility of public institutions, including dealing with leadership changes in organisations such as the National Prosecuting Authority and the South African Revenue Service; and
- Government engagement with investors including those in the mining sector, as well as the creation of four dedicated investment envoys to attract investment capital to the country.

These and other signs of progress are indeed positive, but much more work needs to be done if South Africa is to regain its investment grade ratings from Fitch and S&P and retain local and foreign capital as a vital ingredient for economic growth and job creation, amid a global environment where investors are increasingly discerning in their search for quality yield.

"As business, we remain committed to continue working with the government and labour in creating an environment that is conducive to achieving sustainable and inclusive economic growth that benefits all South Africans," concludes Mabuza.

Some of the progress from the CEO Initiative's dedicated efforts includes the establishment of a R1.4bn SME Fund to invest in the small and medium-sized enterprise sector; a Youth Employment Service aimed at providing employment opportunities to one million young people, as well as various investment initiatives underway in sectors such as agriculture, tourism, manufacturing and healthcare.

"We have achieved notable results in a relatively short period of time, and we urge everyone contributing to the economy to continue in this vein. South Africa should use this window of opportunity by responding appropriately to the significant challenges we face, in order to improve the lives of our citizens and inspire confidence in the future of our country," Mabuza concluded.

Ends.

Contact:

Roz Thomas
Roz.thomas@hkstrategies.com / 082 925 8806

Lauren Thys
Lauren.thys@hkstrategies.co.za

About the CEO Initiative
The CEO Initiative is formed of leaders from various sectors, with the main work streams being led by Jabu Mabuza, Chairman of Telkom SA, Chairman of Eskom, Chairman of BLSA and President of BUSA; Sim Tshabalala, CEO of Standard Bank; Mike Brown, CEO of Nedbank; Mike Teke, CEO of Seriti Resources; Nicky Newton-King, CEO of the JSE; Adrian Gore, CEO of Discovery; Brian Joffe, CEO of Long4Life; Dr Dan Matjila, CEO of the Public Investment Corporation; Colin Coleman, Managing Director for Goldman Sachs in South Africa and Stephen Koseff, CEO of Investec Group.