



CHAMBER OF MINES  
of South Africa

# MEDIA STATEMENT

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## CHAMBER EXPRESSES REGRET AT S&P DOWNGRADE DECISION

**Johannesburg, 25 November 2017:** The Chamber of Mines regrets the decision by the S&P ratings agency to downgrade South Africa's long term local currency rating.

However, we cannot be overly surprised given the absence of any fiscal plan in the medium term budget policy statement and some reckless statements from certain parts of government on free basic education, funding of the national health insurance scheme and the appetite for nuclear power which are all adding to the fiscal risk of runaway debt and debt servicing costs. This all builds on the irresponsible cabinet reshuffles since March 2017, and the political uncertainty ahead of the ruling party's elective conference next month.

Chamber of Mines Chief Economist, Henk Langenhoven notes that: "The pervasive negative impact on the mining sector is of great concern and could not have come at a worse time. The sector has the potential to continue to recover on the back of improved commodity prices (and rand weakness may help in this regard).

"However, a weaker rand, coupled with rising oil prices, will lead to higher inflation and higher short term interest rates, as the Governor of the Reserve Bank warned this week. Mining costs have already risen by over 10% this year, and any acceleration will further jeopardise the sector's recovery. Higher long term interest rates will add further costs to the financing needs of the sector. There is a direct correlation between mining sector debt and the cost of financing it.

"The mining sector's growth outlook is directly linked to commodity prices improving. Its sustainability, however, is inextricably linked to the dynamics of the domestic economy. The credit downgrade due to the mismanagement of the economy, and uncertainty regarding government policies has dramatically turned sentiment for the worse. The mismanagement of state owned enterprises has become an albatross for government, and for the country as a whole, due to size of their debt and debt servicing costs.



“There is no painless adjustment from the current predicament, owing to the structural nature of its causes, and the clear lack of confidence in the domestic economy. The ratings agencies and prospective investors will be watching the outcomes of the December conference closely. Without solid indications of policy reforms emanating from the conference and/or the years between the conference and the general election in 2019, no respite can be expected from ratings agencies. No amount of ‘talking’ without credible rescue plans will turn the situation around.

“It will be a long hard road back to investment grade,” Mr Langenhoven concludes.

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