MINERALS COUNCIL
SOUTH AFRICA

MEDIA STATEMENT

MINERALS COUNCIL NOTES MOODY'S RATINGS DOWNGRADE DECISION

"Responsibility for lack of implementation of comprehensive set of economic structural reforms lies with government"

Johannesburg, 28 March 2020: The Minerals Council South Africa notes with disappointment the decision by the Moody's ratings agency to cut South Africa's credit rating to a level below investor grade. Moody's is the last of the main three ratings agencies to take this step.

The Moody's decision does not come as a surprise. With Moody's having changed the outlook to negative in November as well as lowering our economic growth forecast recently, South Africa was already close to the edge. The negative union response to the 2020/1 National Budget effort to cut back fiscal spending was not helpful. And the situation has, of course, been hugely exacerbated by the impact of the COVID-19 lock-down, and the virus's impact on our main trading partners.

But, this downgrade is largely as a result of government's own making over an extended period. The inability to implement a comprehensive package of economic structural reforms (such as quickly enabling private sector investment in power generation), to cut the expensive and wasteful umbilical cord of state ownership and support to non-strategic disastrously run state-owned organisations like SAA, and the fiscal crisis caused by nine years of corruption and state capture have placed South Africa in this situation. The fact that not even one of the protagonists involved in the disastrous state capture project has been prosecuted, is concerning.

In our view, the ratings downgrade is the culmination of missed opportunities by government on economic, fiscal and state-owned enterprise policies, that have resulted in continual declines in competitiveness, a collapse in productivity and has caused the freeze in private sector investment. Overlaying this has been ongoing policy uncertainty caused by the land debate, the lack of certainty on continuing consequences of previous black economic empowerment transactions and the red tape that has stymied new licence applications have served to throttle growth. The result has been barely positive economic growth rates, increasing unemployment, unsustainable fiscal deficits and runaway public sector debt.

After the last global financial crisis and in synchronisation with the Presidency of former President Zuma, the South African economy de-coupled from its traditional close growth correlation with other emerging economies. In the past decade the South African economy managed a paltry 1.5% GDP growth rate versus a global average rate of 3% p.a. in the period. This decoupling was caused by the lack of a comprehensive set of economic structural reforms and ongoing decay in SOEs and the hollowing-out of capacity in government. While there has been some progress in the past two years to address governance issues at SOEs and start the journey towards improving competitiveness, the pace of reforms has been too slow.

At this point, South Africa has no choice but to seek to limit the damage caused by the necessary COVID-19 response and the 21-day shut-down that the Minerals Council fully supports. In this respect, South Africa's response has been exemplary, and has had the full support of organised business. Together with the Department of Mineral Resources and Energy, the Minerals Council and its members have prioritised the health of employees, and at the same time committed to delivering critical services and limiting the damage to the operational abilities of the sector to enable full resumption of operations after the quarantine period. Our resolve to face this human health challenge jointly bodes well for jointly tackling the economic challenges that lie ahead.

Once this crisis is over, the country will need to turn its urgent attention back to addressing the economic crisis and adopting and implementing a set of comprehensive structural reforms that can materially improve the country's competitiveness rankings, grow productivity, generate much higher levels of fixed investment (greater than 25% of GDP versus the current 19% of GDP), raise economic growth and start reducing unemployment and poverty. It is only the implementation of the necessary economic reforms that the ratings agencies will again take us back to investment grade.

The Minerals Council remains convinced that in conjunction with comprehensive economic reforms that the mining industry can be an enormous asset in stabilising and growing the economy if the right economic and regulatory circumstances prevail.

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