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Medium-term budget review: Tough balancing act between fiscal discipline and growth protection

Highlights

- The market responded negatively to a wider-than-anticipated budget deficit projection for the next three fiscal years.
- A rising budget deficit and spending growth that outstrips revenue growth in the next two years point to a slightly expansionary budget, which is marginally positive for the economy, somewhat profit-positive for the companies, which are linked to the local economy, but detrimental to the South African bond market.
- Treasury downwardly revised its growth assumption in response to the poor economic performance in the first half of the year.
- Robust tax collections for the year to date are expected to deteriorate in line with downward revisions to the growth outlook and an expected acceleration in value-add tax (VAT) refunds.
- A tepid growth environment leaves available fewer obvious additional revenue streams to be tapped, but Momentum Investments expects limited compensation for bracket creep and a further rise in sin taxes to be announced in the February 2019 budget.
- The self-imposed expenditure ceiling remains unchanged, as Treasury attempts to reprioritise spending within the existing framework.
- Above-inflation social grants, a generous three-year civil servant wage deal, limited retrenchments in the public sector workforce, an extension of VAT-exempt products and promises made at the Jobs Summit should limit the negative consumer effect of potential bracket creep and higher sin taxes in next year's budget.
- The poor financial standing of some of the country's key parastatals still poses a risk to the overall debt trajectory.
- Rating agencies are likely to give South Africa the benefit of the doubt for now, given the ongoing commitment to fiscal consolidation in the medium term and an effort to maintain the expenditure ceiling.
- However, rating downgrades could materialise if prospects to revive growth falter and if government's debt burden and contingent liabilities fail to stabilise in the medium term.

Market disappointed by wider budget deficit and higher debt trajectory

Financial markets responded negatively to the maiden medium-term budget policy statement (MTBPS) delivered by new Finance Minister Tito Mboweni. By market close, the rand had depreciated by 2.7% relative to just before the budget announcement, while South African (SA) government bond yields (R186) had sold off by 15 basis points.

The FTSE/JSE All-share Index ended 0.3% higher by the close of market relative to before the speech was announced. Gains in the equity market were supported by a 1.3% uptick in resource shares and a 0.6% gain in industrial shares. Financial shares dipped 0.9% after digesting the worse-than-expected budget outcome, which raised the risks of negative downgrade action of sovereign rating by the rating agencies.

Euphoric sentiment, driven by hopes for a speedy economic revival under new President Cyril Ramaphosa, has been dampened in recent quarters. According to the Bureau of Economic Research, business confidence lifted from 34 index points to 45 in the first quarter of the year, but dipped to 38 points by the third quarter of 2018. Nevertheless, firm growth in the global economy, steady international commodity prices and an expected improvement in the local

policy and regulatory environment, following the national elections in 2019, should provide a base for a mild improvement in SA growth in the medium term. A recovering local environment ought to allow government to steer the economy towards a more sustainable fiscal and debt trajectory in the medium term.

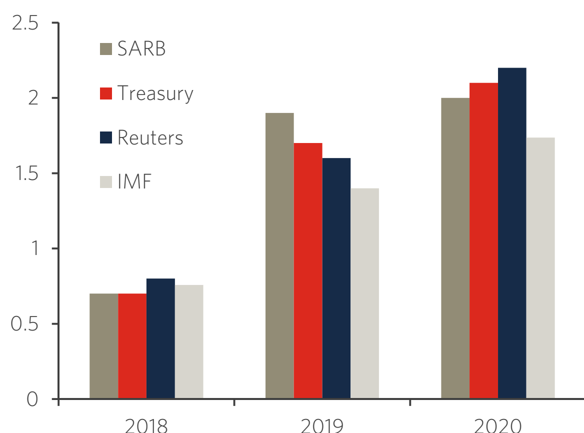
With SA experiencing recessionary conditions, while finding itself in a deteriorating fiscal position, the 2018 medium-term budget was always going to be a tough balancing act between fiscal discipline and growth protection. In the end, Treasury chose to allow some fiscal slippage to avoid additional damage to the economy. A rising budget deficit and spending growth that outstrips revenue growth in the next two years hence resulted in a slightly expansionary budget. With the medium-term budget thus likely injecting more resources into the SA economy than draining from it, it has to be seen as slightly growth-positive for the economy, marginally profit-positive for companies linked to the local economy and, as such, somewhat supportive of the locally orientated part of the SA equity market. In contrast, the fiscal slippage envisaged in the time frame of the medium-term budget should be detrimental to the SA bond market.

Economic risks have materialised

In its October 2018 World Economic Outlook, the International Monetary Fund (IMF) noted the global economic expansion that was hoped for in April 2018 has now turned into a more tentative recovery. The IMF warned the recovery in the global economy has likely plateaued and the potential for upside surprises has receded, while risks remain skewed to the downside on account of elevated political uncertainty.

After factoring in the unexpected SA technical recession (two consecutive quarters of negative growth) in the first half of 2018, Treasury was forced to downgrade its economic growth assumption for the year from 1.5% to 0.7%, which is more or less in line with the Reuters October 2018 consensus median estimate of 0.8%. Treasury expects growth in gross domestic product (GDP) to improve to a revised 1.7% in 2019 and 2.1% in 2020, again broadly in line with the Reuters consensus view for an improvement to 1.6% and 2.2%, respectively (see chart 1).

Chart 1: Real GDP forecasts (% y/y)

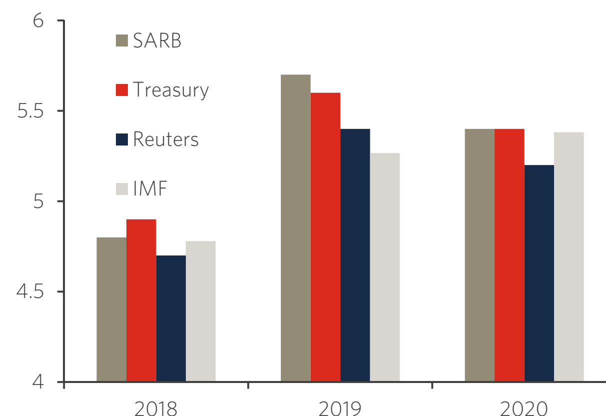


Source: Treasury, SARB, Reuters, IMF, Momentum Investments

In Momentum Investments' view, growth is expected to stage a mild improvement in the medium term. The major inventory drawdown in the second quarter of the year is likely to prompt an accumulation in inventories in upcoming quarters, while the Consumer Vulnerability Index produced by UNISA indicated the consumer moved past its peak point of vulnerability in the first quarter of 2018.

However, tepid growth in the real operating surplus of around 1.5% for the first half of the year and the weak year-to-date (YTD) run rate in collections of corporate income tax point to a tough environment for corporates. Prospects for growth in fixed investment are only likely to turn more meaningfully positive by 2020, once the political and regulatory environment turns less opaque following the national elections in 2019. Similarly, export growth could remain moderate on rising protectionist measures, a slow rise in commodity prices and softer global growth in 2020; the latter a consequence of an anticipated downturn in the United States economy.

Chart 2: Headline inflation forecasts (% y/y)



Source: Treasury, SARB, Reuters, IMF, Momentum Investments

Treasury lowered its 2018 inflation forecast from 5.2% to 4.9% and tweaked its projections for 2019 and 2020 from 5.4% and 5.5% to 5.6% and 5.4%, respectively (see chart 2). In Momentum Investments' view, sustained rand weakness, geopolitically driven higher international oil prices and steeper-than-expected electricity tariff increases for 2019 continue to pose upward threats to the inflation trajectory.

Relative to government's projection of growth in nominal (real plus inflation) GDP of 7.6% in the medium-term expenditure framework (MTEF), Momentum Investments expects a more moderate average of 7.4%.

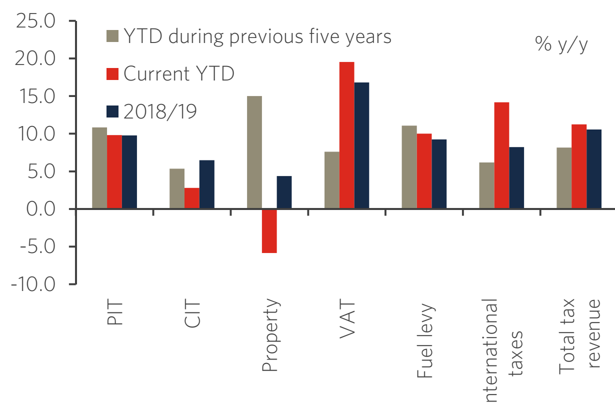
Three alternative growth scenarios have been sketched out by Treasury, quantifying some of the upside and downside risks to its baseline growth forecast. In the first scenario, confidence and economic activity are slow to recover. GDP is expected to grow by 0.9% instead of 1.7% in 2019, due to softer global growth, lower commodity prices and elevated oil prices. In this scenario, the gross debt ratio climbs to 68% in FY2026/27 and debt servicing costs account for 18% of government revenue. In the second scenario, developing economies suffer a debt and currency crisis. Commodity prices dip 15% below expectations in the base case and financial conditions tighten significantly. GDP is expected to contract in 2019 and 2020 in this scenario, while inflation is likely to breach 7%. Consequently, the gross debt ratio climbs to 80% in FY2026/27 and debt servicing costs account for 24% of government revenue by the end of the period. In the third scenario, stronger domestic growth (1% above the baseline on average) is envisioned on the back of the implementation of structural reform. Here, a primary budget surplus is achieved by FY2020/21.

Tax collections running ahead of target, but should soften

Despite growth in tax collections for the first five months of the current fiscal year (FY2018/19) running slightly ahead (11.2%) of government's projections (10.6%) outlined in the February 2018 national budget (see chart 3), pressure is expected to mount on collections for the remainder of the fiscal year in light of Treasury's downward revisions to growth in economic activity and an eradication of the backlog in VAT refunds at the SA Revenue Services (SARS). Revenue has also been downwardly revised by R83 billion between FY2018/19 and FY2020/21 relative to the February 2018 budget estimates.

Relative to expectations, a larger degree of fiscal slippage was announced in the medium-term budget. Relative to February 2018, forecasts for government's main budget deficit have widened by 0.5% to 4.3%, 0.6% to 4.4% and 0.6% to 4.3% in FY2018/19, FY2019/20 and FY2020/21, respectively.

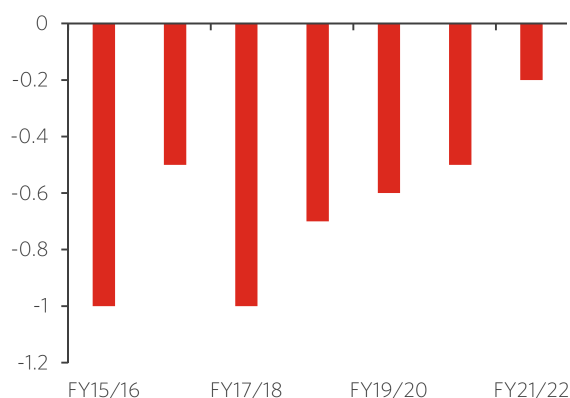
Chart 3: Property and company taxes are lagging



Source: Treasury, Global Insight, Momentum Investments

Treasury remains committed to bringing the primary budget (which calculates the difference between total revenue and non-interest expenditure) close to neutral by FY2020/21 (see chart 4). Once SA moves to a position where it has an excess of revenue over spending other than interest, it will become easier to retire part of its debt and allow for a reversal in the rapid rise in the gross debt ratio that took place between FY2008/09 (26%) and FY2017/18 (55.8%).

Chart 4: Primary budget to remain negative in MTEF

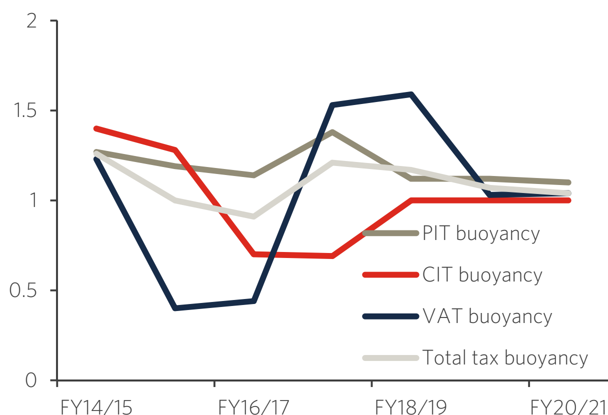


Source: Treasury, Momentum Investments

Treasury noted that in FY2017/18 tax revenue growth did not exceed GDP growth for the first time since the 2008 global financial crisis. In light of the policy directive to eliminate the backlog of VAT refunds at SARS, the tax buoyancy ratio (the relationship between economic growth and growth in revenue) was downgraded significantly for FY2018/19, from 1.51 to 1.21 (see chart 5). The ratio is expected to dip to 1.04

by the end of the MTEF, which is slightly lower than the longer-term average of 1.07.

Chart 5: Tax buoyancy rates

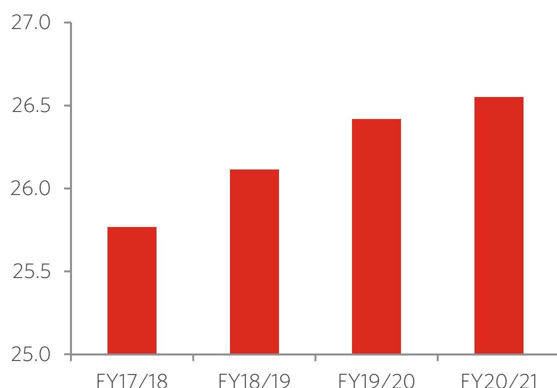


Source: Treasury, Global Insight, Momentum Investments

The availability of additional revenue streams are becoming less obvious. Treasury announced it is "likely to avoid increases in major tax instruments unless the economic environment requires it". It admitted the revenue projections assumed no changes to tax rates, except for the annual adjustments to personal tax brackets, levies and excise duties (in line with inflation).

The tax burden (tax-to-GDP ratio) is expected to become more onerous during the MTEF. The ratio is expected to climb from 25.8% (previously 25.9%) in FY2017/18 to 26.6% (previously 27.2%) in FY2020/21 (see chart 6).

Chart 6: Rising tax burden



Source: Treasury, Momentum Investments

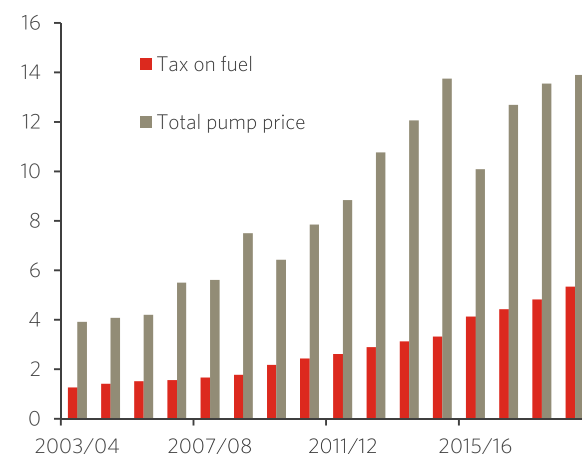
In Momentum Investments' opinion, additional increases in the personal income tax (PIT) rate from current levels could negatively affect tax collections, as cases of tax avoidance and negative growth spill-overs start to emerge. According to the 2017 SARS Tax Statistics Publication, only 6.4 million individuals were expected to submit tax returns for 2016, again pointing to the country's reliance on a narrow tax base. The 2016 tax data revealed that 15% of taxpayers accounted for more than 45% of the total PIT collected.
The Nugent Commission of Inquiry has voiced its concerns about severe governance and administrative weakness within SARS for the past few years. Government has responded by suggesting an increase in transparency in tax administration should help to rebuild taxpayer confidence and compliance.

Similarly, while additional increases to the VAT rate could be substantiated on SA's low ranking on a global VAT rate comparison, a rise in the VAT rate would be difficult to substantiate in an environment of low growth and cash-strapped consumers.

Concerns have been raised about the effect of the April 2018 increase in the VAT rate from 14% to 15% on low-income households. The current VAT system allows for the exemption of 19 basic food items, which are predominantly consumed by poorer households. While government has expanded the range of VAT-exempt items (from 1 April 2019) to include white bread flour, cake flour and sanitary products, these cumulatively account for less than 0.1% of the consumer basket.

Raising SA's company tax rate may prove equally as challenging in Momentum Investments' view. SA's company income tax (CIT) rates are relatively high on a global comparison and government's commitment to an Investment Summit, aiming to attract R1.2 trillion in new investments in the next five years, could rule out the possibility of an increase in the CIT rate to preserve the country's investment attractiveness to foreigners.

Chart 7: Fuel price (R/litre)



Source: Treasury, Momentum Investments, data up to FY2018/19

Government made no announcement on potential fuel price caps, despite having appointed a task team to investigate current fuel prices. In contrast, the budget indicated further large fuel levy increases would be required to manage the short-term liability of the Road Accident Fund (RAF). This is likely to be challenging, given that taxes already accounted for 38.4% of the fuel pump price in the February 2018 budget (see chart 7).

Plans to boost infrastructure spend

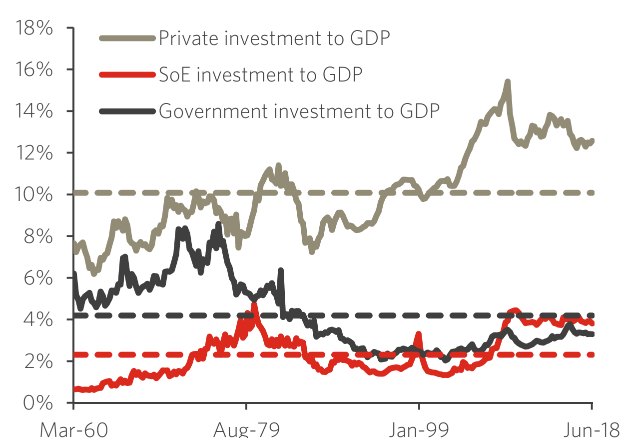
Government announced public sector infrastructure would amount to R855.2 billion over the MTEF, but a further annual breakdown was not provided.

Despite government intimating the private sector is hoarding cash and not investing in the SA economy, information from the SA Reserve Bank highlights the public sector is investing less in fixed investment in the economy as a share of GDP than it has in the past. Historically, government infrastructure spend has averaged 4% of GDP since 1960, in comparison to the current 3%. In contrast, fixed investment by the private sector reached 12% of GDP in the second quarter of the year, which is 2% higher than the long-term average recorded since 1960 (see chart 8).

In the February 2018 budget, Treasury admitted government and banks could not fund SA's infrastructure programme without the help of the broader private sector.

A meaningful partnership between government and the private sector could boost infrastructure maintenance and expansion spend, which could in turn create economic efficiencies, establish greater competitiveness and improve overall growth and living standards.

Chart 8: Fixed investment spending share of GDP (%)



Source: IRESS, Momentum Investments

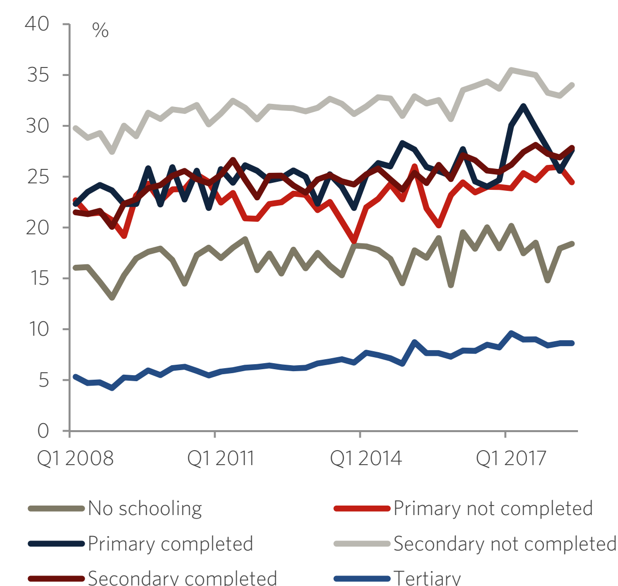
Promises of employment

Nearly 6.1 million South Africans were reported as unemployed in the second quarter labour report compiled by Statistics SA (Stats SA), while a further 2.9 million were classified as having given up looking for work after a four-week period. The data further spelled out the concentration in youth unemployment. The rate of unemployment among individuals aged 15 to 24 years old rose to a staggering 54.2% (and to 33.6% for those aged 25 to 34 years) in the second-quarter release.

While the unemployment rate generally improves as the level of education improves, a higher percentage of university graduates are now unable to find a job than was the case in 2008. The unemployment rate for those who have completed tertiary education increased from 5.3% in the first quarter of 2008 to 8.6% in the second quarter of 2018 (see chart 9).

Growth in jobs in the private sector picked up by a dismal 7% since the first quarter of 2008 (see chart 10), with the bulk of the job gains coming from the public sector (utilities sectors incorporated).

Chart 9: Rising unemployment rates by level of education



Source: Global Insight, Momentum Investments, data up to Q2 2018

Chart 10: Minimal job creation in the private sector

Source: Global Insight, Momentum Investments, data up to Q2 2018

The country's social partners focused on the unemployment crisis at the October 2018 Jobs Summit. Business recognised the need to avoid retrenchments, while government reiterated there would be no retrenchments in the public sector and committed to filling all critical vacancies in the public sector.

It was also agreed that the employment tax incentive, which created 690 000 jobs in the 2016 tax year but is set to expire in 2019, would be extended for a further ten years, with a review after five years.

Expenditure ceiling maintained

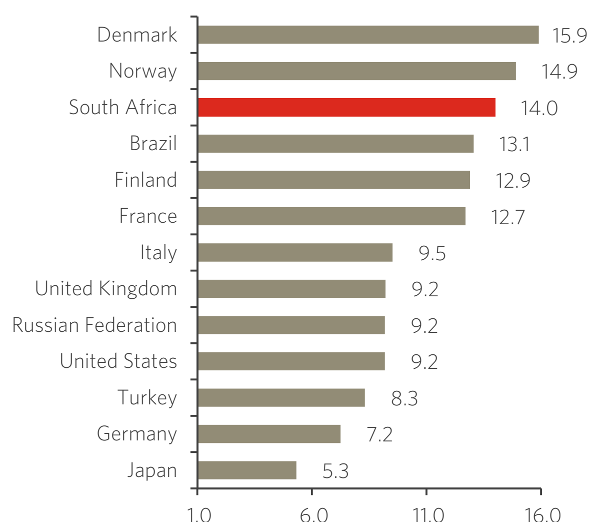
Government kept its expenditure growth below its self-imposed ceiling. Non-interest expenditure is anticipated to increase at an average real rate of 1.9% in the medium term. Expenditure was revised upwards by R12.4 billion between FY2018/19 and FY2020/21 relative to the February 2018 budget.

In line with keeping the expenditure ceiling intact, government drew down on its R8 billion contingency reserve (money set aside for uncertainties related to the economic outlook and other spending pressures) for FY2018/19. The money was largely used for a recapitalisation of SA Airways (R5 billion), the SA Post Office (R2.9 billion), SA Express Airways (R1.2 billion), drought relief and education infrastructure. The shortfall was met by declared unspent money and projected underspending. The contingency reserve for FY2019/20 and FY2020/21 was revised lower to R7 billion and R8 billion, from R10 billion in each year previously. An additional allocation of R12 billion has been made to the outer year of the MTEF.

In Momentum Investments' view, the government wage bill, which accounted for 34.7% of consolidated expenditure in October 2018, poses one of the largest risks to the expenditure ceiling. SA spends a disproportionate amount on civil servant wages as a share of its GDP (see chart 11), particularly considering the relatively low productivity rate of SA public sector workers on a global comparison.

Real wage increases in the public sector have averaged more than 4.5% since the 2008 global financial crisis and have often been higher than private wage increases, despite being accompanied by lower rates of productivity.

Chart 11: SA spends a disproportionate amount on the public sector wage bill



Source: OECD, Momentum Investments

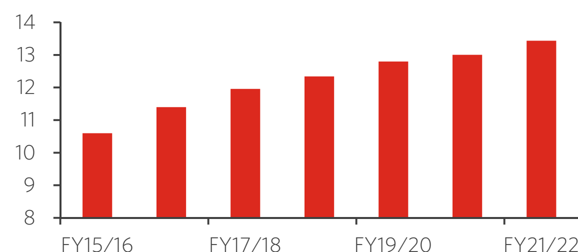
In Momentum Investments' opinion, no concrete plans were outlined on how best to address government's bloated wage bill. No additional funding will be allocated to the R30.2 billion overrun in the civil servant wage bill, which reasons that individual departments will need to fund shortfalls by "adjusting within their compensation baselines through increasing efficiencies and managing overtime and performance incentives". With the finalisation of government's above-inflation three-year wage deal in June 2018 and the promise to avoid mass retrenchments in the public sector, there is little wiggle room to scale back the burgeoning civil servant wage bill.

Momentum Investments believes the interest bill is a further drag on spending. Government's debt-servicing costs rank as the fastest-growing expenditure item in the budget, estimated

to increase at 10.9% on average over the MTEF, or 5.4% in real terms, which far exceeds real growth in the economy. However, relative to the February 2018 budget, the interest bill is expected to amount to R12.5 billion less between FY2018/19 and FY2020/21.

Encouragingly, debt servicing costs is expected to remain below 15% of revenue (see chart 12), which is a key measure used by the rating agencies to determine the sustainability of a country's debt profile.

Chart 12: Debt servicing costs to remain below 15% of revenue



Source: Treasury, Momentum Investments

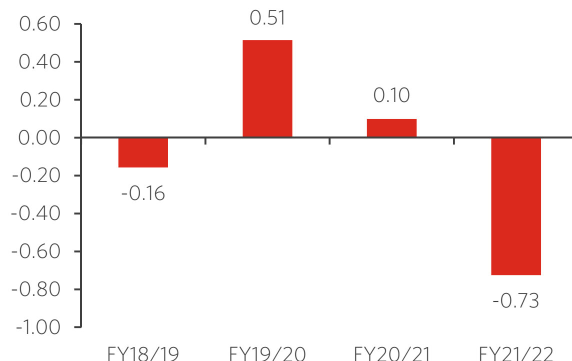
Reprioritisation of budget expenditure

Growth in expenditure YTD has averaged 7.0%, which is lower than the average (8.7%) recorded for the same period in the past five fiscal years. However, relative to the February 2018 budget, expenditure is expected to increase by R12.4 billion for the three-year period between FY2018/19 and FY2020/21.

Of the R32.4 billion of reprioritised expenditure, R15.9 billion went to faster-spending infrastructure programmes, clothing and textile incentives and jobs creation in the Expanded Public Works Programme. The bulk of the remaining money will be allocated to upgrading informal settlements.

Government reported that municipalities owed more than R23 billion to a number of entities, including Eskom and the water boards. A reallocation of resources has further been recommended to enable national and provincial treasuries to manage interventions in the growing number of municipalities in financial crisis. According to government, municipal arrears have increased by an average rate of 35% since FY2013/14, totalling R23.4 billion in FY2017/18. Although SA's public sector has a net asset position of 152% of GDP (as calculated by the IMF), persistent deficits in the public sector will weaken this position over time.

Chart 13: Excess expenditure growth over revenue growth



Source: Treasury, Momentum Investments

With expenditure growth outstripping revenue growth in FY2019/20 and FY2020/21, this budget is perceived to be expansionary in nature during this period (see chart 13). Growth in revenue in FY2021/22 is once again expected to exceed growth in expenditure, confirming government's commitment to fiscal consolidation in the medium term, which is likely to be viewed more positively by the rating agencies, in Momentum Investments' view.

Higher growth prospects are needed to fund long-term spending commitments

Aside from a burgeoning civil servant wage bill and onerous debt-servicing costs, there are other key long-term spending commitments, which require a significant budget allocation.

Statistics SA (Stats SA) is updating its long-term demographic projections, which should be released in 2019. Treasury's planning for basic social delivery, grants and social housing will take these new forecasts into account. As such, Treasury will be undertaking an extensive review of its long-term fiscal model in the next year. Newly costed spending estimates for the National Health Insurance (NHI) project are likely to be released by the 2019 medium-term budget.

The 2018 medium-term budget showed the health budget accounting for 12.4% (previously 13.9%) of total spending between FY2018/19 and FY2020/21. Few updates were provided on the NHI fund, which is expected to drive reform in the health sector. NHI pilots continue to be tested, but have proved to be unsuccessful in the past years.

In Momentum Investments' opinion a lack of resources, limited specialists and maladministration pose risks to an effective rollout of NHI. Net funding additions towards the NHI initiative were limited, with Treasury announcing it would reprioritise R350 million to address critical staff shortages.

Financing state organisations is a risk to the longer-term debt trajectory

Although there has been an overhaul in the leadership of key state-owned enterprises (SoEs), the financial positions of a number of parastatals remain precarious.

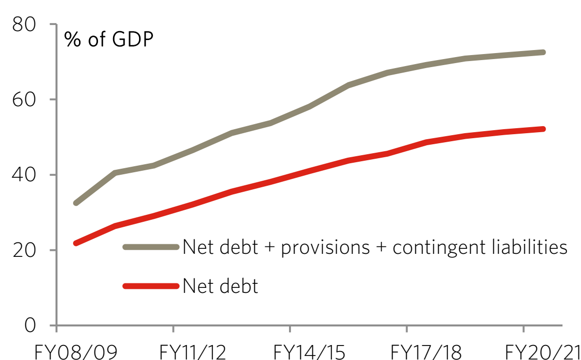
SA Airways will receive an additional R5 billion to settle debt redeeming between now and March 2019. The SA Post Office is expected to receive an additional R2.9 billion to reduce debt levels, while SA Express Airways will be allocated an additional R1.2 billion. Given the failure of the e-tolls collection to fund the Gauteng Freeway Improvement Project, government is allocating R5.8 billion to SANRAL to settle its redemptions over the MTEF.

Of the SoEs in financial distress, Eskom poses the largest burden to the fiscus, given its relative size and the strategic role it plays in supplying 90% of the country's energy. Eskom has a R350 billion government guarantee, of which R255 billion has been used. While Eskom requires higher electricity prices to prop up its revenue, previous price increases have led to a reduction in customer demand, lowering volumes. The energy regulator, Nersa, has granted Eskom a 4.1% increase (effective from April 2019). The entity was also allowed to recover R32.7 billion from three separate Regulatory Clearing Account applications, over a four-year period from FY2019/20.

The fourth multi-year price determination (MYPD4), which covers a three-year horizon to March 2022 has yet to be published, but Eskom is widely expected to request a 15% increase. Treasury has incorporated an electricity tariff increase of 9% for 2019 and 10% for the following two years.

Momentum Investments believes the rationale for state ownership and the mandate of many of the ailing SoEs needs to be revisited. Oversight should be exercised over these entities to ensure the efficient allocation of capital. Constant monitoring and evaluation could further instil a culture of accountability, while improving transparency should allow for a closer alignment with corporate governance standards.

Chart 14: Total debt as a % of GDP



Source: Treasury, Momentum Investments

While Treasury anticipates the ratio of SA's net debt to GDP to increase to 53.7% by FY2020/21, the addition of provisions and contingent liabilities (using the latest available estimate provided by government in February 2018) takes the ratio of overall debt-to-GDP higher to 74% by FY2020/21 (see chart 14), which is significantly higher than the 60% limit often quoted as a threshold above which fiscal sustainability is threatened.

Government's ability to stabilise debt could be compromised by a rise in bond yields, higher interest rates and further sustained depreciation in the currency. Treasury calculated that a 10% change in interest rates in FY2019/20 would translate into a R4.1 billion increase in debt service costs and a R11 billion increase in gross loan debt. A second calculation revealed that a 10% change in the exchange rate in the same period could lead to a R2 billion change in debt service costs and a R28.4 billion change in gross loan debt. Lastly, a 10% change in the headline rate of inflation would raise debt service costs by R0.1 billion and gross loan debt by R3.1 billion.

Decisive steps to rebuild confidence

In September 2018, government responded to the contraction in growth in the first half of the year by announcing an economic stimulus and recovery plan. The measures in Table 1 below aim to restore investor confidence, ignite economic activity, prevent further jobs losses, create new jobs and improve living standards for the most vulnerable in society.

Nonetheless, the initial positive market reaction to the stimulus package soon died down, as scepticism over the relatively small size of the stimulus package and budgetary constraints dampened the cause for optimism.

While fractious politics likely prevents much-needed longer-term reforms in the land, health and education sectors, Momentum Investments' believes some of the proposals announced are likely to affect the economy positively.

Table 1: Stimulus measures announced to reignite inclusive growth in SA

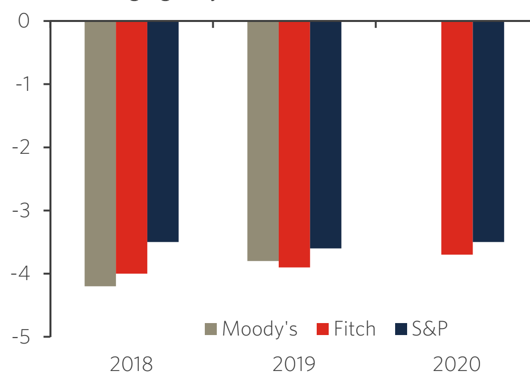
Stimulus measure	Economic effect
Third Mining Charter and scrapping of the Mineral and Petroleum Development Act Bill	• Reduction in regulatory uncertainty • Potential for investment and exploration levels to be restored • Positive for exports and jobs growth
Reviewing administered prices	• Reduces cost of doing business • Increases competitiveness • Reduces inflation
Licensing high-demand spectrum	• Promotes investment in telecommunications sector (to be auctioned by April 2019) • Reduces data costs • Increases competition
Reprioritisation of spending	• Efficient use of resources • Job creation • Improved effect on economic growth
Land reform	• 30-year land leases • Funding for export-orientated crops, that are labour intensive • Advisory panel on land reform to ensure fair and equitable process that addresses injustices of the past, while increasing agricultural output and protecting food security
Township and rural development	• Broader economic development
Infrastructure fund	• Boosts long-term growth • Draws in private sector investment • Improves quality of living
Public Procurement Bill	• Allows for rural and township economies to participate in procurement
Reviewing visa regulations	• Facilitates skilled immigration • Boosts tourism

Source: The Presidency, Momentum Investments

Rating agencies likely to give SA the benefit of the doubt

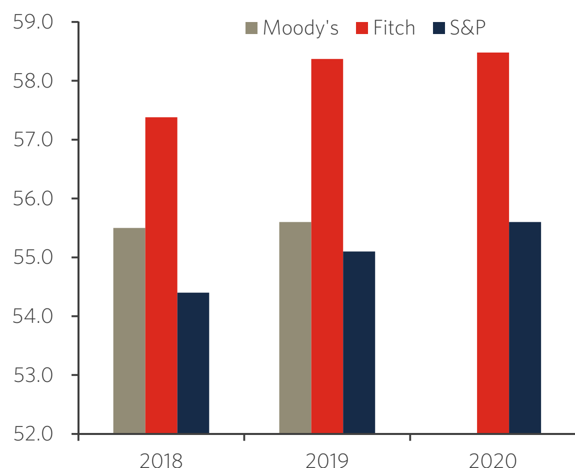
Moody's estimates the SA economy will grow at a slower rate relative to government's expectations, which are 0.5% in 2019 and 1.3% in 2020. It had originally forecasted government's fiscal deficit ratio to narrow from 4.2% in 2018 to 3.8% in 2019 (see chart 15), resulting in a sideways movement in the government debt ratio from 55.5% to 55.6% (see chart 16) in the same period.

Chart 15: Rating agency fiscal deficit forecasts (% of GDP)



Source: S&P, Fitch, Moody's, Momentum Investments

Chart 16: Rating agency debt ratio forecasts (% of GDP)



Source: S&P, Fitch, Moody's, Momentum Investments

Despite the unexpected deterioration in SA's fiscal deficit and debt ratios projected in the MTBPS, government has maintained the expenditure ceiling and remains committed to fiscal consolidation, aiming to reduce the primary deficit to 0.2% of GDP in the outer year of the MTEF.

Moreover, SA faces low external pressure and its monetary flexibility, free press and vibrant judicial system are viewed as credit strengths.
Earlier in the year, Moody's rating agency admitted it was looking for a gradual recovery in the SA economy and it was taking a wait-and-see approach to land reform, given that populist political posturing could be affecting the narrative.

With Moody's only looking for a stabilisation in debt in the medium term and not expecting a quick recovery in growth, Momentum Investments expects Moody's to leave the country's sovereign rating unchanged at the October 2018 review following the MTBPS, although there is a possibility it may lower the outlook to negative due to some fiscal slippage (see chart 17).

Chart 17: SA's sovereign rating

Long-term rating	S&P	Fitch	Moody's
Investment grade	A-	A-	A3
	BBB+	BBB+	Baa1
	BBB	BBB	Baa2
	BBB-	BBB-	Baa3
Sub-investment grade	BB+	BB+	Ba1
	BB	BB	Ba2
Outlook	Stable	Stable	Stable
Key:			
Local currency rating			
Foreign currency rating			
Both ratings			

Source: S&P, Moody's, Fitch, Momentum Investments

In Momentum Investments' opinion, the new administration has addressed a number of low-hanging fruit to avoid a further sovereign ratings downgrade before the end of the year. However, the rating agencies have warned SA's sovereign ratings could drop if trend growth declines, if SoE debt migrates to government's balance sheet, if tensions in the ruling party derail policy making or if the rule of law or property rights weaken.

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