

# Moody's: Mboweni's Budget shows further erosion in SA's fiscal strength – SA Budget 2019/20



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Tito Mboweni, South African Minister of Finance walks with members of the Finance Ministry up Government Avenue to deliver his medium-term budget speech on October 24, 2018. (RODGER BOSCH/AFP/Getty Images) ~ AFP

Moody's, the only major ratings agency that has not already downgraded SA's sovereign debt to junk, on Wednesday responded to Finance Minister Tito Mboweni's maiden Budget by saying it "highlights the governments limited fiscal flexibility amid a challenging economic environment".

Moody's currently has SA's debt at Baa3 with a stable outlook, one notch above junk status. Rival agencies Fitch and S&P downgraded SA's sovereign debt to non-investment grade in 2017.

Were Moody's to downgrade SA to sub-investment grade, the country would automatically be ejected from the major Citi World Government Bond Index. This would force asset managers to sell billions of rands' worth of SA bonds.

In a statement on Wednesday afternoon, Lucie Villa, a Moodys senior credit officer and lead sovereign analyst for South

Africa, said the Budget showed a further erosion in fiscal strength after the October mini budget already pointed to wider deficits.

“Government support for Eskom, which will be only partially compensated by a reduction in other spending, and revenue under-performance lead to a renewed upward revision in fiscal deficits and debt levels, while contingent liability risks persist,” she said.

Villa’s statement does not constitute a ratings action.

In his maiden Budget, Mboweni announced that Treasury would [allocate R69bn in financial support](#) over the next three years to help cash-strapped power utility Eskom pay its debts, as it undergoes a restructuring to make it profitable.

Speaking to journalists at a pre-Budget briefing, Mboweni said the state was basically placing Eskom “under curatorship”, and warned the R23bn a year lifeline came with conditions attached.

Part of the support package includes the installment of a “chief reorganisation officer” at Eskom who will be jointly appointed by Mboweni and Public Enterprises Minister Pravin Gordhan.

Earlier Investec Chief Economist Annabel Bishop said the Budget could possibly stave off a credit negative response from Moody’s.

“Government expenditure is projected to rise only in one year to provide financial support to Eskom. This may be seen as credit negative by Moodys, but as it is only one year it may be enough to stave off an actual credit rating downgrade or even change to the outlook for the year,” she said.

A negative outlook can indicate a ratings downgrade within 18 months, she said.

