BIZCOMMUNITY

Fitch joins the junk status fray

By Tumisho Grater

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Global ratings agency, Fitch, has added its voice to growing disquiet in the markets that South Africa is no longer a safe bet for investment, having downgraded the country's long-term foreign and local-currency issuer default ratings (IDRs) to 'BB+' from 'BBB-', with the outlook, stable.

Tumisho Grater, economic strategist at Novare

This is the second time the country has been downgraded to junk status this week, while Moody's has erred on the side of caution and placed the country under review for a downgrade.

Fitch echoed the concerns of both S&P and Moody's, highlighting the uncertainty in the direction of economic policy following the cabinet reshuffle, which saw the firing of finance minister, Pravin Gordhan, who was perceived as a symbol of stability and who instilled confidence in the investment community.

SOE debt

The current finance minister, Malusi Gigaba, addressed the media this week and endeavoured to provide some assurance that the finance ministry would stay the course in terms of fiscal consolidation and that the proposed reforms regarding state-owned entities (SOEs) would continue.

However, the ratings agencies are not convinced, as Fitch has stated that the reshuffle is likely to undermine, if not reverse, progress in SOE governance - raising the risk that SOE debt could migrate onto the government's balance sheet.

South Africa's contingent liabilities have been rising. This reflects the increased risk that non-financial public enterprises will need further extraordinary government support.

Eskom, in particular, is raising concern after having its tariff increase capped by the South Africa's energy regulator. The power utility now faces a funding gap of up to R70bn, according to S&P (of which up to half may utilise government guarantees).

Another fear has been the differences over the country's controversial nuclear programme. Fitch is of the view that this may have been behind the cabinet reshuffle and that the new leadership would press ahead with the costly programme in a relatively shorter timespan. Again, placing further pressure on the government finances.

Global bond indices inclusion criteria

The slippage in South Africa's credit rating elevates the importance of global bond indices inclusion criteria. Emerging markets debt has attracted growing attention from investors as a higher-yielding alternative over the years.

And credit ratings below investment grade could see South Africa unable to participate in international bond indexes, such as the JP Morgan Emerging Markets Index and the Citi's World Government Bond Index (WGBI). Both require Moody's and S&P's long-term local currency rating to be below investment grade before removing a country from the index. Removal from the indexes could result in capital outflows and rand weakness, which could translate into higher inflation and a loss of business confidence.

At the end of the day, this all impacts the average man on the street like you and me. Loss of investments has an impact economic growth, which hinders the country's ability foster a nurturing environment for creating jobs.

ABOUT THE AUTHOR

Tumisho began her career after completing a BCom, specialising in economics in 2009. She previously worked for the likes of Investec Asset Management and Investec Private Bank before joining the CNBC Africa team as a markets and business news anchor. As Novare's economic strategist, she responsible for gathering, analysing and interpreting key economic data and using this to provide innovative and unique perspectives into the market