South Africa sidesteps ratings downgrade... For now

By Nicci Botha

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South Africa dodged the bullet this time, but Standard & Poor's (S&P) warns that it will keep an eye on what the country is doing to improve or stabilise its credit rating before the next review in November.

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S&P, which rates the sovereign debt of Africa's most industrialised country one notch above speculative grade at BBB- with a negative outlook, has previously warned that a weak economic outlook also poses a risk to the country's rating.

S&P report overview

The S&P report says: "Low GDP growth is putting South Africa's economic metrics at risk and could eventually weaken the government's social contract with business and labour."

"Rising political tensions are accentuating vulnerabilities in the country's sovereign credit profile. Still, energy sector improvements will likely reduce some of the economic bottlenecks and pending finalisation of labour and mining reforms could engender a positive confidence shock. On the fiscal side, the government is showing greater resolve to reduce fiscal deficits at a faster pace than we expected."

Response from government

A statement issued by the National Treasury says: "The benefit of this decision is that South Africa is given more time to demonstrate further concrete implementation of reforms that are underway aimed at achieving higher levels of inclusive growth and place public finances on a sustainable path."

“Government is aware that the next six months are critical and there is a need to step up the implementation of the nine-point plan and other measures to boost the economy. Government, business and labour will collectively intensify efforts aimed at:

- Restoring confidence and boosting investment among local and international investors.
- Unblocking obstacles to faster employment growth in key sectors.
- Undertaking fiscal, state-owned companies (SOCs) and regulatory reforms.”

A united effort towards concrete delivery in these priorities will lay a solid foundation for all South Africans to break through, in a sustainable manner, the cycle of poverty, inequality and unemployment, the statement says.

What the economist thinks

Independent economist, Dawie Roodt, says the fact that S&P kept the outlook at “negative” meant that it was concerned about the country’s economy and about the ongoing political turmoil which included widespread allegation of corruption. No doubt the rating agency is also awaiting the outcome of the local government elections in August.

He says a cut to below investment grade would push up South Africa's borrowing costs, making it harder to plug a budget deficit projected at 3,2% of GDP in the 2016/17 financial year.

The move would place South Africa in the same category as other emerging markets such as Brazil, Russia and Turkey, which have been downgraded by the ratings agencies.

Moody's also held its rating at Baa2 earlier this year, while Fitch, which like S&P rates South Africa one step above sub investment grade, is expected to issue its own review this week.

ABOUT NICCI BOTHA

Nicci Botha has been wordsmithing for more than 20 years, covering just about every subject under the sun and then some. She's strung together words on sustainable development, maritime matters, mining, marketing, medical, lifestyle... and that elixir of life - chocolate. Nicci has worked for local and international media houses including Primedia, Caxton, Lloyd's and Reuters. Her new passion is digital media.