Why SA Inc's rating has been downgraded

Money Matters

Mark Williams

The rating downgrade is not the concern, but the reason for downgrade is a concern.

Rating agencies primarily consider two critical factors when issuing a credit rating.

Firstly, your ability to pay back the debt and secondly your willingness. How does SA Inc stack up on these two measures?

South Africa's current debt to GDP is relatively low at 51%. This is, however, somewhat misleading because if you include the current debt of state-owned enterprises (SOE) the figure jumps to 59% rising to 69% if guarantees issued to SOEs are included.

Talk around a nuclear deal would take this number up to 90%, which would effectively mean SA Inc would be in a debt trap.

The next consideration in establishing the ability of SA Inc to repay the debt is the budget.

Unfortunately, with the projected GDP growth of less than 1% for the year, tax revenue is likely to be under severe pressure, while expenses continue to escalate unabated.

The expenses are mostly of a fixed nature with government salaries, grants and interest on existing debt making up the bulk of payments.

The additional debt to fund the deficit will further exacerbate rising debt servicing costs, which is the fastest growing line item in the budget.

The other very worrying factor is the massive losses incurred by the SOEs through mismanagement and corruption, which will ultimately land up on the government's balance sheet and, therefore, be the responsibility of taxpayers.

So, although not an immediate concern, SA Inc's ability to pay back the debt is certainly deteriorating fast, which is the main reason for the recent downgrade.

The second consideration pertaining to a country's willingness to pay back the debt talks to policy risk. Here you need look no further than the recent cabinet reshuffle when the very well-regarded former finance minister Pravin Gordhan was summarily dismissed and replaced by a rather dubious and compliant new minister in Malusi Gigaba. The recent furore over the Public Protector's report that the Reserve Bank's mandate should be changed to focus on the socio-economic needs of the country is another clear attack on the independence and integrity of a highly-regarded institution – and potentially a disturbing change in government economic policy.

Unfortunately, or fortunately, depending on how it turns out, the ANC government is in turmoil with the succession battle taking the focus off addressing the very real issues underlying the recent downgrade. We can only hope that good trumps evil and then the fixing can begin.

– *www.markwilliams.co.za*