

JUNK STATUS

WHAT DOES IT MEAN FOR SOUTH AFRICA?

More South Africans will pay more on interest

Food, electricity and petrol prices increase

Unemployment increases due to retrenchments and factory shut down

Government will be forced to spend less on social programmes

Low confidence, therefore low investments and no job creation

The Rand will be worth much less, thus increasing the price of imported goods.



CREDIT RATINGS AND HOW THEY WORK

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



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ECONOMIC OUTLOOK

Currently the economy of South Africa is not doing well. Many companies are retrenching; other companies are closing down and exiting South Africa; the outbreak of the Coronavirus (COVID-19) has led to a 21-day national lockdown, which will disrupt productivity; and the prolonged load shedding that the country is experiencing has been applying brakes to growth and scaring investors away. Government is doing all it can to contain the outbreak of COVID-19 as well as assisting the energy supplier to overcome its financial and operational needs. Further, Government continues to work tirelessly with business, civil society and labour to demonstrate its commitment to translate plans into concrete actions that will ensure South Africa remains an attractive investment destination. Given Government's needs to sustain the country through hard times created by the collapse in the US banks in 2008, it has for the past years gathered a lot of debt. The more retrenched people, the less money government gets through taxes, so it borrows more. Currently government spends close to R229 billion in interest costs (a budget that is almost the same as for social grants and health) with the debt of R3 trillion. If the cost of borrowing money for government increases, it means that government will have to either cut social spending or tax the few people that are working even more, which is bad for the country.

DESCRIPTION OF INVESTMENT GRADE

Unfortunately, South Africa lost its investment grade rating from all the major 'big three' (Moody's, S&P and Fitch) rating agencies. South Africa now will be borrowing money at unfavourable interest rates (non-investment grade) because rating agencies believe that South Africa will find it difficult to payback its debt given the social and economic priorities that government currently has. Because the country is not growing and few people are employed, government will be forced to cut spending on social services. This means that more money will be used for payment of its interest and debt instead of improving the standard of living for individual South Africans.

WHAT CAN AN AVERAGE SOUTH AFRICAN DO?

As the country is faced with such problems, South Africans can help to ease up the difficulties by complying with the 21-day national lockdown to combat the COVID-19 outbreak, increasing their personal savings where possible and do not spend more than they earn. South Africans need to preach the message of "being educated" because "an educated nation is a powerful nation".



RATING SCALE	RATING DESCRIPTION	HOW BANKS WILL TREAT YOU
AAA	Prime	All good banks want to lend you money at a very low interest rate. They will offer you wine, tea, juice, anything you want
AA+/Aa1	High grade	All good banks want to lend you money at a low interest rate. They will offer you tea and water.
AA/Aa2		
AA-/Aa3		
A+/A1	Upper medium grade	All good banks want to lend you money at a relatively low interest rate. They will offer you only water
A/A2		
A-/A3		
BBB+/Baa1	Lower medium grade	Most good banks want to lend you money at a normal interest rate. You will stand in a short queue
BBB/Baa2		
BBB-/Baa3		
BB+/Ba1	Non-investment grade	A number of banks are still willing to lend you money at a very high interest rate. No special treatment and they want proof of assets for them to be sure you will be able to pay them
BB/Ba2		
BB-/Ba3		
B+/B1	Highly speculative	Mashonisa's are willing to lend you money at very very high interest rates. They take your ID, TV, bed or other assets that you have so that they can sell them if you don't pay
B/B2		
B-/B3		
CCC+/Caa1	Substantial risks	Mashonisa's are willing to lend you money at very very high interest rates. They take your ID, TV, bed or other assets that you have so that they can sell them if you don't pay
CCC/Caa2		
CCC-/Caa3		
CC/Ca1	Extremely speculative	Mashonisa's are willing to lend you money at very very high interest rates. They take your ID, TV, bed or other assets that you have so that they can sell them if you don't pay
C/Ca	Default imminent	
RD	In default	
SD		
D		