Investec

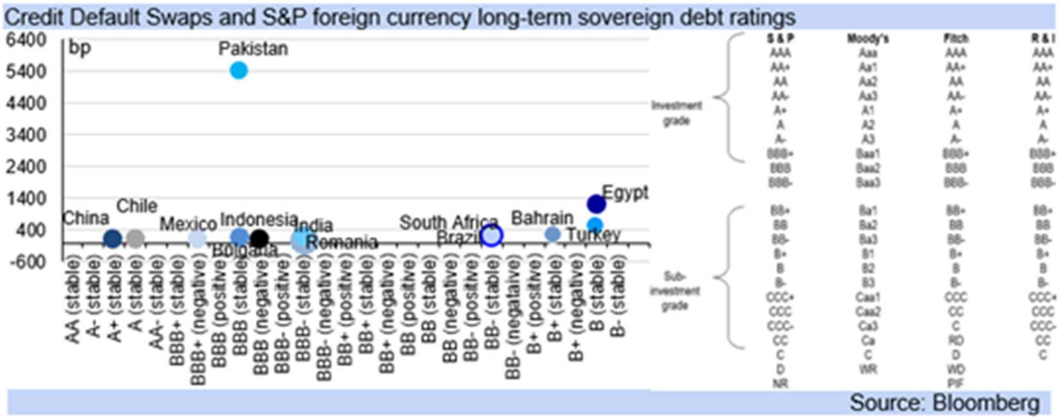
Credit Rating note: S&P drops its positive view on SA, downgrades a risk

Friday 10 March 2023

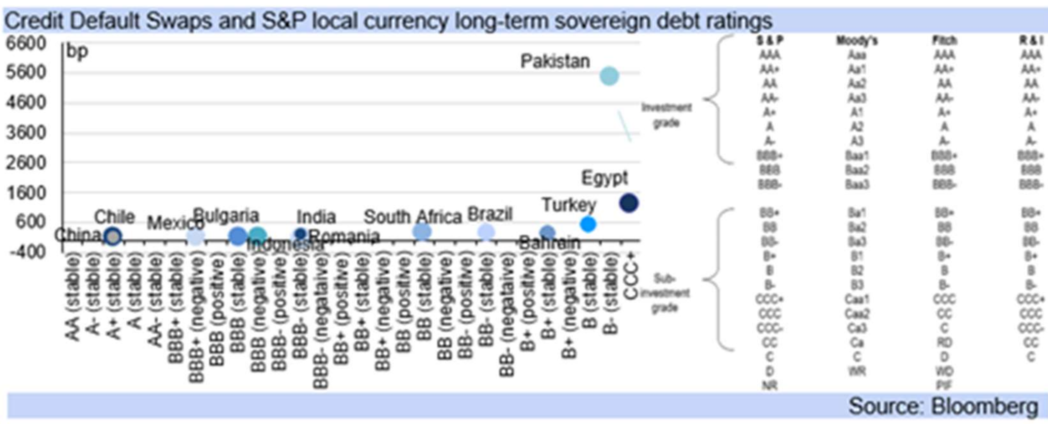
SA credit ratings - Long term foreign currency

South Africa – S&P Ratings		South Africa – Fitch Rating		South Africa - Moody's Rating	
03/10/1994	BB	22/09/1994	BB	14/10/2004	Baa2
20/11/1995	Upgraded to BB+	19/05/2000	Upgraded to BB+	11/01/2005	Upgraded to Baa1
25/02/2000	Upgraded to BBB-	27/06/2000	Upgraded to BBB-	16/07/2009	Upgraded to A3
07/05/2003	Upgraded to BBB	05/02/2003	Upgraded to BBB	27/09/2009	Downgraded to Baa1
01/08/2005	Upgraded to BBB+	25/08/2005	Upgraded to BBB+	06/11/2014	Downgraded to Baa2
12/10/2012	Downgraded to BBB	10/01/2013	Downgraded to BBB	09/06/2017	Downgraded to Baa3
13/06/2014	Downgraded to BBB-	04/12/2015	Downgraded to BBB-	27/03/2020	Downgraded to Ba1
03/04/2017	Downgraded to BB+	07/04/2017	Downgraded to BB+	20/11/2020	Downgraded to Ba2
24/11/2017	Downgraded to BB	03/04/2020	Downgraded to BB		
29/04/2020	Downgraded to BB-	20/11/2020	Downgraded to BB-		

Source: Bloomberg



Credit Default Swaps and S&P foreign currency long-term sovereign debt ratings



Credit Default Swaps and S&P local currency long-term sovereign debt ratings

- S&P was due to provide a country review and potentially rating action on SA in May, but instead this week removed the positive outlook it had on SA's BB- rating which previously was signalling the likelihood of a rating upgrade to BB, but this now has fallen away.
- The agency said the deterioration in its outlook on SA came as "(e)conomic growth in South Africa is facing increasing pressure from infrastructure constraints, particularly severe electricity shortages."
- "Reforms to address infrastructure shortfalls and to improve governance and performance at state-owned enterprises (SOEs) are slow, weighing on growth, while contingent liabilities from SOEs pose continued downside risks".
- "We therefore revised our outlook on South Africa to stable from positive, reflecting these risks. We affirmed our 'BB-/B' foreign currency sovereign credit ratings on the country".
- "The (now) stable outlook … balances South Africa's credit strengths--particularly a credible central bank, a flexible exchange rate, an actively traded currency, and deep capital markets--against infrastructure-related pressures on growth, and downside risks to the fiscal and debt position."

- The stable outlook means SA is no longer in line for a credit rating upgrade to BB, although the agency does say it "could raise the ratings if there is an improving track record of effective reforms, resulting in structural improvements in economic growth alongside a reduction in public debt and contingent liabilities."
- It is key to note that SA has lost its formally indicated likelihood of an upgrade from S&P not due to any weakening in government finances, but instead because of the weakening economic growth rate as load shedding worsens, along with rail and port capacity.
- Indeed, S&P warns it could downgrade SA "if the ongoing implementation of economic and governance reforms does not progress as planned, resulting in further deterioration in economic growth, or higher-than-expected fiscal financing needs."
- And on "deepening of the electricity crisis or if critical infrastructure constraints worsen." SA's electricity crisis is likely to worsen without the eradication of the reported criminality damaging supply, with plans for higher levels of loadshedding extended beyond stage 8 to protect the grid.

Please scroll down to the second section below

Foreign Currency – Long term ratings			
	S&P	Moody's	Fitch
Brazil	BB-	Ba2	BB-
Russia	NR	NR	WD
India	BBB-	Baa3	BBB-
Turkey	B	B3	B
Mexico	BBB	Baa1	BBB-
South Africa	**BB-**	**Ba2**	**BB-**
China	A+	A1	A+
Nigeria	B-	Caa1	B-
Kenya	B	B2	B
Namibia	NR	B1	BB-
Ghana	SD	Ca	RD
Botswana	BBB+	A3	NR
Mozambique	CCC+	Caa2	CCC+
Ethiopia	CCC	Caa2	CCC-
Rwanda	B+	B2	B+
Uganda	B	B2	B+
Angola	B-	B3	B-
Dem. Rep of Congo	B-	B3	NR
			Source: Bloomberg

Credit ratings				
	S & P	**Moody's**	**Fitch**	**R & I**
Investment grade	AAA	Aaa	AAA	AAA
	AA+	Aa1	AA+	AA+
	AA	Aa2	AA	AA
	AA-	Aa3	AA-	AA-
	A+	A1	A+	A+
	A	A2	A	A
	A-	A3	A-	A-
	BBB+	Baa1	BBB+	BBB+
	BBB	Baa2	BBB	BBB
	BBB-	Baa3	BBB-	BBB-
Sub-investment grade	BB+	Ba1	BB+	BB+
	BB	Ba2	BB	BB
	BB-	Ba3	BB-	BB-
	B+	B1	B+	B+
	B	B2	B	B
	B-	B3	B-	B-
	CCC+	Caa1	CCC	CCC+
	CCC	Caa2	CC	CCC
	CCC-	Ca3	C	CCC-
	CC	Ca	RD	CC
	C	C	D	C
	D	WR	WD	
	NR		PIF	

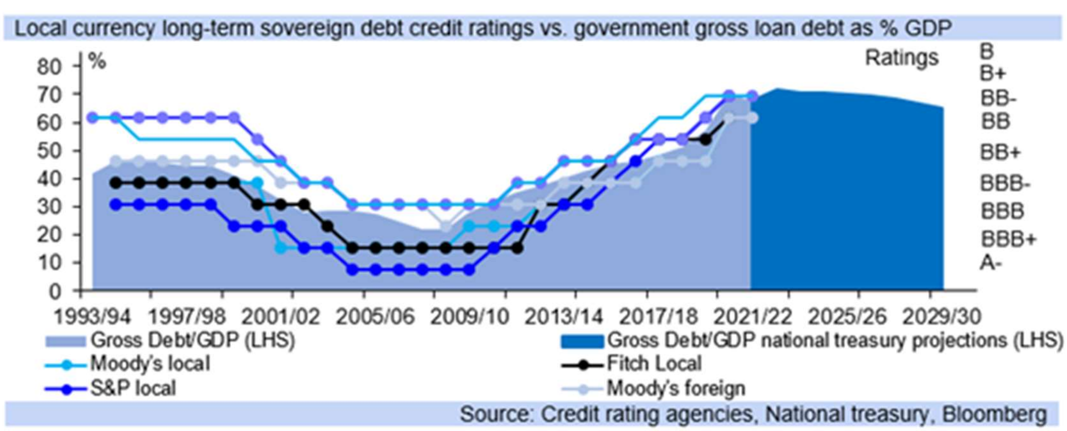
Source: Bloomberg

Local Currency – Long term ratings	S&P	Moody's	Fitch
Brazil	BB-	Ba2	BB-
Russia	NT	NR	WD
India	BBB-	Baa3	BBB-
Turkey	B	B3	B
Mexico	BBB+	Baa2	BBB-
South Africa	**BB**	**Ba2**	**BB-**
China	A+	A1	A+
Nigeria	B-	Caa1	B-
Kenya	B	B2	B
Namibia	NR	B1	BB-
Ghana	CCC+	Ca	RD
Botswana	BBB+	A3	NR
Mozambique	B-	Caa2	CCC
Ethiopia	CCC	Caa2	CCC-
Rwanda	B+	B2	B+
Uganda	B	B2	B+
Angola	B-	B3	B-
Dem. Rep of Congo	B-	B3	NR

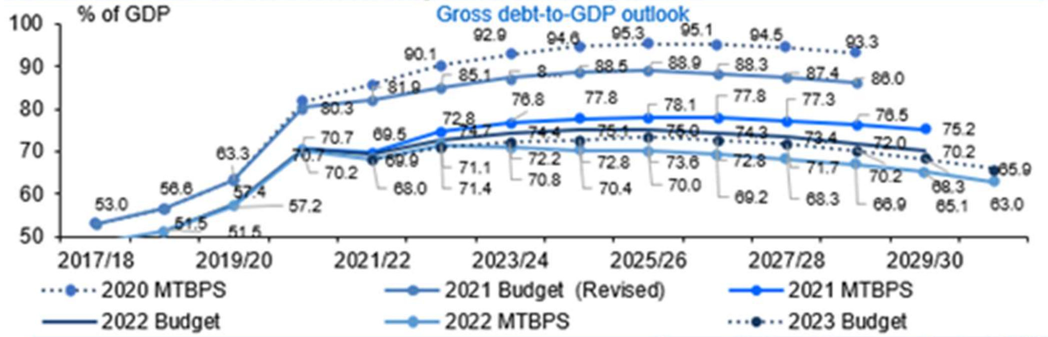
Source: Bloomberg

- For South Africa, the likelihood of any credit rating upgrades from the key agencies (Moody's, Fitch and S&P), has disappeared, with the risk to the downside instead, as SA's economic growth outlook worsens.

- S&P highlights "(d)espite the government's attempts at reforming the power sector, acute electricity shortages pose downside risk to both short- and medium-term growth prospects.
- S&P says it has "revised down our real GDP growth forecasts for 2023 to 1.0% from 1.5% previously and expect growth to average 1.7% in 2024-2026. Downside risks to this forecast remain prominent."
- This forecast ties in with February's economic consensus growth forecasts of just over 1.0%y/y (both Bloomberg and Reuters), but the consensus also over estimated the Q4.22 outcome, at an expectation of -0.4% qqsa (quarter on quarter seasonally adjusted) vs. the -1.3% qqsa outcome.
- Q1.23 looks like it currently will see a contraction of -0.5% qqsa in GDP due to the heightened level of loadshedding to date, and the calculation is made that this will persist to the end of this quarter, likely as Karpowership power is still not available.
- To gain GDP growth at all, each remaining quarter will then need to run at an average of 0.7% qqsa to achieve GDP growth of even 0.2% y/y for 2023, with the economy consequently at risk of stalling if supply of electricity does not increase materially.
- While the Bloomberg and Reuters economic consensus forecasts for 2023 are just over 1.0% y/y, removing a couple of outliers around the unrealistic 2.0% y/y mark brings the average down to 0.9% y/y, in line with National Treasury.
- The March consensus forecasts are likely to update to include the impact of severe loadshedding in Q1.23, and so drop below 1.0% y/y for 2023, particularly if outliers are removed, likely closer to 0.5% y/y for the full year.
- Growth forecasts will fall without additional power capacity, a downside risk to SA's credit ratings. The economy risks stalling this year, and next year seeing growth of below 1.0% y/y without substantial improvement in productive capacity, and currently deterioration, not improvement is occurring in electricity capacity.



Gross debt-to-GDP outlook and main budget revenue and expenditure



Source: National Treasury, Budget 2023

Economic Scenarios: note updated probabilities to reflect elevated downgrade risk on weakening growth

		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
Extreme	USD/Rand (average)	16.60	15.90	15.50	15.00	14.70	14.60	14.50	14.70
Up case	Repo rate (end rate)	7.00	6.75	6.50	6.25	6.00	6.00	5.50	5.50

1% SA economic growth very quickly rises to 3–5%, then 5-7%. Good governance, growth-creating reforms (structural constraints eradicated), strong property rights, no nationalisation or expropriation without compensation. High business confidence and fixed investment growth, substantial FDI, fiscal consolidation drives debt to low ratios of 2000s. Very subdued domestic inflation on extreme rand strength, very favourable weather conditions. Strong global growth, risk-on, commodity boom. Rapid upgrades of credit ratings to investment grade. Very short grey listing. Quick transition to renewable energy from fossil fuels.

		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
Up case 1%	USD/Rand (average)	17.00	17.20	17.40	16.90	16.50	16.10	16.00	15.70
	Repo rate (end rate)	7.00	7.00	7.00	7.00	6.75	6.50	6.50	6.00

Economic growth averages 3.3% over five-year period, but lifts towards 5.0% y/y by period end, rising confidence and investment levels, structural constraints eroded, global growth strong, global financial markets risk-on. No nationalisation or expropriation without compensation. Low domestic inflation on favourable weather and global conditions, rand strength, lower state-controlled price inflation on increased privatisation. Credit rating upgrades on fiscal consolidation, markedly lower borrowings. Substantial transition to renewable energy away from fossil fuel usage, comprehensive measures to alleviate climate change impact on economy. Grey listed for less than eighteen months.

		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
Base	USD/Rand (average)	17.80	18.40	18.60	18.30	17.80	18.00	18.30	17.90
case	Repo rate (end rate)	7.50	7.75	7.75	7.75	7.50	7.00	7.00	6.50

48% Economic growth modest (1.9% average over 5 years) but lifts towards 3.0% y/y by end period on reforms, global financial market risk sentiment is neutral to positive. South Africa follows fiscal consolidation (debt to GDP stabilisation) leading to positive outlooks, then likely credit rating upgrades. The rand stabilises, then strengthens somewhat. Inflation is impacted by the course of weather patterns via food price inflation. A transition to renewable energy and slow move away from fossil fuel usage occurs and measures to alleviate the impact of climate change on the economy are modestly implemented. The Russian/Ukraine conflict eases and does not exacerbate. Little expropriation without compensation. Temporary grey listing.

		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
Lite	USD/Rand (average)	18.00	18.90	19.00	19.20	18.60	18.75	18.90	18.70
(domestic)	Repo rate (end rate)	7.75	8.00	8.50	9.00	9.00	9.00	9.00	9.00

Down case 40% Weak GDP growth (0.9% average over 5-years), swing toward left leaning policies. Business confidence depressed, substantial electricity and water shedding, very weak rail capacity, civil and political unrest, little investment growth, recession. Increased state borrowings, risk of credit rating downgrades rises, then occurs later in period. Some expropriation of private sector property without compensation with a negative impact on the economy. High inflation on unfavourable weather conditions, marked rand weakness. Little transition to renewable energy or measures to alleviate climate change. Lengthy greylisting.

		Q1.23	Q2.23	Q3.23	Q4.23	Q1.24	Q2.24	Q3.24	Q4.24
Severe	USD/Rand (average)	18.70	19.30	19.70	20.00	20.20	20.50	20.80	21.20
down	Repo rate (end rate)	8.00	9.00	10.00	10.50	10.5	11.00	11.00	11.50

case 10% Lengthy global recession, global financial crisis – insufficient monetary and other support domestically and internationally. ANC/EFF coalition in 2024. Widespread, severe services load shedding, severe civil and political unrest. Government borrows from increasingly wider sources, SA rated single B from all three key agencies, eventually CCC grade, increased risk of default, sinks deeper into a debt trap. Failure to transition to renewable energy and to sufficient measures to alleviate the impact of climate change on the economy. Very high inflation on very adverse weather conditions, severe rand weakness. Expropriation of private property without compensation with a marked negative economic impact. Blacklisted.

Note: Event risk begins Q1.23. Source: Investec