

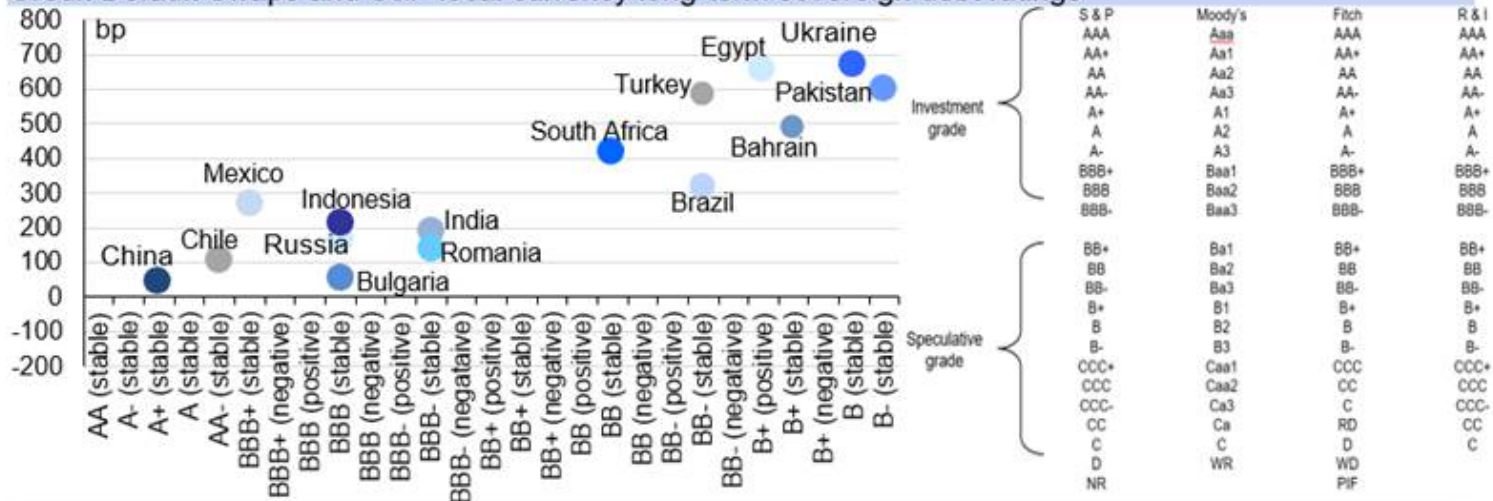


Credit Ratings Note

Thursday 30 April 2020

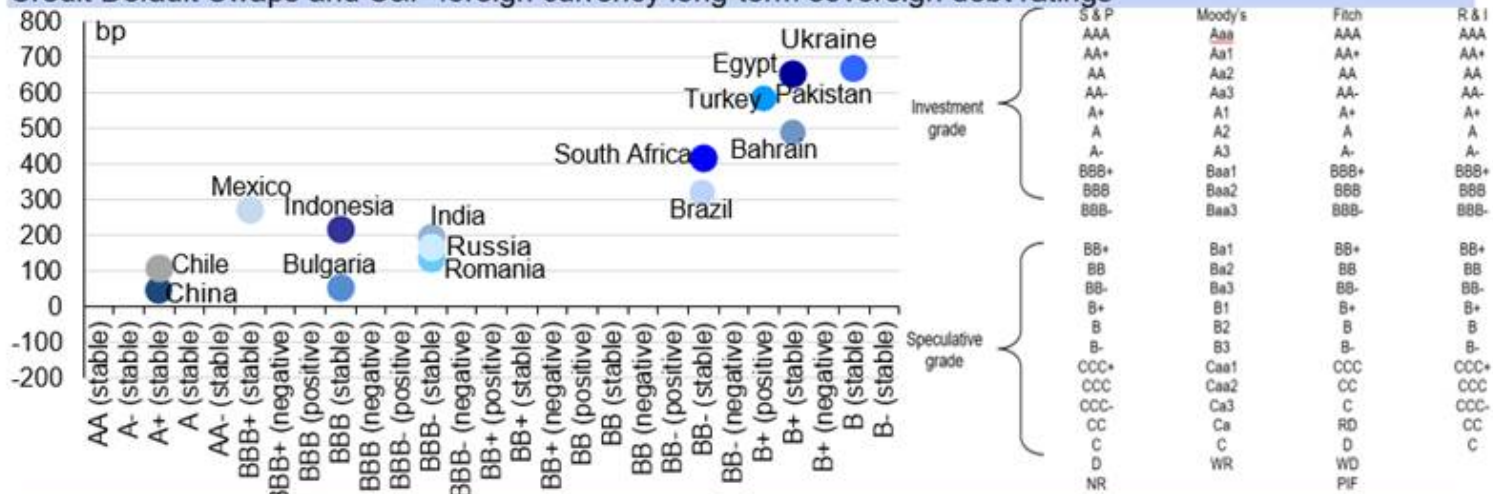
Standard & Poor's downgrades South Africa to BB- from BB (foreign currency rating) with a stable outlook, and drops SA to BB from BB+ on its local currency rating (stable outlook), as SA falls further down the rating ladder

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



Source: Bloomberg

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



Source: Bloomberg

- The rand has strengthened to R18.02/USD, R19.61/EUR and R22.48/GBP today on continued improving global financial market risk sentiment as markets factor in the positive impact of easing lockdowns around the world. Clearer expectations that the global economy will turn have bolstered risk taking on rising global liquidity and value and yield seeking.
- The onslaught of improved risk sentiment largely overrode the impact of last night's S&P's downgrade on the rand. Further credit rating downgrades for SA are still possible, given also ongoing political obstructions to necessary structural reforms (particularly a massive reduction in regulations and red tape) to prioritise sustained, rapid economic growth rates.
- Specifically, yesterday evening Standard & Poor's lowered South Africa's credit ratings once again, with the foreign currency rating on the sovereign's long-term debt falling to BB- from BB, with a stable outlook, and the local currency rating on SA's long-term debt fell to BB, from BB+, also with a stable outlook.
- S&P highlighted that "South Africa's already contracting economy will face a further sharp COVID-19-related downturn in 2020" as "the broader economic fallout will be very difficult to handle, and South Africa entered the crisis from a weak fiscal and economic position." "The appreciably weaker macroeconomic environment will also weigh heavily on ... fiscal revenues".
- S&P adds, "(i)n the second half of 2019, the economy shrank, due partly to a set of severe rolling power blackouts. The COVID-19 health crisis will create additional and even more substantial headwinds to GDP growth, owing to a strict five-week domestic lockdown, the markedly weaker external demand outlook, and tighter credit conditions."
- "As a result, we now project the economy to shrink by 4.5% this year compared with our November 2019 estimate of growth of 1.6%." "A proactive policy response, including South Africa's decision to go into a strict lockdown relatively early, has so far limited the health impact of COVID-19. Early gains in tackling the virus will be built upon".
- Early this morning the rand did weaken briefly to R18.23/USD, R19.81/EUR and R22.70/GBP in response to S&P's downgrade as the country's ratings fall closer to C grade. South Africa's R800bn Covid-19 relief is expected to place great strain on government's finances, while tax revenues underperform substantially due to the lockdown.
- Concerns over SA's fiscal deficit and debt levels have been rising in general, with a Bloomberg's consensus now showing forecasts of a fiscal deficit in excess of -10% of GDP for 2020, and close to -10% of GDP in 2021. In 2022 a deficit of -8.5% of GDP is expected, as the impact of Covid-19 on government finances is expected to prove long lasting.

- The borrowing requirement will rise substantially, and S&P sees “net debt levels rising to over 75% of GDP by the end of 2020” and “to 84.7% by 2023, raising questions around debt sustainability”. Credit rating agencies common primary function is to assess entities ability to repay debt, and SA’s ability has deteriorated materially.

Local Currency – Long term			
	S&P	Moody's	Fitch
Brazil	BB-	Ba2	BB-
Russia	BBB	Baa3	BBB
India	BBB-	Baa2	BBB-
Turkey	BB-	B1	BB-
Mexico	BBB+	Baa1	BBB-
South Africa	BB	Ba1	BB
China	A+	A1	A+
Nigeria	B-	B2	B
Kenya	B+	B2	B+
Namibia	NR	Ba2	BB
Ghana	B	B3	B
Botswana	BBB+	A2	NR
Mozambique	B-	Caa2	CCC
Zambia	CCC	Ca	CC
Ethiopia	B	B1	B
Rwanda	B+	B2	B+
Uganda	B	B2	B+
Angola	CCC+	B3	B-
Dem. Rep of Congo	CCC+	Caa1	NR

Source: Bloomberg

Foreign Currency – Long term			
	S&P	Moody's	Fitch
Brazil	BB-	Ba2	BB-
Russia	BBB-	Baa3	BBB
India	BBB-	Baa2	BBB-
Turkey	B+	B1	BB-
Mexico	BBB	Baa1	BBB-
South Africa	BB-	Ba1	BB
China	A+	A1	A+
Nigeria	B-	B2	B
Kenya	B+	B2	B+
Namibia	NR	Ba2	BB
Ghana	B	B3	B
Botswana	BBB+	A2	NR
Mozambique	CCC+	Caa2	CCC
Zambia	CCC	Ca	CC
Ethiopia	B	B1	B
Rwanda	B+	B2	B+
Uganda	B	B2	B+
Angola	CCC+	B3	B-
Dem. Rep of Congo	CCC+	Caa1	NR

Source: Bloomberg

SA's credit ratings

South Africa – S&P Ratings

03/10/1994	BB
20/11/1995	Upgraded to BB+
25/2/2000	Upgraded to BBB-
07/05/2003	Upgraded to BBB
01/08/2005	Upgraded to BBB+
12/10/2012	Downgraded to BBB
03/04/2017	Downgraded to BBB-
24/11/2017	Downgraded to BB+
29/04/2020	Downgraded to BB

South Africa – Fitch Rating

22/09/1994	BB
19/05/2000	Upgraded to BB+
27/06/2000	Upgraded to BBB-
05/02/2003	Upgraded to BBB
25/08/2005	Upgraded to BBB+
10/01/2013	Downgraded to BBB
04/12/2015	Downgraded to BBB-
07/04/2017	Downgraded to BB+
03/04/2020	Downgraded to BB

South Africa – Moody's

14/10/2004	Baa2
11/01/2005	Upgraded to Baa1
16/07/2009	Upgraded to A3
27/09/2012	Downgraded to Baa1
06/11/2014	Downgraded to Baa2
24/11/2017	Downgraded to Baa3
27/03/2020	Downgraded to Ba1

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-
Speculative 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

- Moody's and Fitch both plan to downgrade SA again (they have SA on negative outlooks). Additional rating downgrades will make SA's growth objectives more difficult to achieve and weaken the socio-economic aims of the country. The necessary Covid-19 expenditure would have been easily affordable without the fiscal deterioration of the past decade.
- S&P adds "(a)nother legacy of the COVID-19 shock will likely be a far higher annual interest bill. By 2023, we project that interest expenditures consume an even larger share of public resources, increasing to 6.5% of GDP (22% of total government revenues) versus 4.1% of GDP (14% of total revenues) last year."
- Again however, the interest repayments on SA's increased debt due to higher expenditure in the face of Covid-19 would have been easily affordable if government finances had not collapsed into sub-investment grade over the past decade (and are still falling), due to excessive expenditure on the back of state capture, corruption, wastage and inefficiencies.
- Furthermore, economic growth would have been substantially faster, and the economy substantially larger – again without the impact of state capture and corruption - and key SOEs and some state institutions in better shape instead of adding to the contingent liabilities of government and so adding to the downwards pressure on the country's credit ratings.
- SA is falling down the credit rating ladder, and is approaching the C grade categories – as it falls through the double BB rankings and into the single B rankings - the C grade ratings follow (first triple C with its attendant plus and minus, then double C, then single C), and after declining through all of the C grade comes D grade from S&P, or essentially default.
- Typically in the low C grades IMF rescue occurs, if not D, where countries come under an IMF adjustment programme, expenditure is curtailed heavily and countries lose 'sovereignty' of their government finances as they comply with IMF directives, instead of choosing to spend their monies as they please.
- South Africa is unlikely to regain its investment grade rating for a very long time. Fast, sustained economic growth in excess of 3% pa, and closer to 5%+ (political opposition to National Treasury's structural reforms would have to be eradicated to achieve this) would bring SA closer to stabilising its ratings trajectory, and eventually to receiving credit rating upgrades.
- S&P also says "(w)e could raise the ratings if the government's reform efforts were to credibly arrest the rise in the government debt-to-GDP ratio. An upgrade could also occur if there is a substantial improvement in job creation and productivity gains, leading to higher real per capita GDP growth."

- SA is unlikely to see stable outlooks from Moody's or Fitch this year. The economic activity lost, both due to state capture and now Covid-19 economic restrictions in lockdown (even with a phased reopening approach see below), will never be recouped. And there is yet to be a cessation of political opposition to the full gamut of structural reforms direly needed.

Summary of Alert levels	
Alert level 5	Alert level 4
Drastic measures to contain the spread of the virus and save lives	Extreme precautions to limit community transmission and outbreaks while allowing some activity to resume
Sectors permitted	
Only essential services as per existing regulation	All essential services plus a limited number of sectors with a low rate of transmission and high economic and social value
Retail permitted	
Only essential goods, including food, medical products, cleaning and hygiene products, fuel and winter goods such as blankets and heaters.	All essential goods as well as educational books, stationary, office supplies, IT equipment (including computers and mobile phones), children's clothing, winter goods such as clothing, bedding and heaters and textiles required to produce masks. Restaurants and fast food outlets may be open for delivery only.
Movement	
You must stay at home unless you are an essential worker. You may leave home only to purchase essential goods or seek medical care. No inter-provincial movement of people, except for transportation of goods and exceptional circumstances (e.g. funerals)	You must stay at home expect to go to work, do shopping where necessary, or seek medical care. No inter-provincial movement of people, except to return to usual place of residence, for transportation of goods and exceptional circumstances (e.g. funerals) Curfew in place between 8pm and 5am except for essential workers. Walking, jogging and cycling permitted between 6am and 9am, but not in groups.
Gatherings	
All public gatherings are prohibited	All public gatherings are prohibited
Transport	
Bus services, taxi services, e-hailing and private motor vehicles may operate at restricted times, with limitations on vehicle capacity and stringent hygiene requirements.	Passenger rail, bus services, taxi services, e-hailing and private motor vehicles may operate subject to directions.
Education	
Directions issued by the Department of Basic Education and Minister of Higher Education, Science and Innovation.	
Source: South African Government	

Alert level 4: Permissions and prohibitions

All persons who are able to work from home should do so.

Persons in the following list of industries and activities will be permitted to perform work outside the home, and to travel to and from work, under Alert Level 4, subject to -

- a) strict health protocols, and social distancing rules;
- b) return to work to be phased in to enable measures to make the workplace COVID-ready; and
- c) return to work to be done in a manner that avoids and reduces risks of infection.

Part A: Agriculture, Hunting, Forestry and Fishing

1. All agriculture, hunting, forestry and fishing, bee -keeping, including preparation, cultivation, harvesting, storage, transport of live animals and auctions (subject to health directions) and related agricultural infrastructure and services (including research, inspection, certification and quality control). All fishing, operation of fish hatcheries and fish farms, on such conditions as may be issued in directions by the cabinet members responsible for the environment, forestry and fisheries.

Harvesting and storage activities essential to prevent the wastage of primary agricultural, fishing and forestry goods.

Export of all agricultural, agro- processed, fishing and forestry products.

Part B: Electricity, Gas and Water Supply

1. All electricity, gas and water supply is permitted

Part C: Manufacturing

1. Manufacture of wholesale and retail products permitted to be sold under Alert Level 4, and all input products, permitted scaling up to full employment, except where otherwise indicated, and subject to strict health protocols
2. Manufacture of paper and paper products, excluding stationery, permitted scaling up to full employment and subject to strict health protocols.
3. Manufacture of plastics and packaging, including glass, plastic bottles and containers, permitted scaling up to full employment and subject to strict health protocols.
4. Petroleum refineries, smelters, and furnaces permitted scaling up to full employment and subject to strict health protocols.
5. Manufacture of winter clothing, footwear, bedding and heaters (and all inputs required, including textiles) permitted, commencing at 25% and scaling up to 50% employment and subject to strict health protocols.
6. Manufacturing of automotives, steel and other metals, rail and ship-building (including components), scaling up in phases to 50% employment and subject to strict health protocols.
7. Stationery production, scaling up in phases to 50% employment and subject to strict health protocols.
8. Cement, other construction material, and hardware, scaling up in phases to 50% employment and subject to strict health protocols.
9. All other manufacturing, scaling up to 30% employment and subject to strict health protocols.

Alert level 4: Permissions and prohibitions cont.

Part D: Construction and Related Services (Inc. Trades persons)

1. Civil engineering for public works projects (including water, energy, sanitation).
2. Public works civil engineering and construction works.
3. Road and bridge projects, including local road repairs
4. Critical maintenance and repairs.

Part E: Wholesale and Retail trade, Covering stores, Spaza shops, Ecommerce and Informal traders

1. Food products, including non -alcoholic beverages and animal food.
2. The sale of hot cooked food, only for home delivery.
3. Toilet Paper, sanitary pads, sanitary tampons, and condoms.
4. Hand sanitiser, disinfectants, soap, alcohol for industrial use, household cleaning products, and personal protective equipment.
5. Products for the care of babies and toddlers.
6. Personal toiletries, including haircare, body, face, hand and foot care products, roll-ons, deodorants, dental care products.
7. Medical and Hospital Supplies, medicine, equipment and personal protective equipment.
8. Fuel and lighting, including coal, wood, paraffin and gas.
9. Airtime and electricity.
10. Hardware, components and supplies.
11. Components for vehicles undergoing emergency repairs
12. Chemicals, packaging and ancillary products used in the production of any these products listed in Part E.
13. Textiles required to produce face masks and other personal protective equipment and winter clothing.
14. Winter clothing, footwear, bedding and heaters and the components and fabrics required to manufacture these.
15. Children's clothing and fabrics and components required to manufacture these.
16. Stationery and educational books.
17. Personal ICT equipment including computers, mobile telephones and other home office equipment.
18. No sale of liquor permitted.
19. Directions may permit the incremental expansion of e- Commerce, taking into account the need to limit the extent of movement on the road, contact between people, law-enforcement challenges and the impact on other businesses.

Part F: Information and Communication Services

1. All telecommunication services and infrastructure.
2. Information and Communication Technology services for all private and business customers.
3. Postal services and courier services for all permitted Alert Level 4 services.

Alert level 4: Permissions and prohibitions cont.

Part G: Media and Entertainment Services

1. Online services.
2. Productions for local broadcast and live streaming of creative sector services in support of COVID -19 subject to directions.
3. Newspapers and broadcasting.

Part H: Financial and Business Services

1. Employees should work from home where possible.
2. Essential financial services may operate, subject to directions issues by the relevant Cabinet member, including the following services necessary to maintain the functioning of a financial system as defined in section 1(1) of the Financial Sector Regulation Act, only when the operation of a place of business or entity is necessary to continue to perform those services:
 - i. the banking environment (including the operations of mutual banks, cooperative banks, co- operative financial institutions and the Postbank);
 - ii. the payments environment;
 - iii. the financial markets (including market infrastructures licensed under the Financial Markets Act, 2012 (Act No. 19 of 2012);
 - iv. the insurance environment;
 - v. the savings and investment environment;
 - vi. pension fund administration;
 - vii. outsourced administration;
 - viii. medical schemes administration; and
 - ix. additional services designated in terms of regulation 11B (4A) (c) (i).The services listed above may not include debt collection services.
3. Services necessary for the provision of social grants.
4. Private security services may operate.
5. Implementation of payroll systems.
6. Car sales under specific directions
7. Chauffeur services, rental of motor vehicles, driven vehicles, machinery and equipment, and of goods to support other Alert Level 4 services.
8. Call centres, for local and all international markets, may operate subject to directions issues by the relevant cabinet members.
9. Other professional services may operate only where work

Part I: Accommodation and Food Service Activities Permitted

1. Accommodation not permitted, except for quarantine and essential services
2. Restaurants only for food delivery services (9H00- 19H00) and subject to restriction on movement (no sit down or pick -up allowed).

Alert level 4: Permissions and prohibitions cont.

Part J: Transport, Storage and Communication Services Permitted

1. Ocean, rail, road and air transport of goods permitted only for activities set out in Regulation 22(1).
2. Public rail, minibus taxi and bus services will resume at Alert Levels and on terms as will be set out in Directions, based on the progressive increase in commuter numbers during the various phases.
3. E-hailing services subject to restrictions on capacity and times, and for permitted activities only.
4. Transport and logistics in respect of specified cargo specified in J1, and permitted retail goods to neighbouring countries, which shall include all goods imported via SA ports of entry, for re-export to neighbouring countries.

Part K: Mining and Quarrying

1. Coal production for Eskom scaling up to full employment.
2. Open -cast mining scaling up to a baseline of 50% and thereafter scaling up to full employment.
3. All other mining starting in batches scaling up towards 50% employment.

Part I: Repair and Related Emergency Services Permitted

1. Tow trucks and vehicle recovery services.
2. Emergency repair work, including plumbers, electricians, locksmiths, glaziers, roof repair work.
3. Emergency automobile repairs for all persons.

Part M: Supply Chains

1. Production, manufacturing, supply, logistics, transport, delivery and critical 1 maintenance and repair of goods and services (including components and equipment) required for the production or rendering of permitted goods and services
2. All workplaces or premises must have care and maintenance that is essential to the prevention of the destruction or significant impairment of working machinery or inventory. areas, plant, or to permit orderly wind down arrangements, on such conditions as may be issued by means of directions by the relevant cabinet members.

Part N: Private Households' Employment

1. Live -in staff, and staff providing care to the sick, mentally ill, elderly, people with disabilities and children.

Alert level 4: Permissions and prohibitions cont.

Part O: Public Administration, Government Services and Other Arms of the State

Only essential government and administration services may operate, including:

1. Disaster management services.
2. Licensing, permitting, deeds, masters offices. birth and death certificates, replacement identification documents
3. Any other service designated by the Executive Authority, HODs, Heads of Courts, and Heads of other Chapter 9 Institutions.
4. Essential municipal services.
5. Services related to the functioning of courts; the State Capture Commission.
6. Essential SARS services defined by the Commissioner of SARS.
7. Police, peace officers, traffic officers, military medical personnel and soldiers, correctional services officials and traffic management services.
8. Services rendered by the Executive. members of Parliament, Members of the Provincial Legislature, Members of Local Councils, the Judiciary, traditional leaders and National Office Bearers of Political Parties represented in Parliament.
9. Commissioners of the South African Human Rights Commission, Gender Commission. The Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities, the Public Protector and Deputy Public Protector and the Independent Electoral Commission.

Part P: Health, Social and Personal Services

1. Medical and veterinary services permitted.
2. Cleaning, sanitation, pest control, sewerage, waste and refuse removal services.
3. Recycling of glass, paper, plastic, metal, tyres and such others as determined by directions, are permitted at 50% capacity. Informal recyclers will be permitted to resume operations.
4. All Social work, counselling, services supporting gender-based violence, care and relief activities permitted.
5. Wildlife Management, Anti -poaching, Animal Care and Veterinary services. Funeral services, including mortuaries services and the transportation of mortal remains.
6. Trade union essential staff for workers covered by Alert Level 4, subject to Directions.

Part Q: Education Services

1. Permitted on dates and schedule set out separately.

Source: South African Government

Annexure D: Essential services

A. Essential and permitted services referred to in section 16(3) of the Regulation shall refer to:

- (a) the list of essential services as set out in B below; and
- (b) such other service as are set out in Alert Level 4 and where the technological, industrial, structural or similar requirement of the service necessitates a continuous or shift operation, as set out in directions, as set out below.

B. B Essential services means the services as defined in section 213 of the Labour Relations Act, 1995 (Act No. 66 of 1995), and designated in terms of section 71(8) of the Labour Relations Act, 1995 (and which designation remains valid as at the date of publication of this regulation), and as listed below:

1. Medical, Health (including Mental Health), Laboratory and Medical services and the National Institute for Communicable Diseases;
2. Disaster Management, Fire Prevention, Fire Fighting and Emergency services;
3. (a) The following services necessary to maintain the functioning of a financial system as defined in section 1(1) of the Financial Sector Regulation Act, only when the operation of a place of business or entity is necessary to continue to perform those services:
 - i. the banking environment (including the operations of mutual banks, co- operative banks, co- operative financial institutions and the Postbank);
 - ii. the payments environment;
 - iii. the financial markets (including market infrastructures licensed under the Financial Markets Act, 2012 (Act No. 19 of 2012);
 - iv. the insurance environment;
 - v. the savings and investment environment;
 - vi. pension fund administration;
 - vii. outsourced administration;
 - ix. medical schemes administration, and
 - x. additional services set out in directions.
 - xi. The services listed in paragraph (a) may not be construed to include debt collection
 - xii. services.
- 3.2 Services necessary for the provision of social grants.
4. Production and sale of the goods listed in Annexure B;
5. Wholesale and retail stores for re- stocking;
6. Electricity (including vital demand management services), water, gas and fuel production, supply and maintenance;
7. Critical jobs for essential government services as determined by Head of National or Provincial Departments in accordance with the guidance of the Department of Public Service and Administration, including Social Grant Payments and pension payments;
8. Essential municipal services;
9. Care services and social relief of distress provided to older persons, mentally ill, persons with disabilities, the sick, and children;
10. Funeral and cremation services, including mortuaries services and the transportation of mortal remains;
11. Wildlife Management, Anti -poaching, Animal Care and Veterinary services;
12. Newspaper, broadcasting and telecommunication infrastructure and services, including call centres critical for the support of such services;

Source: South African Government

Annexure D: Essential services cont.

13. Production and sale of any chemicals, hygiene products, pharmaceuticals for the medical or retail sector;
14. Cleaning, sanitation, pest control, sewerage, waste and refuse removal services;
15. Services related to the essential functioning of courts, judicial officers, the Master of the High Court, Sheriffs and legal practitioners required for those services;
16. Essential SARS services defined by the Commissioner of SARS;
17. Police, peace officers, traffic officers, military medical personnel and soldiers, correctional services officials and traffic management services;
18. Postal services and courier services related to transport of medical products;
19. Private security services;
20. Air -traffic Navigation, Civil Aviation Authority, air charters. Cargo Shipping and dockyard services;
21. Gold, gold refinery, coal and mining;
22. Accommodation used for persons rendering essential services, quarantine, isolation and the
23. Production, manufacturing, supply, logistics, transport, delivery. critical maintenance and repair in relation to the rendering of essential services including components and equipment;
24. Transport services for persons rendering essential services and goods. and transportation of patients;
25. Services rendered by the Executive, members of Parliament, Members of the Provincial Legislature, Members of Local Councils, the Judiciary, traditional leaders and National Office Bearers of Political Parties represented in Parliament;
26. Commissioners of the South African Human Rights Commission, Gender Commission, the Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities, the Public Protector and Deputy Public Protector and the Independent Electoral Commission; and
- 26.2 Services rendered by the institutions referred to in item 26.
27. Transport and logistics in respect of cargo and goods as set out in Part A to neighbouring countries;
28. Tow trucks and vehicle recovery services;
29. Call centres necessary to provide health, safety, social support, government and financial services, debt restructuring for consumers of retailers, and access to short-term insurance policies as a result of reduced income or loss of income;
30. Harvesting and storage activities essential to prevent the wastage of primary agricultural goods;
31. Implementation of payroll systems to the extent that such arrangement has not been made, to ensure timeous payments to workers; and
32. Critical maintenance services which cannot be delayed for more than 21 days and are essential to resume operations;
33. Trades necessary for the rendering of emergency repair work. including plumbers, electricians, locksmiths, glaziers, roof repair work;
34. Trades necessary for emergency automobile repairs for persons rendering essential services;
35. Information and Communication Technology services rendered to entities and institutions engaged in delivering essential services in terms of these Regulations.

Source: South African Government

Annabel Bishop

annabel.bishop@investec.co.za

Tel: +27 (11) 286 7188

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