SA moves further into junk status

Two out of the three global ratings agencies blamed the Covid-19 pandemic and the effects of lockdown on South Africa's economy for further downgrading the country's investment status.

Finance Minister Tito Mboweni

Moody’s moved South Africa’s long-term foreign and local currency debt ratings from Ba1 to Ba2, with a negative outlook. The agency said the downgrade reflected the impact of the pandemic shock, both directly on the debt burden and indirectly by intensifying the country’s economic challenges and the social obstacles to reforms.

While Fitch downgraded South Africa’s long-term foreign and local currency debt ratings to BB- from BB. The agency maintained a negative outlook. Both the downgrade and negative outlook reflected high and rising government debt exacerbated by the economic shock triggered by the Covid-19 pandemic. In addition, the very low trend growth and exceptionally high inequality would continue to complicate fiscal consolidation efforts.

Standard & Poor's (S&P) was the only agency to leave its outlook unchanged, saying there were indications that the economy was beginning to rebound in the third quarter. despite Covid-19 pandemic plunging South Africa into its sharpest contraction in the second quarter of 2020, leading to a large widening of the fiscal deficit and rapidly rising government debt. The agency has affirmed South Africa’s long-term foreign and local currency debt ratings at BB- and BB, respectively, and maintained a stable outlook.

The decision by international ratings agencies Fitch and Moody's to downgrade South Africa further is a painful one. There was an urgent need for government and its social partners to implement structural reforms to avoid further harm to the country's sovereign rating, said Finance Minister Tito Mboweni.