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'S & P DECISION TO DOWNGRADE SA 's INVESTMENT RATING TO JUNK STATUS IS BAD NEWS FOR SA ECONOMY' SAYS NWU SCHOOL OF BUSINESS AND GOVERNANCE ECONOMIST RAYMOND PARSONS

'Although not entirely unexpected, the decision by Standard & Poor to cut SA's investment rating to junk status is bad news for the economy. The fact that S & P did not wait until their regular review in June but announced their decision now after an emergency meeting over the weekend indicates the seriousness with which they interpret the likely economic and fiscal consequences of the recent Cabinet reshuffle and especially the political changes at the National Treasury. They are clearly worried about political risks and policy shifts. This follows on similar warnings from Fitch last week. All the indications so far have been that the Cabinet reshuffle would have a negative impact on the economy and markets.

The possible 'domino effect' of S & P investment downgrade of SA's sovereign risk implies eventual higher borrowing costs for both public sector and private sector borrowing. This in turn will have a negative impact on SA’s growth prospects, investor confidence and job creation at a time when the country has been looking forward to an improved economic performance in 2017. It was also hoped the SA interest cycle had now at last peaked. The S & P decision also heightens the level of policy uncertainty which has hampered private fixed investment to date. It will now be necessary to revisit current forecasts of SA 's future economic prospects to see to what extent they need to be modified in the light of S & P's decision and also to urgently assess what remedial action might minimize the negative economic outcomes'.

Prof Raymond Parsons, NWU School of Business and Governance

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