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'MOODY's LATEST DECISION ON SA's INVESTMENT RATING MUST BE SEEN AS A WARNING, NOT A REPRIEVE', SAYS NWU SCHOOL OF BUSINESS AND GOVERNANCE ECONOMIST PROF RAYMOND PARSONS

'As expected Moody's have reduced SA's investment rating by one notch - keeping it at investment grade, but just above junk status and retaining a 'negative outlook'. This follows on the decisions by Standard & Poor and Fitch in April to immediately downgrade SA's investment rating to 'junk status' following on the Cabinet reshuffle. Those agencies recently reaffirmed their position.

A positive feature is that Moody's decision still leaves SA in the important global bond index, which has significant implications for borrowing costs. This grants SA a breathing space and gives scope for remedial policies and actions. Yet the continued negative outlook categorization and Moody's critical but balanced narrative means that their decision should not be viewed as a reprieve, but rather as a warning for SA to get its house in order. Moody's sees the risks to growth and fiscal strength associated with the political outlook as now being tilted to the downside.

The recent evidence that the SA economy is in recession will merely have underpinned Moody's move to downgrade the credit rating. The restated concerns from Moody's continue to revolve around fiscal slippage, the finances of state-owned enterprises, good governance, institutional weaknesses, policy uncertainty and poor growth prospects. Moody's emphasizes the extent to which the further trajectory of its rating will depend on necessary growth-enhancing reforms being implemented.

To restore SA's investment credentials will therefore require tangible and urgent progress on issues like rebuilding investor confidence, maintaining viable public finances and strengthening institutions in the period ahead. The rating agencies will be visiting SA again at the end of the year. If key conditions do not therefore begin to improve over the next few months, it raises the risk of another downgrade.

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