SA's credit downgrading 'not catastrophic' - economist

By Michael Appel

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Credit agencies have lost integrity in the midst of the ongoing global financial crisis and in an attempt to regain credibility, they have downgraded many emerging markets from stable to negative.

This is according to economist at Econometrix Treasury Management (ETM) Russell Lamberti.

International rating agency, Fitch, downgraded South Africa's rating from stable to negative recently, causing further fears of a recession.

Negative risk ranking

However, Lamberti said that while the downgrading of South Africa's risk rating shows investors what the risk is in investing in a particular country, this was not catastrophic.

Rating agencies have been partly to blame for what is happening on financial markets at the moment, so in an attempt to save face they have reverted to an ultra-conservative outlook on economies, he said.

Rating agencies lost credibility with what is happening on the markets at the moment, so they have blanketed emerging financial markets as risky, Lamberti told *BuaNews*.

“South Africa's BBB+ rating is a reduction on our rating outlook ... or on our potential outlook which takes into account politics, economics, and financials,” he said.

A better position than most

Lamberti said nothing much had changed in terms of South Africa's fundamental financial situation, and the country was better placed to deal with global financial woes than its peers.

“It was a blanket reaction to emerging markets. I tend to agree with National Treasury [that South Africa is well grounded] and the general environment is a lot better than many other emerging markets.

“Growth forecasts for the South African economy will probably have to be revised down though ... and we will achieve about 2 - 3% for the coming year,” said Lamberti.

In context of current turmoil

National Treasury, in reaction to the Fitch report, highlighted that the credit revision did not constitute a rating downgrade.

In a statement it said the revision must be seen in the context of the current global financial turmoil and its impact on emerging markets. The shift to a negative outlook takes place alongside 17 other emerging markets.

Unlike a number of developed and emerging market countries, the South African government has not found it necessary to support its banking sector through the current financial crisis due to sound regulation, good capital adequacy ratios and sufficient liquidity conditions prevailing in the banking system, said the Treasury.

SA 'fundamentally sound'

In its Financial Stability Assessment Report released early this year the International Monetary Fund [IMF] concluded that South Africa's financial system is fundamentally sound and well-capitalised.

The Fitch Ratings Agency suggests that if South Africa's growth slows down as it predicts it will be hard for the authorities to maintain sound macroeconomic and fiscal policy.

This is not supported by South Africa's recent history and overlooks certain material facts about the current macroeconomic and fiscal frameworks, said the department.

The current macroeconomic projections of growth, revenue flows, and inflation already take into account all of the factors that are raised by the Fitch Ratings Agency, the treasury said.

Expected GDP recovery

Depending on international developments, Gross Domestic Product (GDP) growth is expected to recover, however, to above 4% in 2010 and beyond, Minister of Finance Trevor Manuel said delivering the Mid-Term Budget Policy Statement (MTBPS) in Parliament, last month.

The minister told Parliament, global economic growth would slow for several years which will negatively impact on South Africa's export earnings.

Economic growth in the seven richest countries, which make up half of world economic output, may well be zero or negative next year, he indicated.

Growth globally is expected to fall from 5% in 2007 to 3.9% this year and could even drop as low as 3% in 2009.

"The South Africa economy has grown by an average of 5% a year for the past six years. During this period investment increased from about 15% of GDP to more than 22%," said Manuel.

GDP forecasts is, however, likely to be revised down as foreign investors which finance South Africa's current account deficit are withdrawing their capital to inject funds into the United States an Europe.

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