Unrest in mining sector impacts on SA's credit rating

The recent strike action and unrest in South Africa's mining sector is compounding concerns that the country could be in line for a credit rating downgrade.

According to Melanie Brown, CEO at Global Credit Ratings (GCR), mining plays a critical role in South Africa economy, accounting for 9.6% of the gross domestic product (GDP) in 2011. "In a resource-based country, which is reliant on transformation and development, investors need regulatory certainty and administrative efficiency. This in turn requires laws and policies that are clear, definite and consistently applied."

"The recent events at Lonmin, which have spread to Amplats' Rustenburg operations and Gold Fields, have shown the underlying volatility in the industry. It is crucial that government deals with illegal strikes and protest action effectively. These constant disruptions to one of South Africa's biggest economic drivers simply hold the country hostage." Brown says the continuing strikes and wage demands are having a hugely detrimental effect on South Africa's image around the world.

Policy direction is uncertain

But more importantly, they come at an already difficult time when international ratings agencies have expressed their concerns about populist pressure and uncertainty around policy direction, which could undermine commitment to low budget deficits and debt targets. Fitch Ratings, Standard & Poor's and Moody's Investors Service have all cut their outlook on South Africa's credit rating to negative from stable.

"Its how the government responds challenges such as those we saw in the mining sector, as well as the outcome of the Mangaung conference in December, that will ultimately decide the course of the rating," Brown says. The ANC's policy conference in June raised more questions than answers, and if politics overshadows economic policy in December, this would be a tragedy.

"If we are to maintain our ratings, the conference in December must deliver sound, measurable policies to stimulate growth and reduce unemployment. If it doesn't, our ratings are at risk of being downgraded. That would in turn raise the cost of borrowing for both South Africa and state-owned entities. South Africa already spends about 3% of GDP on interest payments, so we cannot afford to spend more if we want to maintain current levels of social spending and fund the infrastructure investments announced, given that the revenue base is not growing," she concludes.