Fears over debt downgrade dissipating fast

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Talk of a possible downgrade of the investment grade status of South Africa's sovereign bonds remained high on the agenda of the public debate throughout 2016.

Despite the recent decision by the large ratings agencies not to downgrade the country's debt, several economists have warned that 2017 may present new challenges in the battle to retain investment grade status.

An informed answer to this issue will serve a dual purpose, namely to also shed light on the chances of averting a recession. The latter prospect had been looming large after negative real growth was recorded in the first quarter of the year, but, fortunately, the South African economy rebounded in the second quarter.

As a growing number of third quarter economic data sets become available, however, it is clear that economic recovery has not yet gained meaningful traction.

An objective assessment of the likelihood that South Africa will avert these twin threats essentially requires a balanced overview of the current state of the economy, covering the most relevant factors impacting on economic stability, in general.

The attached concise graphical discussion provides some clues to the answer.

Although South Africa's public debt/GDP ratio has certainly increased since 2008, it has followed a near-universal trend (induced by the 2008/09 recession) and is still low compared to most key trading partners.

South Africa also enjoys fundamental fiscal stability in terms of a relatively low budget deficit/GDP ratio and the systematic lowering of government's borrowing requirement as a percentage of gross public debt – a fact implicitly acknowledged by the country's inclusion in the benchmark Citigroup World Government Bond Index (including only three other emerging markets).

South Africa enjoys the following World Economic Forum competitiveness rankings (out of 138 countries):

- Financing through local equity market – number one
- Soundness of banks – number two
- Regulation of securities exchanges – number three

Sound management of the country's public finances by, *inter alia,* Mr Pravin Gordhan and Mr Nhlanhla Nene in the most difficult circumstances in decades, has allowed South Africa to stabilise its budget deficit/GDP ratio at just above the 3%-level, with sound prospects of a further lowering in the medium term.

Whilst not denying the existence of daunting challenges in both the socio-political and economic spheres, the balance of quantifiable evidence points to a double positive.

Not only should the country be able to retain investment grade status for its US dollar bonds, but economic growth should start picking up in 2017 – a prospect supported by both the National Treasury and the World Bank.