

JUNK STATUS

WHAT DOES IT MEAN FOR SOUTH AFRICA?

More South Africans will pay more on interest

Food, electricity and petrol prices increases

Unemployment increases due to retrenchments and factory shut down

Government will be forced to spend less on social programmes

Low confidence, therefore low investments and no job creation

The Rand will be worth much less, making imported goods more expensive



CREDIT RATINGS AND HOW THEY WORK

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



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ECONOMIC OUTLOOK

Currently the economy of South Africa is not doing well. Many companies are retrenching; other companies are expanding their businesses outside South Africa; the load shedding the country experienced did not help with growth; and the long, violent and disruptive strikes are scaring investors away. Government is doing all it can to boost economic growth by working together with business, civil society and labour to demonstrate its commitment to translate plans into concrete actions that will ensure South Africa remains an investment grade country. Government has however gathered a lot of debt in the past several years in an attempt to sustain the country through hard times created by the collapse in the US banks in 2008. The more retrenched people, the less money government gets through taxes, so it borrows more. Currently government spends close to R150 billion in interest costs (a budget that is almost the same as for social grants and health) with the debt of R2 trillion. If the cost of borrowing money for government increases, it means that government will have to either cut social spending or tax the few people that are working even more, which is bad for the country.

DESCRIPTION OF INVESTMENT GRADE

Lucky South Africa can still borrow money at a reasonable interest rate (investment grade) because rating agencies still believe that South Africa will be able to pay back the debt. If however, rating agencies think that government will not be able to pay back its debt or will find it very difficult to do so (junk status), then the interest government is going to pay will be very high. Because the country is not growing and few people are employed, government will be forced to cut spending on social services if South Africa was to be called junk status. This means that more money will be used for payment of its interest and debt instead of improving the standard of living an individual South African.

WHAT CAN AN AVERAGE SOUTH AFRICAN DO?

As the country is faced with such problems, South Africans can help to ease up the difficulties by increasing their personal savings where possible, avoid participation in violent strikes and most importantly citizens should practice their political power by voting. South Africans need to preach the message of "being educated" because "an educated nation is a powerful nation".



RATING SCALE	RATING DESCRIPTION	HOW BANKS WILL TREAT YOU
AAA	Prime	All good banks want to borrow you money at a very low interest rate. They will offer you wine, tea, juice, anything you want
AA+	High grade	All good banks want to borrow you money at a low interest rate. They will offer you tea and water
AA		
AA-		
A+	Upper medium grade	All good banks want to borrow you money at a relatively low interest rate. They will offer you only water
A		
A-		
BBB+	Lower medium grade	Most good banks want to borrow you money at a normal interest rate. You will stand in a short queue
BBB		
BBB-		
BB+	Non-investment grade speculative	A number of banks are still willing to borrow you money at a very high interest rate. No special treatment and they want proof of assets for them to be sure you will be able to pay them
BB		
BB-		
B+	Highly speculative	
B		
B-		
CCC+	Substantial risks	Mashonisa's are willing to borrow you money at very very high interest rates. They take your ID, TV, bed or other assets that you have so that they can sell them if you don't pay
CCC		
CCC-		
CC	Extremely speculative	
C	Default imminent	
RD	In default	
SD		
D		