NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 1300 [NW1509E]
DATE OF PUBLICATION: 17 APRIL 2015

1300. Dr M J Figg (DA) to ask the Minister of Finance:

(a) What is the current cost of debt, expressed as a percentage, at the current credit rating and (b) to what percentage will this cost increase if the credit rating is downgraded?

NW1509E

REPLY:

a) Cost of debt could, loosely be interpreted as the cost of servicing debt. The cost of borrowing, if you were to consider the benchmark government bond is around 7.78%. To manage refinancing risk, government issues more in the longer end of the curve and the indicative cost of borrowing in that segment of the curve is around 8.16%. The debt service costs associated with governments debt portfolio amounts to 3 % of GDP in 2015/16 (R 126.4 billion), and is projected at 3.1 % of GDP in 2016/17 (R141 billion) and 2017/18 (R 153.4 billion) respectively.

b) Research suggests that credit rating announcements tend to be behind the curve in terms of bringing new information to the markets. Bond markets are generally forward pricing and thus when credit rating opinions become public information, the risks identified by the rating agencies are already priced in by the market and bond investors alike. When rating actions result in a change from investment grade to sub-investment grade, there is a structural shift in the cost of debt. However, empirical evidence suggests that downgrades within the same investment grade rating class have little to no long term effect on yields and the cost of debt.