Moody’s downgrade was to be expected

Ratings agency’s forecast will help neutralise adverse impact on rand

F ollowing several months of warnings about the systemic risks in emerging markets, Moody’s Investors Service has downgraded South Africa’s long-term government bond rating to Baa3 from A3, with a stable outlook. This places South Africa in the lowest investment grade category.

A far safer road lies ahead

While the news is unlikely to be welcome in many quarters, it runs counter to the belief that by moving away from the political “Teflon” of the World Bank to a more independent stance, the new reorganisation of the institution has enabled it to complete a full-fledged response to the crisis in emerging markets, to come out of the shadows of the African oil crashes that were a feature of the previous decade, and to focus on the challenges of the 21st century, not on the past.

Azar Jammine

It is also fair to point out that South Africa has not been in isolation in its reaction to the mood in the markets. There have been several emerging market economies that have moved towards another “negative” outlook in disagreement with the credit rating agencies. All of these economies have sought to change the rating outlook. In some cases, the president has even gone as far as to withdraw the country from the ratings agency’s radar.

The bottom line is...

Moody’s refers to an annual Econometrix report that was released last year, in which it concluded that Moody’s and Fitch would be able to reduce the credit rating prices to a negative outlook. The agency refers to the report’s conclusion that Moody’s and Fitch were likely to revise the credit rating outlook towards the end of the year. If the event, this is precisely what occurred. On Thursday, as Moody’s issued its report.

Bank of England Governor Mark Carney said that the main reason for Moody’s decision was that there was a “credible threat” that the economy would grow at a lower rate than expected. Moody’s also said that the bank’s “negative” outlook was not a sign that it was not confident of the country’s ability to weather the storm. Instead, it was a signal that the country’s economic policy was not working as expected.

One welcomes the change in outlook on the new and lower credit rating.

Bonos from the downgrade

The move by Moody’s is a welcome development. In addition to the fact that it was expected, it is also a sign that the country’s economic policy is improving. Moody’s refers to the “probability of having to revise the outlook” in the future, indicating that the country’s economic policy is not working as expected.

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