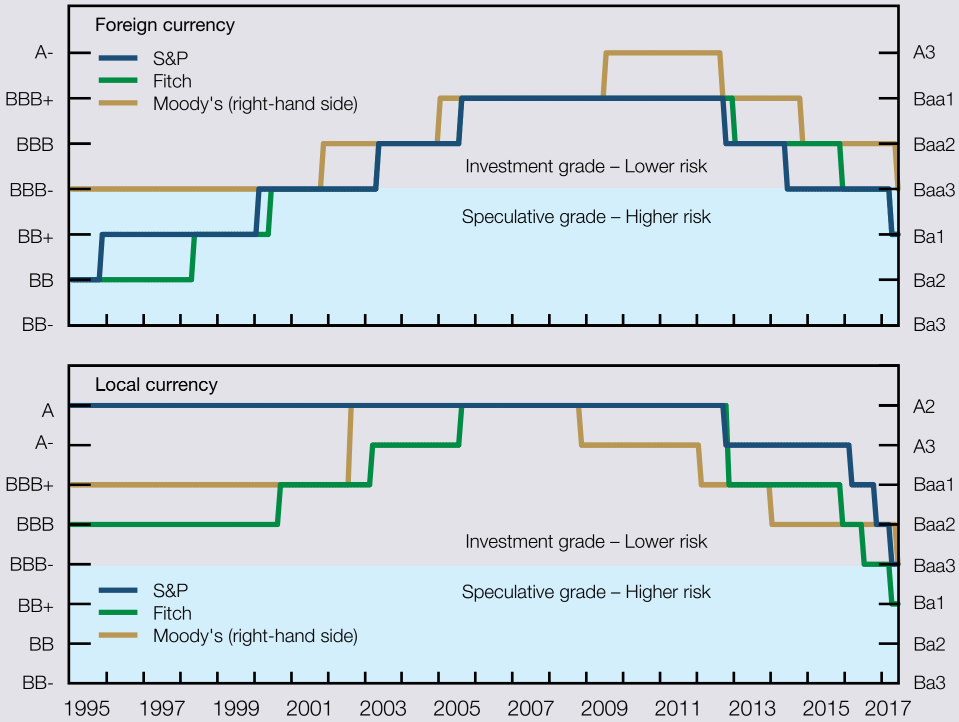
Box 3 South Africa's long-term sovereign credit ratings history

Since the inception of democracy in 1994, South Africa has experienced an extended period of successive long-term foreign currency credit rating upgrades from below to well into investment grade. Long-term foreign currency investment grade status was affirmed by three international rating agencies as from 25 February 2000 when Fitch Ratings (Fitch) also upgraded South Africa. Further upgrades followed until 16 July 2009, supported by annual growth in real gross domestic product (GDP) which was positive and mostly in excess of 3% from 2001 to 2011, with the exception of a contraction in 2009 following the global financial crisis. The tide turned in the latter part of 2012, commencing in September, when all three rating agencies downgraded South Africa's long-term foreign currency credit rating.

Changes in South Africa's long term sovereign credit rating



Sources: Standard & Poors (S&P), Fitch and Moody's Investor Services (Moody's)

Given below is an account of South Africa's credit rating by S&P since 1995.

Evolution of South Africa's long-term foreign currency credit rating by S&P

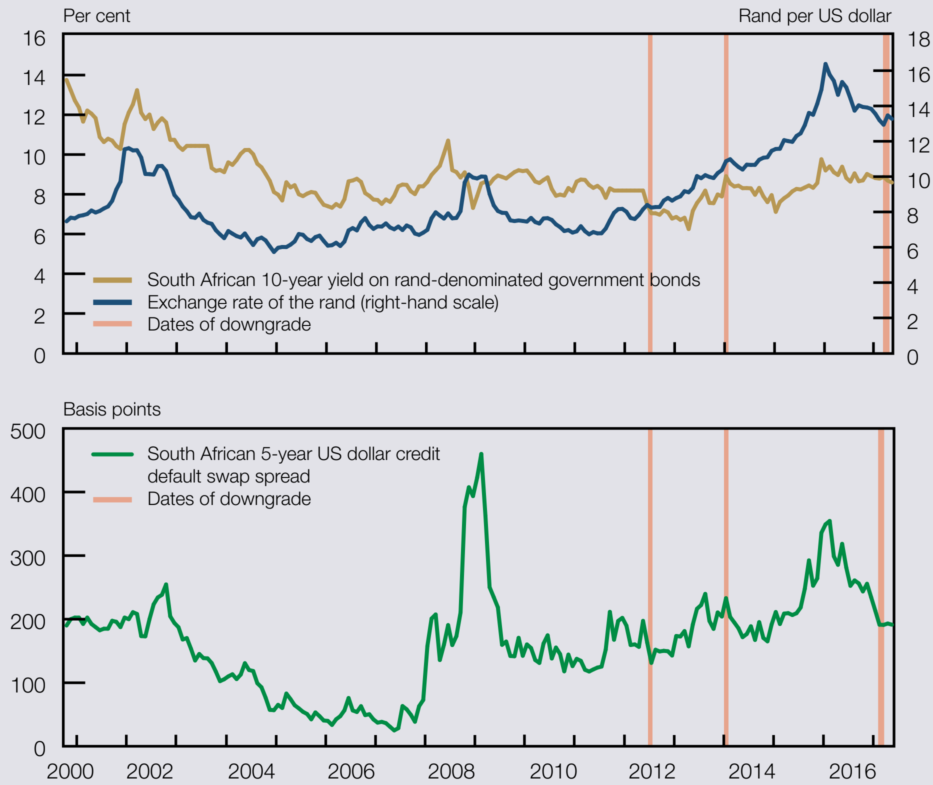
Rating	Outlook	Date	Announcement
BB+	Negative	3 April 2017	Downgrade
BBB-	Negative	4 December 2015	Outlook change
BBB-	Stable	13 June 2014	Downgrade
BBB	Negative	12 October 2012	Downgrade
BBB+	Negative	28 March 2012	Outlook change
BBB+	Stable	25 January 2011	Outlook change
BBB+	Negative	11 November 2008	Outlook change
BBB+	Stable	1 August 2005	Upgrade
BBB	Stable	7 May 2003	Upgrade
BBB-	Positive	12 November 2002	Outlook change
BBB-	Stable	25 February 2000	Upgrade
BB+	Stable	20 November 1995	Upgrade

Source: S&P

Credit rating agencies usually wait for 18 months after changing a country's rating outlook to negative, to properly assess whether concerns that were raised have been adequately addressed by the appropriate authorities, before issuing a downgrade. Unusual events may, however, hasten this process. On 4 December 2015, S&P changed South Africa's long-term foreign currency rating outlook from stable to negative, and subsequently downgraded the country to sub-investment grade on 3 April 2017, within the 18-month period. As from April 2017, South Africa's long-term foreign currency credit rating was also lowered to sub-investment grade by Fitch, with only Moody's Investor Service's (Moody's) investment grade rating remaining intact. These downgrades have taken the country back to its credit rating status that prevailed during the late 1990s.

The impact of the downgrades on financial markets was fairly muted as reflected by movements in domestic government bond yields, the currency and sovereign risk premium. The credit default swap spread did not reflect an event shock and bonds seemed to have already priced-in the downgrade at the time. The subdued response of bond yields should be assessed in the context of already high interest rates and the ongoing search by investors for higher yields in international financial markets. The moderate sovereign credit risk response, in turn, should be gauged relative to recent global experiences in Brazil in Russia.

Exchange rate and sovereign risk premium indicators



Sources: Bloomberg and SARB