FACT SHEET

THE IMPACT OF A "JUNK" GOVERNMENT ON THE SA BANKS

CASH AND LIQUIDITY FACT SHEET

INTRODUCTION

South Africa's sovereign rating across the three major credit rating agencies is officially junk after Moody's downgrade on 31 March 2020. The immediate question which comes to mind is; how will this impact the local banks and how will this affect our decisions in adhering to investment policies? It is important to differentiate between foreign currency ratings and local currency ratings as this impacts the decision making of corporates in terms of investment policy.

Foreign currency ratings should be used when one is considering foreign-denominated investments. Investments in Rand should be assessed against local currency and national ratings, (zaf) being Fitch's notation and .za for Moody's, Standard & Poor's and Global Credit Ratings notation for South African ratings.

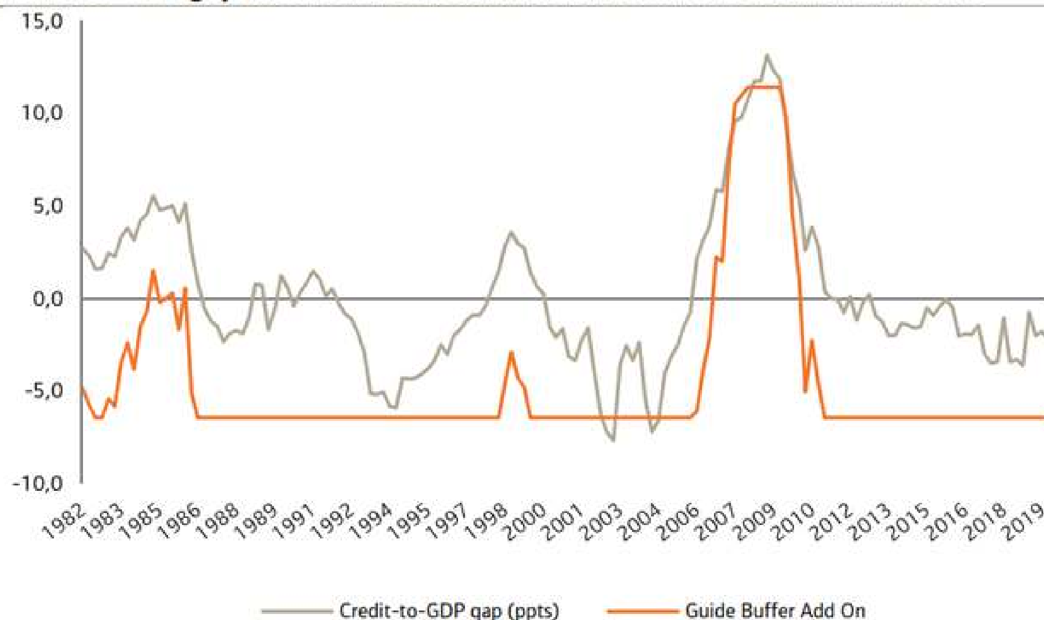
There are also short-term and long-term ratings. Short-term ratings should be used for investments less than a one-year time horizon and long-term ratings for periods greater than a year.

CREDIT RATINGS OF BIG-5 SOUTH AFRICA BANKS

			Absa	FNB	Investec	Nedbank	Standard Bank
Moody's	Foreign Currency	Long term	Ba1	Ba1	Ba1	Ba1	Ba1
		Short term	P-3	P-3	P-3	P-3	P-3
	Local Currency	Long term	Aa1.za	Aaa.za	Aa1.za	Aa1.za	Aa1.za
		Short term	P-1.za	P-1.za	P-1.za	P-1.za	P-1.za
Fitch	Foreign Currency	Long term	BB	BB	BB	BB	BB
		Short term	B	B	B	B	B
	Local Currency	Long term	AA-(zaf)	AA-(zaf)	AA-(zaf)	AA-(zaf)	AA-(zaf)
		Short term	F1+(zaf)	F1+(zaf)	F1+(zaf)	F1+(zaf)	F1+(zaf)
S&P	Foreign Currency	Long term	n/a	BB	BB	BB	n/a
		Short term	n/a	B	B	B	n/a
	Local Currency	Long term	za.AA	za.AA	za.AA	za.AA	n/a
		Short term	za.A-1+	za.A-1+	za.A-1+	za.A-1+	n/a
GCR	Foreign Currency	Long term	BB	BB+	BB	BB	BB+
		Short term	n/a	n/a	n/a	n/a	n/a
	Local Currency	Long term	AA(za)	AA+(za)	AA(za)	AA(za)	AA+(za)
		Short term	A1+(za)	A1(za)	A1+(za)	A1+(za)	A1+(za)[1]

As seen in the table above, the long-term local currency credit rating of the big-5 banks is above investment grade. The banks benefit from sound franchises and enjoy strong market shares (the so-called big four, each with sector assets of about 20%, and Investec with 8%), as well as highly diversified business profiles that underpin a certain stability of earnings and solid risk-management frameworks. The banks also have solid funding and liquidity profiles, underpinned by large customer deposit funding bases and limited external funding reliance.

By employing the credit-to-GDP ratio, Standard Bank assesses potential banking sector systemic pressure as it may arise from excessive (historical) credit extension relative to GDP. The credit-to-GDP gap has been negative (see chart below) since 2011 as credit growth either matched or slightly lagged GDP growth. The gap average -1.4% from 2011 to 2019. However, during 2008-09, the gap average 10.9% as credit grew faster than GDP prior to the global financial crisis of 2008/9. Since then, South African banks have managed this with caution whilst also building robust capital buffers.



The South African banking sector enters the current crisis without an overhang of excessive prior credit lending and is suitably capitalised to handle shocks, and with sufficient room for private sector credit support.

In short,placing funds with any of the big-5 banks is not in breach of general investment policies which requires counterparty credit ratings of investment grade.