Two down, one to go...What will S&P's verdict be?

Having come through the most recent round of ratings by Moody's and Fitch with minor bruises, the country is holding its collective breath for Standard & Poor's (S&P) evaluation results tomorrow.

There's no doubt that a downgrade to "junk status" will negatively impact South Africa's economy, businesses and consumers, Izak Odendaal, investment strategist at Old Mutual Multi-Managers – offers an honest outlook on the situation.

"The most imminent risk is therefore that S&P Global cuts South Africa's foreign-currency rating to 'junk status'; however, our local currency rating is likely to remain at 'investment grade'. Most of government's borrowing happens in local currency, thanks to the country's large and sophisticated local capital markets – something that few emerging markets have achieved," he says.

Source: How Wwe made it in Africa

The reality is that South Africa has not made much progress on reforms and initiatives to raise its economic growth rate on a sustained basis. The country has been hit by several shocks in recent years, including falling commodity prices, load-shedding, prolonged strikes, a severe drought and rising interest rates, to name a few. Yet, despite these challenges, Odendaal points out that the impact of these shocks is in the process of fading and that growth could normalise to pre-2014 levels.

One of the biggest contributing factors inhibiting significant economic growth is that South Africans lack confidence – an unsurprising result of the challenges that have reared their heads in recent years and during 2016, including a rise in the country's unemployment rate to 27,1% as per Statistics South Africa.

Should a ratings downgrade occur, higher interest rates could apply in which case government would be required to spend more to service its debt. As such, spending in other important areas would need to be sacrificed, Odendaal explains.

He raises the concern that a downgrade could result in a weaker rand which would push up inflation. However, markets are typically forward-looking and probably already largely reflect the risk of a downgrade.