SA and region face debt struggle, warns Moody's

SA and its neighbours in sub-Saharan Africa might struggle to borrow just as most of the region's international debt matured in the next decade, international ratings agency Moody's Investors Service cautioned in a report.

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This comes as the Reserve Bank's monetary policy committee is expected to keep interest rates unchanged on Thursday ahead of potential ratings action by S&P Global Ratings and Moody's.

S&P is widely expected to downgrade SA's local currency debt rating to junk, leading to much higher borrowing costs.

Over the next three years SA's gross borrowing requirement will be nearly R1trn, the Treasury said in the medium-term budget statement.

Stanlib chief economist Kevin Lings said a downgrade could result in the benchmark 10-year bond yield initially weakening an additional 50-70 basis points.

But investors could find value at these levels, which would offer some recovery.

Moody's singled out Ghana, Gabon and Zambia as most vulnerable to a sudden loss of market access or a rise in borrowing costs as global financing conditions tightened in the US and Europe. Those countries had high levels of government debt exceeding 55% of GDP and three times government revenues, along with high interest and large borrowing needs. This left them vulnerable to a sudden shift in market conditions.

Finance Minister Malusi Gigaba warned in October that SA's debt to GDP burden would approach 59.7% by 2020-21.

Even if sub-Saharan African sovereigns "are able to roll over maturing debt, investors may demand higher yields to compensate for weaker credit quality or to compensate for a rise in global interest rates", said David Rogovic, a Moody's assistant vice-president. Refinancing existing debt at higher interest rates would test the ability of governments to adjust policy to offset higher borrowing costs.

"The risk of financing stress will increase as we approach the peak of maturing international debt in the early part of the next decade," Rogovic said.

An added risk was that an increasing amount of sovereign debt in sub-Saharan Africa was held by foreign investors rather than multilateral lenders such as the World Bank and IMF. Rogovic said these investors might treat sub-Saharan borrowers as a homogenous group and do a blanket funding withdrawal.

Source: *Business Day*