Key messages

1. S&P's decision not to downgrade South Africa gives us another small window of opportunity in which to restore confidence in our economy before their next review at the end of the year.
2. Old Mutual advises customers to 'stick to your plans'. Stay calm and take a long term view.
3. We are ready to advise and help our customers, as their 'certain friend in uncertain times'.
4. Old Mutual will continue to work hard with all stakeholders to bring SA back on track.

Customer Q&A

What is a sovereign credit rating?

- A sovereign credit rating is the credit rating of a country or sovereign entity by a credit ratings agency.
- A credit ratings agency will evaluate the country's economic and political environment to determine a representative credit rating.
- Sovereign credit ratings give investors insight into the level of risk associated with investing in a particular country.
- There are three key agencies (Standard & Poor's, Fitch and Moody).

How are sovereign credit ratings determined?

- The ratings agencies assess a country's ability and willingness to repay debt, taking into account such variables as GDP growth, budget deficits and current account deficits.
- S & P use six 'scores' to decide a ratings outcome → (1) Institutional Assessment ; (2) Economic Assessment ; (3) External Assessment ; (4) Fiscal Assessment: flexibility and performance ; (5) Fiscal Assessment: debt burden; and (6) Monetary Assessment.

What does averting a downgrade mean for me, as a customer?

- The news is welcome because it means that we escape the fallout of a downgrade for now. A downgrade would have affected all South Africans, weakening the currency, increasing inflation and interest rates, and putting more pressure on budgets.
- But a downgrade to sub-investment grade before the end of 2016 is still likely unless there's a significant economic turnaround. So we are not out of the woods yet.
- As a responsible financial services provider, our top priority remains safeguarding your future financial wellbeing and you can speak to your financial adviser or call 0860 606060 if you need guidance or help with alleviating pressure on your budget.
- Generally speaking, the best policy in difficult times is to cut back on spending, stick to your savings and investment plans and take a calm, longer term view.

What does averting a downgrade mean for South Africa?

- Maintaining our investment grade rating, at least for now, is good news for South Africa as it gives government, business, labour and civil society a window, albeit a relatively short one, to make real progress with lifting South Africa's growth performance.
- Policy initiatives from government and continued co-operation by all stakeholders in the interests of stronger inclusive economic growth are imperative.
- Friday's decision does not mean that South Africa is off the hook. S&P will review the country's situation, especially its progress on growth and fiscal consolidation, in six months' time.
- The rand, a barometer of confidence, firmed moderately following S&P's decision. But the rand is expected to remain volatile and relatively weak until ratings agencies and investors are convinced that South Africa's longer-term prospects are taking a fundamental turn for the better.

What would a ratings downgrade mean for South Africa?

- A shift to a sub-investment grade rating means that the already high cost of funding for government will increase, and reduce growth even further. It is likely to put additional pressure on an already constrained fiscal situation and could result in more tax hikes.
- This would, in turn, make it more difficult to get the economic growth onto the higher trajectory needed to avoid further job losses.
- Of most concern is the impact it could have on much needed foreign investment inflows, especially given our low savings rate.
- Our prime concern is that having lost investment grade, South Africa will have to redouble its efforts to convince the rating agencies that we deserve to get it back. Countries that have experienced similar downgrades have taken two years and more – if at all - to achieve investment grade again.

How do we improve our sovereign ratings?

- We need to return to the basics.
- All the key role players in the South African economy need to continue working hard on restoring faith in South Africa's ability to grow at a higher rate by implementing market-friendly, growth-enhancing economic reforms as contained in the National Development Programme.
- We must build on the new spirit of co-operation, and government, business, labour and civil society need to intensify their efforts to increase inclusive economic growth.
- Our efforts to get SA back on track go far beyond appeasing ratings agencies. It is about changing the landscape of our economy to foster inclusive growth and build a better society for all South Africans.

Are you as Old Mutual concerned about the outlook for South Africa?

- We are concerned about SA's low growth and weak economic environment, and will continue to work hard with other stakeholders to help improve it.
- SA has faced many crises in the past and somehow we have always managed to pull through, finding sensible solutions to serious problems.
- We believe this is again possible, but we need to increase and accelerate inclusive economic growth and we need to unite behind a common national vision and strategy.
- We must see past the doom and gloom and focus on the positive developments. These include the start of real dialogue and collaboration between business, government, labour and civil society, as well as the recently displayed strength, independence and integrity of key institutions such as the Treasury, the SA Reserve Bank and the courts.
- Sustained inflows into the SA bond market this year and the success of an international bond issued by National Treasury may be signs that foreign investors are less negatively orientated towards SA in the context of global emerging markets as we sometimes believe.
- An exciting development has been the proposed R10 billion fund (with an initial commitment of R1.5 billion by corporate SA) to stimulate Small to Medium Enterprise development and build the capacity of our country to create more entrepreneurs.
- Progress is being made on the 8 point plan proposed by business and endorsed by government, but faster progress must be made with fiscal consolidation and clear and consistent policy implementation.