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Dear colleagues

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Old Mutual in the fight for South Africa's future

As I said last week in my note to you about the key takeouts from Davos, South Africa stands on the brink of a national economic crisis.

There is a real risk of a sovereign ratings downgrade in South Africa, which is something that would have profound consequences for the country, in the financial markets as well as in the real economy. (See box alongside.)

However, **serious as the situation is, it is not all doom and gloom**. A positive outcome is still possible, and there are clear actions that can be taken to avert the crisis.

At a high-level meeting at the Nedbank head office in Sandton last Friday, about 60 CEOs, myself included, met with the Ministry of Finance to continue the critical discussions that began in Davos.

Foremost among the issues debated:

1. Actions necessary to avert a sovereign ratings downgrade to sub-investment grade (junk)
2. The 2016/2017 Budget and what could be done to ease fiscal strain in a low growth environment.
3. The need to improve public and investor confidence in South Africa.
4. Governance and financial concerns around State-Owned Enterprises (SOEs).
5. Corruption – both in the public and private sector.
6. Growth enhancing initiatives that also support job creation.

Why a ratings downgrade must be avoided at all costs

South Africa as a country has a credit rating assigned to it by international ratings agencies such as Standard & Poor, Moody's and Fitch.

The level of the rating affects the cost of borrowing. Put simply, the lower the rating, the higher the cost.

Some international investors can only lend to countries that are at investment grade ratings levels. South Africa is at risk of losing that rating given low economic growth and pressures on the national budget to finance all of government activity.

Losing the investment grade rating will initially impact the financial markets and make it more expensive for government to borrow. Higher borrowing costs for government impact the ability to fund the investment in social and hard infrastructure that is so needed in SA.

In the longer term, it affects companies and individuals in the country more profoundly with potentially a less competitive economy, weaker currency, higher inflation and cost of living impacts.

Positive takeouts

What was very heartening was the strong consensus on the urgency and direction of the actions that need to be taken. It was agreed to take the discussions further with other Cabinet members at a business and government lekgotla, to be scheduled as soon as possible.

Based on the discussions, I'm confident that the National Treasury, under the leadership of Minister Pravin Gordhan, will deliver a 2016/2017 Budget that's appropriate for the times we in South Africa are in.

It's clear South Africa's leadership has a window of opportunity to search for common good across all social partners, act decisively and inspire the necessary confidence to get the country back on a sustainable growth path.

There is a national crisis, and it shouldn't be wasted.

As Old Mutual we will continue to engage with other government, broader business and social partners to do whatever is necessary and within our powers to avert a sovereign ratings downgrade.

We are in the fight for South Africa's future.

Warmest regards
Ralph

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