

# THE IMPACT OF SOVEREIGN CREDIT RATING DOWNGRADE TO FOREIGN DIRECT INVESTMENT IN SOUTH AFRICA

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## Abstract

Foreign Direct Investment (FDI) has grown to be an attractive alternative to borrowing from multilateral institutions such as the World Bank and the International Monetary Fund for emerging economies. Global investors prefer investing in countries which have received a Sovereign Credit Rating (SCR) as they perceive it as a good measure of risk allocation. This research applied an event study methodology to SCR downgrades from the three international CRAs (Moody, Standard and Poor and Fitch) over the period 2004 to 2014 to investigate the impact of SCR change on FDI flow into South Africa. Empirical findings show that there is a statistically significant relationship between FDI and SCR downgrades. Evidence also shows that not all downgrades from the three CRAs equally affect investors' decisions as Moody's downgrades tend to dominate, causing FDI to reaction at with a higher magnitude. However, not only SCR downgrade determines FDI flow into SA but there is a host of other fundamentals that government should address to attract investment and stabilise financial markets.

**Keywords:** Investors, Risk, Downgrade, Reaction and Fundamentals

## 1. INTRODUCTION

Sovereign Credit Rating (SCR) is an evaluation of the credit worthiness of an independent government by a credit rating agency (CRA) of the nation's ability to pay back its debts and its likelihood of default (Standard and Poor, 1998). South Africa has been downgraded by international credit rating three times in a single year in 2015. As at December 2015, the country's SCR was BBB- with a negative outlook, which is only one notch above the non-investment grade from both Standard and Poor (S&P) and Fitch ratings.

Financial analysts reiterated that the country's SCR downgrade was in-line with market expectations following the slow economic growth prospects projected at 1.6% growth in 2015/16 and 2.1% growth in 2016/17. There has been serious policy inconsistency in South Africa in such areas as visa restrictions, delays to the mineral resource law, prospective plans for land reform and a national minimum wages.

Another concern has been on the South Africa's persistent current account deficit, weak domestic demand and the sharp depreciation of the rand, subdued commodity prices, a lack of capacity to produce goods currently being imported. These have contributed to deterioration in the country's external debt-to-GDP ratio to an estimated 50.1% as at end of 2015 exposing the country to shifts in global liquidity and risk appetite.

A combination of these variables have also seen a sharp decrease in business confidence negatively affecting private sector investment which ultimately contributed to lower GDP growth. Given that almost half the JSE's top 40 stocks and 40% outstanding rand denominated government bonds (up from 14%

in 2009) are owned by foreign investors, the volume of foreign disinvestment resulting from a rating downgrade could be massive making it harder for the country to fund its ballooning current account deficit. This study, therefore investigates the impact of sovereign credit rating downgrade on FDI.

**Table 1.** The Sovereign Credit Rating scale

Moody's		S&P		Fitch		Rating description
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa		AAA		AAA		Prime
Aa1	P-1	AA+	A-1+	AA+	F1+	High grade
Aa2		AA		AA		
Aa3		AA-		AA-		
A1		A+	A-1	A+	F1	Upper medium grade
A2	A	A				
A3	P-2	A-	A-2	A-	F2	Lower medium grade
Baa1		BBB+		BBB+		
Baa2	P-3	BBB	A-3	BBB	F3	Medium grade
Baa3		BBB-		BBB-		
Ba1	Not Prime	BB+	B	BB+	B	Non-investment grade speculative
Ba2		BB		BB		
Ba3		BB-		BB-		
B1		B+		B+		Highly speculative
B2		B		B		
B3		B-		B-		
Caa1	Not Prime	CCC+	C	CCC+	C	Substantial risks
Caa2		CCC		CCC		
Caa3		CCC-		CCC-		
Ca		CC		CC		Extremely speculative
		C		C		Default imminent
C		RD	D	DDD	D	In default
/		SD		DD		
/		D		D		

Source: Standard & Poor's (1998)

## 2. REVIEW OF RELATED LITERATURE

The role of CRAs has been grossly criticised by financial analysts after the global financial crisis. They questioned their ability to predict systemic market risk which leads to economic crises. However, CRAs have always explicitly stated that their sovereign ratings are their independent opinion on a country's default risk and cannot be solely relied on (Kaminsky and Schmukler, 1999). Despite this challenge, rating agencies remain a key fundamental in the global financial markets and their announcements on the sovereign and corporate credit rating adjustments is accompanied by an adjustment on the cost of capital (Hand, Holthausen and Leftwich, 1992). Reinhart (2002) presents evidence which shows that SCRs provide financial markets with new tradable information which directly impact financial portfolios.

The SCR model incorporates a number of macroeconomic variables. These variables include per capita income, default history, inflation, external debt and economic growth (Cantor and Packer, 1996). Cantor and Packer (1996) further show that these observable macroeconomic indicators explain 90% of Standard and Poor's (S&P) and Moody's issued sovereign ratings. While agreeing that a sovereign rating include quantitative factors, the agencies also point out that the agency's own judgement as well as qualitative factors that may not be numerically observable are taken into account when issuing a ratings (Gaillard, 2009).

A country's credit rating downgrade affects government borrowing costs resulting in capital flight and currency weakness. Most foreign investors have a mandate to invest in countries with an investment grade sovereign rating from the three international CRAs<sup>1</sup>. In the absence of an investment grade rating most foreign investors withdraw funds making it harder for a country to fund its current account deficit as the case with South Africa.

Sovereign rating downgrade would ultimately affect household disposable income through the weakened exchange rate. When FDI dries up through massive foreign investor selling their assets, inflation is fuelled, ultimately leading to higher interest rates. There would be less foreign demand for domestic bonds and money would be a net FDI outflow, causing further currency weakness and ultimately impacting inflation and investors' capital. The cost of borrowing for state-owned enterprises and private companies would also increase, which would likely affect corporate balance sheets, particularly those of companies that are highly geared such as property companies with a wide mortgage base. This in turn impact negatively on profits and investor dividends, trimming equity returns.

According to Kaminsky and Schmukler (2002), sovereign credit ratings address the information asymmetry by bringing new information, especially for non-transparent economies, improving their ability to attract private capital flows. The findings by Reinhart, et al. (2003), are supported by Kaminsky, et al. (2004), who showed that the largest decline in FDI inflows as a proportion of GDP was correlated to the decline in Institutional Investor

country ratings. Valdés (2001) found that one of the factors that negatively impacted on portfolio flows to developing economies between the 1970's and 1990's was the country's indebtedness and creditworthiness, as represented by their country credit ratings. This view is further supported by Wunnava (2004) who shows that the Institutional Investor's country credit rating was a significant determinant of FDI inflows to other countries.

Considering the variables encapsulated in a sovereign rating model, FDIs are attracted to investment rated sovereigns. SCR is therefore considered as a signal of transparency required to improve developing economies' access to international rather than only bringing new information to financial markets.

## 3. DATA

To investigate the sovereign credit rating downgrade impact on foreign capital inflows in South Africa relevant sets of data was extracted. FDI was considered as the net inflows of investments into the country through acquisition of a lasting management interest in the form of voting shares in an enterprise operating within the country's borders by a non-South African investor. FDI data was obtained from the UN statistics website for the period 2004 to 2014 which combined the sum of equity capital, reinvestment of earnings, other long-term capital and short-term capital as shown in the balance of payment.

Announcements on South Africa are sovereign rating changes; outlook, downgrade, watchlisting, upgrade or any other movement across the different notches constituted a credit rating action. An event of interest was sovereign rating downgrade and negative change in outlook. SCR data was obtained from Trading Economics Data for the same period 2004 to 2014. During this period, Fitch announced 52 long term rating actions whilst S & P announced 5 and 8 by Moody's.

## 4. METHODOLOGY

To analyze the implications of sovereign ratings and outlooks on FDI, the study performs event studies to examine the dynamic responses in one variable when the other one changes. An event study methodology is a common framework used to test the effect of the occurrence of a particular event on financial security prices (MacKinlay, 1997). Hence it was the most suitable methodology to adopt in this analysis. There is a number of previous studies that applied this methodology, notably Kaminsky and Schmukler (2002), Mateev (2011), Morseth and Norgaard (2013) and Fatnassi (2014).

To capture the reaction of FDI to the announcement of SCR in the rated country, the study applied construct abnormal returns of in the form of profit remittances around announcement dates using the simple market model with the S&P value-weighted All Africa FDI index. The abnormal return of a sovereign  $i$ , on a trading day  $\tau$ , will be a specific model by Brown and Warner (1985) and Strong (1992) as follows:

<sup>1</sup> Fitch, Standard and Poor and Moody's

$$AR_{i,\tau} = R_{i,\tau} - E(R_{i,\tau}|\Omega_{i,\tau}) \quad (1)$$

Where:  $AR_{i,\tau}$  is the abnormal return of the sovereign  $i$ , at time  $\tau$ ;  $R_{i,\tau}$  is the normal return expected for a sovereign  $i$ 's FDI index;  $E(R_{i,\tau}|\Omega_{i,\tau})$  is the return attributable to credit news announcement for a sovereign  $i$  at time  $\tau$ ;  $\Omega_{i,\tau}$  is the fundamental basis for credit rating news.

When there are multiple sovereign ratings issued for the same period by the three rating agencies, one representative rating with the most time-series observations was chosen to insure greater consistency throughout the sample. An estimation window period of 11 months around the SCR news was used to estimate the expected return since it takes an average of 21 days to complete a FDI transaction in the country. The SCR news announcement months will be month 0 and other months will be symmetrically surrounding the event month as -5 and +5.

Average Abnormal Returns (AAR) for the event date was calculated as a simple cross-sectional average for the sample,  $N$ .

$$AAR_{i,\tau} = \frac{1}{N} \sum_{i=1}^N (AR_{i,\tau}) \quad (2)$$

Where:  $AR_{i,\tau}$  is the abnormal return of the sovereign  $i$ , at time  $\tau$ ;  $R_{i,\tau}$  is the normal return expected for a sovereign  $i$ 's FDI index at time  $\tau$ ;  $R_{M,\tau}$  is the rate of return on the value - weighted All Africa FDI index for period  $\tau$ .

A  $t$ -statistic was calculated for the average abnormal return by assuming cross-sectional independence. To test for statistical significance on whether the cumulative abnormal returns (CARs) are significantly different from zero on a statistical basis, the time-series  $t$ -test by Serra (2002) was applied as follow:

$$t_{\alpha} = \frac{CAR_{i,(\tau_1, \tau_2)}}{std(CAR_{i,(\tau_1, \tau_2)})} \quad (3)$$

To test whether the observations are independent and normally distributed the study was applied the Jacque-Bera test. Where the observations were not normally distributed, the test statistic ( $Z$ ) was used to standardise the observation, specified as follows.

**Table 3.** Fitch Downgrade announcement

Rating	Date	SAFDI	AAFDII	ER	AR	AAR	AR t-test
	2008/10/09	-0.20853	-0.15625	0.476563	-0.68509	-0.68509	-2.55966
	2008/10/16	0.281437	1.518519	-0.00619	0.28763	-0.39746	1.074649
	2008/10/23	0.074766	-0.09559	0.459077	-0.38431	-0.78177	-1.43587
	2008/10/30	-0.27391	-0.14634	0.473707	-0.74762	-1.52939	-2.79327
	2008/11/06	0	0.152381	0.387599	-0.3876	-1.91699	-1.44816
BBB+ (Negative)	2008/11/13	0.341317	-0.52066	0.581605	-0.24029	-2.15728	-0.89777
	2008/11/20	-0.20089	0.362069	0.327156	-0.52805	-2.68533	-1.97291
	2008/11/27	-0.02793	-0.13924	0.47166	-0.49959	-3.18492	-1.86659
	2008/12/04	0.16092	0.117647	0.397612	-0.23669	-3.42162	-0.88433
	2008/12/11	0.064356	0.513158	0.283605	-0.21925	-3.64086	-0.81916
	2008/12/18	-0.16279	-0.05217	0.446563	-0.60935	-4.25022	-2.27668

The first downgrade event was from Fitch and Moody in 2008 from BBB+ (stable) to BBB+ (negative) and A3 (positive) to A3 (stable) respectively. The reaction of FDI after the announcements was statistically significant at 95% confidence level, two weeks before the event as well as immediately after

$$Z_{i,\tau} = \frac{\bar{X}_{i,\tau} - \mu_{i,\tau}}{\sigma_{i,\tau}} \quad (4)$$

Where:  $\bar{X}_{i,\tau}$  mean return of a sovereign  $i$ , at time  $\tau$ ;  $\mu_{i,\tau}$  mean return of a All Africa FDI Index, at time  $\tau$ ;  $i$ 's FDI index at time  $\tau$ ;  $\sigma_{i,\tau}$  is the standard deviation of a sovereign  $i$ 's returns at time  $\tau$ .

To examine the determinants of abnormal returns of South Africa's FDI around the announcements of changes in SCRs and outlook, estimation of a cross-sectional regression model will be done. The dependent variable will be the three-month Cumulative Average Abnormal Returns CAAR calculated by adding AAR for each day from -5 to +5. To see the movement of aggregated Abnormal return across securities over this period, CAAR will be plotted against AAR on the Cartesian plane. This can be described in the following formula;

$$CAAR_{i,\tau}(\tau_1; \tau_2) = \sum_{\tau_1}^{\tau_2} AAR_{i,\tau} \quad (5)$$

Where:  $AAR_{i,\tau}$  is the average abnormal return of a sovereign  $i$ , for period  $\tau_1$  to  $\tau_2$ .

## 5. PRESENTATION OF RESULTS

**Table 2.** Ordinary Least Square (OLS) Outputs

Market information	
Intercept	0.43152352
Slope	-0.2882522
R-Square	0.252818
Standard Error	0.26765

The market information presents a low standard error showing that the sample expected FDI estimate is close to the actual FDI inflow. However the All Africa FDI index only explains approximately 25% of the variation in the actual flow of investments into the country. In the period under study, from 2004 to 2007, there were no SCR downgrade events. CRAs cited favourable structure of government debt, strong banking system, deep local capital markets, monetary and fiscal institutions as major variables which helped the country to maintain a stable SCR.

the announcement. The downgrade was driven by government's decision not to tighten fiscal policy in the face of weakening revenue and rising government debt levels increasing risks associated with funding needs of state enterprises.

**Table 4. Moody Downgrade announcement**

Rating	Date	SAFDI	AAFDII	ER	AR	AAR	AR t-test
	2011/10/06	-0.11475	-0.10714	0.462408	-0.57716	-0.57716	-2.1564
	2011/10/13	0.87037	1.4	0.02797	0.8424	0.265238	3.147394
	2011/10/20	0.118812	0.191667	0.376275	-0.25746	0.007775	-0.96194
	2011/10/27	-0.25664	-0.02797	0.439587	-0.69622	-0.68845	-2.60125
	2011/11/03	0.369048	-0.27338	0.510326	-0.14128	-0.82973	-0.52785
(Negative)	2011/11/10	-0.11304	-0.17822	0.482895	-0.59594	-1.42567	-2.22656
	2011/11/17	0.176471	0.638554	0.247459	-0.07099	-1.49665	-0.26523
	2011/11/24	0.041667	-0.05147	0.44636	-0.40469	-1.90135	-1.51202
	2011/12/01	-0.136	-0.03101	0.440462	-0.57646	-2.47781	-2.15379
	2011/12/08	-0.16667	0.192	0.376179	-0.54285	-3.02066	-2.02819
	2011/12/15	-0.2	-0.32886	0.526318	-0.72632	-3.74697	-2.71369

In 2011, only Moody changed South Africa's outlook from A3 (stable) to A3 (negative) quoting lack of government clear strategy to improve economic growth by stabilising the power supply, changing labour rules to avoid protracted strikes

and improving the governance of state-owned companies that are draining resources. With a critical value of +/-1.96 at 95% confidence level, the downgrade caused a highly significant reaction of FDI, before and after the downgrade event.

**Table 5. Fitch and S & P Downgrade announcement**

Rating	Date	SAFDI	AAFDII	ER	AR	AAR	AR t-test
	2012/06/07	-0.13636	-0.15972	0.477564	-0.61393	-0.61393	-2.29377
	2012/06/14	0.105263	-0.01653	0.436288	-0.33102	-0.94495	-1.23678
	2012/06/21	-0.48571	-0.22689	0.496925	-0.98264	-1.92759	-3.67136
	2012/06/28	1.018519	-0.13043	0.469122	0.549397	-1.37819	2.052669
	2012/07/05	-0.06422	0.5875	0.262175	-0.3264	-1.70459	-1.21949
BBB+ (Negative)	2012/07/12	0.196078	-0.22047	0.495075	-0.299	-2.00359	-1.11712
	2012/07/19	-0.22951	0.515152	0.28303	-0.51254	-2.51613	-1.91496
	2012/07/26	0.159574	-0.57333	0.596788	-0.43721	-2.95334	-1.63353
	2012/08/02	0.06422	1.234375	0.075712	-0.01149	-2.96483	-0.04294
	2012/08/09	-0.53448	-0.54545	0.588752	-1.12323	-4.08807	-4.19666
	2012/08/16	0.240741	1.215385	0.081186	0.159554	-3.92851	0.596131

After the August 2012 change in the country's outlook by S & P and Fitch from BBB+ (stable) to BBB+ (negative), the FDI significantly reacted three weeks after the announcement. However for four consecutive weeks before the announcement, FDI

was significantly on a downward trend. Major concern for FDI was the lack of government budget ceiling which exposes the fiscus to risks associated with funding needs of state-owned companies.

**Table 6. Moody, S&P and Fitch Downgrade announcement**

Rating	Date	SAFDI	AAFDII	ER	AR	AAR	AR t-test
	2012/09/06	0.260417	-0.28082	0.512471	-0.25205	-0.25205	-0.94173
	2012/09/13	-0.16529	-0.32381	0.524862	-0.69015	-0.94221	-2.57856
	2012/09/20	-0.45545	0.239437	0.362505	-0.81795	-1.76016	-3.05605
	2012/09/27	1.290909	0.613636	0.254641	1.036268	-0.72389	3.871726
	2012/10/04	0	-0.28169	0.512721	-0.51272	-1.23661	-1.91564
BBB (Negative)	2012/10/11	-0.30952	-0.06863	0.451306	-0.76083	-1.99744	-2.84263
	2012/10/18	-0.42529	-0.29474	0.516482	-0.94177	-2.93921	-3.51866
	2012/10/25	0.74	-0.16418	0.478849	0.261151	-2.67806	0.97572
	2012/11/01	-0.10345	0.517857	0.28225	-0.3857	-3.06376	-1.44105
	2012/11/08	0.666667	0.282353	0.350135	0.316532	-2.74722	1.182634
	2012/11/15	-0.14615	0.137615	0.391856	-0.53801	-3.28523	-2.01012

Persistent lack of government commitment to solve the potential fiscal bust resulted in all the three rating agencies downgrading the country. Moody from A3 to Baa1, S&P BBB+ (negative) to BBB

(negative) and Fitch BBB+ (negative) to BBB (stable) in October 2012. The deteriorating current account position caused FDI significantly react around the event date.

**Table 7. Moody Downgrade announcement**

Rating	Date	SAFDI	AAFDII	ER	AR	AAR	AR t-test
	2013/06/13	0.274648	0.101449	0.402281	-0.12763	-0.12763	-0.47686
	2013/06/20	-0.44751	-0.32895	0.526343	-0.97386	-1.10149	-3.63855
	2013/06/27	0.46	1.294118	0.058491	0.401509	-0.69998	1.500126
	2013/07/04	0.239726	-0.11111	0.463552	-0.22383	-0.92381	-0.83626
	2013/07/11	-0.17127	-0.34615	0.531303	-0.70257	-1.62638	-2.62497
Baa1 (Negative)	2013/07/18	-0.06667	0.955882	0.155988	-0.22266	-1.84904	-0.83189
	2013/07/25	-0.02143	0.12782	0.394679	-0.41611	-2.26514	-1.55467
	2013/08/01	0.423358	-0.52	0.581415	-0.15806	-2.4232	-0.59054
	2013/08/08	-0.18462	-0.04167	0.443534	-0.62815	-3.05135	-2.34691
	2013/08/15	-0.1761	1.101449	0.114028	-0.29013	-3.34148	-1.08399
	2013/08/22	0.412214	-0.05517	0.447427	-0.03521	-3.37669	-0.13156

The single rating event by Moody in 2013, changing the sovereign's outlook from Baa1 to Baa1 (negative) only affects FDI flow two week later. The assumption was that the government will stick to its

expenditure ceilings as indicated in the central banks' monetary policy. Investors welcomed the government's pledge to reduce the ratio of government debt-to-GDP, the current account deficit.

**Table 8.** Downgrade announcement

Rating	Date	SAFDI	AAFDII	ER	AR	AAR	AR t-test
	2014/05/08	0.091667	-0.34513	0.531009	-0.43934	-0.43934	-1.64148
	2014/05/15	0.206107	0.864865	0.182224	0.023883	-0.41546	0.08923
	2014/05/22	-0.12025	-0.16667	0.479566	-0.59982	-1.01528	-2.24106
	2014/05/29	0.064748	-0.14783	0.474135	-0.40939	-1.42466	-1.52956
	2014/06/05	-0.16892	0.183673	0.378579	-0.5475	-1.97216	-2.04558
BBB (Negative)	2014/06/12	0.04878	0.043103	0.419099	-0.37032	-2.34248	-1.38359
	2014/06/19	0.131783	0.099174	0.402937	-0.27115	-2.61363	-1.01309
	2014/06/26	-0.14384	0.075188	0.40985	-0.55369	-3.16732	-2.06869
	2014/07/03	0.032	-0.29371	0.516185	-0.48419	-3.65151	-1.80902
	2014/07/10	-0.13953	-0.34653	0.531413	-0.67095	-4.32245	-2.50681
	2014/07/17	0.36036	0.166667	0.383481	-0.02312	-4.34557	-0.08639

Results also show an even-significant reaction of FDI around the event date after S&P and Fitch changed sovereign outlook from BBB (negative) to BBB- (stable) and BBB (stable) to BBB (negative)

respectively. Investors were still conscious about the government's commitment to narrowing budget and current account deficit to improve the country's net external debt-to-GDP ratio.

**Table 9.** Moody Downgrade announcement

Rating	Date	SAFDI	AAFDII	ER	AR	AAR	AR t-test
	2014/10/02	-0.29936	-0.32432	0.525011	-0.82437	-0.82437	-3.08004
	2014/10/09	0.427273	-0.18	0.483409	-0.05614	-0.88051	-0.20974
	2014/10/16	-0.20382	-0.2561	0.505344	-0.70917	-1.58968	-2.6496
	2014/10/23	0.248	0.770492	0.209428	0.038572	-1.5511	0.144115
	2014/10/30	-0.19872	-0.21296	0.492911	-0.69163	-2.24273	-2.58408
Baa2 (Stable)	2014/11/06	-0.104	-0.10588	0.462044	-0.56604	-2.80878	-2.11487
	2014/11/13	0.410714	0.25	0.35946	0.051254	-2.75752	0.191496
	2014/11/20	-0.18354	0.168421	0.382976	-0.56652	-3.32404	-2.11665
	2014/11/27	-0.05426	-0.15315	0.47567	-0.52993	-3.85398	-1.97995
	2014/12/04	-0.06557	0.521277	0.281264	-0.34684	-4.20081	-1.29586
	2014/12/11	0.149123	0.027972	0.423461	-0.27434	-4.47515	-1.02499

For the second consecutive year, Moody downgraded South Africa from Baa1 (negative) to Baa2 (stable) following its forecast on growing general government debt. FDI also reacted significantly during this announcement period amid concern over the increase in to of debt-to-GDP from 50% to 51% by end 2015/16 and to 52.4% in 2017 from 26% in 2008/09.

## 6. CONCLUSIONS

The analysis of results presented in this empirical study shows enough evidence that there is a very significant relationship between FDI and SCR. Investors however tend to react more to ratings changes from Moody, the reason could be because it is the most credible of the three rating agencies. As other relevant news is announced to financial markets, investors tend to anticipate credit rating downgrade, therefore they react even before the actual downgrade is announced. Investors are therefore highly conscious about government's action on budget deficit and external debts so they watch closely the indices which evaluated sovereign debt-to-GDP ratio. There are other factors that determine the magnitude of reaction besides SCR, such as global markets movements, political comments, milestones in the country's judiciary systems such as the government announcement on foreign policy.

## 7. RECOMMENDATION

This study reveals a number of fundamentals that foreign investors considers before making decisions to bring capital to SA, among them SCR. It is therefore imperative for the government to adjust fiscal policy according to revenue and debt levels to improve current account. Hence, the South African Reserve Bank and the fiscus must retain their credibility and demonstrate independence by setting interest rates and expenditure ceilings respectively which the government should stick to.

The government also needs to improve economic growth by stabilising the power supply, changing labour rules to avoid protracted strikes and improve the governance of state-owned companies that are draining much needed resources.

On issues of external debt, the fiscus must structure the debt amounts in local currency to insulate the country against exchange rate shocks which balloon the debt to unprecedented levels. Financial intermediaries are at the centre of foreign investment growth, the fact that South Africa's banking system has continued to grow stronger is a positive cutting edge. And, rating agencies could consider upgrading South Africa if it clearly establishes a track record of improved growth performance by the successful implementation of growth-enhancing structural reforms.

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