The impact of risk rating agencies decisions on investment and economic growth in South Africa

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ABSTRACT

Over the last decade, the South African economy has endured prevailing economic challenges including weak economic growth, unreliable electricity supply, rising fiscal deficits, sub-duded investment inflows and the inexorable rise in government debt alongside the expected impact of the corona virus pandemic. Credit ratings have greatly evolved making them key elements in the modern financial markets because of their opinions of credit worthiness, as many investors across the globe relay heavily on their opinions. South Africa unlike many of its developing counterparts, has since struggled to maintain its sovereign ratings above non-investment grade since the 2007/2008 global financial crisis. Despite the economic constraints faced by the country, the sovereign credit downgrade path has landed the country's financial stance back prior to democracy, following the loss of investment grade rating from the big three credit rating agencies. The significance of credit ratings on investments and growth has therefore come to the fore, as having an understanding of how credit ratings affect investments and economic growth in South Africa is crucial for the formulation of key strategies that should be developed to stimulate and attract investments, as well as encourage and promote long term growth and development. The primary objective of this study is therefore to analyse the impact of sovereign credit rating on investments and economic growth in South Africa.

Keywords: Economic growth, Foreign direct investment, South Africa, Sovereign credit rating.