

South Africa's weak growth could fuel socioeconomic tensions - Moody's

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South Africa's low economic growth and rising debt burden could see socioeconomic tension intensify and impede policy reforms, ratings firm Moody's said in a research note.



Job seekers stand outside a construction site ahead of the release of the unemployment numbers by Statistics South Africa, in Eikenhof, south of Johannesburg, South Africa, June 23, 2020. Reuter/Siphiwe Sibeko/File Photo

The note, an extract from the credit firm's annual report, said South Africa's credit profile was balanced, with its low level of foreign currency debt and strong core of institutions counting in its favour.

Moody's decided this month against making any decisions on the country's credit ratings, currently two levels deep into subinvestment, at Ba2 with a negative outlook.

The two other major ratings firms, Fitch and S&P, also rate the country deep into junk.

"Credit challenges include structurally very weak growth and a high government debt burden that will continue to rise without comprehensive economic and fiscal reforms," Moody's said.

"Socioeconomic inequalities also intensify tensions that drive political risk and complicate policy efforts."

South Africa has one of the world's highest levels of income inequality, especially between Blacks and Whites. This is partly because of decades of apartheid rule, which ended in 1994, and more recently an effect of government corruption and slow policy reforms.

The economy, already in recession before the coronavirus pandemic struck in March 2020, shrank by a record 7% last year. State debt is nearing 90% of gross domestic product (GDP).

"The coronavirus pandemic's fallout will continue to weigh on South Africa's economic growth and fiscal balance in 2021," said Lucie Villa, a senior analyst at Moody's.

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