

Global Financial and Economic Distress The Likely Impact on Southern Africa

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Main topics

- **Status quo and outlook for capital flows**
- **Ratings outlook**

Today's world

- Severe financial market dislocation
- Financial institutions: deleverage or bust
- Worldwide credit contraction
- Significant slowdown in global growth
- Fall in commodity prices
- Global trade is contracting for the first time in decades

- **The status quo of investment**

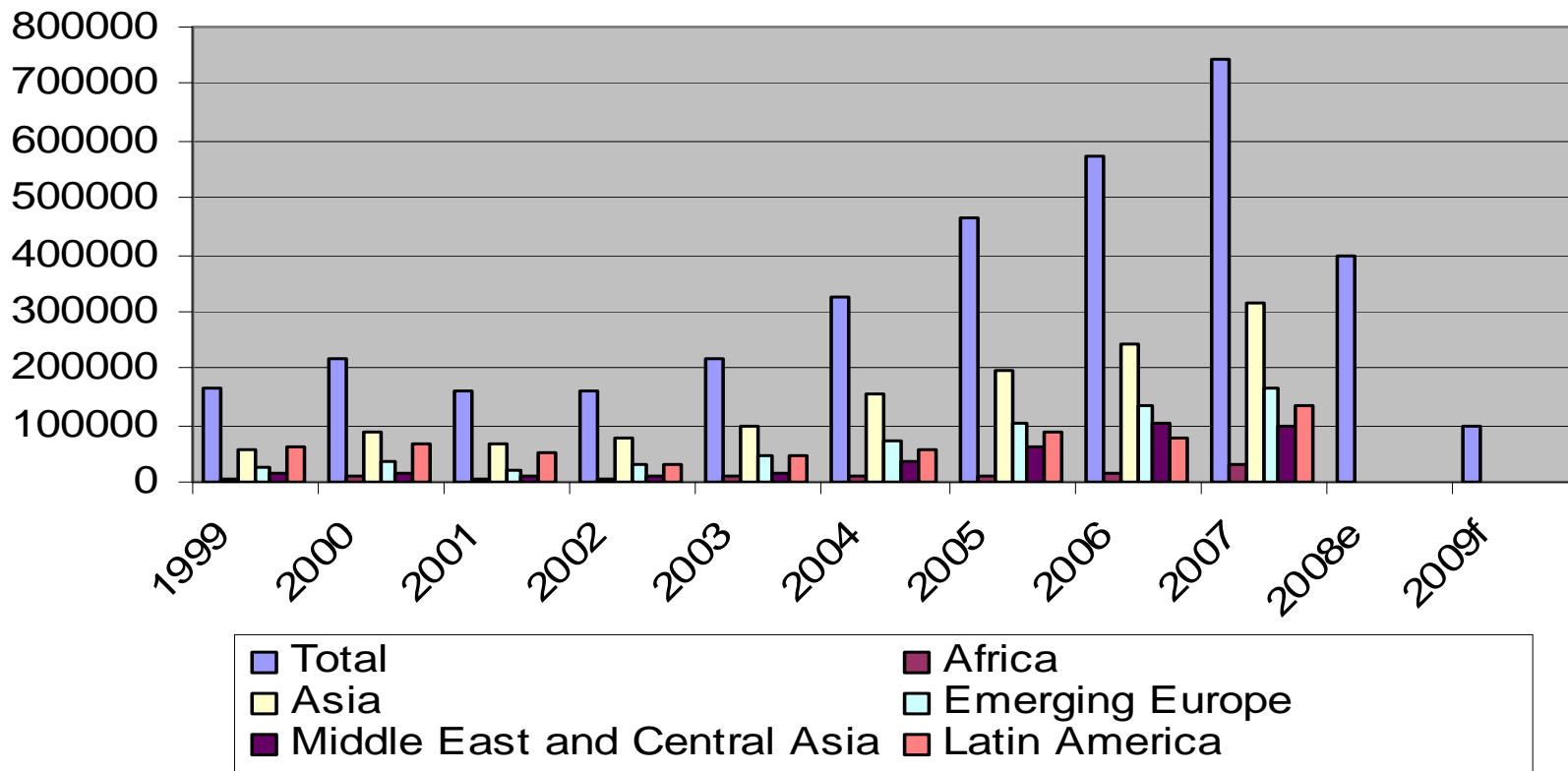
- Reduced investor risk appetite
- Home bias in portfolio allocation
- Banks deleverage

- **The consequences**

- Capital drought and crowding out
- Reversal of equity and carry-trade flows
- Emerging domestic capital markets – another casualty
- Further significant reduction of cross-border capital flows including FDI
- Decline of capital accumulation in Emerging Market countries

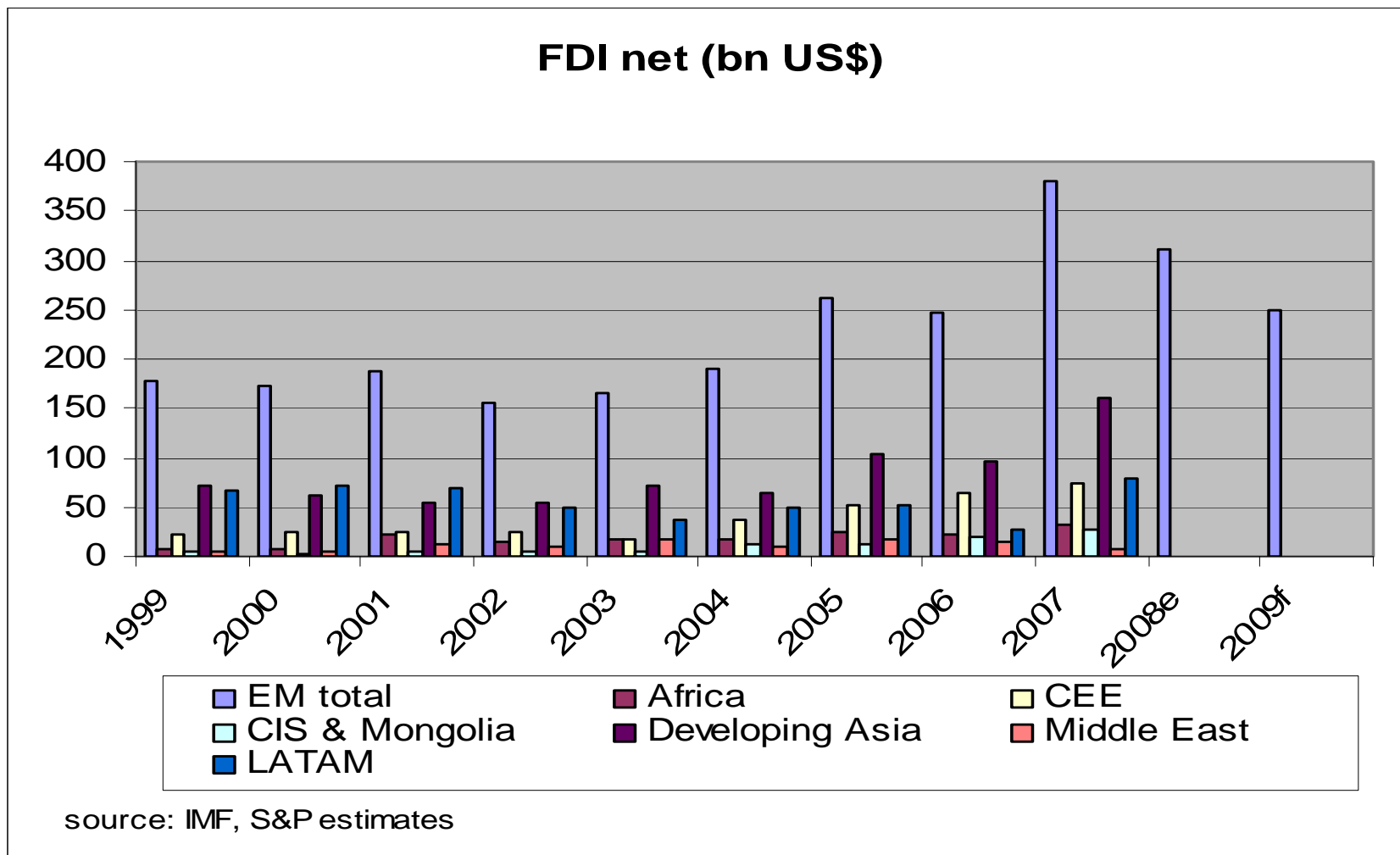
External financing (bonds, equities, loans)

EM External Financing (US\$ mn)



source: IMF, S&P estimates

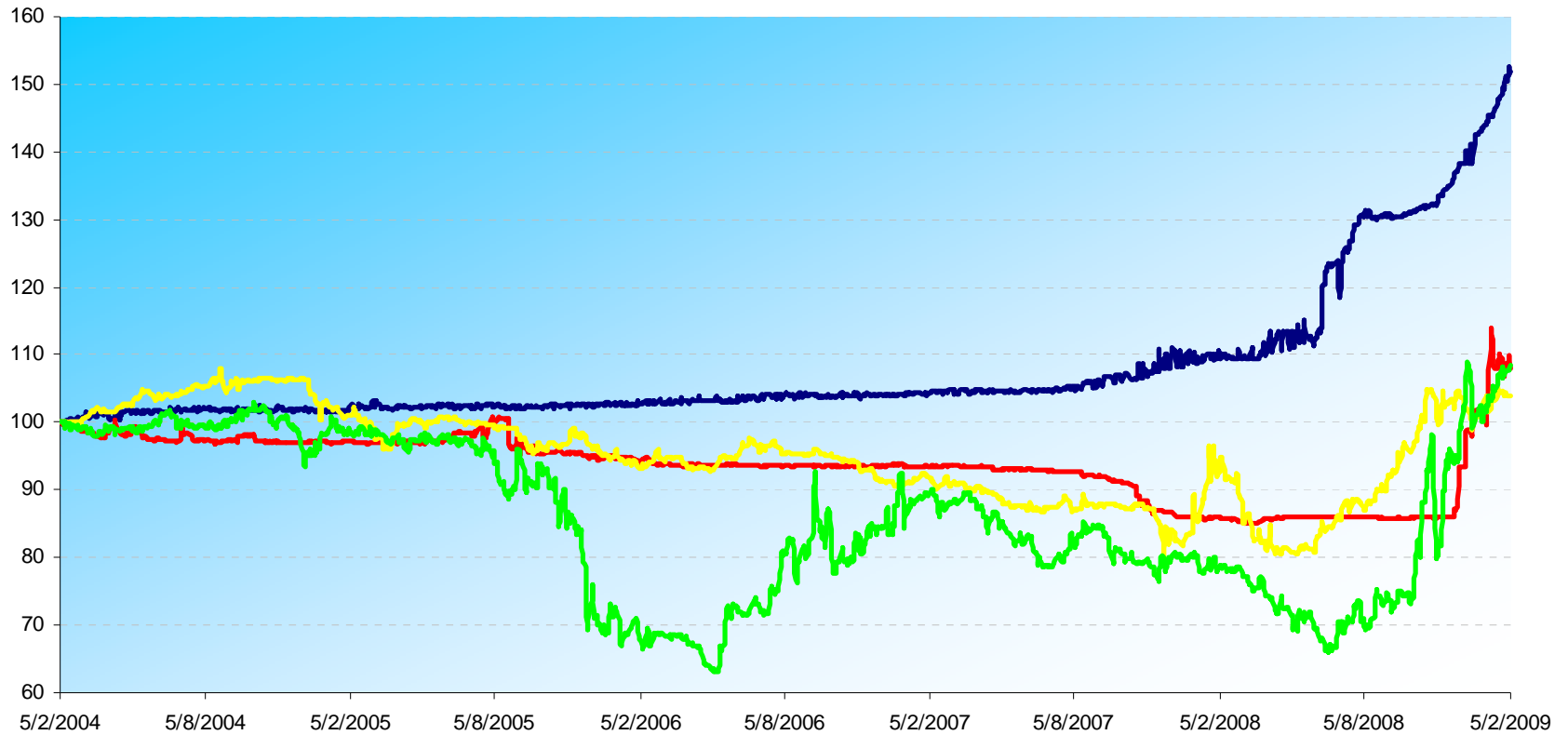
Foreign Direct Investment



Pressure on African Currencies

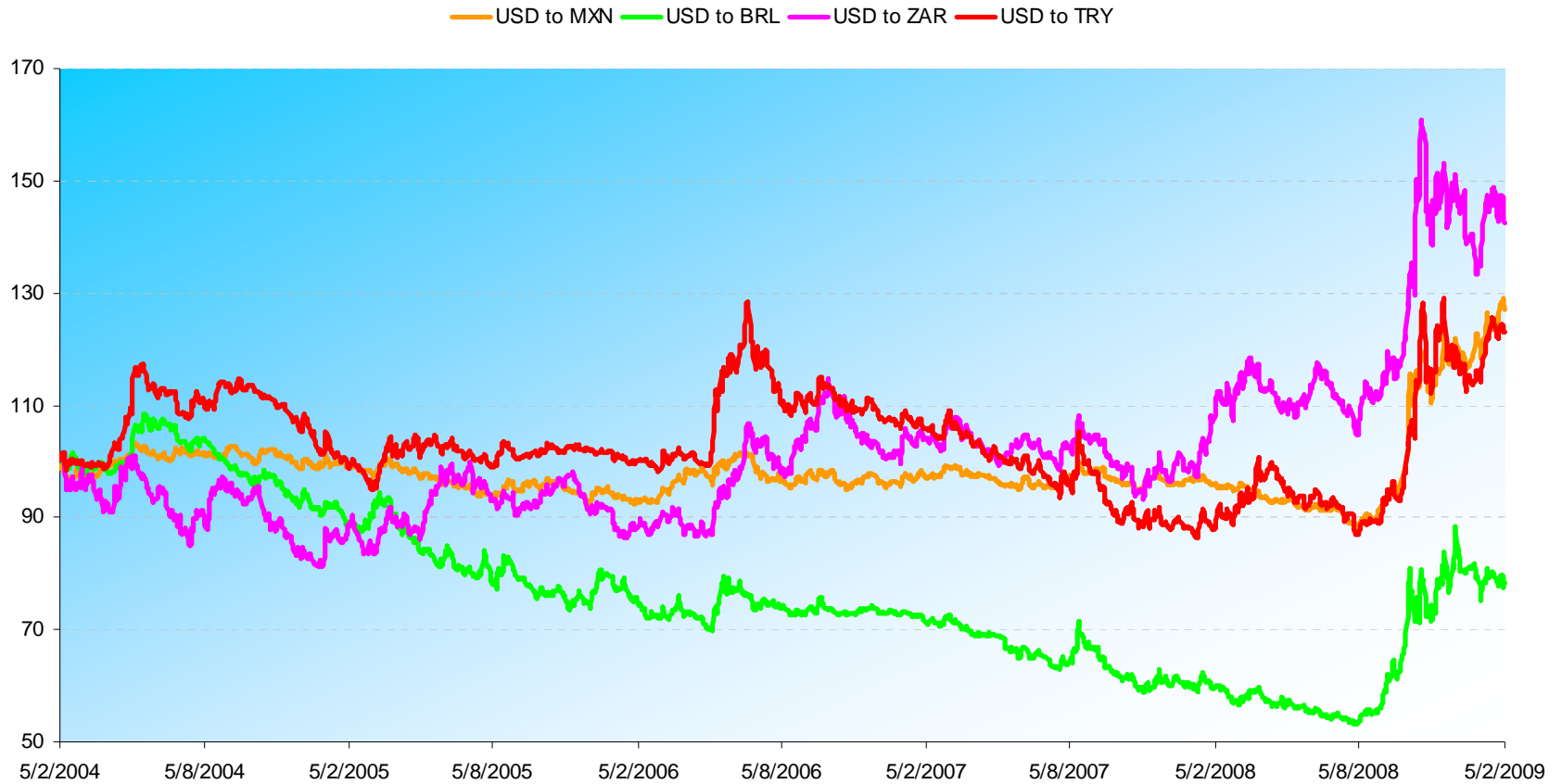
Selected Currencies (Indexed 5/2/2004)

— USD to GHC — USD to NGN — USD to KES — USD to ZMK

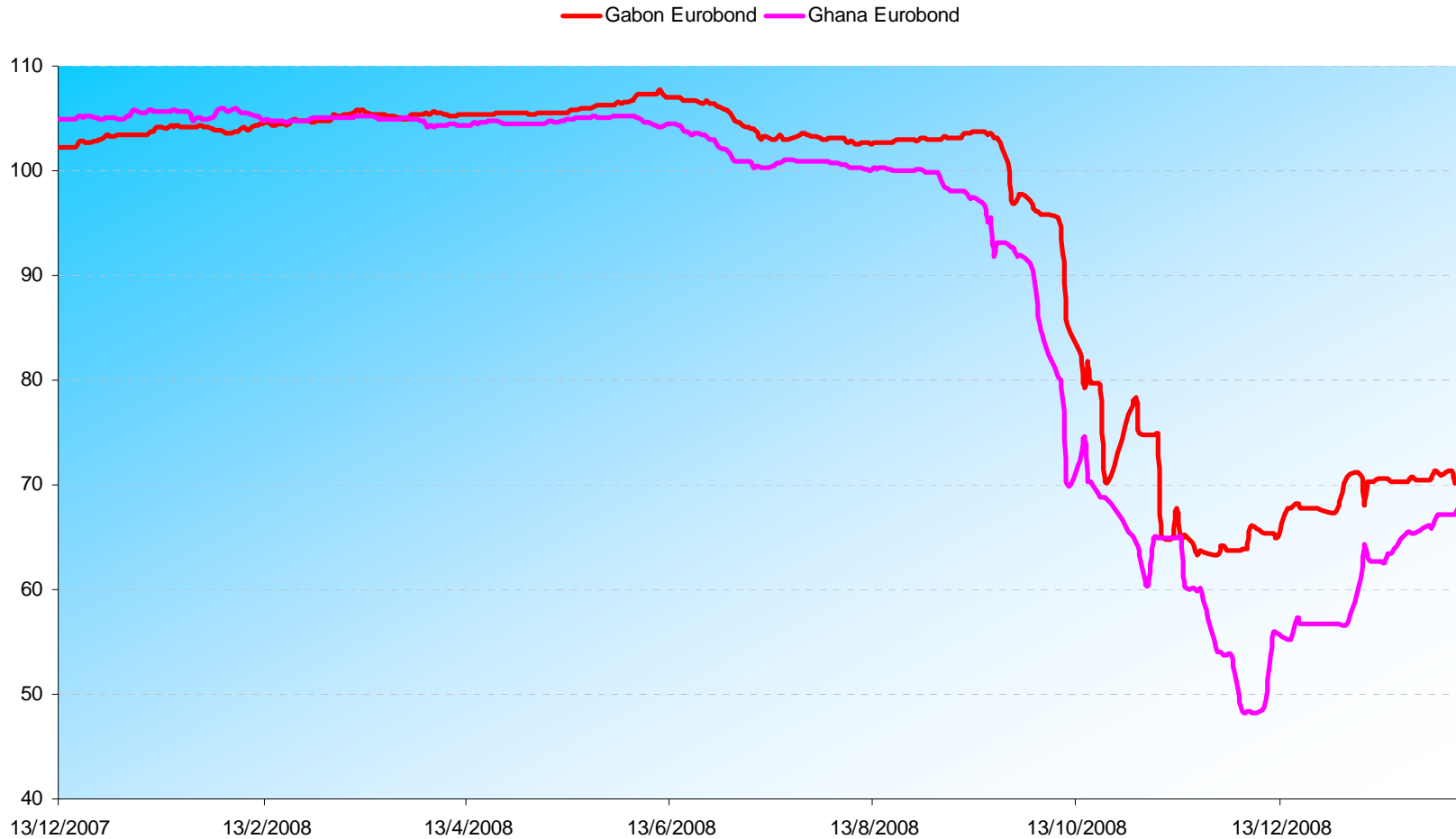


Emerging Markets Currencies

Selected Currencies (Indexed 5/2/2004)

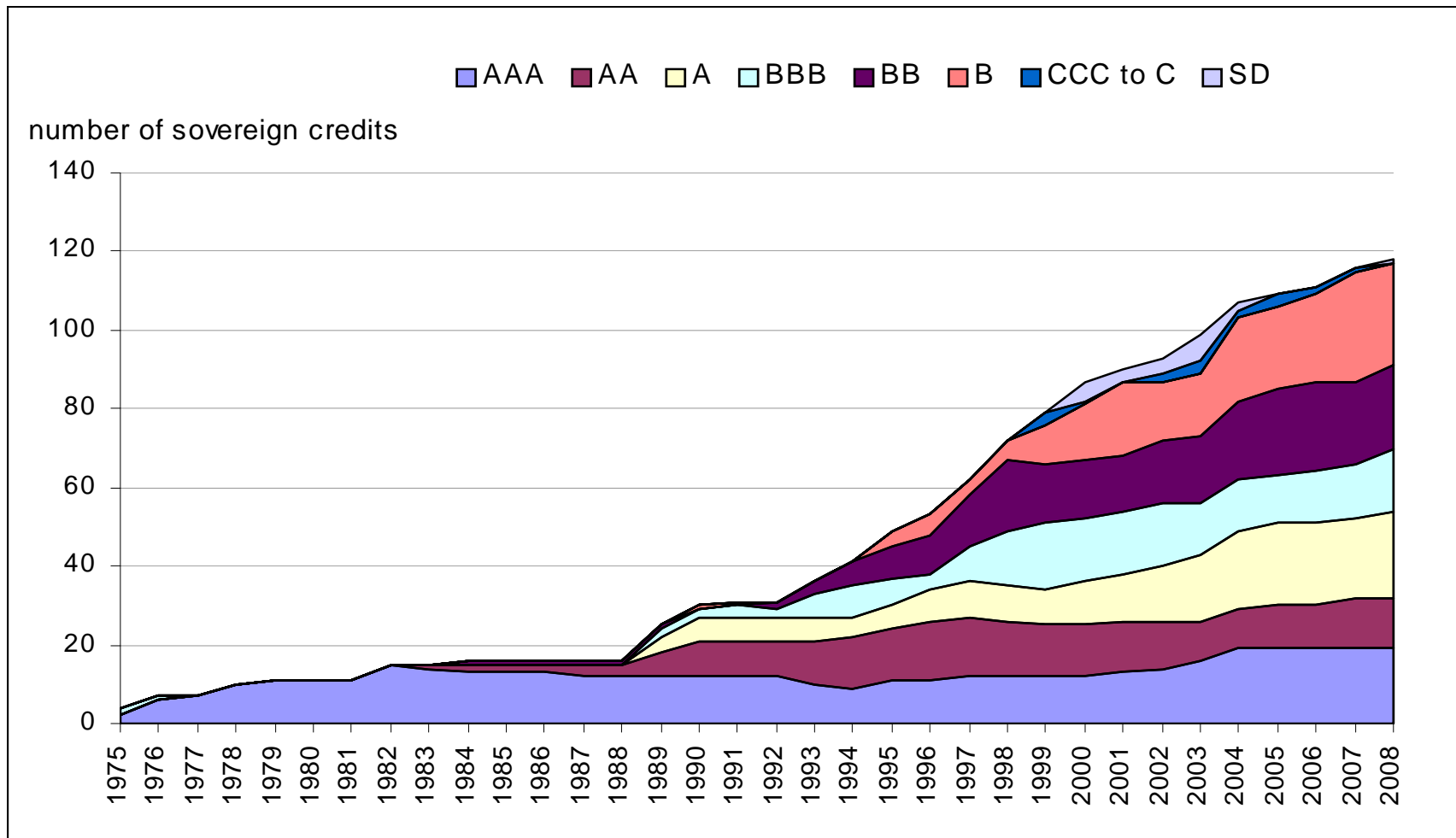


African Eurobonds – Yesterday's Flavour



Ratings Outlook

Sovereign Ratings -- Growth, Ratings Distribution 1975-2008



Sovereign Ratings Under Pressure

- **Developed world**
 - Fiscal stimulus and bank recapitalisation
 - Negative rating action on Greece, Portugal, Spain, Ireland

- **Emerging markets**
 - Confidence sensitive external financing, fragile financial sectors, inadequate policy responses, weak public finances
 - 16 downgrades in the last five months of 2008
 - 11 EM sovereigns with negative outlooks

Outlook for Emerging Africa

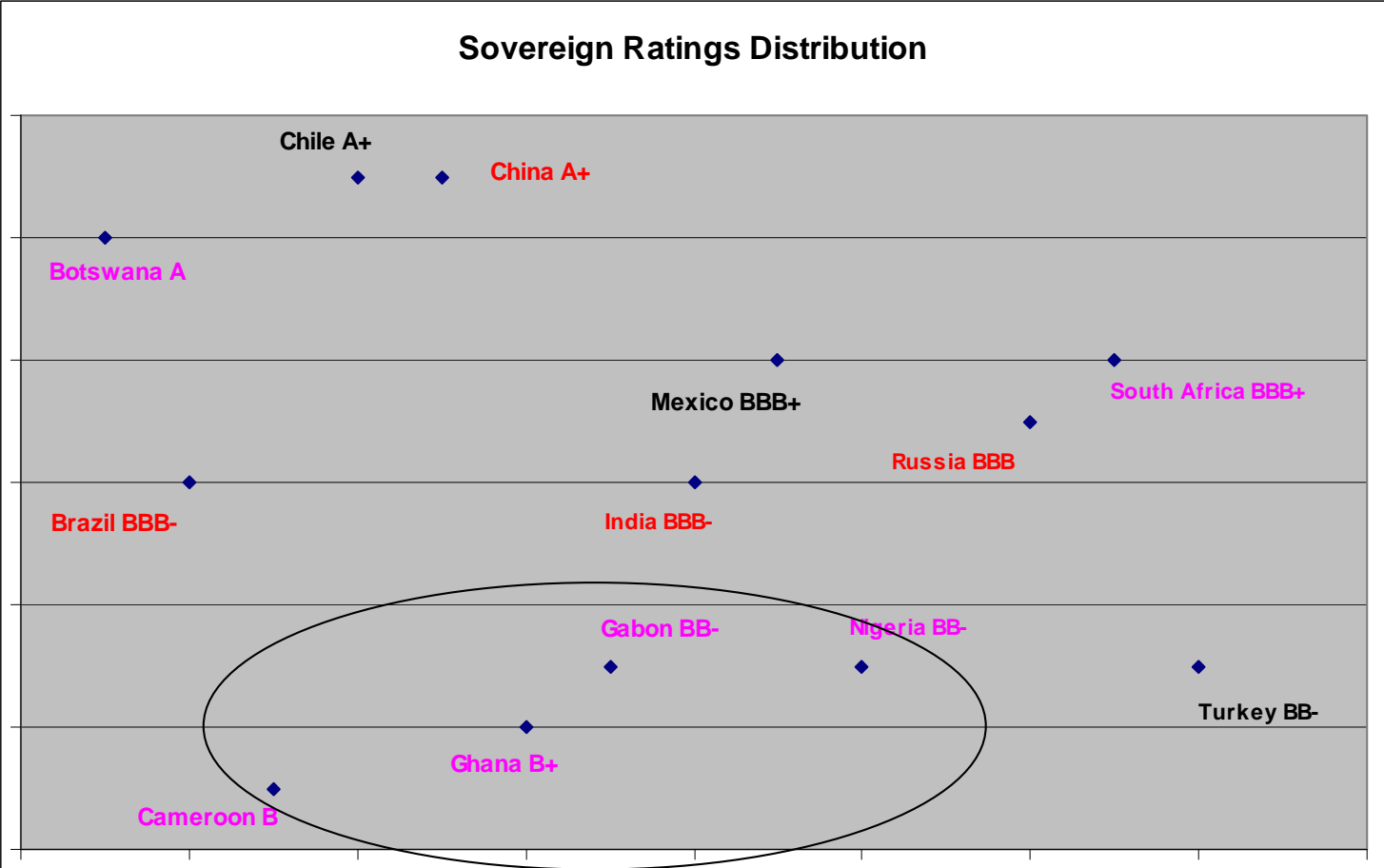
- **Emerging Africa**

- Ratings are holding up well, but some negative outlooks. Hence downside risks dominate.
- No 'safe havens' as commodity prices and external demand decline and capital flows dry up
- Slowdown in growth and capital accumulation in 2009 will be severe
- Less developed banking sectors, hence no need for bank recap
- Little-to-no room for fiscal stimulus as fiscal and BoP pressures are emerging
- Policy makers are challenged

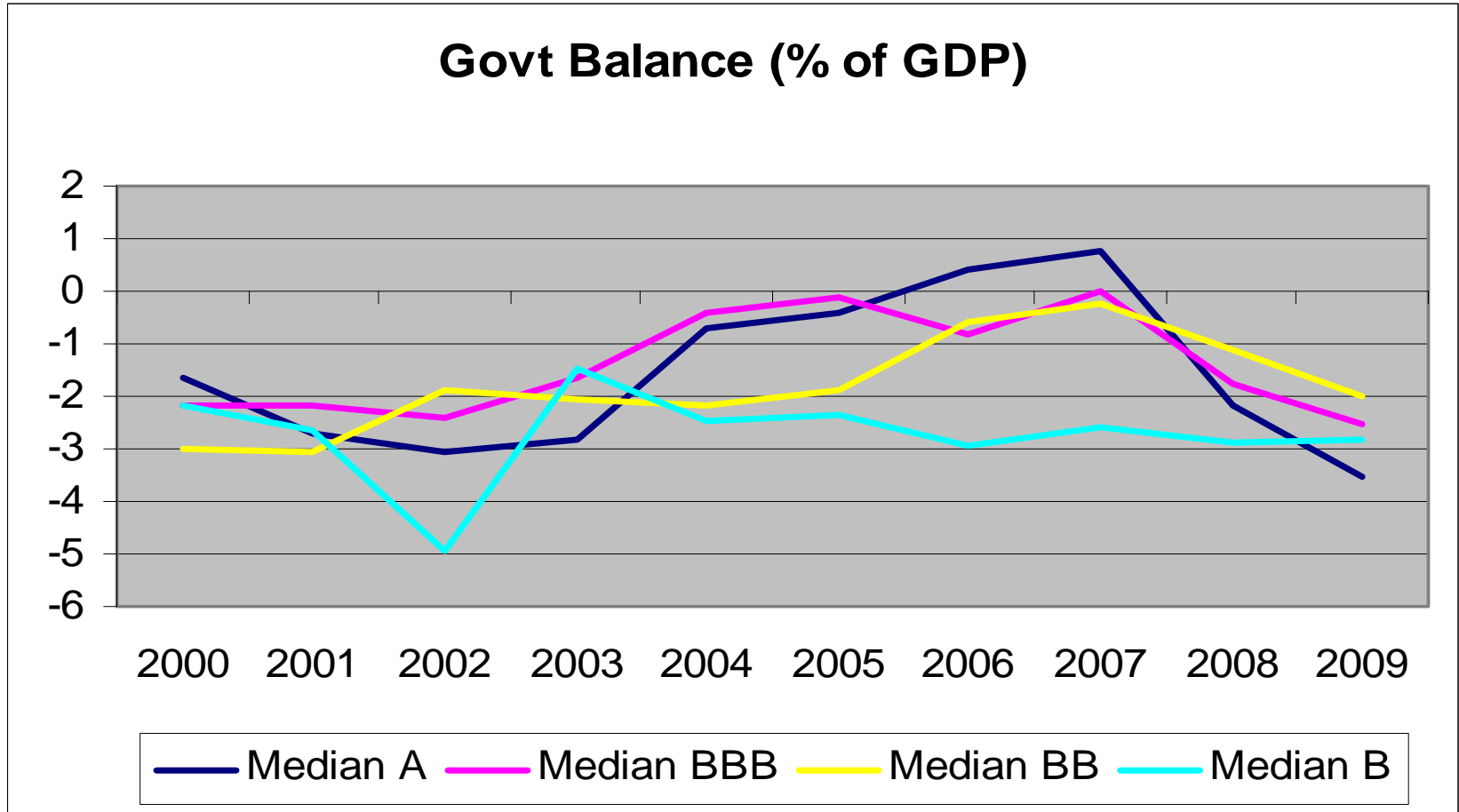
Sovereign Ratings Africa

| | <i>FC LT Rating</i> | <i>Outlook</i> |
|---------------------|---------------------|-----------------|
| Benin | B | Positive |
| Botswana | A | Stable |
| Burkina Faso | B | Stable |
| Cameroon | B | Stable |
| Egypt | BB+ | Stable |
| Gabon | BB- | Stable |
| Ghana | B+ | Stable |
| Kenya | B | Positive |
| Madagascar | B | Negative |
| Morocco | BB+ | Stable |
| Mozambique | B+ | Stable |
| Nigeria | BB- | Stable |
| Senegal | B+ | Negative |
| Seychelles | SD | -- |
| South Africa | BBB+ | Negative |
| Tunisia | BBB | Stable |

Sovereign Ratings in Africa



Rating Vulnerability: Government Finances



Rating Vulnerability: External Financing

