

## **Effects of sovereign credit rating on commercial bank profitability in South Africa**

**Palesa Makhetha\_Kosi**

University of Fort Hare, South Africa  
pmakhetha@ufh.ac.za

**Ronney Ncwadi**

Nelson Mandela University, South Africa  
ronney.ncwadi@mandela.ac.za

### **Abstract:**

South Africa's financial services sector is backed by a sound regulatory and legal framework, sophisticated and boasting dozens of domestic and foreign institutions providing a full range of services that include commercial, retail and merchant banking, mortgage lending, insurance and investment but the country has been struggling with sovereign credit rating. The country is currently at junk status and is still experiencing challenges of low GDP and political instability. This study investigates the impact of sovereign credit ratings on bank profitability of the selected commercial banks in South Africa during the period 1997 to 2018. Panel estimation techniques will be employed where bank specific variables like bank size, volume of deposits plus short term funding, return on assets are also included as the explanatory variables. The macro- economic variables like GDP growth, politics and interest rate will also be included.

**Keywords:** Sovereign credit ratings, commercial banks profitability, volume of deposit, return on assets, GDP, politics, interest rate, South Africa

**JEL Codes:** E44