Ratings downgrade averted: now what?

By Ryan Ravens

7 Jul 2016

South Africa was spared a sovereign credit ratings downgrade in June by the three major ratings agencies on the basis that we had sound plans in place to get our economy back on track.

The sterling efforts by National Treasury, in partnership with large corporate leadership, were sufficient to convince ratings agencies that we understood the problem and could implement measures to ensure that we remained a viable and attractive investment destination.

Central to this discourse was our commitment to address the various issues that have eroded our economy over the past few years.

Low GDP growth is the primary concern as it inhibits the state's ability to implement numerous aspects of the National Development Plan (NDP) and other developmental strategies.

This translates into mass unemployment over the long term, and could eventually weaken government's social contract with business and labour, leading to growing civil unrest.

© zimmytws 123RF.com

A ruling party at war with itself

Rising political tensions are certainly not helping and only serve to accentuate vulnerabilities in the country's sovereign credit profile.

The scenes playing out in the nation's capital, as ANC members run amok to indicate their dissatisfaction with the ruling party's choice of mayoral candidate, are immensely damaging to our national image and cause for serious concern.

It paints the calamitous picture of a ruling party at war with itself, and not only out of touch with the realities of the country but also with its own structures.

The most significant cause for concern however was not that party structures were unhappy with top-down decision making, but rather the overwhelming lack of credible leadership exposed by this fracas.

There seems to be no recognisable point of legitimate authority within the ANC and ratings agencies will be justifiably concerned about what may transpire if the ANC actually lost Tshwane and other major metros – are we to assume that ANC structures would then intensify their efforts to make those cities ungovernable?

Robust state institutions

Another key consideration for ratings agencies will be the relative strength and independence of state institutions, which must be protected at all costs.

These include the constitutional court, public protector, the SABC and judiciary which must remain free from political interference in order to remain credible.

The current process to appoint a replacement for Thuli Madonsela will be scrutinised in detail to determine if the good work of that portfolio is likely to continue unhindered after her departure.

The South African Reserve Bank is considered by ratings agencies to be credible and operationally independent and there's no reason to suspect that this will change under its current leadership. Also counting in our favour is the perception of a solid democracy with independent media, robust tertiary institutions, and an actively engaged civil society.

Public broadcaster's questionable decisions

The only concern starting to emerge in this space is the current behaviour of senior SABC leadership, seemingly intent on destroying the independence of media.

Some of the recent decisions and pronouncements from our national broadcaster are simply astounding and seem completely devoid of reason and logic, so much so that even factions within the ruling party are questioning it behaviour.

Concluding mining negotiations

Ratings agencies have generally been fair in their assessment of South Africa and acknowledged the pending finalisation of labour and mining reforms as an encouraging step that could engender a positive confidence shock.

Mining negotiations are traditionally difficult anywhere in the world, and exponentially more so in South Africa because of our Apartheid legacy and relative strength of our labour movement.

It is therefore understood that this process would be subject to difficulties but it nevertheless needs to be concluded as soon as possible. Any lingering uncertainty in this regard only serves to steadily erode investor confidence in that sector.

It has been noted by ratings agencies that the current climate of subdued mining, manufacturing and agricultural output are cyclical and expected to improve.

Apart from the aforementioned mining negotiations, manufacturing output has been negatively affected by labour issues while agricultural output has been affected by drought, and all of these are expected to improve cyclically thereby improving economic growth in the medium term.

On the fiscal side, ratings agencies believe that government is showing greater resolve to reduce fiscal deficits at a faster pace than expected, which is massively favourable.

The biggest concern here is that the vast majority of employment growth over the past 10 years has occurred within the public sector while employment in the private sector has remained static.

This is simply not sustainable given that the public sector employment growth is funded from private sector taxes in a contracting economic environment.

Cronyism undermining SOEs

There exists also an alarming tendency amongst political cadres deployed to leadership roles in key government agencies who believe they are owed their positions and exorbitant salaries because of their role in the struggle.

There is no sense of accountability or responsibility to deliver on their current mandates, and significant work effort is usually replaced with mindless political rhetoric, resulting in ineffective agencies that exist merely to channel salaries to an ever-growing horde of entitled cadres.

These agencies are often the very organisations tasked with growing the economy and creating jobs so the damage is much more than just their salaries – the real damage being done by this practice is the failure to deliver on their mandates.

Eskom – a testament to good leadership

This practice has of course also manifested in state-owned enterprises (SOE) such as Eskom, SAA, and SANRAL, all of wich are costing billions to maintain annual operations. It remains absolutely critical to ensure energy security and Eskom have certainly done well this past year to keep the lights on.

The remarkable turnaround is testament to the impact of good leadership and places increasing pressure on government to accept the offer of managerial support from the private sector.

The scenario of allowing private sector leaders control over SOEs would, however, entail arresting the corruption and nepotism within these organisations so it remains to be seen just how serious the current political leadership are about stepping away from the feeding trough.

Corporate sector reticence

The final, and perhaps most telling, concern emanates not from the public sector but from the private sector. The reluctance of South African corporates to invest locally is a significant impediment to long-term economic growth.

This country desperately needs its corporate sector to invest but many business leaders remain hesitant because of the perceived political risk and lack of trust for the current political leadership.

This sentiment is not unfounded given the behaviour of political leadership, and significant effort will be required from government to win back the trust and support of the corporate sector

For the immediate future we have a common objective to avoid a ratings downgrade and this will fuel our collaboration.

Perhaps this renewed will to collaborate could be the opportunity to start rebuilding that much-needed trust but we would need government to get its house in order as a matter of priority.

ABOUT RYAN RAVENS

Ryan Ravens has extensive experience in leadership positions in the public and private sectors having joined Accelerate Cape Town from his role as CEO of consulting company, TetraFlex. Prior to that he was the group executive: strategic partnerships at Blue IQ Investment Holdings. He was also the lead project manager for FIFA for the 2010 World Cup.

- Redressing inequality in SA through skills development and entrepreneurship - 1 Feb 2017
- #FeesMustFall: Business calls for a good, hard look at the skills the country really needs - 21 Oct 2016
- #LGE2016: SA needs a peaceful and disciplined election process - 1 Aug 2016
- Ratings downgrade averted: now what? - 7 Jul 2016

View my profile and articles...