

Probability and potential impact of an investment ratings downgrade

If nothing else, the portent of a ratings downgrade has lit a fire under business and government work together to re-engineer South Africa's economy.

 By [Nicci Botha](#) 23 May 2016



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Speaking at a breakfast hosted by [Accelerate Cape Town](#), Mike Brown, CEO:Nedbank and Monale Ratsoma, deputy director-general: economic policy at the National Treasury outlined what is being done.

Why ratings agencies are worried

“Ratings agencies are incredibly skittish,” says Brown. Their criteria are very complex and intricate and the all use different parameters. When they look at the pluses and minuses, South Africa is strong in terms of stable fiscal position and institutional capacity, but on the negative side economic growth is too low and the investment risk is increasing. Directionally the rate of change in the minus column is higher than the plus column. Also, we’re simply not growing jobs fast enough with very little growth since 2012.

Implications of a downgrade

The threat of a downgrade is already damaging. The pre-emptive reaction has weakened the rand, which means every person is poorer and inflation and interest rates go up. This is a huge investment hurdle to clear, Brown said.

What are the stakeholders doing?

The 9th December (when South Africa went through three finance ministers in a matter of days) was a huge tipping point, but we should use it as a reset button, Brown said.

This has sparked numerous government/business/labour initiatives, including three focus work streams headed by business leaders for accelerated reform, namely to:

- Boost international and SA investor confidence – by identifying and unlocking opportunities for significant new investment in energy infrastructure and other key sectors and address regulatory and structural constraints.
- Catalyse employment in key sectors – by developing sectors where South Africa can drive employments such as agriculture and agri-processing, tourism and the oceans economy, and scale-up SMEs.
- Drive government, SOC and fiscal reform – by boosting delivery and efficiency in government and state-owned companies, and maintain the 2012 expenditure ceiling and reduce the fiscal deficit.

“There has been an enormous effort by government and business. However, political manoeuvrings are damaging as they call into question our ability to deliver on growth enhancing reforms. Moody’s gave us the benefit of the doubt by not downgrading, but the jury is still out on Standard & Poor’s,” Brown said.

Government perspective

In terms of growth in South Africa, Ratsoma said mining and manufacturing are declining, while the service sector is improving. “We mustn’t chase sectors that are decreasing, but rather realign labour with skills to operate in new sectors.”

“The data so far point to weak growth in 2016, but the saving grace is that there is an improvement in the retail industry, which shows that there is still some appetite from consumers for retail spending,” he explained.

Ratsoma said the focus should be on areas of high impact and supportive reform and that create value and supportive reform. “The IMF recommends countries focus on structural reforms for growth.”

Similar to the three work streams, the government has come up with a nine-point plan, which includes:

- Resolving the energy challenge.
- Revitalising agriculture and the agri-processing value chain.
- Advancing beneficiation of SA’s mineral wealth.
- Implementing a high-impact industrial policy action plan.
- Encouraging private sector investment
- Moderating workplace conflict.
- Unlocking the potential of SMMEs, township and rural enterprises.
- State reform boosting the role of SOCs and strengthening ICT, water, sanitation and transport infrastructure.
- Operation Phakisa – growing the oceans economy and other sectors.

“We are not necessarily doing this work for the ratings agencies, it’s about redesigning and reconstructing our economy to create jobs and alleviate poverty. The agencies want restructuring and must see the work are doing. The sense is that what is being done is working, but reform does take time.”

“We must deliver on confidence-boosting initiatives, operationalise SME fund, conclude co-investment programmes and finalise SOC reform. We meet in three months to track progress.”

“When we achieve growth, it is for prosperity. The ratings outcomes will be a positive affirmation, not an er in themselves,” Ratsoma concluded.

ABOUT NICCI BOTHA

Nicci Botha has been wordsmithing for more than 20 years, covering just about every subject under the sun and then some. She's strung together words on sustainable development, maritime matters, mining, marketing, medical, lifestyle... and that elixir of life - chocolate. Nicci has worked for local and international media houses including Primedia, Caxton, Lloyd's and Reuters. Her new passion is digital media.
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