At a crossroads: SA's future economic fortune and the ANC conference

By Tumisho Grater

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All eyes will be on the African National Congress (ANC) 2017 elective conference this weekend - and especially on the announcement of who will be crowned the new leader of the party in a few day's time.

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At this point in time, South Africa finds itself at a political and policy crossroads. While the outcome of the elective conference will be an important one in terms of policy direction, a change in leadership (which could still prove to be positive by encouraging the reform agenda) will not immediately heal the years of economic ills. This sentiment was echoed by S&P Global Ratings when they decided to downgrade the country’s local currency rating to junk status a few weeks ago.

A change in South Africa’s economic fortune?

While growth and economic activity has improved marginally in the second half of the year, we remain sceptical about whether the recent improvement in growth momentum can be sustained if the underlying fundamentals and political instability are not addressed. Unfortunately, the key drivers of growth over the last two decades may have been exhausted (such as S.A.’s transition from economic and political isolation to global reintegration, rising terms of trade and the emergence of a rising middle class).

Meanwhile, it will be challenging for fiscal policy to provide any meaningful or sustained boost to economic growth. Given the state of public finances, increases in government spending will likely hurt business confidence further and crowd out the private sector. S&P expects public finances to deteriorate further, with the agency anticipating that the government will introduce countering measures to improve budget outcomes next year. The credit rating agency is of the view that these measures will possibly hurt economic growth even further, while failing to stabilise public finances and slow debt accumulation.

However, the prospect of a future presidency that is not marred by controversy and unpredictable decisions that have resulted in undesirable market impact (e.g. a roulette table of finance ministers which subsequently led to the downgrades in the country’s sovereign credit rating) is likely to help restore the confidence in the investment community, especially if focus is placed on the implementation of credible growth enhancing policies as opposed to political infighting.

Hope springs eternal…

The rand has been an outperformer in the days leading up to the commencement of the ANC NEC conference. The rand saw notable gains due dollar weakness - which was attributed to slowing U.S. inflation print and an unchanged stance in the rate outlook for the coming years by the Fed. The rand strengthened to R13.45 after the release of the current account data, after starting the week at R13.65 at market open on Monday morning (12 December 2017). Although some of the rand gains appear to be reflecting that the markets may be anticipating a more market friendly outcome, that is not to say that this has been completely priced in. It is still possible to see the rand gain further traction should the markets preferred candidate win. Of course, the risk is that if this scenario does not play out, we are likely to see the rand weaken and bond yields rise.

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