Heavy is the head that wears the crown: Ramaphosa has work to do

By Nicci Botha

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Cyril Ramaphosa has a tough job ahead of him. He has a small window to correct the country's economic growth path and restore trust from the electorate and the markets if the ANC hopes to stay in power in 2019.

Cyril Ramaphosa, newly elected president of the ANC. Photo: SA Breaking News

The good news is there is a hint of optimism in the markets as the rand surged 4% against the dollar before the final result was even known.

Visionary pragmatist

Choosing Ramaphosa to lead the party has had a positive impact on market perceptions and investment sentiment about SA, although his victory had to some extent already been priced in by the markets, says Professor Raymond Parsons, NWU School Of Business And Governance economist.

“Ramaphosa is perceived by the markets and many businesspeople as a 'visionary pragmatist' who has both the potential and necessary leadership skills to implement necessary economic reforms and turn SA around for the better.

“Noting the mixed 'slate' that emerged from the ANC 'top six' elections, the challenge to Ramaphosa will be to muster a sufficient critical mass to ensure that, through the eventual implementation of the right policies, it will be possible to reduce policy uncertainty, stabilise SA's public finances, repair damaged key institutions in SA and ensure fundamental restructuring of major state-owned enterprises like Eskom. It is now possible that further investment downgrades by credit rating agencies might be avoided, depending on the outcome of the budget in February 2018 in managing deteriorating public finances.”

Business Leadership South Africa (BLSA) urges the new ANC leadership to focus on addressing inequality, unemployment and poverty in our country. The organisation says these issues can only be tackled by growing an inclusive economy that creates jobs, which in turn requires regulatory certainty and policy stability that will accelerate and deepen transformation.

"More than ever, we need focused, ethical and moral leadership from the ruling party, government and business, working in partnership. Rooting out corruption and defeating state capture in both the private and public sectors remain a priority,” says Bonang Mohale, CEO of the BLSA.

Two opposing slates

George Herman, director and chief investment officer of Citadel Investment Services, notes that the composition of the Top-6 leadership of the ANC is a unique mix between the two opposing ‘slates’.

“This will hopefully ensure unity in the ruling party and guarantee a smooth transition into this new era. The only remaining question is whether Ramaphosa will be able to lead effectively and implement his New Deal.”

The South African equity market was caught between the benefit of what promises to be an improved business environment and a much stronger currency. Global markets are also making new all-time highs, so the entire global environment is conducive for risk assets. South African bonds also had a big day with yields declining nearly 40bps.

He adds however that while a Ramaphosa victory has already proved positive, there is still a long way to go in regaining business confidence and revitalising South Africa’s faltering economy.

“Ramaphosa has a small window of opportunity akin to the famous ‘100 days’ to prove that he is the catalyst for change needed in government.”

“If he stumbles at any time during this embryonic period, he’ll be seen as a token rather than the strong leader needed and market sentiment will quickly turn against South Africa.”

He notes that South Africa has suffered from an extreme trust deficit during the last five years, sending business and consumer confidence plummeting.

Ramaphosa’s New Deal sets economic targets such as reaching 3% GDP growth in 2018, in keeping with the National Development Plan (NDP) introduced in 2012 for achieving economic transformation.

“Achieving these targets would have a profound effect on the economy, but the real test will be to see whether Ramaphosa’s New Deal and the NDP will finally receive real policy attention rather than lip service.”

Predicting another downgrade

However, Geoff Blount, managing director, BayHill Capital, is less confident. “This is a win for Cyril Ramaphosa, but given the make-up of the new NEC, this is not necessarily a loss for the Zuma faction within the ANC.

“The markets got this one wrong – and were pricing in a Cyril slate victory, rather than a “hung” NEC. Hence, we expect the rand and the domestic-facing stocks to weaken after their recent rally. Some of the euphoria will be repriced out of the market and it will retrace some of its steps as the reality sinks in.

“If people were looking for big changes from this election, which is what markets were hoping for, they will be disappointed. With no clear win for either the Nkosazana Dlamini-Zuma or Cyril Ramaphosa slates, I expect to that the policy paralysis that we have seen will continue until one side “defeats” the other, even post the 2019 elections. This elective conference was a choice to maintain the status quo of the entrenched elite within government, or replace it – so for now it looks like business as usual for government, which will not be perceived by investors, business or the rating agencies positively.

Given the free tertiary education pronouncements by President Zuma over the weekend, could with the results of the elective conference, the last standing rating agency will no doubt downgrade our country rating, and the economic challenges we face will continue.”

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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