Downgrade or not?

By Danette Breitenbach

15 Nov 2018

South Africa's economy is one that's vulnerable to the global economy, but it is the internal issues the country faces that will determine whether it will face a downgrade or not.

©Ufuk ZIVANA via 123RF

“The risk of a downgrade has increased so we are in a bit of trouble,” said FNB chief economist Mamello Matikinca-Ngwenya in her macroeconomic outlook presented at the FNB Franchise Leadership Summit 2018 at Monte Casino in Fourways, Gauteng.

“Last year this time the currency and market reacted positively to the ANC Elective Conference. It was hoped that this would translate into growth and, as a result, we saw growth forecasts of 1.9% to 2.5%. However, as the country entered a technical recession in Quarter 1 these had to be revised down to an average of 1.5%,” she says.

There are positives in the economy. “Inflation has lifted and remains in the targeted band, State Owned Enterprises (SOE) boards have been changing, the Mining Charter is being finalised and reforms have been introduced by the President, for example, the easing of visa regulations,” she said.

Growth inhibitors

On the flip side, the negatives inhibiting the country’s growth include a fiscal economy restrained by high indebtedness. “At some point the government is going to have to rein in the public service wage bill and make these departments more productive,” she says.

Productivity has not only declined in the public sector, but generally throughout the country. “As the country’s productivity has declined, other elements of productivity have also dropped, such as South Africa’s global competitiveness, the ease of doing business in the country and governance indicators.”

Only the mining, utilities and manufacturing sectors will experience growth over the next three years relevant to their performance over the past 10 years.

She added that uncertainty around land reform is also contributing to a negative perception of the country. “Currently the country is still attracting investor flows. The biggest risk we face is the outflow of investment. When the currency weakens, inflation goes up. The knock-on effect is an increase in the interest rate and this is when investments flow outwards,” she explains.

However, she said despite the oil price and food inflation, municipal rates and taxes increases, inflation is not expected to increase. “If we exclude food and energy (petrol), then we see that demand in the system is weak, and for this reason we believe that the South African Reserve Bank (SARB) does not want to increase interest rates. However, a gradual interest rate hiking cycle is expected.”

#FLS2018: The big business opportunity of franchising
Danette Breitenbach 14 Nov 2018

Key assumptions for South Africa:

- Don’t incorporate a global event that could lead to a sudden and/or significant increase in global risk-free interest rates.

- Don’t incorporate a global event could lead to a sudden and significant fall in global risk towards emerging markets.

- Don’t incorporate a domestic event that could lead to a sudden and significant fall in global risk appetite towards South Africa.

- Don’t incorporate significant positive structural change in South Africa.

What could upset these assumptions are the global risks of Chinese and Italian debt, oil and trade wars.

“If we look back at the 2000 blowout and the two years growth that followed that, peaking at 6%, then we have to ask, in light of the recent blowout, if that will lead to meaningful economic growth?” she added.

ABOUT DANETTE BREITENBACH

Danette Breitenbach is a marketing & media editor at Bizcommunity.com. Previously she freelanced in the marketing and media sector, including for Bizcommunity. She was editor and publisher of AdVantage, the publication that served the marketing, media and advertising industry in southern Africa. She has worked extensively in print media, mainly B2B. She has a Masters in Financial Journalism from Wits.

- Wild Space: The gamification of grocery shopping - 18 Jul 2023
- Aspartame under the spotlight as WHO declares it a "possible carcinogenic to humans" - 3 Jul 2023
- Checkers trials Xtra Savings Plus - 23 Jun 2023
- Woolies, there's a mouse in my chicken... - 5 May 2023
- Ackermans' #YouBuy1WeGift1 donates over 30,000 sanitary pads - 30 Sep 2022

View my profile and articles...