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ECONOMY WATCH with Sunita Menon

All eyes on the election results

After a reprieve from Moody's Investors Service at the end of March, SA breathed a sigh of relief. President Cyril Ramaphosa had been given the benefit of the doubt — at least until after the elections.

Analysts say Moody's figured it was too soon to decide whether Ramaphosa would be able to take the hard decisions that are necessary to turn the economy around. SA has not grown more than 2% annually since 2013 and the economy is struggling to gain momentum despite political changes and Ramaphosa's efforts to implement policy reforms to boost growth and lure investment.

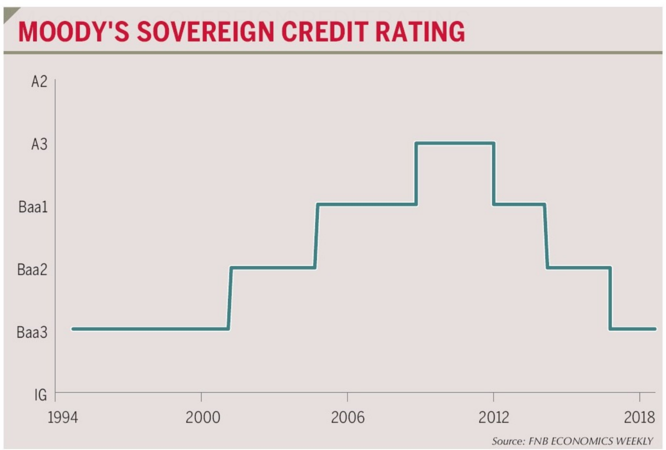
The consensus among analysts and institutions alike is that the elections on May 8 will give Ramaphosa room to make headway with structural reforms that encourage investment, which will bring about higher economic growth.

The envisaged changes include dividing Eskom into three entities and creating an independent systems operator; rebalancing public finances towards investment and reforming state-owned enterprises (SOEs).

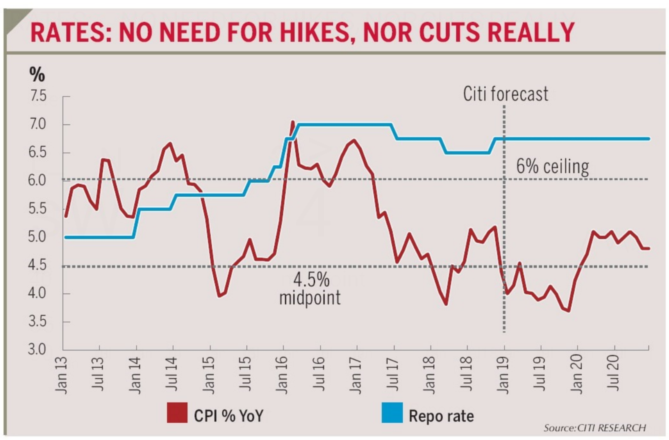
North-West University Business School economist Raymond Parsons says that following the elections Moody's, along with the other credit ratings agencies, will probably want more clarity and certainty about policy changes, a new cabinet and SA's economic direction.

"The economy is not yet out of the woods and Moody's decision should be seen as a stay of execution, rather than as a reprieve," Parsons says.

MOODY'S SOVEREIGN CREDIT RATING



RATES: NO NEED FOR HIKES, NOR CUTS REALLY



While Moody's next scheduled announcement is November, it can make a move beforehand.

The agency said in a credit opinion in April that SA could be downgraded if government debt and contingent-liabilities risk from SOEs continue rising to levels that are no longer consistent with an investment-grade rating, or if medium-term growth remains at low levels, as recorded in 2018, when SA grew at an anaemic rate of 0.8%.

Capital Economics economist John Ashbourne says: "Given weak growth and persistent fiscal problems we, and most analysts, expect that the firm will eventually cut the rating to 'junk'."

Pre-election jitters have also made business confidence plummet in recent months. The World Bank has warned that this low level of confidence, driven in part by the slow pace of structural reforms, is holding back investment and constraining growth.

Capital Economics economist John Ashbourne says: "With business confidence and economic growth touted as likely to improve after the national elections should the ANC obtain a substantial majority, the ratings agency decided to await the election results — and possibly the passing of the several months afterwards — to see whether faster economic growth, substantial governance repair and some improvement in policies and fiscal metrics take place."

Absa economist Peter Worthington says Ramaphosa will need to make progress in consolidating the fiscus, stabilising Eskom and kick-start growth following the elections.

"We think that continued factionalism in the ANC will prevent him from sharply accelerating reform efforts after the elections, but his promised reconfiguration of government and cabinet appointments will be key," he says.

The third set of meetings of the monetary policy committee (MPC) for the year will take place at the end of May.

As power cuts threaten growth prospects, and consumers continue to reel from fuel price increases, there's little scope for further rate increases — despite expectations of higher inflation.

The MPC will take its direction from the US Federal Reserve and the European Central Bank, which have both held off on interest rate changes in April.

"On the monetary policy front, central banks in the major industrialised economies have assumed more dovish stances, as the global slowdown seems to be deeper than expected," says Nedbank economist Isaac Matshego. ●