

Reshuffle adds to policy uncertainty

By [Raymond Parsons](#)

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The removal of Pravin Gordhan and Mcebisi Jonas on dubious grounds and the way in which the cabinet restructuring process has generally been handled have had a very negative impact on markets and investor confidence.

This is reflected in the fall of the rand, which although so far not as bad as what happened after 'Nenegate', was also influenced by the fact that the financial markets were expecting certain cabinet changes and had already partially priced them in.



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The rand, nonetheless, remains weak and vulnerable, and investor confidence has been badly shaken again. Policy uncertainty has inevitably risen and this is not helpful for encouraging the private fixed investment that South Africa needs to grow more rapidly.

The surprise is that the finance portfolio unexpectedly went to Minister Malusi Gigaba who - with no obvious previous background in finance, economics or business - will now be on a steep learning curve to master the complexities of fiscal policy. He will have big shoes to fill.

Fending off junk status

Gordhan had come to enjoy the confidence of many key stakeholders in the economy and abroad and - together with business and labour - was instrumental in fending off junk status for the country. The damage to trust and confidence in these important relationships will need to be repaired if South Africa's economic performance is to continue to successfully mobilise collaborative effort.

The financial markets as well as the credit rating agencies will also be expecting to see conservative fiscal policies still being followed and that the anti-patronage stance taken by former Minister Gordhan will be upheld. Unfortunately, there are fears and suspicions that the new political team at the Treasury may not do so, and that fiscal probity will become a victim of political factionalism.

NDP at risk

The danger is also that the credibility of the National Development Plan will be put at risk. The onus will therefore be on Gigaba and deputy minister Buthelezi to win the confidence of the both foreign and domestic investors by following policies and making decisions which are clear, ethical, consistent and growth-oriented.

The risk of an investment downgrade in June has also risen in the aftermath of the Cabinet reshuffle. The recent concerns of the credit rating agencies about the SA economy have revolved exactly around the market doubts generated by the removal of Gordhan and Jonas from their posts in present circumstances.

And unless the currency stabilises soon, the hope expressed in the latest MPC statement by the SARB governor yesterday that interest rates may have peaked and rates might be cut soon will also be jeopardised. In any case, it would probably be prudent for analysts to revisit current forecasts of South Africa's economic performance in 2017 to see whether they need updating in the light of the latest political developments.

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