

Cabinet reshuffle triggers junk status

 By [Nicci Botha](#)

4 Apr 2017

It's happened. With the dash of a pen, President Jacob Zuma has undone all the hard work of government and business last year to avoid junk status, with Standard and Poor's (S&P) unscheduled announcement of an investment downgrade for the country.



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Business Leadership South Africa (BLSA) believes that President Zuma is directly responsible. “Prior to the president’s ill-considered decisions on the restructuring of the cabinet, South Africans working together had made sufficient progress on economic growth, structural reforms and fiscal consolidation to maintain our investment grade rating and engender confidence that was reflected in the gradual strengthening of the rand.

“The cost of the downgrade to all South Africans, the poor in particular, will be felt in higher interest rates, higher inflation, higher food prices and lower economic growth which will reduce investment and employment. In addition, capital from international investors will be less available and more expensive for the funding of government, SOEs, projects and companies,” it says.

Moody’s and Fitch expected to follow suit

The other two ratings agencies – Moody’s and Fitch - are expected to follow suit. The former has already placed the country on notice that it’s assessing the economic impact of the changes to leadership in key government institutions and it is expected to announce its rating on Friday. At present the South African economy at two notches above sub-investment grade. Moody’s cited political instability as one of the reasons for the downgrade.

“The fact that S & P did not wait until their regular review in June but announced their decision now after an emergency meeting over the weekend indicates the seriousness with which they interpret the likely economic and fiscal consequences of the recent cabinet reshuffle and especially the political changes at the national treasury.

“They are clearly worried about political risks and policy shifts. This follows on similar warnings from Fitch last week. All the indications so far have been that the cabinet reshuffle would have a negative impact on the economy and markets,” says Professor Raymond Parsons, North-West University School of Governance and Business.

Markets pre-empted downgrade

Independent economist Dawie Roodt says both the stock and the bond markets had both pre-empted the downgrade, hence the rapid movements on the JSE and in the effective devaluation of the currency over the past two days. “I think pretty much everybody in the finance world realised that it was coming but that it happened only 90 hours after the reshuffle perhaps came as a bit of a surprise and shows how strongly the ratings agency feels about the changes.”

Roodt says the only silver lining was that S&P’s decision might perhaps be the catalyst that pushed President Zuma over the brink. “The moment Zuma decides to step aside, South Africa Incorporated will immediately become a buy. We will see an immediate uptick in growth, a rapid inflow of foreign direct investment with a commensurate decrease in unemployment and increased economic growth.”

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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