Three cheers for Moody's!

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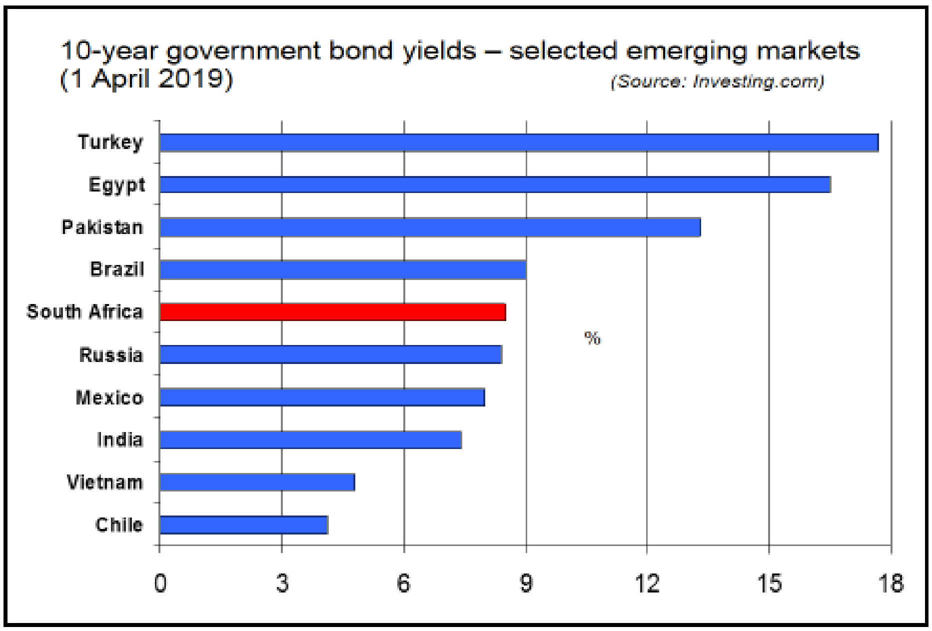
More often than not, no news equates to good news. This adage was true for South Africa at the end of March, when Moody's Investors Service decided not to update its investment grade rating for South Africa's sovereign debt.

No doubt the Minister of Finance enjoyed a pleasant weekend with the reassurance that investment grade status with Moody's had been retained – for now – and that his first National Budget had played no small part in this fortuitous *status quo*.

An immediate advantage of the retention of investment grade status by this authoritative ratings agency was manifested in a lower bond yield on 1 April, which remains well-positioned compared to several other emerging markets.



Several commentators have argued that the ratings decision by Moody's does not represent the key focus area for the country's economic policy makers, but rather the dire need to stop the rot in the public sector at large and resuscitate economic growth.

John Dludlu of the Small Business Institute recently stated that President Cyril Ramaphosa's main concern should not be about a ratings agency downgrade, but whether he can stop his party from acting as a wrecking ball in South Africa's fragile economy.

The extent of public sector decay, often under the guise of "cadre deployment", is indeed staggering. The woes at Eskom and the unfolding evidence of state capture on a grand scale have dominated the public discourse to such an extent that an item such as PetroSA's loss of R14.5 billion in one year (2015/2016) seems to have been largely ignored.

Tax payers bear the brunt of the mismanagement, corruption and incompetence at literally dozens of state-owned enterprises (SoEs) and more public pressure is required to ensure that the judicial process to prosecute culprits is expedited.

Whilst it is certainly true that a daunting task lies ahead for the country's new president to reverse the bankrupt state of several key SoEs and provide incentives for private sector investment in new productive capacity, the benevolent stance of Moody's should not be under-estimated.

Citigroup Index

In the absence of investment grade status for South Africa's sovereign bonds, the country would forfeit its inclusion in Citigroup's World Government Bond Index. An exit from this key global investment instrument would lead to forced selling of South African bonds by so-called tracker funds.

Investec Bank has recently estimated the potential outflow of such an occurrence at around $10bn, which could wreak havoc with the financial account of the balance of payments and hurt the rand badly.

It is a pity that South Africa's economy has been mutilated to such an extent during the Zuma-era that one solitary international ratings agency holds so much sway over the African continent's 2nd largest and most diversified economy.

The fact nevertheless remains that investment grade status with Moody's provides government with breathing space to implement the kind of policies that are required to enhance confidence amongst consumers and businesses alike.

Further good news is that it is not necessary to waste time by redesigning a pragmatic growth strategy – it is already contained in the National Development Plan, but has remained more or less in limbo for the past decade.

Improved fundamentals

It is also encouraging to note that the retention of investment grade status is not primarily related to an excellent communication and public relations exercise by President Ramaphosa and the team that he has assembled to encourage investment into South Africa.

Moody's would have been aware of a number of key indicators that have improved over the past two years, including the following:

- A reduction of the 10-year bond yield by 86 basis points between October 2018 and the 1st of April 2019
- A total of 158,000 jobs were created between December 2017 and December 2018
- The country's coincident business cycle indicator was 2% stronger in December 2018 than during the beginning of 2017

Hopefully, the benevolent disposition towards South Africa shown by Moody's will be rewarded after the elections, when a new-look cabinet and more competent leadership in the public sector should start crafting market-friendly growth policies.