

Moody's decision puts SA on notice

By [Raymond Parsons](#)

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Moody's decision to reduce the outlook for its credit rating of the South African government from 'stable' to 'negative' is not unexpected in the light of the country's weak economy and deteriorating public finances.



Professor Raymond Parsons

Unless South Africa gets its economic house in order soon, it faces the possibility of an investment downgrade later. The country has thus been put on notice about the urgent need to improve its economic steersmanship. Purposeful collective action is required if SA is to eventually avoid universal 'junk' status, given the existing subinvestment ratings by Standard & Poor as well as Fitch.

In the event of the country later lapsing into universal 'junk' status, there would be the potential capital outflows and higher costs of borrowing associated with removal from global bond indices.

"This ultimately makes it more difficult and costly to finance growth by both the public and private sectors. Moody's message therefore is that the country must make a much more determined effort to break out of its 'low growth trap' but without falling into a 'debt trap'. The fundamental challenge to South Africa therefore remains the overarching one of implementing essential pro-growth reforms," he says.

Lack of political will

The negative outlook in part conveys Moody's increasing concern that the political will is not there to implement the official plans to turn the economy around. The recent MTBPS, while offering a frank assessment of South Africa's current grim fiscal outlook, fell far short of creating the necessary confidence that key remedies were indeed going to be urgently implemented.

Crafting a credible fiscal strategy to contain rising public debt has indeed presented policy makers with tough choices but choices that cannot any longer be avoided or indefinitely postponed, such as about Eskom.

What South Africa basically now needs to remedy the fiscal situation is a strong and sustained improvement in its flagging growth rate, which must remain the overall priority in economic policy. Investor confidence needs to be boosted. The forthcoming investment summit (November 5-7) will be another key opportunity to strengthen the close collaboration needed between government and business to promote the projects and policies required for job-rich growth. Moody's decision injects even more importance into that event.

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