

Surprisingly upbeat S&P holds SA's rating steady

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RATINGS agency Standard & Poor's affirmed its sovereign credit rating of BBB- for South Africa late on Friday, keeping its outlook stable and saying it has confidence in the country's ability to boost sluggish growth and restore electricity supply.

This was the second reprieve in a row after Fitch kept its rating steady at BBB last week, while maintaining a negative outlook that had fuelled expectations of a downgrade.

The good news comes despite mounting frustration in domestic business circles at the effects of Eskom's frequent power outages.

On Friday, S&P was surprisingly upbeat on South Africa's economic outlook, saying it expected growth to accelerate from 2.1% this year to an average pace of 2.7% between 2016 and 2018 — far more optimistic than both independent and official forecasts.

The agency said the growth would be driven by an increase in electricity-generating capacity, domestic consumption and rising net exports.

In contrast, the Bureau for Economic Research at Stellenbosch University said this week that it expected output to expand by just 1.7% this year, 2.1% next year and 2.6% in 2017 — the constraint being power outages.

"It seems [S&P] is more optimistic about electricity than most people in South Africa," said BER senior economist Hugo Pienaar late on

Friday. "The risk is that growth turns out to be quite a bit lower than they are assuming at this stage, so they may be disappointed."

There would be several knock-on effects if growth turns out to be lower than expected. This would mean lower tax revenue, which would widen the government's budget deficits despite the path of fiscal consolidation followed by the National Treasury, which has established a credible reputation with global rating agencies.

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S&P said: "Tax increases, alongside the recent wage settlement for public sector workers, should help limit fiscal risks in 2015-2018, and we expect the Treasury to stick to its pledged hard expenditure ceiling."

Last week, Fitch also expressed its satisfaction with an apparent settlement for wages in the public sector, which accounts for 40% of noninterest spending and is seen as the biggest risk to budget deficit targets.

But the government has said it wants to reduce the inflation-linked increase it originally agreed for this year, angering public sector unions and putting the deal in jeopardy.

S&P pointed out that South Africa's growth rate was still low, while current account deficits remained relatively high, general government debt sizable, and portfolio flows potentially volatile.

"The stable outlook reflects our view that a slight improvement in GDP growth between 2015 and 2018 and ongoing fiscal prudence will help contain South Africa's fiscal and external balances within our expectations."

Earlier in the week, three separate quarterly surveys demonstrated the toll chronic power cuts are taking on the economy.

Business confidence slumped to levels that prevailed in the first half of last year when the mining and manufacturing sectors were reeling from strikes, according to an index produced by Rand Merchant Bank and the BER.

The index fell by six points to 43, which means that a majority of the 2 000 companies in the survey viewed current business conditions as unsatisfactory. Confidence plunged among new vehicle dealers and retailers, while the mood in building and manufacturing remained flat at low levels.

A CEO confidence index compiled by Merchantec Capital dropped from 51.4 points in the first quarter to 45.4 points in the second — its lowest since 2009 — also on the back of power cuts.