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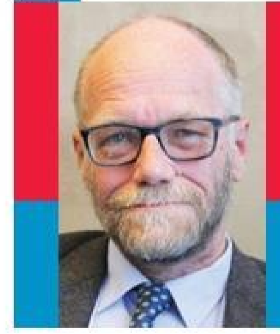
# More needed than mere new leaders to bring economic changes



**Analysis**

**ANDRE ROUX**

THE market reaction to last week's events has, in some ways, been remarkably muted. This could be because the axing of Pravin Gordhan and Mcebisi Jonas was not entirely unexpected.

For many the question had been not so much whether they would be dismissed, but rather when. Consider also the fact that market players in the US, the UK, and elsewhere in Western Europe are probably more preoccupied with their own domestic concerns around Brexit, Donald Trump and immigration.

That said, the obvious question remains. What impact will the Cabinet reshuffle have on the fragile and tentative economic recovery here in South Africa?

As things stand now, we must be much closer to a junk bond rating than a week ago – despite the fact that the broad macro-economic environment is more favourable than last year.

However, even in the event of junk bond rating, the initial market reaction might be fairly innocuous, if bond holders have already factored a downgrading into their transactions.

In the longer term the negative impacts of a downgrading are well-known – higher costs of borrowing, a slowdown in economic growth, a decline in real incomes and an increase in poverty.

To a large extent, of course, the markets are probably waiting for more clarity on the outcome of the now clear division of allegiances within the ruling party. And even then the reaction to unfolding events is unclear.

At the one extreme, if President Jacob Zuma survives the onslaught, this will probably be seen as a triumph for populism, in which case the markets are bound to act negatively and possibly vehemently as they show their dismay.

At the other extreme, should the president be ousted, this will probably be interpreted as a victory for the sanctity of the Constitution and all it stands for, as well as a nod in favour of fiscal rectitude and common sense.

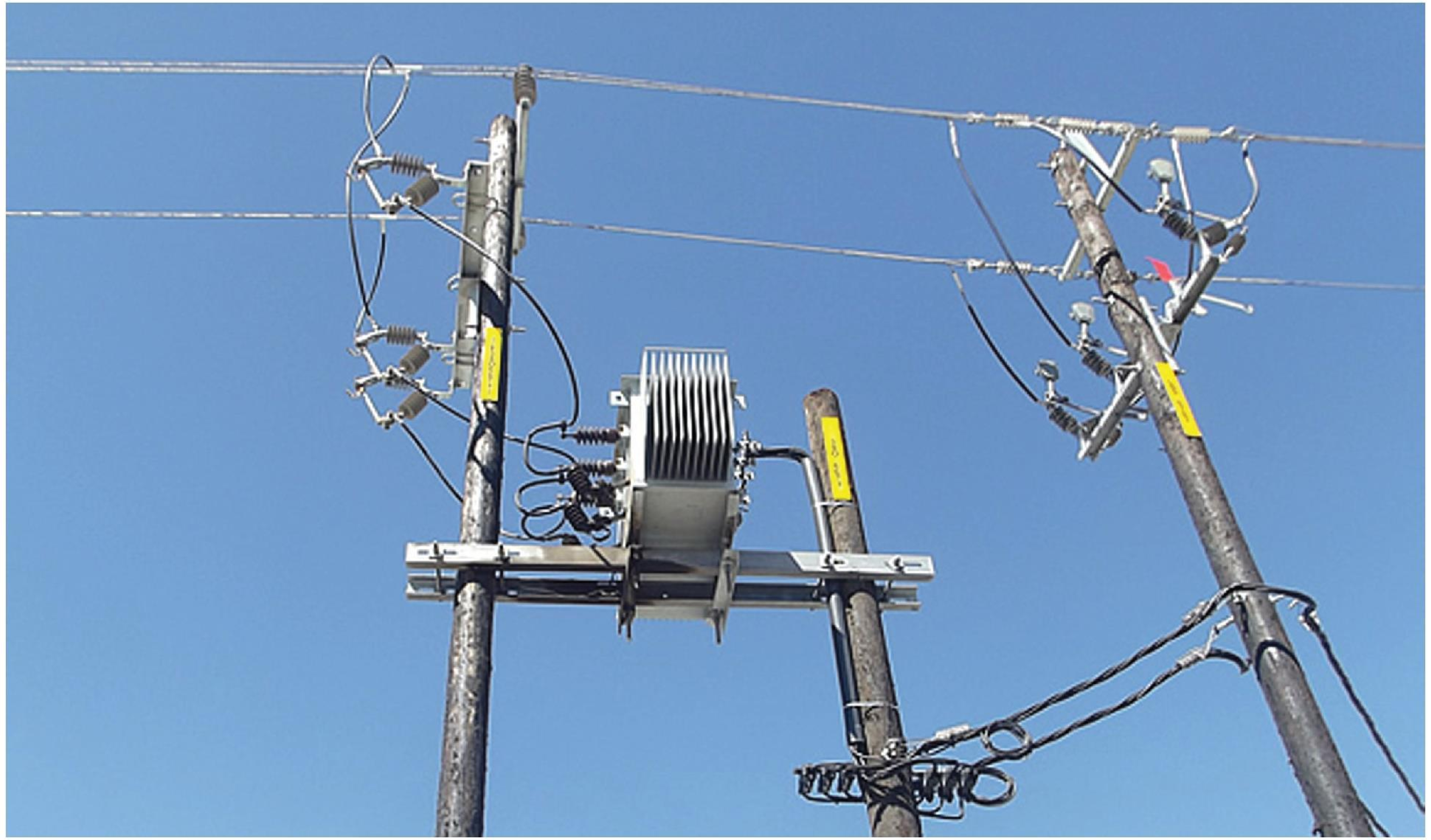
In reality, the pendulum will probably swing between these two extremes over the next few weeks, days and even hours.

As markets tune into the rumour mill, as they garner their own inside information and read between the lines, regular and, at times, violent swings in the prices of foreign currencies, share prices and bond rates could become the norm.

Finally, it is important to bear in mind that a change in leadership will not of and in itself result in an overnight economic miracle.

There are a number of additional underlying causes of South Africa's disappointing growth performance, not least of which the lack of and/or inefficient use of appropriate skills and inadequate savings.

*Prof Andre Roux is an economist at Stellenbosch University Business School*



**SPARK FOR GROWTH:** South Africa should take a hard look at ingredients that are key to bolster economic growth, including the appropriate use of skills and stepping up national savings. PICTURE: ELECTRO INDUCTIVE