Junk status not good for Africa's overall growth

According to Royal Institution of Chartered Surveyors' (RICS) South Africa country manager TC Chetty, the recent credit rating downgrades by global ratings agencies will negatively affect Africa's two biggest economies - South Africa and Nigeria, and hit Africa's overall economic growth.

TC Chetty, South Africa country manager for the Royal Institution of Chartered Surveyors (RICS).

Chetty also expressed concern that the downgrades will have a ripple effect on the built environment sector and the cost of infrastructure development.

“South Africa’s downgrade to sub-investment or ‘junk’ status is a setback the economy can ill-afford, especially in this already low growth environment. SA joins the majority of African countries currently rated below investment grade, including Nigeria, which in September 2016 was downgraded by S&P further into junk status, with a B rating, five levels below investment grade. Fitch also revised its outlook for Nigeria to negative in January this year,” he said.

Debt servicing costs set to increase

Both S&P and Fitch downgraded South Africa’s sovereign credit rating to below investment grade last week, while Moody’s put the country on review for downgrade, with a decision expected between 30-90 days. Besides capital outflows from South Africa as a result of the downgrade, the country’s debt servicing costs are set to increase.

Chetty said: “South Africa finds itself in uncertain territory having been above investment grade for 17 years. We cannot underestimate the impact, especially because South Africa has a well developed financial and investment sector compared to the rest of Africa. While Nigeria has always been rated below investment grade, its ratings have deteriorated since 2012 and last year its economy contracted. These downgrades are not good, not just for South Africa and Nigeria, but for Africa’s overall GDP growth prospects. We heard at the recent RICS Africa Summit in Johannesburg that the economies of these two countries account for about half of Africa’s GDP.”

Africa's slowing overall growth

Referring to Nigeria and South Africa as ‘Africa’s big brother economies', keynote speaker at the RICS Africa Summit Bennet Kpentey said the economies of these two nations needed to perform for Africa’s sake.

Kpentey, the chief executive and managing consultant at Ghanaian-based Sync Consult Management Consultants, said the poor economic performance of Africa's two largest economies was the main contributing factor to the continent's slowing overall growth.

"When South Africa and Nigeria don't perform well economically, it affects Africa's overall performance… To put the rest of sub-Saharan Africa's economic performance into perspective, you just have to exclude Nigeria and South Africa to see Africa actually still shows a good economic growth picture. Yes, five years ago it was higher, but much of the slowing growth also has to do with a multiplicity of external shocks, such as low commodity prices, weak global trade and political instability," he explained.

Citing African Development Bank research, Kpentey said between 2012 and 2016, the world economy grew by a modest average of 2.5%, while sub-Saharan Africa's economic growth averaged 3.7%. When Nigeria and South Africa's GDP growth is excluded, sub-Saharan Africa's economic performance increased to 5%.

"This is still world leading economic growth, much higher than the 1.6% growth of advanced economies during this period, and still higher growth than that of the group of emerging and developing economies, which averaged 4.2%," he added.

Africa in no recession

With sub-Saharan Africa's economic growth slowing to just 1.5% in 2016, Kpentey acknowledged that Africa's growth has fallen the fastest. But, he said Africa was in no recession. "It is not a disaster. We need to deal with the issues and get strategies in place to mitigate the drop. This also illustrates why Africa's big brother economies of Nigeria and South Africa need to perform, and why Africa's economy overall needs to diversify, reducing its reliance on commodities," he said.

Kpentey said Africa's hurdles included the continent's huge infrastructure gap; declining manufacturing; high poverty and inequality; government inaction and bureaucratic delays; climate change; and, the major issue of corruption. However, he said there was still "shine beyond the gloom", including Africa's resilience; its labour force and young population; urbanisation and growing middle-class; its overwhelming adoption of information and communication technologies; increased business and foreign direct investment; and, its rich natural resources.

Speaking at the RICS Africa Summit, Amanda Clack, president of RICS, and head of Infrastructure Advisory for EY in the UK & Ireland, said collaboration was key to meeting the demands of Africa's rapid urbanisation and growth. She also said policy uncertainty was a major threat to infrastructure investment in Africa.

"RICS is collaborating with construction and property organisations from across Africa. We are working together to accelerate the professionalism of land, construction, property and infrastructure in the region," she said.

Clack said RICS was committed to sub-Saharan Africa. In addition to its offices in South Africa, RICS is increasing its presence with new office hubs opening in Kenya and Ghana. "These new locations, which will service East and West Africa, were chosen because of a high level of development and economic stability… RICS sees our position in sub-

Saharan Africa as that of an international body fitting into the jigsaw of local associations," she said.