

South Africa downgrade to junk won't easily dislodge Zuma, but may push Mozambique into fiscal tailspin

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"Creditors have better memories than debtors" – Benjamin Franklin

The likely pending downgrade of South Africa's debt by S&P into junk will rattle the support base of President Zuma, especially among South Africa's burgeoning black middle class and nouveau riche millionaires within the ruling party, but Zuma's tightening stranglehold on the cabinet and the top organs of the party will prevent him from being forcibly removed from power – until he is ready to quit with a generous golden parachute in hand. The South African debt downgrade would dramatically re-price risk premia across all classes of Sub-Saharan African capital markets assets, exposing countries like Mozambique to an accelerated fiscal crisis. Mozambique has the largest external current account deficit of any country in sub-Saharan Africa.

South Africa's debt downgrade by S&P is probably the most telegraphed sovereign rating change in Africa's capital markets history. And yet while most exasperated middle class South Africans, and some within the ruling party may hope that the downgrade will finally send embattled President Jacob Zuma packing, the much anticipated announcement next week may not have any long lasting effect on Zuma's political fortunes. Since taking office in 2008, despite dramatically increasing the number of ministers, Zuma has re-appointed only a paltry 15% of the veteran ANC cabinet ministers who served under former President Thabo Mbeki. Zuma has bolstered his position within the cabinet and in the National Executive Committee of the ruling African National Congress (ANC) with deeply loyal Umkhonto we Sizwe (MK) security/intelligence/counter-intelligence former apparatchiks and operatives. Thus, while some expect Zuma to quickly step down when the debt downgrade is announced, all indications are that he will hang on until the party and government are able to hand him a generous golden parachute to ease him into retirement.

While all major South African corporates and the government have in recent week's undertaken scenario simulations about the effects of a sovereign debt downgrade into junk, most African economies are oblivious to the likely negative ricochet effects that a re-pricing of risk premia undergirding South Africa's debt could have on their highly leveraged economies. Mozambique in particular is at great risk of entering a fiscal

tornado. The country has the largest external current account deficit of any country in sub-Saharan Africa. Guinea, Niger, Liberia, Namibia, Lesotho and Zimbabwe also remain vulnerable in the current environment.

Mozambique faces the unusual challenge of grappling with an ongoing food famine and crop drought, plus a resumption of violent hostilities with the ex-RENAMO rebel group which has seen over 10,000 citizens internally displaced as refugees into neighboring Malawi, an ongoing tussle with external creditors over false representations to bondholders, almost \$200mil of donor aid and an IMF program abruptly cut, and a relatively inexperienced president who is less than 20 months on the job. With no relief in sight, Mozambique's stability is at risk.

Mozambique has the largest external current account deficit of any country in sub-Saharan Africa.

Table SA20. External Current Account¹										
<i>(Percent of GDP)</i>										
	2004-08	2009	2010	2011	2012	2013	2014	2015	2016	
Oil-exporting countries	12.9	0.4	3.4	4.8	4.7	3.4	-0.5	-3.4	-2.5	
Excluding Nigeria	9.6	-8.8	2.4	8.5	5.4	2.9	-2.4	-7.6	-5.9	
Angola	14.7	-10.0	9.1	12.6	12.0	6.7	-1.5	-7.6	-5.6	
Cameroon	-1.0	-3.1	-2.8	-2.7	-3.6	-3.8	-4.6	-5.0	-5.2	
Chad	0.5	-9.2	-9.0	-5.6	-8.7	-9.2	-8.9	-10.4	-9.3	
Congo, Rep. of	-2.9	-14.1	7.5	4.7	-2.4	-4.5	-9.4	-15.2	-14.6	
Equatorial Guinea	16.5	-23.1	-34.4	-0.1	-2.2	-4.0	-10.0	-8.7	-3.1	
Gabon	17.4	4.7	8.7	12.8	15.9	12.3	8.3	-7.0	-4.2	
Nigeria	14.4	5.1	3.9	3.0	4.4	3.6	0.2	-1.8	-1.2	
South Sudan	18.4	-19.6	-1.2	2.7	-4.8	-3.6	
Middle-income countries²	-3.7	-3.3	-2.5	-3.4	-5.5	-6.0	-5.7	-5.2	-5.5	
Excluding South Africa	-2.3	-4.5	-5.0	-6.3	-6.6	-6.4	-6.1	-6.8	-7.2	
Botswana	10.7	-11.0	-6.4	-0.6	-3.4	8.8	16.1	2.8	0.1	
Cabo Verde	-9.5	-14.6	-12.4	-16.3	-12.6	-4.9	-7.6	-9.7	-6.6	
Ghana	-8.1	-5.4	-8.6	-9.0	-11.7	-11.9	-9.6	-8.3	-7.2	
Kenya	-2.5	-4.6	-5.9	-9.1	-8.4	-8.9	-10.4	-9.6	-9.2	
Lesotho	17.3	3.9	-10.0	-14.7	-9.8	-10.3	-7.9	-6.3	-13.9	
Mauritius	-6.3	-7.4	-10.3	-13.8	-7.3	-6.3	-5.6	-4.8	-4.8	
Namibia	7.3	-1.5	-3.5	-3.0	-5.6	-3.9	-9.9	-12.1	-16.3	
Senegal	-9.9	-6.8	-4.4	-8.2	-10.9	-10.4	-8.8	-6.1	-5.2	
Seychelles	-13.8	-14.8	-19.1	-21.6	-19.9	-11.5	-21.0	-15.2	-14.7	
South Africa	-4.3	-2.7	-1.5	-2.2	-5.0	-5.8	-5.4	-4.3	-4.5	
Swaziland	-3.2	-11.6	-8.6	-6.8	3.1	5.2	2.9	1.1	-2.8	
Zambia	-1.1	6.0	7.5	4.6	5.5	-0.6	-1.4	-1.4	-2.6	
Low-income and fragile countries	-5.7	-8.2	-7.3	-8.4	-10.5	-10.4	-10.1	-11.1	-11.3	
Low-income excluding fragile countries	-7.3	-8.2	-7.5	-10.4	-11.8	-10.7	-11.1	-12.9	-12.5	
Benin	-7.3	-8.9	-8.7	-7.8	-8.4	-10.4	-8.0	-9.3	-9.1	
Burkina Faso	-10.3	-4.5	-2.0	-1.5	-4.5	-6.6	-6.1	-7.9	-7.8	
Ethiopia ³	-8.4	-6.7	-1.4	-2.5	-6.9	-5.9	-8.0	-12.5	-9.3	
Mali	-8.0	-7.3	-12.6	-6.1	-2.6	-3.4	-7.3	-3.3	-4.2	
Mozambique	-10.7	-11.0	-10.6	-23.1	-42.3	-40.0	-34.7	-41.0	-45.3	
Niger	-9.2	-24.4	-19.8	-22.3	-14.6	-15.3	-15.2	-19.1	-23.4	
Rwanda	-3.3	-7.1	-7.3	-7.5	-11.4	-7.4	-11.9	-10.6	-9.6	
Sierra Leone	-6.9	-13.3	-22.7	-65.3	-22.0	-10.4	-9.7	-11.4	-14.5	
Tanzania	-6.5	-7.6	-7.7	-10.8	-11.7	-10.3	-9.3	-8.2	-7.1	
Uganda	-4.2	-6.4	-9.1	-10.8	-8.0	-7.2	-9.7	-10.5	-11.3	
Fragile countries	-3.6	-8.2	-6.9	-5.5	-8.5	-9.8	-8.4	-8.1	-9.3	
Burundi	-7.8	1.7	-12.2	-13.6	-17.3	-18.4	-17.6	-11.3	-9.7	
Central African Rep.	-5.5	-9.1	-10.2	-7.6	-4.6	-3.0	-6.1	-11.8	-11.2	
Comoros	-12.0	-15.4	-5.8	-14.0	-17.6	-16.2	-11.5	-15.7	-17.0	
Congo, Dem. Rep. of	-0.2	-6.1	-10.5	-5.2	-6.2	-10.6	-9.2	-7.6	-8.0	
Côte d'Ivoire	1.1	6.6	1.9	10.5	-1.2	-1.4	-0.7	-1.0	-1.9	
Eritrea	-3.1	-7.6	-5.6	0.6	2.3	0.3	-0.9	-2.2	-3.0	
Gambia, The	-8.5	-12.5	-16.3	-12.3	-7.9	-10.2	-13.1	-13.5	-10.2	
Guinea	-5.4	-7.9	-9.7	-18.8	-28.7	-24.0	-24.2	-16.7	-36.8	
Guinea-Bissau	-1.2	-5.4	-8.7	-1.5	-8.8	-4.4	-1.2	-3.5	-4.6	
Liberia	-14.0	-23.2	-32.0	-27.5	-21.4	-28.2	-28.7	-41.6	-37.1	
Madagascar	-12.0	-21.1	-9.7	-6.9	-6.7	-5.6	-0.2	-1.3	-2.2	
Malawi	-6.3	-3.9	-1.0	-4.1	-2.4	-1.2	-3.6	-2.6	-2.5	
São Tomé & Príncipe	-27.1	-23.2	-21.7	-25.5	-21.3	-23.4	-27.7	-12.4	-15.2	
Togo	-8.8	-5.6	-6.3	-8.0	-7.5	-13.0	-12.9	-12.2	-11.5	
Zimbabwe ⁴	-8.5	-47.1	-16.0	-30.9	-24.6	-25.4	-22.0	-22.9	-21.8	
Sub-Saharan Africa	2.1	-2.8	-0.9	-0.7	-1.9	-2.4	-4.1	-5.7	-5.5	
<i>Median</i>	-5.9	-7.5	-8.6	-7.5	-7.9	-6.6	-8.8	-8.7	-8.0	
Excluding Nigeria and South Africa	-0.3	-7.4	-3.8	-2.1	-4.4	-5.1	-6.7	-9.0	-8.8	

Source: AfDB

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