

Essay synopsis: Matifadza Bingudza

Investment decisions, particularly in emerging markets such as South Africa, should be based on a holistic understanding of the factors within an economy that have the potential to affect investment returns, writes Matifadza Bingudza.

The state of a country's institutions – including informal conventions such as traditions and customs, and formal rules such as laws and regulations – not only hamper or foster economic growth but also directly influence the rate of return investors will derive. Thus the soundness of institutions within an economy should be at the forefront of investment decisions.

Many institutional factors play a role in investment returns, but, says Matifadza, three key institutions play pivotal roles: property rights, the rule of law and the autonomy of the central bank. While South Africa performs well with regard to independent monetary policy – despite the occasional political comment threatening central bank autonomy – the erosion of the institutions of rule of law and the protection of property rights may impede investment.

Matifadza cites other factors affecting investments decisions which include, on the plus side, South Africa's sophisticated financial markets and diversity of instruments, its robust financial-system regulation, tax relief to foster the growth of small and medium-sized enterprises and encourage investment in these, and improvements in the ease of doing business. On the minus side are the decline of state-owned enterprises, particularly Eskom, and fiscal instability including a debt-to-GDP ratio of about 53%.

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