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“People ask, ‘What’s the best role you’ve ever played?’
The next one.” - Kevin Kline

ECONOMIC COMMENTARY - By Francois Stofberg

A last defence South Africa had against persistently weak economic growth, and possible downgrades, was the strength and independence of government finances; fought for by the Minister of Finance, Pravin Gordhan, during his visits to the United States, and the talks he had with the business sector in SA. With the recent attacks on the Minister’s credibility, however, this independence has once again come under fire, heightening questions about state-capture.

Both Nhlanhla Nene, and Pravin stood up against the misuse of government finances and both have come under the axe of state-capture. Some recent misuse of government finances can include: SAA trying to buy Boeings they didn’t really need, and a shady nuclear deal with some scary Russians. The timing of these charges, so shortly after municipal elections, help to fuel speculation concerning the state-capture of government finances.

The reason financial independence is so important is because, it serves as a gateway to government policies. Independence ensures that government finances are optimally allocated towards policies that drive growth and the creation of jobs in SA. Independence also builds confidence in a government, that they will continue to do the “right” thing: not run long term budget deficits, not push debt to record highs, and foster policies that support growth, to name but a few. Using this criteria, it is clear that state-capture of government finances has been increasing over the last couple of years, particularly if we consider the lack of policies that should have spurred economic growth. As state-capture continues to threaten the independence of government finances, the economy’s performance is, therefore, also threatened.

In our opinion, the instability caused by the turnaround of finance ministers, and the attack on the independence of government finances, will continue to erode at the strength of our currency; the short term economic impact of these attacks. A final result of these actions, is that it will most likely force the hand of credit agencies to downgrade SA by the end of the year.