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ECONOMIC COMMENTARY

- By Francois Stofberg

A lot of local noise

In the last week, a lot of politically-motivated economic noise came from South Africa (SA). Lucky for us, it appears local markets are saturated with news of this nature; unlike previously the rand didn't blow-out against the US\$. Also, concerning as it might be, the economy cannot really perform any worse than it's already doing – so more bad news is simply just piled on. It does, however, become ever more difficult to turn the ship back to a more sustainable growth path, which depends on good business- and investor-confidence.

In his latest stint, President Jacob Zuma once again reshuffled his cabinet. Rumours suggest that this shuffle came amidst pressure from Russia to push through the nuclear deal. A move like this will, however, be illegal without the go-ahead from Treasury and put an unsustainable burden on state finances (which is already stretched to record levels). This is also why it was reported last week that the presidency is considering moving the budgetary process from Treasury to the presidency itself. This would make it a lot easier to corruptly push through inefficient policies. To us, this reshuffle seems more like fancy footwork to reposition key individuals and pull favour to the Zuma-camp. The president needs this support to fight the resurgence of fraud claims against him, which is also why he will try to postpone the ANC's conference at the end of the year.

Currently, our expectations are that a new head of the ANC will not be elected in December and that the president will continue his reign at the cost of SA citizens. We also believe that the president is quickly approaching the point of overplaying his hand. Considering who the next president will be, political analysts seem to change their minds constantly, at the rapid rate at which new information becomes available. There are also rumours of a third ANC entrant into the presidential race, which will really make things interesting. Although it is commonly believed that this candidate will not win the race, he might attract key votes away from the two forerunners.

We will report in more detail on the mini budget in next week's newsletter. It is important to touch on some major expectations; the big concern is the expected undershoot of state revenue, which is now estimated to total roughly R 40 billion (we are still finalising our own estimates). Luckily, state spending is usually about R 8 billion less than initially budgeted for. This will, however, not be enough to keep the budget deficit on an acceptable level (somewhere between 2.5% and 3.5%), which will ultimately push debt levels to new all-time highs. To combat their ever-growing bottom line, Treasury might consider some financial engineering. This includes illegally using some of the surpluses they've built up at the South African Reserve Bank (SARB) over the past couple of decades. The alternative is increasing tax rates even more – especially taxes on "sinners" and the wealthy.