

ECONOMIC COMMENTARY

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Newsletter

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FREAKY FEBRUARY

February started with President Ramaphosa's State of the Nation Address (SONA). The much-anticipated speech was well received but has since been met with a lot of scepticism, which we didn't agree with. Firstly, the SONA is not the forum to go into specifics about senior ANC officials implicated in recent corruption investigations. But to that point, Rama (our endearing term for the president) has probably done more to fight corruption than most of his predecessors – a trend we hope he will continue after his electoral win in March. Secondly, a SONA is also not the place to go into specifics about SA's dire fiscal position. This was left for the budget speech. Most notably from the SONA was the president's announcement that Eskom will be unbundled, a theme that was later emphasised in the budget speech.

Unfortunately, just as we were introduced to the idea of one day having a better functioning Eskom, load shedding was re-introduced by the struggling power utility. We've tried to quantify the cost of load shedding since it was introduced early in 2008; our conservative estimate is that the economy could have been almost 15% larger with almost 1.5 million more jobs.

Our main take-away from SA's budget is the hidden message that points towards a huge supertanker (used to express SA's economy) slowly changing course. The course adjustment started with an investigation into state capture, then Zuma's exit, President Ramaphosa's close victory, the many small but important changes to cabinet, the firing of incompetent ministers and SOE executives, a whistleblower, an attack on the central bank's independence leading to the eventual appointment of an ex-central bank head as finance minister, and even some ministers falling on their swords. Now we have a focused, quite radical budget that highlights the two largest issues: an unproductive and overpaid civil service, and the hopelessness of Eskom. Instead of overpromising with more smokescreens like the Industrial Policy Action Plan or the National Development Plan (that never saw the light), the inner circle is homing in on the direst issues.

The radical undertone therefore, points towards another smart, strategic move from the inner circle towards what we believe will become a successful 10-year turnaround. With radical we mean the government's decision to keep wages unchanged, the discourse about not taking on Eskom's debt, restructuring plans, and the few other subtle mindset changes government continues to make, like being concerned about keeping skills in SA – something that wasn't considered important a decade ago. In the end markets agreed, and the rand strengthened back to below R14.00 and the JSE ended up, by a percentage point. One issue with these radical, market-friendly changes is that it places a huge mark on the backs of each member in the inner circle. We can only hope that this was not Minister Tito's last budget.

Although local currency markets were quite volatile in February, they ended rather flat. Equity markets, however, started the year in a strong recovery mood and continued this theme in February. To date, the JSE is up by almost 8%.

Also in February was the brilliant performance by US president Donald Trump. He accepted the lousy \$1.4 billion deal lawmakers gave him for the border wall he wants to build and declared a "national emergency". This special declaration gives the president temporary powers, which include using budgets allocated to other expenditure categories, to deal with a "crisis". There are currently about 28 national emergencies active in the US, most of which are connected to foreign policy and international concerns, like wars and global trade threats. Occasionally, however, presidents use emergency declarations to further their domestic policy goals, like building a wall. Sidestepping lawmakers in this manner will, however, be challenged in the US Supreme Court, who will have to decide whether the president's declaration is, in fact, a national emergency. Even if it is overturned, it's been very entertaining to see how Trump continues to rattle the cages of bureaucrats.

