EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

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A LITTLE HOPE, A LOT MORE INVESTMENTS

Last week, President Ramaphosa had his annual investor conference. Ramaphosa initially announced that he was targeting R1.2 trillion long-term investments over the next 5 years, roughly R240 million annually. However, pessimistic South Africans were not convinced. Last year R290 billion was pledged, of which R250 billion has already been invested of which the new Mara smartphone is the most exciting investment. Mara is produced in the Dube Trade Port in Durban, making it Africa's first fully manufactured smartphone.

This year investors pledged R363 billion, a 25% increase from last year that supports our argument that sentiment is in fact improving, albeit from a very low base. The most notable pledges were from:

+ MTN, R50 billion;
+ Toyota, R2.4 billion;
+ Vehicle manufacturing, R6 billion; and
+ The new Agricultural Development Agency (aims to support emerging farmers), R12.9 billion.

Should this trend continue we'll see more of the R1 trillion cash pile held by corporates being invested in South Africa, a shift that can substantially boost economic growth and create employment. Although these are not the only private sector investments their contribution ranges between 6% and 8% (measured as a percentage of GDP). If our government manages to reduce policy uncertainty and match the private sector's investments, albeit only partially as efficient, the total gross fixed capital formation in South Africa will come much closer to our middle-income development peers who invest close to 29% of GDP.

And of course, as always: Eskom. French ambassador to South Africa, Aurélien Lechevallier, explained in a statement to the media that France will be willing to enter a multi-partner loan to help Eskom restructure their debt-ridden business. A loan between development institutions in France, Germany, and South Africa can be used to separate the struggling utility into generation, transmission and distribution businesses. We still favour this solution as it allows government to maintain a certain level of control in some business units whilst enabling the private sector to take other units over and improve efficiency and accountability. We also favour this approach because separating tasks has historically been a sure way to improve task-specialization which in turn improves productivity.

Lastly, a glimpse into what happened globally. In a recent presentation by the Chief Market Strategist of HSBC Private Bank, Willem Sels, three global concerns were highlighted for the upcoming year. The first concern was a slowdown in global growth. Although the HSBC also believe that the United States will not enter a recession, the concern is that a slowdown below trend rates can have a detrimental impact on struggling governments, large corporates and ultimately markets. The second concern that HSBC mentioned was low incomes from bonds and cash. And the last concern was the current geopolitical uncertainty. The HSBC believes that geopolitical uncertainty from Brexit, the Middle East, and the US-China trade war will persist. Uncertainty depresses market sentiment that can lead to an ineffective allocation of scarce resources.