EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

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RETURNING TO OUR ROOTS: THE RAINBOW NATION

During his presentation of the rescue budget, Finance Minister Tito Mboweni seemed different. In the past, the charismatic minister seemed confident and unphased by political pressures from the ANC and their alliance members. However, during his rescue budget presentation, he seemed uncomfortable, lacking assurance. At first, we thought it was merely a result of current difficulties, working endlessly to keep South Africans and their livelihoods alive. But as the Minister progressed further into his speech, revealing his numbers and the plan, it became obvious: he was uneasy because he was busy drawing the final battle lines.

Although civil servants and alliance members might not understand it yet, the active debt-reduction plan Tito said the cabinet agreed to, would mean substantial reductions in non-interest spending. Based on the numbers, they want to keep the expenditure fixed for the next two years. That means, not even making inflationary adjustments, the only way you can do that, is to cut hard, and deep. The ministry can, of course, spend less on capital, but they have been doing a lot to emphasise its importance, so we doubt they are leaning in this direction. However, even if they cut more capital spending, it will not be enough to fund the spending cuts they suggested that are needed over the medium to long-term. No, the minister made it quite clear, state-owned enterprises will not be getting the support they have enjoyed in the past, i.e. there will be a lot more accountability and probably a lot more heads rolling – drawing the line between Finance and Public Enterprises. Also, the wage bill, and probably social assistance in general, will be cut – drawing the line between Finance and the ANC alliance members. If President Ramaphosa came out with a supportive announcement the next day, Tito would have been safe, and the inner circle strengthened. But, as per usual, he chose a more indirect route, to lead from the shadows. As a result, Tito's position is unsure.

The pandemic has, therefore, fast-tracked the ANC to this transformational point, and the final battle lines have been drawn. What will emerge will most likely look much different from what we have come to know about the ANC. But in our view, it will be net-positive and much more market friendly. The alternative is simply incomprehensible.

As a final note to this week's newsletter, we thought it would be worth starting a conversation about the search for yield. We have long held to our conviction that the local market has been unfairly treated – the result of which has been little to zero returns over the last six years. Every so often, one of the powerhouse research centres, like Morgan Stanley, BCA, and UBS, to name but a few, would come to a similar conclusion. But before these sentiments can materialize into capital flows, another supportive wave in the developed world emerges. Caused by any of several things. However, what we have been seeing is that more and more support is leaning towards emerging markets, to the search for yield, to a real slowdown in developed markets (most notably the United States), and the list goes on. Should this search for yield align with the transformational change South Africa is heading towards, over the short- to medium-term, you can once again expect great things from this forgotten rainbow nation.