EFFICIENT GROUP

# ECONOMIC COMMENTARY

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## Newsletter

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## BANKS, LOANS, PLANES AND EVERYTHING IN BETWEEN

Finally, a deal was struck between all the relevant South African Airways (SAA) stakeholders. Unions can probably never be happy with anything, but they are less unhappy with the deal that was tabled by the business rescue practitioners and accepted by creditors. A final hurdle, however, remains: where will SAA get the R10 billion they need to get the "new" SAA off the ground? Although Minister of Public Enterprises, Pravin Gordhan, said that government were committed to sourcing the much-needed funds. It was not budgeted for by Minister of Finance, Tito Mboweni, in any of his recent budgets. We also doubt any private firm will cough it up for a minority stake in a repetitively failing state-owned company.

In some concerning news, the government's loan guarantee scheme, which was supposed to allocate R200 billion to enterprises for support during the COVID lockdown, has only allocated R10 billion. An independent study explained that one of the reasons for the small allocation is banks who were being too particular. On closer inspection, however, it seems the failing could not really be accredited to the banks but with the onerous eligibility clauses of the agreement. As a result, the Banking Association of South Africa (BASA) approached the National Treasury and the South African Reserve Bank (SARB) on easing some of the current restrictions. On a more uplifting note, it seems we have been spared loadshedding in the coming week. Eskom only announced a load reduction in the Ehlanzeni District of Mpumalanga, as well as Kwazulu-Natal. Overloading in these areas has put strain on the utility's infrastructure.

In their latest inflation publication, Statistics South Africa (StatsSA) showed that inflation fell to 2.1% in May, down from April's 3.0%. Although low inflation was anticipated, this marks the lowest level of inflation in 16 years. The SARB's 2020 forecast for inflation is 3.4%, with a slight increase to 4.4% in 2021. This leaves room for more interest rate cuts, at least 0.25% to 3.5%. We expect to hear more about this in the coming week.

The People's Bank of China will also decide this week whether to change interest rates for the Chinese economy. Analysts expect the bank to keep rates unchanged at 3.85% after the economy showed resilience in June. Nigerian policy makers decide on Monday about their rates and are also expected to keep rates unchanged at 12.5%. Analysts are, however, expecting the Russian central bank to cut rates by either 0.25% or 0.50%, from 4.5%, after the governor of the bank said inflation data allowed room for bigger cuts.

We end this week with other important news from around the world. United States' Secretary of State, Mike Pompeo, will meet with British officials to discuss two important topics: China/Hong-Kong, as well as a free trade agreement between the United States and the United Kingdom. Concerned about the security of its infrastructure the United Kingdom recently banned Huawei, a Chinese telecommunications company, as a long-term supplier of 5G networks. In the United States, the Senate will decide on a fifth Coronavirus-response bill. Democrats are pushing for a wide-ranging package, which includes more federal aid for state and local governments, that will cost the taxpayer an additional $3 trillion. Republicans, however, are suggesting a more conservative $1 trillion support package that might be unable to meet all needs.

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