

THE PILLARS OF HOPE THAT ENFORCE TRANSFORMATIONAL CHANGE

Every now and again we get asked to come up with forecasts about various economic-related variables. An impossible task, but nevertheless necessary and important. Experienced, educated forecasts help guide the world we live in, they help to make sense of all the noise around us by providing direction. And that is all we can aim to do, provide our biased interpretation about the world around us. Biased, because everything, even a deep learning autonomous machine interprets based on what it is exposed to. We can also only interpret based on our world view, which is ultimately determined by our values, and we use these to build the short-, medium-, and long-term forecast we get asked to do. Here is our attempt:

Due to decades of poor, unaccountable leadership from our ruling party, South Africa finds itself in a long-term trough, from which it will be very difficult to get out of. I have previously explained that much of our current problems can be traced back to government:

Firstly, they contribute roughly 40% to South Africa's (SA) GDP. And then secondly, and more importantly, they dictate how everything and everyone else can live; consider the +300 days of lockdown we are still subjected to. A breakdown in government's integrity fuelled state-wide inefficiencies, discontent for the rule of law on an individual level and this ultimately led to state capture and widespread corruption. Although President Ramaphosa and his inner circle are making the right noises in terms of policy changes, combatting corruption, and making transformational shifts, we have yet to see any of these necessary changes materialize in a substantial manner, and doubt we will any time soon. Until then, economic growth will be limited to a long-term (+5 years) average of 1.5%. Inflation should remain at the South African Reserve Bank's mid-range level of 4.5% leading to a currency that depreciates by at least 3%, (against major currencies) annually over the long-term, from its R15.00 average that we anticipate for 2021. As a result, interest rates should slowly rise, in line with global monetary policy trends, which many consider will remain lower for longer.

Of course, these are only long-term averages. In the short (1-2 years) and medium-term (2-5 years), we can see a lot of volatility. Many analysts expect inflation to re-occur sometime in the next 3 years, which can trigger all types of nasties. Others believe SA might be in a debt-trap, which can have serious implications for our interest rates, amongst others. But for this week, we limit the discussion to our long-term expectations. Considering that the economy will not grow more than 1.5%, but the population by 2%, unemployment will continue to deteriorate which in turn will fuel social tension and the rioting that goes with it, as well as the need for more (a lot more) state support. While all this is going on in the background, the fiscus will of course experience ever more pressure, trying to cope in an ailing environment. As a result, we will inevitably be faced with more inequality, more taxes (especially on the rich, that is, those with jobs) and more uncertainty.

We are, however, hopeful that the pillars of our society will continue to pressure the ruling party into the transformational changes that are needed. These pillars include a working, albeit sick democracy, (the voice of the individual and their collective authority), liquid financial markets (and the private sector in general), the rule of law, a free and open media, as well as independent local authorities (like the South African Reserve Bank). These forces work together like reinforced concrete, able to withstand the onslaught of decades of poor, unaccountable leadership in government, all the while draining their power to force change.

