



## ECONOMIC COMMENTARY

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*For every one to attain  
financial well-being*

### GODONGWANA'S BATTLE FOR FISCAL STABILITY

Finance Minister Enoch Godongwana stands at the helm of South Africa's (SA's) economic policy, focusing on fiscal consolidation and targeted reforms. He is determined to steer the country through its fiscal challenges by prioritising financial stability over populist pressures.

#### Local challenges and initiatives

Post-election, the demands on the National Treasury have surged, with promises of a permanent basic income grant, universal early childhood education, and the National Health Insurance. Each initiative comes with substantial fiscal implications and Godongwana remains steadfast in his approach: "The fiscal envelope is not growing. New priorities will have to be funded by reprioritisation or new sources of revenue". Godongwana is also pushing for reforms at the South African Revenue Service to improve governance and tax collection, drawing inspiration from successful structures, like the Independent Power Producer Office, to encourage private investment in infrastructure. These reforms aim to create a more efficient financial system that can support economic growth.

#### Inflation and global shipping costs

Inflation remains a hot topic both locally and globally. Recently, the cost of moving a 40ft container between Asia and Northern Europe more than doubled owing to geopolitical tensions. This spike in shipping costs could increase inflation. For SA, the knock-on effects of such global trends could be significant, affecting everything from consumer prices to export competitiveness.

#### United States (US) economic policies

Significant economic developments are unfolding in the US. President Joe Biden's administration is navigating the complexities of high inflation and interest rate policies. The Federal Reserve's actions have far-reaching implications for global markets. These policies influence everything from currency values to investment flows, impacting emerging markets like SA.

#### China's economic shift

China's economic strategies are another critical factor on the global stage. Recently, the Chinese government has been promoting domestic innovation in sectors like electric vehicles and artificial intelligence. This shift aims to reduce reliance on foreign technology and bolster local industries. However, it also raises concerns about overcapacity and potential trade tensions. For SA, understanding these dynamics is crucial, as China remains a significant trade partner.

#### Turkey's investment influx

Turkey has seen a significant influx of foreign investment owing to high interest rates and economic reforms. This influx of "fast money" highlights the importance of creating a stable and attractive investment environment, a lesson that Godongwana is keen to apply in SA. Encouragingly, private investment in infrastructure projects is part of the broader strategy to drive economic growth without over-relying on government spending.

#### Brexit and the European economy

Brexit continues to reshape the European economy. The United Kingdom's (UK's) departure from the European Union (EU) has led to changes in trade patterns, regulations, and economic policies. These changes impact global supply chains and investment flows, influencing SA's trade relationships with the UK and the EU.

#### Global energy markets

Energy markets are another critical area of focus. The transition to renewable energy sources is accelerating worldwide, driven by policies aimed at combating climate change. For SA, investing in renewable energy infrastructure could attract international funding and support sustainable development goals.

Godongwana's economic strategy for SA is a careful balancing act. By prioritising fiscal consolidation, reforming key institutions, and encouraging private investment, he aims to steer the country towards sustainable growth. His pragmatic approach, grounded in economic principles and informed by global best practices, provides a solid foundation for SA's economic future. As he continues to navigate challenges, Godongwana's leadership will be crucial in shaping the trajectory of SA's economy. Understanding and integrating insights from international developments will be key to SA's economic resilience and growth in the coming years.

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