

ECONOMIC COMMENTARY

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SOUTH AFRICA: ECONOMIC UNCERTAINTY AMID POLITICAL UPHEAVAL

South Africa (SA) is at a pivotal moment in its political and economic history. Last week's general election results have sent shockwaves through the governing African National Congress (ANC) and the nation's broader political landscape. As investors and financial advisors, it is crucial to understand the implications of these developments for our economic future.

Election outcomes and political dynamics

For the first time since 1994, the ANC has fallen below the 50% threshold, securing only 40.2% of the vote. This unprecedented outcome marks a significant shift from their previous stronghold, demonstrating growing public discontent with the ruling party. The Democratic Alliance (DA) won 21.8% of the vote, maintaining its position as the main opposition party. The newly formed uMkhonto we Sizwe (MK) party, led by former President Jacob Zuma, captured 14.6% of the vote. The ANC's lower percentage will necessitate coalition negotiations to maintain governance. However, the MK party, with its radical agenda to scrap the post-apartheid constitution and to nationalise key sectors, presents a formidable challenge. Zuma's MK has expressed a willingness to form a coalition with the ANC but only if President Cyril Ramaphosa steps down (a demand that the ANC has staunchly rejected).

Economic implications and market reactions

The political uncertainty has already rattled financial markets. The rand experienced a significant drop, falling more than 2% against the dollar immediately following the election results, and is expected to face further volatility. Investors are understandably cautious, as the potential for radical policy shifts looms. Zuma's MK party, which advocates for the nationalisation of mines and banks, poses a serious threat to market stability. The prospect of such policies becoming a reality could lead to foreign capital leaving SA and a significant contraction in investment. Zuma's threats of "trouble" and calls for a recount have further added to the tension, reminiscent of the riots experienced in 2021. Analysts are particularly concerned about the potential impact on SA's mining sector, which is a cornerstone of the economy. Nationalisation could deter foreign investment and reduce output, impacting global commodity markets. Additionally, the banking sector, which relies heavily on confidence and stability, could see increased volatility and decreased foreign capital inflows.

Coalition scenarios and economic paths

The ANC's National Executive Committee is in talks to dissect the election results and to explore coalition options. The possibility of a coalition with the DA, which would stabilise the political environment and reassure investors, is on the table. Alternatively, coalitions with the MK party, and possibly the Economic Freedom Fighters (EFF), are also possibilities. These coalitions are viewed with trepidation by the business community, owing to the EFF's radical economic policies including land expropriation without compensation and further nationalisations. Such a coalition could spell economic disaster, driving away investors and exacerbating SA's economic woes.

In the event of a coalition with the DA, policies might lean towards more market-friendly reforms, potentially revitalising investor confidence and encouraging economic growth. Conversely, coalitions with the MK and EFF could lead to policy uncertainty, increased regulatory burdens, and a more hostile business environment. In our view, there is currently more than a 60% probability of seeing an ANC/DA coalition than any of the other alternatives.

Looking ahead

The coming weeks will be crucial as coalition talks progress and the political landscape begins to settle. SA's future, both politically and economically, hangs in the balance. As we navigate this period, staying vigilant and adaptable will be key. Businesses should prepare for various outcomes, from policy shifts to regulatory changes. By staying proactive and informed, we can better navigate the uncertainties and identify opportunities that may arise from this significant political transformation.

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