

There's good news and there's bad news

By Peter Bruce, former Editor-at-Large at Arena Holdings (previously Tiso Blackstar Group)

There's good news and there's bad news. This is, after all, South Africa.

The good

Back in November, two good things happened. First, Finance Minister Enoch Godongwana made no new spending promises in his mini-budget (what is called the Medium-Term Budget Policy Statement normally happens in October, but was pushed into November by the local government elections). He went further – promising that, from now on, no state-owned company could expect to be bailed out of bankruptcy as a matter of course. No one expects that to apply to Eskom. At least not yet.



The other good news in November was that the ratings agencies – the folk who advise the folk who buy the bonds we issue to raise money to pay welfare and civil service wages – did nothing. November is when some of the big ratings agencies normally take a position on South Africa, but on the day in question, neither S&P Global Ratings nor Moody's said a thing. S&P later explained that nothing had changed since its previous review in May.

It was quite a big deal. South Africa is in a fiscal crisis, and even though the ratio of our debt to our GDP (it's around 70%) may be relatively low compared to, say, 135% in Italy or 133% in the US, those countries produce enough goods and services to service their debt. Increasingly, South Africa does not. So, the decisions by the ratings agencies not to downgrade us further was a relief.

The bad

The bad news is also, in a way, the fact that nothing had changed since May. As at time of writing

this article (December 2021), the official State of Disaster is expected to continue to mid-January 2022, and the fourth wave has not been easy. The government is reluctant to mandate vaccines for, say, entry into government buildings where licences are renewed, hospitals, schools and universities. The private sector has been much more proactive with mandates.

COVID-19 has merely worsened what was already a rotten fiscal landscape. It forced the government to introduce income-support measures it could ill afford. And in the middle of the pandemic, it was forced to cut spending almost across the board – not what you want to be doing in the middle of a recession.

Furthermore, as Claire Bisseker pointed out in *Business Day*, the government at last conceded that any recovery would have to be led by private sector investment. By that time, though, the private sector had been placed under such pressure to buy government bonds, it didn't have enough to fund the required investments. And, of course, even if there was investment and a recovery, Eskom would not be able to cope with stronger demand, and load-shedding would have to increase.

So, in a way, we are trapped. The new COVID-19 variant first sequenced on our shores in November gave the world a fright, and has not made life any easier here at home. Although the summer holiday period will have benefited in economic terms from the easing of lockdown restrictions, and while economists still reckon we will grow GDP by around 5% this fiscal year, it is off a very low base, and the fourth wave will make this year's 1% GDP growth target look positively ambitious.

Will things get better?

Well, they simply must. How could they possibly get worse? Our politics makes things difficult to predict, and the violence in KwaZulu-Natal (KZN) and Gauteng last year has investors on the edge of their seats. That's because KZN, in particular, is now the battleground between the current leadership of the African National Congress (ANC) and the ANC faction once named for former president Jacob Zuma and now called the RET faction (Radical Economic Transformation).

President Cyril Ramaphosa was taken to the cleaners in the local government elections at the beginning of November. Through a humbling series of tactical votes by opposition parties, the ANC lost control of Johannesburg, Tshwane, Mogale City (Krugersdorp) and Ekurhuleni (the East Rand), and hung onto eThekweni (Durban) by a thread largely because of the intervention during the mayoral election there of the RET faction.

It means that, for now at least, Ramaphosa has probably lost the support of the KZN ANC. This matters to him because he faces a party leadership election at the end of 2022, and KZN sends the most delegates to the ANC conference. On the face of it, pundits expect him to win, and while he has shown little dynamism in his first term, the fact that he is a decent human being means his victory would be celebrated by investors.

But it is not certain. There is time for a challenge to be organised, possibly around Deputy President David Mabuza, but it is probably pointless speculating.

Keep moving forwards

In the meantime, we will muddle along. This is not always an easy place to live, but South Africans are extraordinarily resilient. Where there is space to create wealth, we will. Before the new COVID-19 variant was sequenced, the JSE was roaring. Financial advisers who've kept their clients nicely balanced between domestic and offshore vehicles are doing the right thing.

As dire as our predicament may sometimes seem, this country is not a pushover. We will get through this.

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Glacier Financial Solutions (Pty) Ltd.

A member of the Sanlam Group
Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 |
Web www.glacier.co.za | Reg No 1999/025360/07
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Private Bag X8 | Tyger Valley 7536 | Tel +27 21 950 2600 | Fax +27 21 950 2126 | Web www.smmi.com | *Reg No 2002/030939/07
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