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NEWSLETTER

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ECONOMIC COMMENTARY - By Francois Stofberg

The October Twins

Two stories stood out this month, the severe upset in markets (both locally and internationally) and South Africa (SA)'s Medium-Term Budget Policy Statement (MTBPS), or the mini-budget as it is commonly referred to. Although October was a tough month for markets, we don't prescribe to doomsday theories or notions of another global crisis. Fundamentally, these theories are unsubstantiated.

Global economies are much healthier and more robust, especially the balance sheets of financial institutions. Global markets will most likely taper down to long-term growth rates. Similarly, local markets will most likely move back up towards long-term growth rates. Just like the inflation-plus-20% returns in the US are unsustainable, so too are the lower-than-inflation returns of the JSE – for two simple reasons. First, no matter how modest, if earnings continue to grow, share prices can only decline up to a point where valuations become ridiculously cheap (a point we are getting very close to). Second, and not related to economic growth or earnings, a re-rating of the market multiple can spark price increases. Even though market participants might be sceptical about drastic improvements to SA's economic prospects in the short term, so much bad news has been priced in that even a hint of good news could spark substantial market returns. And although Moody's said the mini-budget was credit-rating negative, it might just have been the shift in mindset that we needed.

What became very clear during Minister Tito Mboweni's maiden speech was that SA's government finances truly are at a crossroads. Or as the minister said, there's a choice to be made; a path of "hope or despair". He answered his own not-so-rhetorical questions and said, "we choose the difficult path of redemption". In the past, SA's politicians would have you believe that we've started implementing tough structural changes that could lead to economic growth. The truth is, however, that we simply continued down the same path of despair which lead SA into our current stagnation, falling behind every last one of our peers.

Unlike with previous budget presentations, Minister Tito Mboweni was clear that things won't be changing – things are changing. No longer will corruption be tolerated. In fact, it cost his predecessor his job. The minister was also very adamant that everyone implicated in the various corruption charges, that have been laid barren over the last couple of years, will be prosecuted duly. He went on to explain how actions have been implemented to address the hole of leakages caused by irregular and wasteful expenditure. Also, he was quite final about the fact that incompetence will no longer be tolerated.

This shift in policy from the ruling party lead to the firing of Lynne Brown, Dudu Myeni and multiple others at the cesspool (to quote the minister) of state-owned enterprises (SOEs). Also, for the first time in SA's history a politician said that high government wages were an issue. What he was getting at is that the policies that favour social assistance (increasing wages unsustainably) at the cost of investment are unfruitful and will be changed. Instead of leaving it at that, as every minister before him did (except maybe Trevor Manuel), he said that the national government will not be paying for the above-inflation increases that were awarded to the various departments and SOEs. These divisions would have to come up with the money themselves.

The mini-budget, therefore, was an honest view of the dire nature of SA's fiscus with workable plans that have already been actioned. Unlike in 2009 when policy-setters made a shift towards despair, we believe this budget is a shift towards hope. However, just like it took us almost a decade to get to this desperate point, it will take many years to get back to a place of sustainable development and job creation.

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