ECONOMIC COMMENTARY - By Francois Stofberg

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LOCAL INDICATORS AND A DASH OF GLOBAL PERSPECTIVE

The International Monetary Fund (IMF) released their latest note on South Africa (SA). In it, they reduced their 2019 forecast for GDP-growth from 1.4% to 1.2%. Still a bit higher than our 0.9% forecast, but their role is not to provide accurate forecasts. The IMF plays a leading role globally in terms of finance provision to poor countries. More importantly is their opinion among institutions who buy bonds from these countries, that is, who lend money to them. Should the IMF therefore forecast a growth-rate in line with consensus, it would defeat their purpose of selling a "better" story about their target audience – poor countries.

President Ramaphosa continued his election campaign in Cape Town this week when he met with key businessmen. An important topic that was discussed is the bureaucratic red-tape that hinders businesses from doing what they do best, growing the economy and creating jobs. His wish, like every president before him, is to improve the efficiency of state administration. However, unlike every president before him, President Ramaphosa is a billionaire businessman himself, and might therefore better understand the impact of inefficiencies on a business. Our hope is that this understanding will translate into administrative improvements that would ultimately benefit the entire economy. Wishful thinking perhaps, but one can hope.

Statistics South Africa (Stats SA) together with other leading data providers recently published a report that considers the income, taxes, and spending of various types of households in SA. In this report they found that the average salary-earning individual in SA, earns roughly R21 000 a month. Of this, they pay about 20% (R4200) in personal income taxes (PIT). Luckily, individuals receive various sorts of rebates, like medical aid, pension fund and other rebates. This reduces the PIT from 20% to 11%. However, and here is where government claims their pound of flesh, indirect taxes account for almost 19% of the average individual's salary. Indirect taxes include 15% value added tax (VAT) on (almost) everything a household buys, fuel-levies, sin taxes, property taxes, car and TV licences, and the list goes on, and on. In the end, an average salary-earning South African only takes home R14 700 each month. Such an individual might receive R21 000 cost to company but pays R6 300 (30%) to government for the privilege of living in SA and using their services.

The Bureau for Economic Research (BER) published their latest business confidence index. Since January, confidence has slowly crept lower from 95.1 to 91.8. Compared to last year March, however, the figure is down from 97.6. Their index shows that businesses are mainly worried about the outcome of the elections, the depreciating rand (and its impact on the cost to things like petrol), weak global growth, a shortage of electricity, and high electricity tariffs. In spite of lower business confidence, the undervalued rand finally broke its R14.10 position and appreciated to levels below R14.00. We believe this will be a persisting trend and that the rand might even reach R13.50 by the end of May.

Brexit. Not much changed, again. The European Union (EU) told the British prime minister, Theresa May, that they want to negotiate an extension of Brexit, to 31 October 2019. May was happy about it, but now must convince members of parliament. Over in the United States (US) leaders of the financial industry are giving feedback about their conduct to the House of Representatives. These hearings are happening for the first time since the global financial crisis, which the financial industry played a leading role in. As global portfolio managers, we are reasonably concerned about these hearings as they often cause some skeletons to creep out of the closet.

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