ECONOMIC COMMENTARY - By Francois Stofberg

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NOT MUCH TO LOOK FORWARD TO, BUT ENOUGH TO BE EXCITED ABOUT

All did not go according to plan at the World Economic Forum in Davos, Switzerland for team South Africa this year. Unlike previous years, critics claims that South Africa "just didn't have the same profile". It basically boils down to South Africa losing its investor credibility because of poor governance, a lack of discipline, and corruption, mostly caused by state capture in recent decades. According to Transparency International's 2019 Corruption Perceptions Index (CPI) we have a way to go before we are looked on more favourably. The CPI index measures the corruption perceptions of experts and business people towards countries and territories. Although the index showed a slight improvement in perceived corruption from a level of 43 in 2018, to 44 in 2019; 0 is completely corrupt and 100 is completely clean. South Africa still ranks 70th among the 180 countries analysed and among those countries that are deemed to have a serious corruption problem. To improve, South Africa needs to visibly show progress in prosecuting those responsible for corruption, and also visibly improve the ability of state-owned enterprises to deliver their services. Another crucial deliverable is campaign finance transparency. Until South Africa addresses these issues, corruption will continue to be perceived as being too high, disincentivising investors, which in turn reduces our ability to grow the economy sustainably.

Apart from reluctant investors we believe load shedding, and the government's expected cut in spending will put further pressure on economic growth and job creation in South Africa. GDP should only grow around 0.8% and unemployment will most likely increase towards 31%. Debt to GDP is expected to reach 64%. Luckily, inflation will most likely hover around 4.2% as interest rates are cut by at least another 0.25%. This eases some of the buying power pressures on households. Also, at these very low levels an external shock, like a slowdown in the United States, should not impact our economy too much. Nevertheless, a lot about South Africa's economic future depends on the upcoming budget speech and state of the nation address. How the government's story shifts from a wealth destructive one, towards a wealth creation one, will determine how long the ongoing recession will be. It should, however, be noted that as the developed world slows down, and companies in South Africa finally start showing decent profit growth, we expect that our local markets will soar in the next 24 months.

In other noteworthy news, Tesla's share price has been soaring over the last three to four months, more than doubling from where it was trading on the 1st of October 2019. The price increased from $244.69, to where it's trading currently, around $564.82. The recent stint of performance was fuelled by the opening of Tesla's factory and the successful production of Model 3's out of China, which started in January 2020. Whilst other global conglomerates (especially those in the United States) were shying away from China, fuelled by uncertainty over the trade war, Tesla ploughed ahead, using the uncertainty as a springboard. Later in January a report by WheelsJoint.com showed how the sale of Model 3's has been putting a dent on luxury car sales in the United States. As Tesla's share price soars past $100 bn its CEO, Elon Musk, stands to earn a $50 bn bonus based on the remuneration package he agreed to in 2018.

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