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# ECONOMIC COMMENTARY - By Dr. Francois Stofberg

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## SEPTEMBER ECONOMICS

Something we try to do as economists is to observe and to report on shifts in long-term trends. This is an important task because it can help individuals and businesses to make better long-term decisions. During September, two long-term shifts became ever more apparent. Globally, monetary authorities seem to have concluded that easy monetary policy will be less easy. Locally, government seems to be shifting away from Zumanomics towards something that more closely resembles the liberal Rainbow-Nation policies that we had during the 1994-2007 period.

As we entered October, the Federal Reserve (Fed) in the United States (US) continued to hint at less easy monetary policy and the markets finally reacted. On one day, yields on the US 10-year bonds increased to 1.55%, finally expecting higher inflation for longer, and the S&P 500 fell by more than 2.0%. Some even argue that this could be the start of the taper tantrum, that is, the tantrum that the market throws when the rate of quantitative easing (QE) is reduced. Or, put differently, when monetary policy becomes less easy. A shift away from easy monetary policy, even if it is done at an extremely slow pace, will cause market volatility. Especially in equity markets and, most likely, even more in the overall technology side of those markets. This does not mean that equity markets are not a good investment, it simply means that active, and not passive, management will be needed to make the most of these volatile markets.

For almost 12 years now, the world has enjoyed unparalleled easy monetary policy that has driven interest rates to historic lows. In fact, some time series data shows that interest rates have never in the history of mankind been as low as they are now. Not only should that tell you enough about the unsustainability of this cycle, but Japan, who has struggled with a zombie-like economy for a very long time, is a good case study to show that easy monetary policy is not at all sustainable in the long-term. Add to that the social cost of greater levels of inequality, that seems to be an additional result of easy monetary policy, and you quickly start to realise that something must change. I believe that we have arrived at that juncture. It is, therefore, of the utmost importance to plan accordingly and to get experts on your side that can navigate you through the volatility.

In South Africa (SA) many things have slowly but surely started to shift since President Ramaphosa took over from former President Jacob Zuma in 2018. Although not everyone agrees with his approach, or the speed of implementation, Ramaphosa has been able to axe many high-ranking officials implicated in corruption. He has also been able to attract hundreds of billions of rands in long-term capital investments. More importantly, however, it seems as though the presidency has been able to shift important policy in favour of long-term economic growth. On the fiscal policy side, the shift can most clearly be seen in examples like paying off roughly R80 billion worth of Eskom's debt in 2020; privatising South African Airlines; reducing, and in some instances cutting, the bailouts to state-owned enterprises; and reducing the size of the government wage bill by allowing wage increases that are less than inflation.

The next challenge to fiscal policy is to improve spending efficiency and overall spending on capital. Other important changes that must be made include getting rid of labour policies that exclude based on race, and that make it too difficult to hire and fire. The other big challenge is to improve the quality of output in education and healthcare. If these structural changes can be made over the next five to ten years, then this economy will, once again, be the Rainbow Nation that the world knew between 1994 and 2007: when the gross domestic product (GDP) growth was around 3%, the unemployment rate was in the low 20s, and we often ran trade and fiscal surpluses. Although it might seem unlikely, large structural shifts are a result of many small incremental changes, and one would have to be blind to miss all of the incremental changes that we have made since 2018.

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