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Op-ed

GOVERNMENT OF NATIONAL UNITY MET WITH POSITIVE RESPONSE
Reserve Bank's Monetary Policy Committee must now loosen its grip

By Dr Roelof Botha & Daryl Swanepoel

The appointment of South Africa's first Cabinet under the new government of national unity (GNU) has been met with overwhelming positive response by business leaders, whilst also receiving a thumbs-up from global capital markets.

In the economic cluster of the Cabinet, the reappointment of Enoch Godongwana as finance minister and David Masondo as his deputy was most welcome, especially due to the steadfast way in which National Treasury has been managing the country's public finances, which have been under pressure ever since the occurrence of state capture and the lockdowns implemented during the Covid pandemic. The effect of improved fiscal management has resulted in South Africa achieving its first primary budget surplus in 15 years.

Visible signs of the higher level of urgency in addressing the country's logistics challenges have already come to the fore. Apart from the ongoing cooperation between government and the private sector via the National Logistics Crisis Committee, the Department of Transport has approached Business Unity South Africa (Busa) to assist in the establishment of a private sector participation (PSP) unit. This unit's main task will be to support the concessioning and investment in freight and passenger transport networks.

South Africa's freight-rail and port services have deteriorated to the point where iron ore is piling up in stockpiles at mines, resulting in lower earnings for mining companies and depleted fiscal revenues from this important source. For the first six months of the year between 2028 and 2023, the number of containers handled at the country's ports declined by more than 17%. Fortunately, an improvement in port efficiency has already occurred, with an increase of more than 7% for January to June 2024. The Department wishes to recruit adequately qualified and experienced transaction advisers as well as legal and technical experts to set up so-called "bankable opportunities" for private sector participation.

It is also encouraging that the new Minister of Agriculture has emphasised the need for an acceleration of the Agriculture and Agro-processing Master Plan (AAMP), which is the framework upon which the inclusive growth of the agricultural sector is premised. According to the Agriculture Business Chamber (Agbiz), the South African government has procured more than 2 million hectares of land that has never been released to beneficiaries with title deeds, mainly as a result of incompetence and corruption.

Hopefully, the long-awaited establishment of the Land Reform and Agriculture Development Agency will expedite land reform in such a way that the wind will be taken out of the sails of a number of radical political parties that advocate nationalisation, a policy that has ruined the Zimbabwean and

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Venezuelan economies, leading to the mass emigration of their citizens and turning these two resource-rich countries into failed states. Fortunately, the Department of Agriculture has stated its intention to leverage the skills, resources, and knowledge already available in the private sector, especially in agribusiness, to provide momentum to the further development of the agriculture sector.

The timing of a new era where the emphasis of economic policy shifts from ideological objectives to creating higher growth and employment opportunities at pace is good. The world economy is expected to grow at more than 3% over the next couple of years and most of South Africa's key trading partners are likely to experience macroeconomic stability.

On the domestic front, most regions in the country have enjoyed uninterrupted electricity since April, due mainly to the expansion of solar power installations. In 2010, the private sector (including households) generated less than 4% of total electricity, but this has now risen to 14% and will continue climbing. Eskom has also introduced a comprehensive maintenance plan targeting the worst-performing power stations, partnering with original equipment manufacturers (OEMs) with extensive knowledge of the equipment used at power plants.

Positive reaction from capital markets has been profound, with the decline of more than 150 basis points in South Africa's ten-year bond yield between the end of April and 8 August suggesting that the repo rate should have been lowered long ago. Of late, South Africa's currency has also been a leading international currency. Between the first of March and the end of July, none of the sixteen key currencies monitored by *Currencies Direct* outperformed the rand against the US dollar, with even the Euro, the Chinese yuan and the Japanese yen taking a hit against the world's dominant currency. The country's balance of payments remains in good shape and the trade balance is headed for its ninth successive surplus year.

On the secondary capital market, the all-share index (Alsi) on the JSE closed at an all-time record high of 82,609 on 31 July. This represents an increase of 44% over the index value of 57,336 that was recorded on 21 February 2020, just before Covid pandemic. Since then, the JSE has been caught in the cross-fire of carry trade instability related to substantial differences between interest rates in Japan and several other post-industrial economies, but the attractive valuations of many shares on the JSE promises a speedy recovery.

Unfortunately, several other key indicators of economic activity have been under pressure as a result of the refusal by the Reserve Bank's Monetary Policy Committee (MPC) to loosen its grip on an overly restrictive policy approach, despite the absence of any sign of demand inflation and an alarming increase in unemployment. The prime overdraft rate remains at its highest rate in 14 years, which has resulted in the ratio of debt-servicing costs to household disposable income rising to 9.2% - the highest level in 15 years. During the first five months of 2024, real *per capita* household consumption expenditure, which is the main driver of demand, was 6.3% lower than the same period in 2019.

Ironically, with capacity utilisation in manufacturing still below pre-Covid levels, the MPC could lower cost-push inflation via lowering the repo rate, due to the decline in fixed overhead costs per unit that would flow from the resultant increase in demand. It remains a mystery why the MPC has decided to ignore the fact that both the consumer price index (CPI) and the Producer price index (PPI) have been comfortably within the inflation target range of 3% to 6% for more than a year. During the governorship of Gill Marcus, the average real prime rate was just above 3%. It is now 6.7% - representing an increase of 115% in the real cost of capital and of credit.

A substantial lowering of lending rates is overdue and will undoubtedly lead to a resurgence of private sector capital formation and household expenditure – just the triggers that are required to realise the GNU's ambitions for higher economic growth.

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