

## The Macro Research Desk



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## 2018 State of the nation address: Challenges acknowledged, but hopes raised for an economic overhaul

### Highlights

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- President Cyril Ramaphosa outlined a recovery plan for South Africa (SA) in his maiden state of the nation address
- A Presidential Economic Advisory Council is expected to draw on the expertise of labour, business, civil society and academia to ensure implementation of economic policy
- A number of projects were outlined to address youth unemployment, domestic and international investment, re-industrialisation, infrastructure, tourism, entrepreneurship, land expropriation, state capture, corruption, efficient allocation of public resources and transformation in the mining industry (and broader economy)
- Economic success will be determined by quantifiable outcomes and hard policy decisions that need to be made in the near future

### Addressing the unemployment challenge

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Within the next few months, President Ramaphosa is expected to convene a Jobs Summit, focusing on increasing productivity, exploring what is needed for companies to invest on a larger scale, equipping workers and expanding infrastructure. The launch of the Youth Employment Service Initiative is further expected in March, which awards unemployed youth with paid internships. Further collaboration will be attempted through the establishment of a Youth Working Group to ensure the alignment of interests.

In addition to the CEO Initiative of a R1.5 billion small business fund, government is finalising a small business and innovation fund targeted at start-up firms.

With SA's tourism industry supporting around 700 000 jobs, Ramaphosa announced government would be taking further measures to reduce regulatory barriers and develop emerging tourism businesses.

*your goal is our benchmark*

*What this means:* Improved job prospects should allow for an alleviation in poverty levels and improve the quality of life for all South Africans through an increase in growth

in real gross domestic product (GDP) per capita, which has declined for three years running, between 2015 and 2017.

## Marketing investment opportunities

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The president plans to organise an Investment Conference within the next three months, aimed at domestic and international investors. Growth in domestic investment has languished in response to uncertainty over the direction in economic policy, while

foreign inward direct investment in SA has been negative for four consecutive years.

*What this means:* Raising investor confidence can promote investment growth and lift SA's potential to a higher growth platform over time.

## Accelerating investment in infrastructure

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Ramaphosa acknowledged crucial projects (road, health and water) are taking long to get off the ground.

To accelerate the momentum behind these projects, a task team will be set up in due course.

Ramaphosa's approach to infrastructure will also rely heavily on collaborating with business and organised labour to ensure greater integration of projects between the public and private sector.

The establishment of a Digital Industrial Revolution Commission is expected to allow the country to remain at the forefront of technological advances.

*What this means:* Infrastructure growth is critical to boosting SA's longer-term growth potential and will enable a higher quality of service delivery, as well as improve the country's competitiveness.

## Improving regulatory clarity

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While still ensuring the face of mining is transformed in SA, Ramaphosa aims to fully engage with all stakeholders on the mining charter to resolve the impasse. He noted the Mineral and Petroleum Resources Development Act (MPRDA) Bill should be finalised by the end of the first quarter of 2018.

Although nuclear energy was not mentioned, Ramaphosa clarified (at the World Economic Forum meeting in Davos in January 2018) the nuclear build programme would only be considered in the broad context of affordability. He went on to suggest SA has an excess of power.

Ramaphosa reiterated land distribution would be accelerated and approached through the expropriation of land without compensation method.

*What this means:* Despite a mild recovery in international commodity prices, investment in the mining sector has lagged on continued regulatory uncertainty, which has negatively affected confidence. Despite suggesting land redistribution would be accelerated, a stretched fiscus is likely to cap progress on land redistribution.

The president maintained expropriation without compensation would be implemented in a way that increases agricultural production and food security, but this remains a risk in Momentum Investments' view and could continue to hinder inward investment in the agricultural sector.

## Tough decisions need to be made in the near future to secure economic success

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The president's speech was well received, but economic success will depend heavily on the ability and willingness of government to remove political influence in SA's law

enforcement agencies and root out mismanagement at key state-owned enterprises.

Ramaphosa's plan to accelerate SA's growth trajectory remains heavily reliant on the ability of the top leadership to execute on the economic plans put forward. A number of poorly performing ministers (including mineral resources, public enterprises, energy and social development), in Momentum Investments' opinion, need to be removed in an attempt to accelerate the president's economic agenda.

Initiatives to improve SA's investment climate and job opportunities will also depend on the ability of

government to collaborate effectively with business, labour, civil society and academia.

While a confidence boosting state of the nation address reinforces Momentum Investments' view that there is a slightly better-than-even chance for Moody's to keep SA's sovereign rating on hold at its upcoming review, a significant budget disappointment (including no clear economic plan to propel growth in the medium term) could be enough to trigger a downgrade.

