Elections & new Cabinet bode well for market reforms

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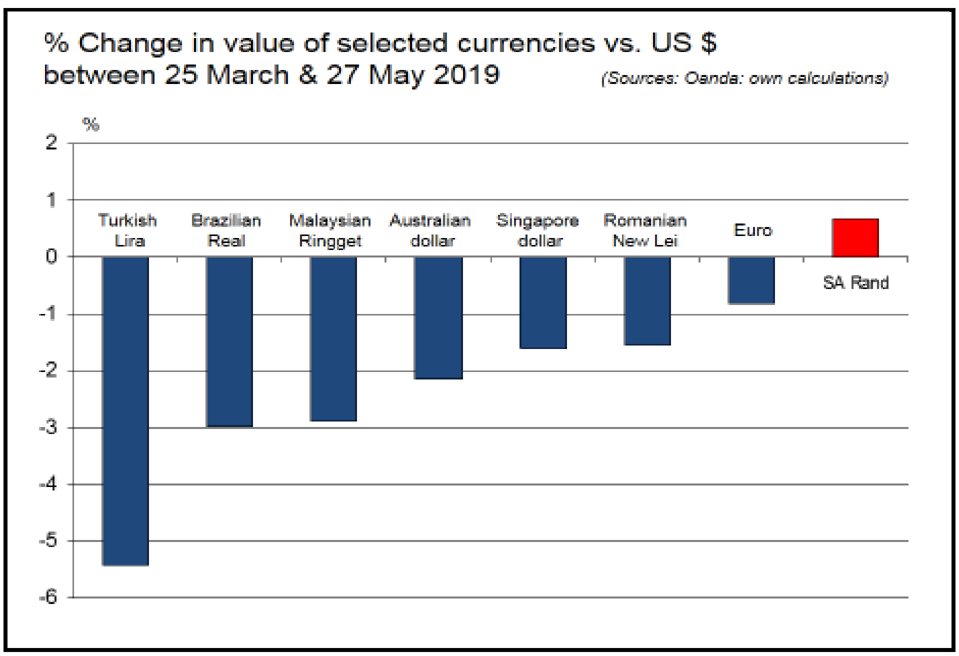
Political analysts have enjoyed a field day with the interpretation of the election results, but their views were not necessarily uniform, whilst most of them failed to spot a number of key trends that will have a bearing on future economic policy.

First and foremost, hardly anyone noticed the impressive resilience of the rand exchange rate between the end of March and the end of May, the period that more or less straddles the date of South Africa's sixth round of democratic elections.

Between 25 March and 27 May, the South African currency outperformed all of its emerging market peers, as well as Australia and the Euro zone. During this nine-week period, the rand was the only currency that managed to strengthen against the US dollar, albeit marginally. From Asia to Europe to South America, all other currencies took a knock against the world's dominant currency.



When also considering the softening of the yield on South Africa's long-term bonds since the beginning of the year, it is fairly obvious that global capital markets have given their stamp of approval to South Africa's election results and the leadership of Pres. Cyril Ramaphosa.

A second observation from the election results that could have a significant influence on the future policy environment is the dismal performance of Mr Irvin Jim's *Socialist Workers' Revolutionary Party (SWRP),* which contested the elections with the full support of his trade union (the *National Union of Metal Workers of SA – Numsa)* and that of Mr Zwelinzima Vavi's *SA Federation of Trade Unions – Saftu*. Despite boasting a combined membership of well over one million members, the *SWRP* (Numsa & *Saftu* in disguise), could only muster 24,000 votes (0.14% of the total votes cast), which translated into zero seats in Parliament.

In the process of contesting the 2019 elections, the *SWRP* did Pres. Ramaphosa (and the country) a huge favour, as it is now abundantly clear that there is hardly any political risk to the ANC of severing its traditional ties with some of the country's largest (and often militant) trade unions (in pursuing pro-market reforms).

Thirdly, nothing has changed with regard to potential voting blocs in Parliament. When the combined votes of the ANC and the EFF are tallied up, this group has virtually the same share of the vote as five years ago. The same holds for the combined vote of the DA and other moderate parties – this pro-market voting bloc's share of the total vote remains more or less exactly where it was in 2014 – in fact, it has posted a marginal increase.

There is, however, one crucial difference, namely the fact that in 2014, Jacob Zuma was president and the country was just getting to grips with the reality of the toxic combination of nepotism, incompetence, fraud, theft and corruption, which had resulted in the decay of several key public sector organisations, especially at key state-owned enterprises.

These include Eskom, Petronet, Transnet, roughly a third of the country's municipalities and several national government departments. South Africa's new president has vowed to rid the country of corruption and to prioritise economic growth, not so-called "radical transformation" (whatever this term actually means).

A final note on the election results is the fact that more than 700,000 voters decided to vote for the ANC at national level and for moderate political parties (mainly the DA, FF+ and the IFP) at provincial level. This clearly demonstrates the substantial impact of Pres. Ramaphosa's promised reforms, aimed at closer cooperation with the private sector.

By and large, business leaders have expressed confidence in the appointment of a marginally leaner Cabinet. It should be noted that the new Cabinet members have, for the first time, been obliged to sign performance agreements with Pres. Ramaphosa.

The new growth strategy that will unfold in the months to come will probably include substantial deregulation, the removal of several obstacles to growth and the appointment of appropriately skilled people to head key government agencies and state-owned enterprises.