

How many divisions does the Pope have?

3 April 2017

Last week's cabinet reshuffle protected proven incompetence, punished excellence, weakened a key institution in society and undermined the development of SA. There is simply nothing good to be said about it.

It was also the fifth attack on the Treasury since Dec 2015. This time it succeeded. Or has it?

We have always expressed the opinion that Pres. Zuma would not go as far as firing Mr Gordhan, because there are too many opposing forces both in the ANC and in society as a whole, including the markets. I was wrong. The president judged this balance differently, and played his hand. The coming weeks will show us if those opposing forces can indeed knock him back.

ANC reaction

ANC deputy-president Ramaphosa, secretary-general Gwede Mantashe, treasurer Zweli Mkhize and ANC chief whip in Parliament Jackson Mthembu all went public to condemn the reshuffle in different ways. Two of them, Mantashe and Mkhize, referred to the fact that the list of cabinet appointments was *drawn up somewhere else, in contrast to past practice* (my emphasis). The day after the reshuffle alliance partner SACP demanded that Mr Zuma must resign.

Such open dissent is unprecedented. But do public pronouncements of disapproval add up to a force that can take on the Zuma base and undo the Treasury attack? As Stalin reputedly asked of the Pope: "How many (army) divisions does he have?" It is about power.

Presumably Mr Zuma surveyed that landscape beforehand and was happy that he can carry off the reshuffle. But as the reactions show, important ANC leaders are unhappy. So can the balance of forces be tilted?

The SACP resolved that Communist ministers should not resign in protest. The call that "good ministers should not resign" was also made by Barbara Hogan, partner of the recently deceased Ahmed Kathrada. So there will not be a walkout from those opposed to the reshuffle. They will fight from the inside.

Where will the fight be?

There are four forums where the ANC fight can play out: inside the party at the National Working Committee (20 members); the National Executive Committee (80 members); or the elective conference later this year (a few thousand delegates). Unless the anti-Zuma forces can strike a blow at the first two, the matter will go to the elective conference where it will feed into the high-stakes frenzy of the succession; and it will then obviously take months to resolve. Parliament is another forum where the battle can be waged.

ANC reaction in Parliament

The constitutional position and the numbers are straightforward; the politics not.

A simple majority in the National Assembly is needed for a motion of no-confidence in the President, upon which he and entire cabinet **must** then resign (sec 102(2)).

The National Assembly has 400 members, so 201 will do it. The ANC has 249 parliamentarians. Fifty would have to switch sides and support a motion of no confidence (assuming the opposition is united behind it). It would not be sufficient for them to abstain. They would actually have to vote for the motion. How will ANC members react when faced with a vote in Parliament?

Chief whip Mthembu's outspoken support for Gordhan and Jonas may play a role, but parties are collective animals. It is a tall order to ask a governing party's members to vote with the opposition against their own government. On

the other hand, the ANC is deeply divided. Also, if the collective itself was ignored in the reshuffle, how will they advise members? Many people will prefer to vote their conscience. Can they get to the 50 or 60 needed? How many divisions does the Pope have? That is the critical question; and we do not know the answer yet.

A complicating factor is that Parliament has adjourned for committee oversight and constituency work and is only scheduled to reconvene on May 2nd. However, an earlier recall is possible. Speaker Mbete cut short an overseas visit and said that she will consider the request for an earlier recall.

Financial markets' reaction

The financial markets' reaction is important, because SA runs a current account deficit and needs foreign capital inflows to balance its books. It is a simple matter of cash flow. In 2015 the cash flow needed came to R174 billion – or about R477 million a day! The amount will be less in 2017 (the current account deficit has shrunk), but a sizeable amount is still needed.

The markets' reaction after the reshuffle was somewhat subdued, in contrast with 2015. Then the ten-year bond yield increased by 8%. This time it moved by about 5% (at the time of writing). Similar moderation was displayed in the currency and equity markets.

The obvious difference with 2015 is that this time round the move on Treasury was widely predicted. So the shock effect was much less. Also, the trade figures released on the day of the reshuffle were better than expected with a smaller trade deficit – that would have helped to limit the currency's depreciation.

However, market participants I spoke to are banking on some reversal of the reshuffle; failing that, the market reaction may become much more severe, they say. Again, we do not know, we will simply have to wait and see.

Ratings agencies

The initial reaction from the ratings agencies was subdued. Fitch reacted blandly with, "These developments, together with the relevant policy announcements from the new cabinet, could result in Fitch reviewing its rating on (SA)..." It will take some weeks for the ratings process from the three agencies to play out. By then they may view the reshuffle as a non-event; or as a reason to downgrade with resultant disinvestment.

One of the issues the ratings agencies watch is economic growth. That's where the reshuffle will really hit us.

And the real issue is...?

Some argue that the real issue in this sorry saga is corruption and patronage; with the usual dark mutterings about Russians, nuclear deals and pay-offs. For me the real issue is economic growth.

The reshuffle is a massive blow to confidence and confidence is a precious ingredient of growth. Foreigners are important to cover the current account deficit, but most investment still comes from locals. Losing their confidence is not a great way to get their investment.

2017 is the fourth year in which population growth will exceed economic growth; 2018 will now probably be the fifth – essentially Mr Zuma's second term will be one of stagnating and declining incomes. No democracy can sustain a prolonged period of declining incomes and falling living standards. Brexit and Trump make that clear.

So What?

- Since Nenegate in December 2015 there have been five attacks on the Treasury. Is the balance of forces such that this fifth attack can be undone or at least limited in damage? Will there be a push back?
- It is now really up to the ANC to respond to this reshuffle; a difficult decision for them, given that they are split down the middle.
- The response or pushback can take place at any of three ANC forums and/or in Parliament.
- Should there be no effective response, the financial markets and ratings agencies may over time react more severely; but we cannot predict that.
- There are now many uncertainties; we cannot say with any clarity how things will unfold.

- The only certainty is that the really important issue, growth, has again been dealt a blow.