



RESEARCH FAX

Weekly Election Preview : Cabinet, Populism & those Two-Thirds

OVERALL CONCLUSION:

1. Developments over the past week support our forecast (15 March) that SA will experience considerable structural reform during the lifetime of the next Parliament.
2. Political pronouncements confirm the current mix of strict fiscal policies and an open economy will be retained.
3. The business and investment climate will improve after the election.
4. The main uncertainty remains the composition of the next cabinet.

I. Cabinet

The major risk for the financial markets over the next two weeks remains the composition of the cabinet. Some clarity might emerge before the election – specifically regarding the positions of the economic ministers (Manuel and Erwin). It could be done by either a formal announcement or informed leaks to the press.

I confirm my **forecast** of two weeks ago: Gill Marcus's move to the Reserve Bank indicates that the other members of the economics team are likely to remain in place.

II. Economic Populism

The election campaign is characterised by the absence of populist rhetoric on the economy and some quiet advances with political restructuring.

1. Erstwhile populists such as Winnie Mandela and Peter Mokaba have been remarkably moderate. No "kill the farmer, kill the boer" this time round. It seems the ANC has them firmly under control and is keeping them out of the limelight (almost like Tony Blair did with some Labour Party leaders during his campaign!).
2. ANC deputy-president Jacob Zuma has declared that GEAR will remain policy after the election, with accelerated implementation.
3. ANC secretary-general Kgalema Motlanthe declared GEAR to be the ANC's "house plan", fully supported by the membership.
4. Finance minister Trevor Manuel has stated that until SA's low savings rate improves, quick fixes will bring no relief.
5. Deputy President Mbeki's economic advisor, Moss Ngoasheng, pledged that low inflation, strict fiscal policies and a competitive economy will remain cornerstones of government policy, in spite of the pain it is causing. He specifically rejected a looser inflation policy as being detrimental to the poor (as experienced in Brazil).

*Moderate political
rhetoric*

***“Talk is cheap, but
money buys the whisky”***

The following has happened during the election campaign, in spite of Cosatu and SACP criticism of ANC economic policy:

1. Further privatisation has been announced, which could bring the number of deals over the next 12 months to at least 15.
2. Outsourcing is quietly surging ahead:
 - Twelve weeks before the election, the ANC-dominated Johannesburg local government approved a radical plan which will see 60% of the council's current activities shed through privatisation, outsourcing and commercialisation.
 - The Pietermaritzburg local government decided to outsource its financial management to a JSE-listed company.
 - A provincial government is soon to make a similar outsourcing deal. As a result, that province's finances will be managed by a private company.

The latter two deals, in particular, will break the dam walls: outsourcing will become the norm. This will lead to major restructuring in the public sector over the next few years.

3. Cabinet approved a timetable for civil service restructuring, with a nod of approval from Cosatu, which moots retrenchments for the first time. (I am completing a comprehensive report on the civil service - now 13% or 135 000 jobs smaller than five years ago).

III. Why two-thirds?

In last week's preview, we highlighted the fact that critical elements of the constitution need a 75% vote to be amended – two-thirds are not enough. The status of the provinces, however, is open to change by means of a two-thirds majority.

Piecing together: -

- a report to cabinet on the provinces;
- developments at the Johannesburg Council; and
- statements by ANC secretary-general Kgalema Motlanthe,

it is evident that the ANC would want to use a two-thirds majority to change the country's system of nine provinces. This will be no easy ride and will have to be preceded by an extensive public debate. The outcome cannot be guaranteed. Considerable vested interests have developed around the provinces and changes will be difficult.

To conclude, we do not anticipate any particular financial-market risks at this stage.

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