



RESEARCH FAX

Weekly Election Preview : Sound fundamentals; Remaining risks

Quote of the week

Winnie Madikizela-Mandela told an election rally in the Eastern Cape: "We cannot continue to blame the previous regime. It is time the ANC rolls up its sleeves and gets down to work."

Seems Deputy President Thabo Mbeki's moral crusade about accepting responsibility is percolating through.

Most encouraging development of the week

Mbeki's announcement that the CEOs of five multi-nationals (all from Europe) will sit on an investment council aimed at attracting foreign investment to SA. Business views on a variety of issues – such as the labour market – will now be carried directly to the heart of government.

Most discouraging development of the week

Front-running candidate to become Gauteng premier, Mbhazima Shilowa, promised at an election rally that employers would be required to "negotiate" retrenchments with employees and not merely "consult", as is current practice. The ANC's election manifesto also hints at such a development. The evident intention would be to make retrenchments more difficult.

Both the Departments of Labour and of Finance (which is playing a more activist role in labour market issues) deny that this will happen, but I do flag it as an issue to monitor.

Stability and certainty on the fundamentals

During the past week Mbeki used two opportunities - a speech to the investment community on Tuesday and a general media conference on Friday - to address current uncertainties, to calm fears and to indicate his priorities for the next five years.

Regarding the financial markets, he specifically:

- Asked people not to pay any attention to rumours that Trevor Manuel might be replaced. Effectively this brought some clarity on the Finance minister's position.
- Pledged an ongoing commitment to GEAR, fiscal discipline and "*a further lowering of the budget deficit*". (Sed quare: did he hint at a lower-than-3% deficit target?)
- Committed himself to quicker implementation of policy and improved delivery of social services.
- Gave notice that the SA Police Service is in for considerable restructuring.
- Pledged not to change the Constitution or Bill of Rights in any fundamental way.
- Made it quite clear that the present system of provincial government will change (although he denied this would be done through a constitutional amendment; rather, it would be done "by shifting resources"). I am happy to stay with my forecast: Provincial government will change quite dramatically during the lifetime of the next parliament.
- Confirmed our January forecast that he would lead a "moral crusade" against corruption and any tendencies to deny responsibility and shift blame.

Conclusion

In general, this picture is one of stability and relative certainty. Markets can draw comfort from it in terms of the political fundamentals.

Remaining risk

The main area of risk remains the composition of the next cabinet, even given our forecast that the economic team (Manuel and Erwin) will remain in place. The markets might still feel some concern about the following:

- What prominence could be gained by "market favourites" such as Health minister Nkosazana Zuma?
- Will the ministers for *Safety and Security*, for *Justice* and for *Education* inspire sufficient confidence?
- Will there be any consequences for confirmed non-performers (such as Justice minister Dullah Omar)?

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