Three loud, one quiet

October saw some major developments – three were high profile and very public, one low profile and almost not noted.

The high profiles ones were students protesting with #Feesmustfall; the mid-term budget statement and thirdly the on-going narrative that SA is facing fiscal collapse and a debt crisis. We can call the latter the #Fiscalcollapse narrative.

The low profile development was the release of the Development Indicators for 2014. In contrast to the other three, it got comparatively little airtime in the media.

Going bankrupt

The three high profile themes can be grouped together under the theme of going bankrupt.

Let's cut through the noise and clutter and get to the bottom line. There is only one authoritative opinion on SA's fiscal credibility and that is the bond market. What various individuals say about SA's debt credibility is entirely irrelevant. The 800 kg gorilla on this issue is the bond market.

The bond market is the government's ATM; that is where it goes to borrow money to finance its budget deficit. When the bond market is not prepared to advance more cash to government, it is "game over". That is where countries like Greece and Argentina found themselves.

At the moment there is simply no indication that the bond market is demanding higher premiums for SA's borrowing or even denying it. This may of course change. But so far it has not changed and that is whilst we are in the midst of a lot of bad news – an economy growing at only 1-and-a-bit per cent, expected rises in US interest rates and so on. The SA government can still borrow huge amounts at about 8.5% in spite of the depreciation of the Rand, the drought, student unrest and the defeat of the Springboks at the World Cup.

Managing the debt (MTBPS)

The calm reaction of the bond market to SA's fiscal needs is in sharp contrast to the rising chorus of the #Fiscalcollapse narrative. This is an indication of the credibility which the bond market attaches to our budget management, again on display in the mid-term budget policy statement (MTBPS), the other high profile October development.

One can take the MTBPS seriously because for the umpteenth time the SA budget has been adjudicated to be one of the most open and transparent budgets in the world. (In 2015 it was rated 3rd out of 102 countries.) What you see is what you get.

And what we see is unambiguous:

- With seven months of this year gone, the budget deficit is now expected to be 3.8% - a touch lower than the 3.9% budgeted in February. This is after civil service increases, some drought relief and the lot. Does not look like #Fiscalcollapse to me.

- (By the way, the three year civil service wage agreement means that the civil service increases are in the numbers for three years. We know exactly what is involved and salaries will only again have to be negotiated in 2018. It buys two years.)
- The **gross** debt (debt before subtracting cash balances) will be 49% of GDP this year, then hover around that number to reach 49.4% in 2018/19. This is on the assumption of 1.5% growth this year, 1.7% in 2017 and 2.5% in 2018. In a world where the EU requires a debt to GDP ratio not exceeding 60%, where Japan sits at 200% and the US federal debt at more than 90%, I honestly cannot see why less than 50% would spell disaster.

Good and well I hear #Fiscalcollapse saying, Treasury's intentions and budgets are fine, but politicians spend money. However, Treasury has proven their mettle in managing expenditure:

- The expenditure ceilings Treasury set in place in 2013 is now in its third year and has been adhered to in each of the three years. If this is not a powerful indicator of the ability to constrain spending I do not know what is.
- Cuts of R10 billion to expenditure this year will be achieved too *in spite of* the much talked about civil service increases, drought relief and so on.

This forensic evidence blows the statement that expenditure cannot be controlled out of the water. Somebody, if not Treasury and collective cabinet responsibility, then Harry Potter with his magic wand is keeping expenditure within the budget.

The risks to the budget outlook are clear: lower growth and higher inflation. We have the two critical numbers for next year and can monitor developments: 1.7% growth and 6% inflation.

Financing student fees

It is interesting that Minister of Higher Education Nzimande first promised to divulge financing plans on Thursday 29 October. After the 29th he said he would make an announcement with the President once the latter is back from a visit to India. Then no word from either of them, but a brief announcement that the minister of Finance will announce measures in the February budget in 2016. Good that this expenditure decision, like others, sit with Treasury. The money will be found in a prudent manner.

It is worth remembering that a few years ago NSFAS (the student loan fund through which students are financed) was increased substantially by cutting 0.5% of the budgets of other departments. A similar rabbit could be pulled from the hat in February.

As an aside, the number of students at our universities have increased from 473 000 in 1994 to more than 950 000 in 2013/14. The number should exceed one million in the near future. No wonder there are financial pressures – a constructive problem to deal with.

Development Indicators

This is a set of 86 indicators measuring in an objective and factual way how SA is doing over a range of areas. The 86 indicators are grouped in ten broad categories ranging from the economy and unemployment to health, education, crime, social capital and so on. A range of public and private sector bodies, both locally and internationally, do the research and their findings are simply collated.

Of the 86 indicators 27 are worse than previously, 6 are unchanged and 53 are better. If we measure the ten areas of national life, two are worse (the economy and employment); two are unchanged (crime and governance) and 6 are better.

On governance, for example, there is an improvement, across all spheres of government, in the number of qualified audits. However, that is negated by an increase in perception of corruption. Likewise, public opinion about basic service delivery has improved since 2011, but there were more service delivery protests. Two opposite readings, causing one to say governance is "unchanged".

(We discuss the detail of these 86 indicators on the road show currently being held for clients countrywide.)

So is everything going right? Clearly not, 27 indicators are worse. Is everything falling apart? Also clearly not, 53 indicators are better. It is the way SA has always been and will continue to be – a muddle through to something better.

So What?

- The news flow is dominated by … the news. Logically student protests will dominate and overshadow all else.
- That should not blind us to the substantial developments elsewhere in our society like outstanding fiscal management, solid budgets and improvements over a range of national life indicators.
- It is fine to predict #Fiscalcollapse. But have some respect for the one opinion that really counts – the bond market.