

Zuma fires Nene

In his shock announcement that he is replacing Minister Nene, Pres Zuma pays homage to the minister saying he “has done well since his appointment” and “enjoys a lot of respect in the sector locally and abroad”. That raises the question but why?

Two reasons dominate: SAA and more power over the purse.

SAA

The travails at SAA are well known. The state airline has become the poster girl for ineptitude and corrupt nepotism, worse even than the SABC. Pressure has been building up at SAA and the airline recently asked Treasury for the umpteenth bailout. The Deputy Minister of Finance also told a Parliamentary committee that a new board would be appointed. Last Thursday (3 December) the Minister of Finance vetoed an aircraft financing deal agreed to by the Board of SAA.

From this one can construct that the reason for Mr Nene’s deployment was a clash between the Chair and Board on the one side and the minister on the other, and that the minister lost. This tentative conclusion would indeed be confirmed if the chairperson and board remain in office. The current board’s term expired in April but was extended for six months or until a permanent board has been appointed. If the board joins the minister in going, it is clearly not just about SAA.

By the way, Deputy-president Ramaphosa is tasked with appointing the new board. A statement from his office on 26 November said “The government is in a process of finalising the appointment of a new board of directors as part of efforts of (sic) ensure good corporate governance”.

President as Treasurer

Could it be that Mr Zuma wants to have more power over Treasury decisions? And which decisions specifically? The much mooted nuclear deal jumps to mind, particularly if it is a deal as big as has been mentioned. But it could be more than that, particularly loosening Treasury constraints around patronage spending.

In general terms I think the pesky constraints of the PFMA (Public Finance Management Act) are probably part of what irritates the president. It imposes all kinds of limits or at least tests on spending decisions (from one point of view) and constitutes best practice standards for public finance management (from a different perspective). As far as I am concerned the PFMA is a proud new-SA institution and fiddling with it would be decisively bad.

So What?

- SA’s fiscal credibility and transparency have been built up brick-by-brick over the last 20 years. It is a 100% new SA achievement. Nene’s removal undermines that dramatically. It borders on a Shakespearean tragedy.
- The 800 kg gorilla, the bond market, is telling us that it really does not like the move. This morning the ten year bond moved 70 pts from 8.70% to 9.4%. The long bonds also moved 70 pts to over 10% - big moves by any measure. Imagine if the Reserve Bank at its recent meeting increased interest rates by 0.75% and not the 0.25% that it did...?! It means an already constrained economy now has to function with higher interest rates. Alan

Greenspan's advice to newly elected president Bill Clinton, watch the long rate, was not adhered to by Mr Zuma.

- Mr Ramaphosa's credibility is also on the line: he was given responsibility for Eskom, the Post Office and SAA. He has dealt with two of those. Let's see whether he appoints a new SAA board.
- I have no doubt that Moody will now downgrade SA. The other two, S&P and Fitch, will probably wait for their next review, which will be in June next year. If we then still look at economic growth of 1.5% for 2017 they will probably downgrade us. I cannot see how the developments of the last 24 hours, including higher bond rates, can help us to generate a higher growth rate.