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President Cyril Ramaphosa (2018-present) delivers his third state of the nation address (SONA), similar to past SONAs in creative ideas to improve the economy and country, but still short on ways to implement them. Ramaphosa seems aware he is fighting two battles: one for the support of the country, and the other for support within the ruling African National Congress (ANC). Ramaphosa states that state-owned energy company Eskom is “too vital to [South Africa’s] economy to be allowed to fail” and plans to fast-track a R230 billion (\$16 billion) bailout package over the next 10 years. The bailout, while needed, could further sink the economy if United States-based ratings agency Moody’s downgrades South Africa’s debt and investors move their funds elsewhere. The Association of Mineworkers and Construction Union (AMCU) demands a minimum monthly wage of R17,000 (\$1,185) during ongoing negotiations with platinum sector companies.

Ramaphosa’s third SONA high on ideas but short on details

President **Cyril Ramaphosa’s** (2018-present) third state of the nation address (**SONA**) resembled past SONAs in being full of creative ideas to improve the economy and country – and was just as short on concrete plans to implement them. In his address, delivered on 20 June, Ramaphosa seemed aware that he is fighting two battles: one for the support of the country and the other for support within the ruling **African National Congress (ANC)**. Although Ramaphosa’s battle within the ANC has resulted in positive reforms for investors, there is still a long road to recovery, both political and economic, in **South Africa**.

Ramaphosa started his speech noting that this SONA took place 106 years to the day after the **Natives Land Act** – which restricted ownership of land for the majority black population – came into force.¹ Ramaphosa used the historical reference to push his administration’s seven priorities: economic transformation and job creation; education, skills, and health; consolidating the social wage through reliable and basic quality services; spatial integration, human settlements, and local government; social cohesion and safe communities; a capable, ethical and developmental state; and a better **Africa** and world.² Ramaphosa also outlined five goals to achieve by 2029, one year before the conclusion of the **National Development Plan’s Vision 2030**, to ensure that: no person in South Africa will go hungry; the economy will grow at a much faster rate than the population; an additional two million young people will be employed; schools will have better education outcomes and every 10-year-old will be able to read for meaning; and violent crimes will be halved.³

Ramaphosa admitted these are “*ambitious goals*”⁴ but did not give much detail on how the government would reach them, other than noting the need for “*consistently high rates of growth*” to reverse the economic damage of the past.⁵ Ramaphosa’s plan to improve the economy was limited to propping up state-owned electricity company **Eskom** – “*for growth, we need a reliable and sustainable supply of electricity.*”⁶ While short on detail, Ramaphosa did not lack ambition. He ended his speech

¹ EWN, 20 Jun 2019

² EWN, 20 Jun 2019

³ EWN, 20 Jun 2019

⁴ EWN, 20 Jun 2019

⁵ EWN, 20 Jun 2019

⁶ EWN, 20 Jun 2019

with visions of a new major city, replete with skyscrapers, bullet trains and a high-tech economy.⁷ Missing, though, were the details of how the dream will become reality.

Ramaphosa's lack of detail stems from his awareness that he still faces an internal ANC revolt, despite the national assembly electing him as South Africa's president twice in the past two years. A more ambitious and less detailed SONA will help to win the hearts and minds of some South Africans, but not push Ramaphosa into a corner if he cannot follow through on some of his very ambitious ideas.

The ANC is divided on several issues, including land reform and the mandate of the **South African Reserve Bank (SARB)**. ANC secretary-general **Ace Magashule** stated on 4 June that the ANC national executive committee resolved at the last **Lekgotla** (national meeting) that the SARB mandate would be expanded to include improving socio-economic conditions for South Africans.⁸ Finance minister **Tito Mboweni** contradicted Magashule, stating that

*"...the primary mandate of the [SARB] is to 'protect the value of the currency in the interest of balanced economic growth and development'."*⁹

During his SONA, Ramaphosa re-iterated the SARB's mandate:

*"Our Constitution mandates the [SARB] to protect the value of our currency in the interest of balanced and sustainable growth. Today we reaffirm this constitutional mandate, which the Reserve Bank must pursue independently, without fear, favour or prejudice."*¹⁰

A **Johannesburg**-based analyst says the battle within the ANC is evident:

*"Everyone knows there is a major battle behind the scenes in the ANC. The top players are fairly diplomatic in front of the cameras and will deny, but this fight – with Ramaphosa, Mboweni, [public enterprises minister] **Pravin Gordhan**, and SARB governor **Lesetja Kganyago** on one side versus Magashule, former President **Jacob Zuma** (2009-2018), **North West Province** premier **Supra Mahumapelo** and public protector **Busisiwe Mkhwebane** on the other side – is still growing."*¹¹

Magashule insists there is no division among the ANC top brass:

*"It's only the media which is actually trying to continue dividing the ANC, ourselves as the top six, as the **National Working Committee**, ourselves as the national leadership of the ANC, we believe we are united... it's the imagination of the media that we are actually divided..."*¹²

Nevertheless, Ramaphosa needs to continue to consolidate his power in the ANC and remove those who oppose his leadership and who will take any opportunity – including the failure to reach stated goals – to remove him. Ramaphosa left room for Mboweni, who will deliver a Medium Term Budget Policy Statement (MTBPS) in October, to give more detail on how the new administration will deliver on these goals to improve the economy without fighting another battle inside the ANC.

"Too vital" Eskom may bring South Africa's economy down

During his SONA, President Ramaphosa stated that state-owned energy company Eskom was "*too vital to [South Africa's] economy to be allowed to fail*" and that he plans to fast-track a R230 billion (\$16 billion) bailout package over the next 10 years. The bailout, while needed, could further sink the economy if **United States**-based ratings agency **Moody's** downgrades South Africa's debt and investors move their funds elsewhere. The battle to fix Eskom will be difficult and Ramaphosa gave no further details on his plan to unbundle the ailing energy company into three separate entities focusing

⁷ EWN, 20 Jun 2019

⁸ Fin24, 4 Jun 2019

⁹ Fin24, 4 Jun 2019

¹⁰ EWN, 20 Jun 2019

¹¹ Source, analyst, Johannesburg

¹² Daily Maverick, 24 Jun 2019

on generation, transmission and distribution, a plan that many unions see as an excuse to cut jobs and potentially privatise the struggling utility.¹³

Ramaphosa's focus on fixing Eskom may have blinded him to another major battle: South Africa's credit rating. Without sustained economic reforms, South Africa's credit rating will be downgraded, resulting in a large-scale investor exit from South African assets. Moody's is the only ratings agency that has not downgraded South Africa's credit rating to sub-investment grade, or in other terms, "junk". Moody's appears aware of the enormous responsibility on its shoulders and has repeatedly given Ramaphosa the benefit of the doubt. With Ramaphosa's plan for a new Eskom bailout, and potential bailouts for other state-owned entities such as **Transnet** and **South African Airways**, Moody's patience may wear thin.



Moody's had already stated on 6 June that the poor financial results in the first quarter of 2019, in which South Africa's economy contracted 3.2%,¹⁴ could lead to a technical recession this year, unless Ramaphosa is able to push through structural reforms and ignite growth.¹⁵ Moody's then stated on 10 June that the large contraction in the first quarter was credit negative, a clear sign that there could very likely be a credit downgrade if there is no

improvement by November, which is when Moody's next review is expected.¹⁶

The SARB released a statement on 29 May noting how important it is that South Africa keep its investment grade rating.¹⁷ The SARB warned Ramaphosa that continuing bailouts for Eskom further increases the risk that Moody's will downgrade South Africa's credit rating.¹⁸ If this happens, South Africa will be removed from key indexes, such as **Citigroup's World Government Bond Index (WGBI)**. Many key indexes require an investment grade rating for inclusion; being pushed to "junk" status means that many bond holders would be forced to sell as much as R100 billion (\$6.97 billion) in South Africa-based assets. This quick and massive sell-off would cause the rand to drop, which would increase the cost of debt for both the public and private sectors, and in turn increase the cost to ordinary consumers, causing hardship to the millions of South Africans who already struggle to make ends meet. South Africa would no doubt continue to attract less risk adverse investors who would see the downgrade as an opportunity to purchase South African assets at below-market prices, but this would barely offset the short- and mid-term economic consequences of a Moody's decision to downgrade the credit rating.

To prevent a downgrade Ramaphosa needs to stay the course in cleaning up the government of Zuma-allied rent seekers. Ramaphosa's reduced cabinet of 28 ministers, from 36 previously, is a good start. Ramaphosa will continue to use the inquiries into corruption during the Zuma era to remove ANC members who are allegedly corrupt. Ramaphosa will have to show that his government can hold a budget surplus, maintain debt levels, and have policy certainty – all of which were lacking during Zuma's tenure – in order to hold the current credit rating level. Finally, Ramaphosa will need to take

¹³ Daily Maverick, 11 Feb 2019

¹⁴ IOL, 4 Jun 2019

¹⁵ BusinessTech, 6 Jun 2019

¹⁶ IOL, 11 Jun 2019

¹⁷ Bloomberg Quint, 29 May 2019

¹⁸ Bloomberg Quint, 29 May 2019

hard action against state-owned entities – which should include some level of privatisation – even if it is unpopular. The current state of South Africa’s economy is unsustainable and Ramaphosa has five years in which to turn things around. He will struggle to do this while fighting internal battles in the ANC.

AMCU’s wage demands may lead to further strikes in platinum sector

The **Association of Mineworkers and Construction Union (AMCU)** has demanded a 48% increase in the current minimum monthly wage to R17,000 (\$1,185) during ongoing negotiations with platinum sector companies.¹⁹ Platinum companies will not accept this large wage increase, and investors should expect protracted negotiations with a low risk of a strike as the AMCU attempts to assert its influence in the platinum sector. With the AMCU demanding benefits such as living-out allowances and pensions, the monthly salary could reach as much as R30,000 (\$2,100).²⁰ Entry-level employees currently earn R11,500 per month (\$805).²¹

The AMCU, which the labour registrar threatened on 24 April to de-register for failing to file financial results or hold a five-yearly national congress,²² identifies itself as “*militant*” and has no issues with long strikes even if it hurts its workers and country’s economy. AMCU president **Joseph Mathunjwa** said the AMCU had conducted a feasibility study to come to the minimum wage.²³ Mathunjwa said that platinum miners could afford the increase given the 300% rise in the price of rhodium and the 150% rise in the price of palladium since 2016.²⁴ Past experience shows that the AMCU regularly asks for close to a 50% increase but accepts a much lower increase, such as the 12.5% wage increase it accepted in 2016.²⁵

Many analysts consider the AMCU’s demands unrealistic, particularly considering the loss of support from many members due to the long strikes, and say they are more a negotiation tactic than a hard stance.²⁶ **Sibanye-Stillwater** spokesperson **James Wellstad** said that the AMCU’s demands are impractical and unsustainable for the sector in the long term.²⁷



¹⁹ City Press, 17 Jun 2019

²⁰ IOL, 18 Jun 2019

²¹ IOL, 18 Jun 2019

²² IOL, 25 Apr 2019

²³ EWN, 14 Jun 2019

²⁴ IOL, 18 Jun 2019

²⁵ EWN, 14 Jun 2019

²⁶ IOL, 18 Jun 2019

²⁷ IOL, 18 Jun 2019

The platinum sector cannot afford another long strike, but the AMCU is in a weakened position and will be unable to withstand a long strike if its members' morale continues to be low. However, negotiations are likely to be long. While the chance of a strike is lower than previously, Mathunjwa may push for it as a way to reassert his authority in the union as membership dwindles amid government threats to close the AMCU entirely (see *ARC Briefing South Africa* May 2019).

Planner

10-18 Jul 2019 National assembly debates budget vote
 16-18 Jul 2019 **South African Reserve Bank** Monetary Policy Committee meets
 17-19 Sep 2019 **South African Reserve Bank** Monetary Policy Committee meets
 Oct 2019 Medium Term Budget Policy Statement
 19-21 Nov 2019 **South African Reserve Bank** Monetary Policy Committee meets

Chronology

22 Jun 2019 **Cape Town (South Africa)** *The Nation*. Mobile communications company **Vodacom** announces it will sell its business unit operations in **Nigeria, Zambia** and **Cote d'Ivoire** to **Synergy Communications**;

22 Jun 2019 **Johannesburg (South Africa)** *Reuters*. Pay-television firm **MultiChoice Group** plans to lay off more than 2,000 workers;

21 Jun 2019 **Johannesburg (South Africa)** *FT*. **South Africa**-based technology company **Naspers** delays its \$100 billion **European** listing due to administrative errors;

20 Jun 2019 **Cape Town (South Africa)** *africanews*. President **Cyril Ramaphosa** delivers his state of the nation address, declaring state-owned energy company **Eskom** too vital to fail and pushes for a \$16 billion bailout;

13 Jun 2019 **Johannesburg (South Africa)** *Bloomberg*. The **Association of Mineworkers and Construction Union (AMCU)** prepares to present wage demands to seven producers, which may result in strikes if its demands are not met;

13 Jun 2019 **Johannesburg (South Africa)** *Business Day*. Mining production contracts 1.5% year-on-year in April, having contracted for six straight months;

12 Jun 2019 **Johannesburg (South Africa)** *Business Day*. Public protector **Busisiwe Mkhwebane** says that President **Cyril Ramaphosa** is implicated in the **Bosasa** investigation;

11 Jun 2019 **Johannesburg (South Africa)** *Business Day*. A President **Cyril Ramaphosa**-appointed panel of experts submits its report on land reform, restitution and redistribution;

10 Jun 2019 **Johannesburg (South Africa)** *Business Day*. Opposition party, the **Democratic Alliance**, calls for the release of a report into allegations that President **Cyril Ramaphosa** misled parliament over 2017 campaign donations from **Bosasa**;

10 Jun 2019 **Johannesburg (South Africa)** *Sowetan*. **United States**-based ratings agency **Moody's** lowers its economic growth forecast for **South Africa** to 1% after poor first quarter results;

7 Jun 2019 **Johannesburg (South Africa)** *Citizen*. Interim **South African Airways (SAA)** CEO **Zukisa Ramasia** says SAA needs \$265m from the government to survive the current financial year;

6 Jun 2019 **Johannesburg (South Africa)** *Business Day*. **United States**-based ratings agency

Moody's says the odds of another **South African** recession are high;

5 Jun 2019 **Johannesburg (South Africa)** *Business Day*. Finance minister **Tito Mboweni** denies plans to change the **South African Reserve Bank** mandate to promote jobs and growth, though the ruling **African National Congress** continues to confirm this change;

4 Jun 2019 **Johannesburg (South Africa)** *CNBC Africa*. The economy drops 3.2% quarter-on-quarter in the first quarter of 2019, due to a contraction in manufacturing and mining;

2 Jun 2019 **Johannesburg (South Africa)** *Business Day*. **Vuyani Jarana**, CEO of state-owned **South African Airways**, resigns over a lack of support from the government;

30 May 2019 **Johannesburg (South Africa)** *Reuters*. **Anglo-American Platinum** resolves an illegal strike and will re-instate 600 employees at the **Mototolo** mine;

30 May 2019 **Johannesburg (South Africa)** *Al Jazeera*. The **Public Investment Corp** appoints executives from labour unions to its interim board;

29 May 2019 **Cape Town (South Africa)** *Business Day*. President **Cyril Ramaphosa** appoints his new cabinet, reduced to 28 ministers with 50% women ministers;

28 May 2019 **Johannesburg (South Africa)** *Reuters*. Mining company **Sibanye-Stillwater** shareholders approve a takeover of **Lonmin**, which will create the second largest platinum producer in the world;

28 May 2019 **Cape Town (South Africa)** *News24*. Deputy president **David Mabuza** is sworn in as a lawmaker after a delay due to accusations that he brought the ruling **African National Congress** into disrepute;

27 May 2019 **Johannesburg (South Africa)** *News24*. Majority state-owned communications company **Telkom** reports that it cut 12.5% of permanent jobs through voluntary severance packages in the financial year ending 31 March;

27 May 2019 **Johannesburg (South Africa)** *Sowetan*. The treasury department says a carbon tax has been enshrined into law;

24 May 2019 **Johannesburg (South Africa)** *FT*. Financial services company **Old Mutual** suspends chief executive **Peter Moyo** citing loss of trust and confidence and replaces him with chief operation officer **Iain Williamson**;

24 May 2019 **Johannesburg (South Africa)** *Business Day*. Public protector **Busisiwe Mkhwebane** finds that **Pravin Gordhan** acted improperly when he approved an early pension payout for former **South African Revenue Service** senior official **Ivan Pillay**, and instructs President **Cyril Ramaphosa** to take disciplinary action;

22 May 2019 **Cape Town (South Africa)** *News24*. The national assembly elects **Cyril Ramaphosa** as president without contest;

22 May 2019 **Cape Town (South Africa)** *Reuters*. New national assembly lawmakers are sworn in, except deputy president **David Mabuza** to address allegations he brought disrepute on the ruling **African National Congress**;

20 May 2019 **Johannesburg (South Africa)** *Business Day*. A **Pretoria** high court finds that public protector **Busisiwe Mkhwebane** disregarded her constitutional duties in the investigation of the **Gupta**-linked **Vrede** dairy farm;

20 May 2019 **Cape Town (South Africa)** *Daily Maverick*. The ruling **African National Congress** selects **Thandi Modise** as its choice for national assembly speaker;

16 May 2019 **Johannesburg (South Africa)** *Business Day*. **United States**-based ratings agency **Moody's** warns President **Cyril Ramaphosa** to implement reforms or face a downgrade to junk;

About Africa Risk Consulting:

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