

Consider This

I'm a gnu—spelled G-N-U



STRATEGIST VIEWS

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Let's look at the new cabinet

Imagine an animal that is large, has the head of an ox, the horns of a buffalo, the mane of a horse and the body of a large antelope. It's a gnu.¹ GNU is also the acronym for the new South African Government of National Unity.

After 30 years of an African National Congress (ANC) government, we have an inclusive coalition of 11 constituent parties spanning the far-left to the far-right, with control of 288 of the 400 seats in parliament. Cyril Ramaphosa remains as president and leads a cabinet composed of 34 ministers from six coalition parties. Like the animal, this government contains many different political hues, but the bulk of the seats are held by the center-left (57%) and the center-right (37%). Two parties refused to join: *uMkhonto weSizwe* (MK)² and Economic Freedom Fighters (EFF). These are exactly the parties that international investors did not want to see in government, because of their extreme policies, including land confiscation and nationalization.

The ANC keeps the main positions for itself: finance, defense, health, trade and industry, justice, energy and electricity, mining, and the post of deputy president. The Democratic Alliance (DA) got the infrastructure, agriculture, immigration and education portfolios, as well as the deputy ministerial roles in finance, trade, energy, small business development and water.

What should investors remember?

Because the ANC has dominated South African politics for the last 30 years, none of the new coalition members have experience in national government. Thus, it will take time for them to get to grips with their portfolios. Bearing in mind the ideological differences, it will be very tough to avoid confrontations over policy, although no one will want to appear overtly obstructive.

The electorate's patience will likely be brief as expectations are high. The ANC was punished because of its failure to deliver basic services like electricity and water, and the country's poor economic performance has resulted in one of the highest unemployment rates in the world. Eskom, the national power company, still suffers from unplanned breakdowns and equipment failure that keep over a quarter of its installed capacity offline. Transport infrastructure gaps are keeping rail freight and port volumes down. Infrastructure investment must be a priority.

In terms of economic policy, international investors by and large have always preferred a coalition with the DA. The South African fixed income and equity markets and the rand have reacted favorably, as might be expected, to the absence of the two populist parties and to the broadly center-leaning administration. Expectations of reforms and a liberal economic program may have to be frustrated in the short term, but there is a road map to recovery forming. We believe the GNU can be like the gnu. When the gnu, which weighs up to 270 kilograms, gets going on the savannah, it can reach speeds up to 80 kilometers per hour—that will take some stopping!

1. The title of this article is based on "The Gnu," a humorous song written in the 1950s by Flanders and Swann. A gnu is sometimes called a wildebeest (meaning wild ox in Afrikaans or wild beast in Dutch).

2. The new party of Jacob Zuma, the disgraced ex-president who was forced to resign in 2018 after a string of corruption scandals, won an unprecedented 14.58% via his new MK party.

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