

THE ECONOMIC SIGNIFICANCE OF SOUTH AFRICA'S GOVERNMENT OF NATIONAL UNITY

The recent election outcome and establishment of a Government of National Unity in South Africa holds significant implications for the country's economic trajectory. The importance of this political development is underscored by the various reforms required to attract private infrastructure investment into the nation's infrastructure. Should these reforms see successful and timely implementation under the leadership of the newly-appointed Government of National Unity, South Africa may well see growth rise to the 4.0% target and a meaningful increase in foreign investment over the medium term.

PRE-ELECTION REFORMS AND PRIVATE SECTOR ENGAGEMENT

Prior to the recent national elections, the government's reform agenda focused predominantly on the country's ailing electricity sector; a factor identified as a key risk for global investors. By deregulating the sector and inviting private sector investment, the government successfully garnered a strong response from private enterprises. This deregulation has allowed private entities to participate in the energy market, leading to increased investment and potential improvements in the reliability and capacity of the electricity supply. Encouraged by this success, the

government extended its reform initiatives to other critical areas, including port infrastructure.

A notable example of these reforms is the tender awarded to a Philippines company to manage Pier 2 Harbor in Durban. This move aimed to enhance the efficiency and capacity of South Africa's busiest port, ensuring it could better handle international trade demands. Furthermore, similar initiatives are planned for other ports across South Africa, indicating a broader strategy to modernize and optimize the country's maritime gateways.

TRANSNET'S NETWORK STATEMENT AND RAIL EFFICIENCY

Transnet, the state-owned freight transport and logistics company, introduced a Network Statement, essentially inviting private sector collaboration. This strategic move involves entering contracts with private operators to manage specific rail corridors. By involving private entities, Transnet aims to improve the efficiency and reliability of key rail routes, facilitating smoother and more cost-effective transportation of goods to ports. Enhanced rail efficiency is crucial for boosting exports,

as it ensures that products can reach international markets more quickly and at a lower cost.

Improved port operations, facilitated by these reforms, could significantly bolster South Africa's economic prospects. Efficient transportation infrastructure is a cornerstone of economic growth, enabling businesses to operate more competitively and attracting further investment.

ELECTION OUTCOMES AND ECONOMIC REFORMS

The timing of the recent election was crucial, occurring while the government's reform process was still in a delicate phase. Although some successes had been achieved, the reforms had not yet made a substantial impact on the broader economy. Concerns arose that a post-election alliance between the African National Congress (ANC) and parties like the Economic Freedom Fighters (EFF) or the MK might derail these reform efforts. Both the MK and the EFF have expressed opposition to private sector involvement in infrastructure development, preferring state-led initiatives.

Contrary to these concerns, the ANC formed a coalition with ten parties, including the Democratic Alliance (DA), which emerged as a significant player

in the government of national unity. This coalition has bolstered private sector confidence in the reform agenda. The involvement of the DA, known for its pro-business stance, is seen as a positive signal that economic reforms will continue and potentially accelerate.

Financial markets reacted positively to the formation of the government of national unity. Equity markets saw an uptick, the South African rand strengthened, and bond markets showed improved performance. These market responses reflect investor confidence that the coalition government will maintain and expand the reform initiatives, fostering a more business-friendly environment.

FUTURE PROSPECTS AND INVESTMENT OPPORTUNITIES

The involvement of the DA in the cabinet is expected to further push for reforms and greater private sector engagement. President Ramaphosa's final cabinet was officially announced on Sunday 30th June and includes 11 political parties, with Paul Mashatile reaffirmed as deputy president and DA leader John Steenhuisen appointed as Minister of Agriculture. Positive for market sentiment was the notable exclusion of the EFF and MK Parties from any ministerial positions held within the GNU, a move condemned by EFF leader Julius Malema but endorsed among asset managers and investors.

If the reform process continues successfully, South Africa could see upward revisions in growth estimates and increased fixed investment in infrastructure. This renewed confidence might prompt South African corporations to reconsider investing domestically, reversing years of underinvestment and technological stagnation. With a stable and reform-oriented government, it is entirely feasible for South Africa to achieve closer to 4.0% growth over the next five years. Such growth would mark a significant improvement, driven by increased private sector participation and investment in critical infrastructure.

LOOKING AHEAD

The prospect of sustained higher economic growth is likely to create a more favourable environment for financial market returns. Asset managers are already identifying opportunities within South African assets, which are currently viewed as relatively undervalued. This optimistic outlook hinges on the successful implementation of the government's reform initiatives and the stability of the new political coalition.

Looking forward, the government of national unity represents a pivotal moment for South Africa's economic future. By continuing to embrace and expand private sector involvement in infrastructure development, the country stands to make significant strides in economic growth and development. The ongoing commitment to reforms will be crucial in maintaining investor confidence and ensuring long-term economic stability and prosperity.

The information and opinions contained in this document are recorded and expressed in good faith and in reliance on sources believed to be credible. No representation, warranty, undertaking or guarantee of whatever nature is given on the accuracy and/or completeness of such information or the correctness of such opinions. Portfolio Analytics ("Analytics") will have no liability of whatever nature and however arising in respect of any claim, damages, loss or expenses suffered directly or indirectly by an investor acting on the information contained in this document. The information in this document is for factual information and marketing purposes only and does not constitute any form of advice, guidance or recommendation. Furthermore, due to the fact that . Analytics does not act as your financial advisor, we have not conducted a financial needs analysis and will rely on the needs analysis conducted by your financial advisor. We recommend that you take particular care to consider whether any information contained in this document is appropriate given your objectives, financial situation and particular needs in view of the fact that there may be limitations on the appropriateness of the advice provided. No guarantee of investment performance or capital protection should be inferred from any of the information contained in this document. Portfolio Analytics (Pty) Ltd, FSP No 631, is an authorised financial services provider. Telephone: (011) 463-9600 Fax: (011) 463-8279. Website: www.analytics.co.za. Dragon Wealth (PTY) Ltd is an Authorised Financial Services Provider. FSP No.45015 Tel: 0870928378 Web: www.dragonwealth.biz