DOWNGRADE AND JUNK STATUS LOOMS ON THE HORIZON FOR THE SOUTH AFRICAN ECONOMY: FINANCE MINISTER IN A NO WIN SITUATION AS TOXIC POLITICS TAKES CENTER STAGE

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Abstract
There grave and serious concerns that confront the South African economy. This article looks at the South African economy, in terms of the possible downgrade to “junk” status that looms on the horizon by rating agencies. It will therefore, look at re - called South African Finance Minister Pravin Gordhan’s 2016/2017 budget statement (February, 2016), to analyze and determine whether his budget statement can place South Africa on a growth path, in order to avoid a sovereign ratings downgrade by rating agencies. This budget will be the most important budget post democracy in 1994 and, after twenty-one years of freedom. It is blatantly important from the perspective that the South African economy is in shambles and in complete tatters because of the grave mistakes made by Jacob Zuma, the Machiavellian President of South Africa. The issue at hand is whether the Finance Minister, can save the day and, steer the South African economic ship to calmer and safer waters and, therefore, will he be in a position to pull South Africa out, from the inevitability of a junk status economy by ratings agencies. He needs to restore confidence, credibility and clearly show the pathways that his budget will employ, in order to secure economic growth, assure investors that the country is a safe investor destination, allow for greater foreign direct investment but, above all, assure the South African nation that, he is in a position to pull the country out of its economic quagmire by applying strict fiscal consolidation measures, curbing government’s wasteful expenditure and, the rapid rise of public servant salaries and, ensure economic growth and deal decisively with poverty, inequality and high rates of unemployment,
including other important and salient economic issues. The authors will outline some other issues pertinent to this paper and, will then analyze the budget put forward by the Finance Minister.

**Key Words:** Budget, Fiscal, Economy, Consolidation, Downgrade, Junk Status, Rating Agencies, Confidence, Credibility, Economic Growth

**METHODOLOGY**
The paper does not use any classical research methodology that is usually used in research. It will rely on the observations of the authors in this regard and, will use and, rely upon the articles that have consistently appeared in the South African press over time. This methodology will in no way compromise the narrative nor will it hinder the analysis being undertaken in the discussion of this paper. This approach will in no way dilute the thrust of the paper and, will consolidate the arguments put forward in the previous two papers.

**AIM OF THE PAPER**
The cardinal aim of the paper is to project upon the possibilities of an economic and fiscal downgrade of the South African economy that is an increasing possibility, because of the mismanagement of the economy by the South African government. To analyze and criticize the Minister of Finance’s 2016 / 2017 Budget statement and, to determine if the Finance Minister, tabled a credible budget that could save South Africa from a sovereign ratings downgrade.

**LITERATURE REVIEW**
There will be no literature review that will be undertaken because the paper does not lend itself to a literature review and the readers are therefore, requested to read the other two previous papers published in this journal, concerning the fiscal and economic crisis that South Africa currently confronts.

**OBJECTIVES OF THE PAPER**
- There are no specific objectives that the paper talks to or discusses because, the issues that will be raised in the discussion is par for the course, in terms of the very dire fiscal and economic crisis and, discourse that currently confronts South Africa.
- The primary objective being to critically analyze the economy and government’s intervention strategies, in order to remedy the situation via the Finance Minister’s much awaited budget statement.
- Does the government of South Africa have a plan to intervene and set the country into a path and trajectory of economic recovery and, fiscal consolidation by placing it onto an economic growth path and, in so doing can it take the country out of the economic morass that has been created by the ruling government and, its President.
- Will the newly appointed and recalled Minister of Finance be in a position to outline, a consolidation plan in terms of the economic recovery of the South African economy through his budget statement to the nation? In other words does he have the wherewithal to stand up to his Cabinet colleagues and, the President in terms of intervening decisively to save the South African economy from complete ruin?
- Can the South African economy be saved and, can the country be bailed out to a path of recovery for the nation and its people?
- Or is it a case that the budget presented by the Finance Minister will be one that will stave off an immediate downgrade of the economy to Junk status or, will it be an immediate band aid solution but, the inevitability of junk status will loom on the horizon once again in about 12 to 18 month’s time?
CONCLUSIONS
The paper will make some conclusions at the end of the narrative. In so doing it will make either positive or negative conclusions that will also be dispersed throughout the narrative.

RECOMMENDATIONS
The recommendations emanating from this paper will be made at the end of the paper and discussion. By the same token the recommendations will be dispersed throughout the discussion in the narrative and, will mainly point to the economic and fiscal crisis and, allude to the fact that, a downgrade is inevitable and, show the consequences that will result if this happens. This will be dependent upon the budget of the Finance Minister, which for all intents and purposes must talk to tightening belts, fiscal consolidation and an improved climate for economic recovery and growth.

CONCLUSION
The conclusion of the paper will talk to the hope that South Africa’s economic situation can be improved or that, it will slide even further into the abyss of total ruin and, thus, become a failed and pariah state in the eyes of the world and, therefore, to the peril of the nation, particularly the poor. It will also allude to the obvious reality, if the Minister of Finance presented a credible budget to save South Africa from a sovereign ratings downgrade.

ETHICAL CONSIDERATIONS
There are no ethical considerations that the authors need to take into consideration. This is premised on the view that the economic and fiscal crisis that confronts South Africa is widely known in the country, across the African continent and by implication globally. Issues of this nature are therefore important to the people of South Africa and, economists at large and, therefore, the issues raised in this paper breaches no ethical considerations.

INTRODUCTION
South Africans from all walks of life should prepare themselves for some tough medicine when the Finance Minister presents his Budget. Perhaps February 2016 will be the most important month in the history of democratic South Africa after 21 years of democracy, and will largely determine, if South Africa will be declared a “junk” status economy by rating agencies. If this happens South Africa can then be considered a failed state on the brink of total economic disaster and collapse. The nation waits with bated breath to see these outcomes. The Editorial of The Mercury (2016: 7) states that “local and international factors have combined to make this one of the most difficult times financially for the country. These include a global slowdown spurred in part by China’s relatively sluggish economy and consequent drop in demand for goods; the slump in the international price of oil on the back of diminished demand and increased supply; and South Africa’s worst drought in 23 years amidst a host of other internal factors, well known but to many to enumerate that, have compromised and virtually destroyed the economy of South Africa, under the current President, his inept Cabinet and the ruling African National Congress.”

Growth figures of the South African economy are constantly being revised downwards, and the Finance Minister is attempting to lead a rearguard action to prevent rating agencies from downgrading South Africa to “junk” status. This is a more than difficult task to achieve in the short term. This would no doubt increase the already stupendous cost of government borrowings, and lead to a flight of foreign capital as international financial institutions,’ mandates forbid them from investing in countries that have “junk” investment ratings. Given this scenario, there is nothing citizens can do about possible increases in personal and business taxation rates, a hike in capital gains tax, increases in fuel levies or even a rise in Value Added Tax (VAT) rate. This is further exacerbated by a possible 16.6 percent rise in electricity tariffs given the crisis of electricity load...
shedding. The South African regulator allowed a 9.4 percent electricity hike to Eskom, from the 1st of April, 2016 and, did not accede to Eskom’s request for a 16.6 percent rise. This will most certainly affect the consumer because the 9.4 percent rise is above the inflation rate and that, consumers are reeling with constant rising prices and increased interest rates and as food prices rise drastically. Eskom has indicated that the rise of only 9.4 percent will now force them to look for funding from lending agencies and that, South Africa must broach itself, for the possibility of increased load shedding in 2016. Amongst these, there are numerous other issues that will be unpacked in this paper.

Given the dire straits that the South African Economy is in, the Finance Minister shocked the African National Congress (ANC) conference recently when he dropped a bombshell by proposing a cut in social spending as one way government could cut costs amidst an increase in economic difficulties” (Letsoalo and Donnelley, 2016: 2). The Finance Minister listed eight areas for consideration by government to deal with the widening budget deficit. These were as follows:

- “Social Spending: This is the lynchpin of ANC policy and the basis for much of its previous election campaigning. A cut back on social spending.
- Government should curtail excessive spending on luxuries like spending on fancy cars for Cabinet Ministers.
- A freeze on the high public servant salaries and reduction of employment.
- A relook at the social grants policy that is placing strain on the government fiscus.
- Reducing wasteful expenditure.
- Unspent money by government departments must be returned to the Treasury in order to plug budget gaps.
- Stopping the use of very costly consultants.
- The inevitability of a hike in taxes to balance the books. A move that would be generally unpopular” (Letsoalo and Donnelley, 2016).

The ANC generally did not agree with the Minister and the labour union federation Cosatu was not impressed and, this extended to the South African Communist Party (SACP). All of them did not support his call to cut social spending and a freeze on salary increases. The Secretary General of the ANC said the party would not support the move to cut back on social programmes because, it would create a crisis in the country and, that poor people must be protected. Cosatu on the other hand said that, there is much poverty and, there has to be the provision to quality healthcare, higher education and technical training, housing and other material and cultural needs. The SACP indicated that cutting social spending will amount to sentencing most of them (the poor) to social death” (Mail and Guardian, In Letsoalo and Donnelley, 2016: 2). All of this might be true but, these alliance partners of the ANC, including the ruling party have had a historic propensity of spending money without accountability and, could not curb the overt corruption in government overtime and, also after 21 years of democracy lost the opportunity to deal with the issues being raised decisively and, to the benefit of the majority poor population of the country. Political patronage through the ranks of its elite has exacerbated the economic problems and, moreover, they just do not understand the fiscal and economic crisis that the government has created and, the impact upon South Africa and its citizens and business in general. It points to the reality that the Finance Minister will have no room to maneuver or placate his party and, the alliance partners that South Africa has to drastically scale down spending in order to avoid the inevitability of a ratings downgrade to “junk” status. The month of February, 2016 given the State of the Nation Address by the President and the Finance Minister’s Budget Statement, will determine the economic route that South Africa will be taking, and this will
determine whether the Finance Minister has any clout or will he be ranked in the history of the country as a “lame duck.” “In terms of the economic indicators South Africa is in recession according the Financial Mail (2016: 47) and would not come out of it this year believed consumers.” South Africa is spending more than it is earning and international rating agencies are keeping a close eye in upcoming national budgets, with the cost of borrowing for crucial infrastructure projects by the likes of Eskom (electricity supply commission) in the balance. The biggest outflow since 2008 casts a harsh light on policy direction and the trade deficit. This will therefore be a tall order for the Finance Minister to rectify. According to Gedye (2016: 24) “Foreign investors pulled R12.8 billion out of the country in just one week this year. This was foreign capital invested in the Johannesburg Stock Exchange (JSE), listed equities and South African government bonds. This was the largest withdrawal since the 2008 global economic crisis and the fourth highest in South African history. A further R16 billion in equities and bonds occurred in November and December of 2015. The cause is market turmoil but more important was Jacob Zuma’s catastrophic decision to fire then finance minister Nene and, the subsequent fall of the rand. A repeat of last year’s mini – budget will not be good enough. South Africa needs to be more stringent than that.”

The balance of current account payments, the country relies on foreign inflows into its equity and bonds markets. If these dry up, it can cause a balance of payment crisis, which would mean the government would have to find this money elsewhere, such as through loans. This is the stark reality and, if the money cannot be found, imports would have to be cut back, which would cause the economy to drastically slow down. It is therefore not inconceivable that South Africa will rush to the International Monetary Fund (IMF) to get money. This will be the beginning of drastic structural adjustment programmes and thus selling the country to capitalism. A danger that must be averted.

MINISTER OF FINANCE MUST TRY A RESCUE FOR ‘JUNKYARD STATUS

There is no doubt that things could hardly be worse and unpopular decisions will have to be made in an election year. It is hardly likely that the ruling ANC and its alliance partners will stomach unpopular decisions by the Finance Minister. The Minister sits between a rock and a hard place. Can he restore the country’s credibility and, will he be allowed to inflict painful decisions can only be keenly watched. The picture is even bleaker given the fact that the World Bank in February, 2016 dropped its forecast for South Africa’s economic growth to 0.8 percent for 2016, down from 1.3 in 2015. This leaves the Finance Minister and the government in general, with almost no road to avoid making some very difficult, and politically unpalatable, decisions about government spending, particularly in an election year. Irrespective of whether the South African government can stave off the inevitability of an almost certain downgrade by rating agencies, the reality is that the South African economy is in tatters and, will get worse under the present ruling party government. This is exemplified by the fact and reality that the current level of the exchange rate and, the domestic bond rates suggest the market has already priced in a rating downgrade. According to Nazmeera Moola, a strategist at Investec Asset Management (2016:30) said that “South Africa stands to lose its investment grade rating with one of the three major ratings agencies, Standard and Poor’s. It has rated South Africa at BBB, with a negative outlook and has two years to decide whether to lower
this grade or remove the negative outlook and keep the BBB grade.” Attrition is the only way to curb growth because the government has no appetite to take hard economic decisions in terms of the state wage bill, social grants, education, the implementation of the National Health Insurance, the electricity problems, the implementation of nuclear power at a great cost, failure to address corruption and productivity, curb capital outflows, failure to curb the workings of inefficient state-owned enterprises, the drought and, does not want to bail out agriculture, failure to curb illegal immigration, reduce the inefficient Cabinet Ministries from 35 to a workable number like other European and mature democracies. In reality there has to be a dramatic intervention strategy to get the South African economy working again and, to place it on a path of economic growth. This will not be achieved nor undertaken by the current government. The Finance Minister has no room to maneuver under the present government. No Finance minister in the history of South Africa has had to walk a tightrope as difficult as Gordhan. “Irrespective of the presentation of his Budget the Finance Minister has to be transparent, bite the bullet and hold the President, the labour unions and all the alliance partners at bay and, if he could achieve this which is most doubtful, he will be judged on how and where tax collections are spent” according to Kader (In Donnelley, 2016: 30).

There is no doubt that acquiring “junk” status could lead to economic disaster for South Africa. Maswanganyi (2016: 2) indicates and states that “South Africa is teetering on the brink of a ratings downgrade cliff. Should rating agencies pull the trigger, the spectre of economic disaster looms large? The cost of servicing South Africa’s bulging R1.8 trillion debt loads will spiral; the country will be booted out of the World Government Bond Index, making its bonds untouchable; and the capital outflows will be swift and devastating to an investment – starved economy. SA Inc. is flirting with disaster and is fast approaching an economic iceberg. The issue is - will South Africa’s captains steer the ship to safety or will the band fiddle away into thy night?” Of the 18 sub-Saharan African countries that Standard and Poor’s (S&P) rates, Botswana and South Africa hold coveted investment – grade ratings. The rest have speculative grade status, an ignominy SA is best advised to avoid. Investors look askance at such states, as their chances of defaulting on debt repayments are high, which makes borrowing a costlier exercise for these countries. A downgrade is usually followed by a downward revision for state – owned companies, banks, and municipalities that borrow on international markets. The consequences of a downgrade for SA are writ large and in addition to capital outflows, the rand may touch as yet unimaginable lows. With a downgrade SA will join the sub - investment – grade club. Given all the arguments there is only one option left for the Finance Minister, he has to cut the budget deficit. South Africa’s bulk debt is denominated in the local currency, while 10 percent is denominated in foreign currency. This gives the country some breathing space should a downgrade be in the offing. This can only be achieved in terms of a lower deficit with tax hikes and drastically slashed state expenditure. Given the South African governments mismanagement of the economy, its lack of fiscal consolidation in trying times and, its propensity to spend without checks and balances, the high public sector wage bill and its reliance on appeasing its alliance partners; this will not provide a winning formula to take the country out of its economic quagmire.

**MOODY’S TAKES TOUGHER LINE AS IT FLAGS HIGHER RISK OF DOWNGRADE**

Moody’s, the rating agency has been the most optimistic of the top three about SA, has changed its tone, bluntly warning on the 4th of February, 2016 that weak economic growth and lower tax revenues would lead to a credit rating downgrade according to Maswanganyi (2016: 1). The World Bank also warned of rising poverty and SA was flirting with recession. “Tepid growth would hamper infrastructure investment, lowering potential long term growth, contributing to high unemployment
and worsening social tensions” said Moody’s (In Maswanganyi, 2016: 1). It downgraded the South African economy from its 0.8 percent projection to 0.5 percent growth in 2016.

RECESSION NOT ON THE HORIZON SAYS THE FINANCE MINISTER

In typical rhetoric and playing to the gallery, Finance Minister Gordhan said in Cape Town that “The economy was not in recession and was not projected to slide into one, whatever doomsayers might say according to Ensor (2016: 1). Economists, however, strongly disagree with the minister’s positive spin on South Africa’s economic outlook, saying that a recession, technically two consecutive quarters of contraction is highly likely this year. The Treasury is due to update its growth forecasts for the next three years when the minister tables the 2016 – 2017 budgets. They are expected to be lower than the projections made in the October medium – term budget policy statement. Rejecting the possibility of a recession in the near term, the minister pointed to World Bank forecasts for SA’s growth for the next three years which ranged between 1.4 and 1.6 percent. But economists pointed out that while the annual growth rate might be positive, a recession could occur within it. Lefika Securities chief economist Garrow (In Ensor, 2016: 1) said that “The odds were stacked against South Africa. Apart from the state of the global economy and the fallout in the commodity markets and the rand exchange rate, there was the drought and rising interest rates domestically. Mining and manufacturing production figures were also pointing in one direction. It is just a question of timing when SA is going to fall into recession or in reality is already in recession. I would like to know were the minister thinks the growth is going to come from. A crisis of our own making is unfolding. Our policy mix is totally out of line. Monetary and fiscal policies were not synchronized to stabilize the economy.” According to the authors and in terms of their observations the fact is that, government has not come up with any mitigating package of policies that would either stop the rot or reinvigorate growth. If left to it, the economy will go into recession and therefore, to underestimate the severity of the contractionary momentum under way would be a great folly.

On the other hand what the minister does not factor into his spin is the all - embracing reality that the United States economic recovery was likely to result in rising global interest rates, while the tightening of monetary policy would put pressure on capital flows and growth expectations. Capital market volatility would increase significantly. By the same token South Africa is beset by structural problems, including electricity supply constraints, severe water infrastructure problems and a severe drought amongst a host of other constraints including very poor governance, poor accountability and mismanagement in almost all sectors of the economy. The minister paints a picture of real optimism in order to place SA in a different direction but, the reality is that this optimism has waned under the present government. However data shows that the economy is in the doldrums. To this end Maswanganyi (2016: 1) shows that:

- Manufacturers and traders expect the business environment to deteriorate further.
- Traders expect sales and new orders to decline because of weak demand.
- Business conditions remained below 50 for a second consecutive month.
- The manufacturing outlook for South Africa was likely to remain difficult, given weak domestic demand and a challenging international environment.
- Growth in household spending is expected to be more than modest as consumers grapple with rising interest rates and food prices.
- Looming electricity tariff increases will also erode disposable incomes.
- Input costs and selling prices were expected to rise in the first half of this year.
Low confidence levels among traders suggest that investment and job creation will be strained and that, economic growth will slow further.

Subdued demand, lower export volumes, rand depreciation, escalating interest rates and slowing growth in household spending weighed on confidence and the economy.

Input costs were rising due to a weaker rand.

Although the PMI rose to 45.5 points, it was still below the 50 point mark showing expansion and has trimmed the GDP.

Mining production fell in November, 2015 compared with a year ago.

In January, 2016 data showed the manufacturing sector was on the cusp of a recession.

The contractions in mining and manufacturing, together make up 20 percent of the economy, coupled with the drought, did not bode well for overall economic growth.

Mining production fell 0.8 percent in November, 2015 compared with the same month the previous year, after contracting sharply by 4.7 percent in October of 2015.

Low commodity prices, high production costs and lackluster global demand are among the factors that will curb output.

Labour unrest was a major risk for mining” (Maswanganyi, 2016:1).

BAND AID ON AILING POLICIES

The country is in deep trouble: high layoffs of workers add to South Africa’s high unemployment. The country has a growth rate of below 1 percent and there is no prospect of a change in policy and attitude by SA’s top leaders. In this regard Ann Bernstein (2016: 13) says that “The issues at stake could not be more important in the short term as to how to manage the 2016 budget and stave off the downgrade by rating agencies to junk status; more fundamentally, the future of the economy and the nonracial democracy.” One of the great mistakes of business was a lack of a pronounced statement amidst an unprecedented economic crisis because, it should have spelled out the consequences of the president’s actions for all South Africans; indicated that he had single – handedly undermined one of the major achievements of democratic South Africa, namely the creation of a world – class treasury and global confidence in the country’s fiscal management; and stated it had undermined their confidence in how the country was being managed. It is nothing but a sustained attack of the Cabinet led by the President of South Africa on the legitimacy of the country and the pressure to do business with a government that is out of kilter. Business in South Africa has been reactive and accommodating. They generally have opted for silence and this attitude by South African business exacerbates the problems besetting the economy. There is just no robust engagement by business in this regard.

Ann Bernstein (2016: 13) states that “In a democracy, public positions and participation inform discussion and validate the role of business; it also prevents suspicions as to what exactly is happening in behind the scenes discussions. A pliant business community that retreats from public debate and shows a fear of the government. This is bad for the country and allows the Cabinet, the President and the ruling ANC do act with impunity because, it sends out a signal that the government is untouchable. In democracies the “public square” really matters. Business needs to participate in the debate on how South Africa should deal with the challenges of the economy and the challenges of unemployment, poverty and inequality.” In other words, in terms of business there is no coherent business strategy or effective organization making a strong case to achieve the high and inclusive growth South Africa desperately requires? Business has failed to engage effectively in the democratic politics of the country. They have not made the case for much higher and more inclusive growth. They have not made the case for national development or in putting forward practical
proposals on how dynamic markets and companies can help resolve the country’s many challenges and, thus become a watchdog over a government that lacks a vision and compromises the principles of accountability and the rule of law. In the final analysis Ann Bernstein (2016) points out that “At this time of crisis in South Africa, it is not only the government that needs a fundamental change of direction. Business needs a new strategy if it is to provide the leadership the country desperately needs.” Business can no longer stand aloof and on the periphery as the country bleeds and moves to economic destruction and, complete ruin under an inept ruling government. Business has to stand up and voice its opinions and indeed government will have to listen.

MORE MISTAKES ON POLICY WILL PUT SA IN JUNK TURF
Maswanganyi (2016: 1) points out that “A major rating agency has warned that a “policy mistake” along the lines of former finance minister Nene’s firing would see South Africa downgraded to junk status. That coupled with a failure to improve economic growth, was among the biggest risk factors that could contribute to a downgrade. Policy mistakes can have a tremendous impact on the exchange rate very quickly. Government as a whole needs to pull in the right direction.” The real challenge that South Africa faces is that the socialists or communists in the ruling party, who are in the majority, despite their aversion to credit rating agencies and, therefore, the talk about ignoring them is a real problem for the economy.

OTHER FACTORS THAT WOULD ALLOW FOR A DOWNGRADE TO JUNK STATUS OF THE SOUTH AFRICAN ECONOMY
The discussion thus far has painted the reasons as to why the South African economy is sitting on a downgrade time bomb. Without further discussion the authors will continue the low road scenario by listing other factors that will play a major role in a possibility of the economy being downgraded: These are as follows and could also be considered as some conclusions of this narrative:

- In South Africa the rich are getting richer and the poor are being relegated to the doldrums of poverty.
- The inability of the government to grow the economy and to this end we see rising poverty, inequality and high unemployment as major concerns.
- Can the Finance Minister in his Budget show South Africa still has what it takes to remedy the economy?
- The State of the global economy is no excuse for inaction in South Africa.
- Unemployment in South Africa is on the rise according to the International Labour Organization (Musgrave, 2016:15).
- The IMF sees South Africa’s growth at a dismal pace.
- The Effects of China’s economic slow – down will affect South Africa.
- Political patronage and corruption which is now endemic is a major downside.
- The constant bail – outs afforded to ineffective state – owned enterprises.
- A bloated public service and high wages and a high population growth.
- The bloodbath of the rand as a currency against all major currencies.
- The market rout of emerging markets will affect the South African economy.
- Consumer prices will sky rocket and affect the economy drastically. There will be a huge debt squeeze for consumers because there will be at least a 10 percent food price increase. Food shortages are looming threatening food security.
- South Africa’s food – price inflation is not only about the drought but a lack of policy.
- The President’s cynical take on markets.
• The constant rise in interest rates.
• The prolonged drought.
• South Africa’s debt headache.
• The recession alarm bells are a reality.
• Goldman Sachs is betting against the rand.
• Racism is a risk to South African growth.
• The plunging ore prices and a fall of commodities.
• The weak rand limits benefit of low oil prices.
• Bonuses have to be curbed.
• The trimming of the Cabinet is an essential.
• Hiring more public servants must stop.
• Factory slump threatens growth.
• Irresponsible law making is costing South Africa and there is an absence of policy certainty.
• Politicians talk of service to the poor but walk with the rich and powerful.
• The fall in the rand cannot be blamed on banks but on government because of policy uncertainty.
• South African farmers owe R125 billion to the banks.
• Growing concerns about the ANC leadership.
• The ruling party despises competence and lauds loyalty.
• A lack of will by the ruling ANC to enforce laws.
• No unity and resolve as South Africa faces an uncertain future.

The above issues are by no means comprehensive in nature but paint a bleak picture, in terms of the economic outlook and, speak to a myriad of problems and issues as concerns the low road to development, urgent transformation of the economy and, almost speaking convincingly to the possibility of a failed state.

GORDHAN – ZUMA RIFT BRINGS JUNK STATUS NEARER

In our previous papers we had alluded to the Minister of Finance being investigated by South Africa’s Prosecuting Authority the Hawks. Over several days now after the presentation of the budget by the minister, the SABC, ENCA, ANN7 television services and the South African media on the 29 of February, 2016, has been reporting that ‘there is a war going on between the President Jacob Zuma and the Finance Minister Pravin Gordhan and that, the President is fighting a proxy war, using his comrade Tom Moyane (He was a comrade and family friend in exile with the President and, is much younger and, was personally appointed by the President to the position of Commissioner of SARS, a classic case of patronage because the Finance Minister was investigating the President and, reports suggest that there is a dossier which implicates the President and some of his cronies in huge financial scandals. It is for this reason that the President wants the Finance Minister out, before the issues becomes public knowledge and, can implicate the President and others very seriously). The Commissioner of the South African Revenue Services (SARS) (Gordhan was Commissioner of SARS previously and was responsible of transforming it to be one of the most efficient institutions in the country), and the Hawks have been instructed to investigate the minister for forming a rogue unit to investigate high ranking people and officials including the President and, for extending the contract of one of his friends at SARS, Ivan Pillay for a period of 7 years and, for paying him a pension of R1.7 million without the necessary authority to do so. Just four days before the Minister delivered his budget; he was served with a letter by the Hawks to answer 27 questions
concerning Ivan Pillay, the establishment of the rogue unit and other issues. The Minister of Police and the Minister of State Security came out guns blazing indicating that Minister Gordhan was being investigated for a protracted period of time, and that, the formation of the rouge unit was illegal. Both these ministers belong to the inner circle of the President and, it is well known as to how the Minister of Police defended the indefensible in respect of the Public Protectors recommendation that the President pay back a part of the money of R276 million used to build his Nkandla homestead. This indicates a clear plot against the Minister of Finance by the President. The Minister of Finance had indicated that he has nothing to hide and, all the issues raised by Tom Moyane and the Hawks were legal and sanctioned by the Cabinet. He met with the President and threatened to resign and, told the President that, it is either him or Tom Moyane who had to go. The President indicated that this was not possible and that, the Minister of Finance must cooperate with the investigation instituted against him. The division at the ANC headquarters and the Union Buildings the seat of the South African administration in Pretoria widened and, has split the ANC. It is unlikely that Gordhan will heed the ultimatum. Economists are now warning that the high – profile battle could inflict long – term damage on the economy with dire consequences for the livelihoods of South Africans’ (ENCA, SABC, ANN7 and the South African Media (2016).

Allies of the President state that Gordhan thinks he is above the law just because he is now the most powerful minister in the cabinet. The Secretary General of the ANC stated that the timing of the Hawks questions was an effort to destabilize the economy. Zuma’s office hit back at the Secretary General saying it noted rumours and gossip which insinuate some conspiracy against the Finance Minister. Another cause of tension between the both is the minister’s apparent determination to remove the close friend and confidant of the President, chairwomen of the SAA Dudu Myeni from the state – owned airline’s board. That the minister had informed the President about this move but received no response from the President. The South African press indicated that these politicians must understand that the Treasury battle was causing uncertainty that the beleaguered South African economy can ill – afford. One thing is certain if either faction wins, all of this will place the minister’s efforts to naught and that state – owned entities will be placed into the hands of incompetent people and that, poor leadership will continue. It is the future of South Africa that is at stake. This fight needs to be nipped in the bud’ (Sunday Times, 2016: 1 – 2). In spite of the strengthening of the US Dollar, the Shenanigans of the Machiavellian President saw the Rand slipping to R16. 16. He moves from one crisis to another and South Africa cannot afford to have Jacob Zuma in power for much longer.

The Mail and Guardian (2016: 2 – 3) points out that “Various people including other sources cite evidence of what they perceive to be a growing spat between Zuma and Gordhan, which are the following:

- Zuma’s announcement of a plan to increase the salaries of public office bearers, albeit only slightly, shortly before Gordhan presented a belt – tightening budget.
- The announcement by the Treasury that it would review some of the big contracts awarded by Eskom, including those involving the Zuma linked Gupta family; and
- Gordhan thanking former finance minister Nene in his speech, to much applause from MP’s, which was interpreted as a signal that they had not agreed with Nene’s firing. The President, Jacob Zuma sat in Parliament a lost and lonely figure during the delivery of the Finance Minister’s budget presentation.
- The sense is that Jacob Zuma has dropped all pretenses and thus his Machiavellian behaviour against Minister Gordhan is now unstoppable and, the relationship is destroyed beyond repair is
the reality and, the country and the economy now comes a sorry second in his eyes. Gordhan will be a serious casualty.” Can this assist the economy? The short answer is no - as South Africa edges rapidly towards junk status.

**UNFIREABLE** GORDHAN THREATENS TO QUIT: IF MOYANE DOES NOT LEAVE SARS

Some things only make sense with hindsight. Unless the President backs down in respect to his spat with Finance Minister Gordhan, Alec Hogg (2016: 2) states that “The country’s reappointed Finance Minister will quit. We will soon know if the Finance Minister is unfireable and, it would become clear that Zuma’s ham – handed attempt to prepare the nation for another financial shock. Gordhan said, if Moyane does not leave SARS, I go. Asked whether he now possesses the political clout to effect, proposed reforms, Gordhan responded with “We will only know about that, if I am still sitting in the seat in October, when the Mini – Budget is presented. He was deadly serious” (26 February, 2016 – 1 – 2). This is the grim reality as South Africa’s economic woes and shameless and frightful politics, under the Machiavellian President, continue to wreck the country and, completely wreck his legacy as one of South Africa’s worst President’s. In reality the President has no legacy to portray or defend. Playing to the gallery President Jacob Zuma “denies rift and said that, he would not fire Gordhan” (The Mercury, 2016:1). This statement was made by the President “As Gordhan received more support from the South African Communist Party (SACP) which may just be the tip of the iceberg and as forces rally behind Gordhan, Zuma is now increasingly vulnerable” (Business Day, 2016: 1 - 3). The President is vulnerable on the basis that the country awaits the verdict of the Constitutional Court as to whether he can be impeached on the basis of lying to the nation and compromising his oath of office, in respect to the building of his Nkandla homestead at the exorbitant cost of R256 Million and, going against the recommendations of the Public Protector that, he pays back the money for non – security costs. The South African courts are also dealing with the spy case saga, the charges of which were previously dropped against him by his hand – picked Director of Public Prosecutions. The President’s back is against the wall in – spite of the fact that he survived a no confidence vote, supported by the ANC in Parliament on the 1st of March, 2016. ANC MP’s served democracy a blow by voting for his survival in spite of his many indiscretions as a President. South African democracy can never flourish, develop, mature and be consolidated by ANC MP’s who vote against the grain of true democracy and, rely on patronage doled out by the President. This is the grim politics of South Africa.

**NO TIME TO TEST THE ABYSS AGAIN**

The hounding of Gordhan does not bode well for the country. What we see is the reality that South Africa has a shadowy unit of a discredited anti - corruption police, who are investigating the Finance Minister and, effectively harassing him. There have been no findings against him. “It lends credence to claims that this is part of yet another attempt to capture the last remaining institutions that have not been taken over by special interests linked to powerful politicians. In this case, it would be the same interests who stood to benefit from the removal of former Minister of Finance Nene” (Editorial, Business Day, 2016: 1). Minister Gordhan’s removal would put paid to any chance of averting a credit rating downgrade and, would be an economic catastrophe for South Africa. This saga has almost sealed the country’s fate in respect of a sovereign ratings downgrade because, the markets and investors cannot deal with a South African President that is surrounded with so much controversy and, is erratic within the framework of his continuing Machiavellian behaviour, serving his own interests and the interests of his political and business cronies whose success and positions are built around him, doled out on vulgar patronage. Should a downgrade unfold, he is unlikely to
retain the unquestioning support of the ANC leadership. “However, the political fallout unfolds; the current ructions are not good for the country. The capture of state institutions is a systemic problem that has undermined the country’s efforts to grow its economy. It is once more being pushed over the edge only three months after the removal of a competent former minister of finance, Nene. There is only one option left for South African’s, can they any longer put up with Jacob Zuma as President and, have to question the political system that is in place, and ask how much of this they want to put up with” (Editorial, Business Day, 2016: 14).

SOUTH AFRICA ON THE BRINK OF A BOND DOWNGRADE AS GDP GROWTH TARGET FALLS DRASTICALLY AND THE ECONOMY ON THE BRINK OF CONTRACTION AS DECLINE BITES

The GDP growth rate of the country has been downgraded to 0.5 percent. This spells disaster for the growth trajectory” (Statistics, South Africa in The Mercury, 2016:2) and “indicators reveal that South Africa being on the cusp of contraction because, it is on the brink of contraction, as the decline bites hard and ratings agencies have warned that anemic growth heightened the risk to junk status” (Business Day, 2016: 1). In other words the outlook for this year is weak and bleak. The effects of the drought and the absence of growth together with the country failing to stop increasing unemployment and poverty, together with an increase in electricity tariffs by 9.4 percent and, a threat of a mining strike, inflation, interest hikes spell disaster for the country. These factors will sharply curb spending by households and, coupled with a slowdown in government spending, all spell gloom for the country’s economic growth prospects. “Growth was far from what would be expected to achieve the objectives of the NDP, the statistician – general said. The NDP says 5 percent growth is needed every year until 2030 for South Africa to make inroads into poverty and unemployment levels. This is impossible together with a fall in manufacturing, services and commodities” (Business Day, 2016: 1). South Africa will not be in a position to pay its debt. The Mercury (2016: 2) states that “Economists in general have predicted that growth in South Africa for the last quarter would be as low as 0.4 percent compared with 0.98 percent for the same quarter in 2014 and 1.14 percent in 2013.”

Trust in South Africa plunges again and domestic policies floor the rand once more. Much of what makes the rand vulnerable is self – inflicted. Topping the list are political decisions that have eroded South Africa’s credibility. There are many reasons for rand weakness, including a President that fails to understand how markets operate with his erratic behaviour, including a stronger dollar, slower than expected economic growth in China, anemic Eurozone demand and continued woes in Japan. These are the world’s largest markets, and are also significant export destinations for South African goods and raw materials. The Business Day (2016: 12) reports that “Outflows from South Africa’s equity and bond markets are speeding up and, by the end of January they were pegged at about R16 billion a month for the previous three months. It is difficult to see how the rand will recover if the current account and trade deficits continue to widen. South Africa is importing far more than it exports, a situation made worse by the movements in the exchange rate itself.” There will always be questions about the levels of influence Gordhan has over economic policy at a time when rating agencies and, investors are looking for a sustainable growth strategy.

The Treasury is tasked with macroeconomic policy coordination by the Public Finance Management Act, but this to have been challenged, further eroding its standing. A key pillar in the effort to avoid a crippling credit rating downgrade is an economic strategy and the Finance Minister in his Budget failed dismally to outline a cogent intervention economic plan as rapidly as possible. It will be impossible to get this done because there is no rule of law, the Cabinet is split and a President that
simply does not care about the impending disaster of an economic downgrade, because he is caught up in settling political scores rather than governing the country. This sends out a clear message that in spite of the Minister of Finance’s good intentions, South Africa does not have the political ability and maturity to do what is necessary to reassure investors and, avoid the inevitability of a sovereign ratings downgrade that now looms on the horizon. This also means that South Africa will under Jacob Zuma continue with risky behaviour that will cause the currency to decline, causing untold harm to millions of ordinary people who have to deal with imported inflation, while incomes are under severe strain. Sanity must prevail or we risk being deemed a failed state.

JUNK STATUS HINTS BY TWO RATINGS AGENCIES
Given what has been described above, two top ratings agencies signaled that South Africa could lose its hard – earned investment – grade status this year, if economic growth falls short of expectations, underlining the ambitious goals to reduce budget deficits and stabilize debt. The financial credibility of South Africa is at grave risk, the agencies said. South Africa stands on the brink of a precipice, credit ratings have steadily fallen. Lower – than expected growth was the main concern said S&P and Fitch, which have given the country a credit rating of BBB –, the lowest investment grade. In December, 2015 S&P put a negative outlook on the rating, which means that unless circumstances change in the next 6 to 12 months or even much earlier, the next move is likely to be downwards. Moody’s also slapped a negative outlook on its rating but this is a notch above the other two. The likelihood of junk status like Brazil and Russia, South Africa’s Brics partners seems inevitable for South Africa and, it will join these two economies into possible recession. Fitch was more critical. “It emphasized that weak economic performance posed implementation risks and that, fiscal tightening could harm the growth outlook. The lack of detail provided by the Finance Minister in respect to tax increases of R15 billion budgeted over each of the coming two years undermined credibility, and plans to slash the wage bill would also be challenging. The ratings agencies said that the more ambitious fiscal targets were vulnerable to lower than expected growth. The announced budget lacks significant policy announcements that we think would immediately spur growth, or provide much needed business confidence to the private sector. The issue is also worrying and totally exacerbated by social instability and we would watch this parameter very closely” (Mariam Isa, 2016: 5).

Gordhan Lacked Clout to Deliver Rating – Rescue Budget Says the Opposition Democratic Alliance
Linda Ensor (2016: 2) states that “Gordhan did not provide enough in the budget to boost economic growth, and a sovereign rating downgrade to junk status is now a matter of time. The DA said that the minister did not have enough political clout to deliver on economic growth and state – owned enterprises. The DA also noted that the primary driver of economic growth in the NDP was infrastructure development, but not enough was set aside in the budget for this. A total of 10 percent of GDP should be spent on infrastructure development in terms of the NDP and the minister failed to deal with this crucial issue and that spending on infrastructure will decrease between 2016 – 2017 and 2018 – 2019. We generally give the budget thumbs down said Maynier of the DA” (Linda Ensor, 2016: 2). Other opposition parties said that cuts will make the defense force more of a casualty.

GODHAN’S COMPLACENCY PAINTS OVER SA’s GRIM REALITY SAYS FORMER COSATU BOSS
From the budget presentation Vavi the former Cosatu General Secretary said that “It gives the impression that South Africa is a wealthy, peaceful country with a few little problems caused by
world economic stagnation and the drought, neither of which the government wants to be blamed for. He further added:

- There is the grim reality of poverty, high unemployment, widening inequality and epidemic levels of corruption that confront the majority.
- That the minister was telling the ratings agencies that they have nothing to worry about and, certainly nothing to justify downgrading South Africa to junk status and, that, there is anything wrong and that the country is on the brink of revival.
- The reality is that the crisis is getting worse and that the minister maintained the path of austerity like his predecessors based on neoliberal policies of the 1990’s and its continuation in and with the NDP.
- He did not even make a token gesture of raising taxes of the rich and the fact that there is an illicit flow of capital to tax havens depriving the country of trillions of Rand of unpaid taxes.
- Social grants are to be increased, but well below inflation and generally there was much wrong with his budget.
- Nor was there any good news on the long awaited National Minimum Wage, Comprehensive Social Security Plan and the NHI.
- It remains an indictment. In reality a scandal that South Africa’s budget for universities as a percentage of GDP is lower, at 0.75 percent, than the African average of 0.78 percent, the world – wide proportion of 0.84 percent and the proportion spent by the OECD countries at 1.21 percent.
- The alarming feature of the budget speech was not the use of the word privatization, but it was clearly just that, and was a green light given to the capitalists.
- The budget speech does not represent any new direction. It blatantly refuses to accept the deepening crisis of poverty, unemployment and the inequalities or even the scale of corruption.
- The budget was a continuation of the old business as usual ignoring the plight of the black working class and the poor” (Vavi, 2016: 14).

In other words a radical approach was required by the minister and not tinkering with the system. This is exactly what he has done by playing into the hands of politicians. What Gordhan and his predecessors, have failed to do is recognize that South Africa is lacking a consistent ideological position from the ruling ANC, and that is filtering into many aspects of South African life, including this budget. He was unable to adequately tackle unemployment and inequality in this budget or project decisively on much needed growth and as to how to deal with high unemployment rates. The fear is therefore, that, another ratings downgrade notwithstanding, until the ruling government tackles these issues, the country will remain economically troubled. The budget will not easily please the ratings agencies.

**THE ANC BLAME SHIFTING EXERCISE IS UNDER WAY**

It has to be acknowledged that Finance Minister Gordhan was ultimately unsuccessful to pull two rabbits, fiscal consolidation and economic growth, out of the budgetary hat. He was unable to set out a compelling growth strategy, advance labour market reform, or remedy debilitating policy uncertainty that continues to deter investment. Simply put, he lacks the political power to unravel these complex ANC patronage systems” according to Butler (2016: 15). The boundaries of change were set by cronyism, the power of public sector unions, antipathy towards the private sector and public discontent about the economy. Gordhan received little support from his president Jacob Zuma, who continues to be the lynchpin of parastatal patronage. It is obvious that the ANC leadership refuses to look reality in the face. The ANC seems to be preparing itself for blame –
shifting exercises. If and when the downgrades come, neo – imperialist machinations are likely to be unveiled as the malevolent causes. The Secretary General of the ANC said “That the US government is mobilizing support for a regime change in South Africa. Outlandish international conspiracy theories find fertile ground in the ANC and are the order of the day. There are many examples of these conspiracies” (Butler, 2016: 15). The idea of regime – change is intended to disparage the electoral choices citizens make. Because the movement (ANC) represents the interests of the masses, and understands those interests better than the masses themselves ever could, a legitimate electoral defeat is by definition impossible. Former Deputy President Motlanthe “once described the Democratic Alliance as not truly South African, noting it targets poor people, if you can get the poor on your side, you can be in government. It is a fantasy world says Butler (2016) towards which South Africa may be soon hurtling.”

A MIXED REACTION COUCHED IN BOTH A POSSIBLE HIGH ROAD BUT MORE OF A LOW ROAD IN ZUMAS STATE OF THE NATION ADDRESS (SONA)

President Zuma launched a last minute bid to save his own and South Africa’s credibility in a speech heavily focused on the economy, aimed at staving off credit ratings down grade. It was a mixed speech that encompassed a so - called high road but in reality, it was much of the same. The President rehashed the same 2015 nine point plan that he outlined to the nation. The nine point plan was not actioned by government and the situation has deteriorated. Nothing tangible was put to the nation and international investors and, he lost the golden opportunity to place South Africa onto a path of complete economic recovery. However, Paton and Ensor state that “Although his speech ticked off some boxes which businesses and the investor community has in the past two months emphasized need rapid and serious attention. However, whether what he promised was enough and whether the general sentiments will be backed up with the necessary action is likely only to be determined after the budget speech of the Finance Minister on February 24.” Sketching a bleak picture of the global economy and conceding that some domestic constraints had worsened the picture, he acknowledged the danger of an imminent ratings downgrade and the need for action by government. He promised to fast – track partnerships with the private sector; to cut red tape; to address governance and performance problems in state owned companies, to encourage skilled migration into South Africa. This is a fallacy because many South African medical doctors and, a host of other professionals, qualified abroad and locally, have no opportunities for work in South Africa and remain unemployed, given the extreme shortages of doctors and other qualified professionals within the countries healthcare services and general public sector services. This is only the tip of the iceberg because it affects many professional sectors. He promised to promote tourism in the context of a competitive exchange rate; and to expedite regulatory certainty in the mining sector. He said that they presidential review commission will look at this and many other issues affecting South Africa. In reality, his speech was a damp squib. More rhetoric and short on action.

WHO’S TAXES WILL HELP SA BALANCE THE BOOKS – SOME FACTORS THAT NEED TO BE TAKEN INTO CONSIDERATION BY THE FINANCE MINISTER

1. When Finance Minister Pravin Gordhan reveals his budget balancing act with the aim of narrowing the budget deficit while promoting economic growth, analysts expect a hike in consumer taxes to feature prominently. The Minister needs to find between R30 billion and R50 billion annually for at least the next three years to fund the funding gap and restore fiscal health. In recent history the national budget had never sought to close such a wide gap” (Speckman, 2016: 3). This is a
conundrum that the Finance Minister is faced with. On the other hand revenue collection will be lower than expected at a time when real income per capita is falling. This is exacerbated by the worst drought that South Africa is confronting with spikes in food prices and rising inflation. Trimming expenditure alone will not be sufficient.

2. He may be forced to make unpopular decisions. A cut in the public servant wage bill and other issues that the ANC will not allow. This is left to be seen. Leoka (2016: 2) states that “Significant cuts in spending will require deep cuts to provincial budgets and a relocation of funds to generate efficiencies and a necessary option is to reduce the size of the government.”

3. Carol Paton (2016: 4) indicates that “Cutting government spending, reducing the number of government jobs, privatizing state – owned enterprises and raising taxes are issues that he must address decisively”

4. Funding higher education which is a time bomb waiting to explode, drought relief must be addressed; the controversial minimum wage which will affect businesses will be viewed negatively by investors.

5. Higher general taxes such as Value Added Tax, lower spending on government services and higher costs for basic services hurt poor people the most. Job cuts and putting the brakes on the National Health Insurance Plan are politically risky for the Finance Minister.

6. South Africa borrowed heavily to fund infrastructure and stimulate the economy, and now the cost of servicing the debt is out of control. Debt – servicing costs are the fastest – rising item of government expenditure and the Minister will therefore have to address this aspect seriously, as credit rating has deteriorated, the cost of borrowing money has risen drastically. He therefore faces a perfect storm, an economic storm unparalleled since the mid – nineties and a political storm as voters run out of patience.

7. Eskom, Transnet, SAA and other state – owned companies have also borrowed expansively to fund new infrastructure. The government is often required to guarantee this debt, which includes borrowing and guarantees to state – owned entities, has risen at an alarming rate and the Minister has to take due cognizance of this and home in these state – owned enterprises and bring about greater accountability. In reality according to Carol Paton (2016: 4) “In 2008, gross debt as a percentage of GDP was 32 percent. In 2015, it reached 57.3 percent. The government has a self – imposed gross debt ceiling of 60 percent and this is too high and disastrous. How will he deal with this situation”?

8. Ratings agencies are concerned, they want to hear, above all else, that the government will get spending and debt under control. This will be well - nigh possible in an election year and, therefore the Minister and South Africa is in a no win situation. To show this, it is obvious that he must stick to his plan to cut the budget deficit before borrowing to 3 percent of GDP by 2017 / 2018. This means cutting spending or raising taxes, or both. A difficult equation. In order to meet this 3 percent deficit target, it is estimated that the government needs to find an extra R30 billion a year on average over the next three years. An impossible task. According to Carol Paton (2016: 4) “Economists estimate that a 5 percent cut in spending on goods and services would raise only R10 billion a year.” Far short of what is required.

9. Increasing taxes also brings in surprisingly little. Raising the top tax rate to 43 percent for those who earn more than R1 million and to 50 percent for those who earn more than R2 million sounds like a good idea politically. But it would bring in only R6.8 billion according to Carol Paton (2016). This will also create the danger of many citizens leaving the country.
10. The most effective way to get more money would be to raise VAT. A 1 percent rise would bring in R20 billion a year. But this is the least palatable option because it will affect the poor and will not please politicians.

11. The Minister is in a catch twenty two scenario. He has to please both his political masters, secure the local elections for the ANC this year and has to tread cautiously and not upset voters because the growth prospects for 2016 look miserable. With estimates of less than 1 percent. Without igniting growth, tax revenues cannot rise and the government cannot spend to meet social needs. The easiest way out of the political trap is to cut spending on infrastructure. This will not go down well with the ANC alliance partners who have already objected to this scenario. But doing so will choke growth. It also not a palatable option.

12. Mills Soko (2016: 19) states that “The Minister has to pull South Africa out of the fire and must reassure investors that South Africa is not a banana republic (Wishful thinking) and, it must also pave the way for essential structural reform.”

13. The Minister has to tackle entrepreneurial activity in South Africa because the youth are not involved in this activity and their engagement is significantly lower than in comparable economies such as China and Brazil, both Brics partners.

14. South Africa is at a crossroads. And the budget, therefore, provides an opportunity for the government to restore credibility to its economic management, and demonstrate that it has clear vision and plan to stave off the economy’s long – run decline. This remains to be seen.

15. Without going into much detail Moody’s highlighted the risks to the economy and as things stand, it is hard not to see their report as a prelude to a downgrade. Inflation is seen as going up to 7 percent. Rand weakness and costly maize imports because of the drought will stoke inflation and this in turn will impact on higher food prices. It is obvious therefore, that food imports will also keep the current account deficit above 3 percent of GDP and the global economy will not help. Interest rates will rise constantly and will hit the consumer and the poor most. An unlivable environment is now in the offing for the majority of South Africans. There can be no magic by the Finance Minister given this dismal picture.

16. The Finance Minister has to understand according to Bloom (2016: 6 – 7) that “At the dark heart of the ANC government is the reality by the ANC government in wanting to generate revenues and redress inequalities, moves too far into tax hikes and not far enough into wastage and corruption busting, the corporations and the rich will start to obsess over the weather forecasts in Her Majesty’s overseas territories. Not that South Africa’s super - rich aren’t vacationing with their money on British soil already (In tax havens eluding the South African Revenue Services and in other tax hiding countries) – take a bow Christo Wiese, just that after the budget speech there could be a whole lot more work for the developed world’s bankers and lawyers, which means that the developed world will continue to pretend that we (The developing world) are in debt to them when in fact it’s them who are _ _ _. The game is rigged. And just in case you thought that as victims of the system we were entitled to a free moral pass, there’s something else to consider, something that not even the friendliest of tax haven investigators could help us out with.” The Daily Maverick last week, (2016) said that “Africa’s key lost revenue source is still kleptocracy, not tax (Does this sound familiar of Jacob Zuma, the Gupta’s and many more, Robert Mugabe and many other African leaders and politicians). Tax dodging by multinational corporations and the private elite and the ruling elite of Africa and South Africa is a bigger relative problem in the Republic of South Africa, but kleptocracy, bribes, outright theft, insider deals is growing out of proportion and is most vulgar. The Minister of Finance can do nothing about this devastating reality.”
17. Disposable income will be tight this year and therefore, the Minister has to get South Africa’s economic engine going, so that South African’s can save in order to create income according to Mawson (2016:16). The budget has to be more than a bookkeeping exercise and is also an instrument of economic politics and, in this regard Karodia (2013) states that “The budget is nothing but a reflection of government policies outlined in monetary terms. Good policies determine the economy and it is a balance between doing away with exotics, distributing funds accordingly into major social issues, curbing wasteful expenditure and must be aimed at service delivery and the empowerment of the poor and the nation as a whole.” The Minister must therefore be in a position to give substance to a wide range of platitudes and promises extended by President Zuma in his State of the Nation Address.

18. The Minister must assure the nation and the world community of investor’s fiscal and monetary discipline, and investor friendly and predictable, surprise free policies according to Mawson (2016:16).

19. The authors expect that the Treasury will lower its economic growth assumptions sharply and raise inflation assumptions for the next few years. There has to be clear pro – growth policies. South Africa has a shrinking tax base and he must take note of this.

20. Besides the obvious and predictable increases in sin taxes, an increase in personal tax rates is virtually unavoidable. It is also fair to state that taxes would go up, and this cost would most likely be borne by the middle to higher – income bracket earners.

21. To allay investor confidence, the Minister must not increase corporate tax rates at this time, but an increase in capital gains tax would be a feasible option. By the same token, he must not raise taxes on dividends tax.

22. He must be in a position to address conditions for sustained economic growth to attract investment and create more jobs.

23. The Minister has to produce a radical budget to save the country from a downgrade by ratings agencies” (Engel, 2016: 3).

24. There is no doubt that the cards are stacked against SA’s economic outlook says Nxedlana (2016: 10).

25. It has to be clearly understood by the Minister of Finance must not let dogma shape the budget because he has said that, the government would do what was necessary to prevent SA being downgraded to junk status. In tough economic times, nothing is sacrosanct and the nation awaits the outcome of his budget.

26. Payi (2016: 11) says that “Hard – to - read risks make SA junk status inevitable. It requires a special effort by the Minister to avoid this eventuality.”

27. The Minister has to see the reality and act. He must not be led to reconcile socialist desires in very trying times given that we engage within a capitalist system and, he must not try and out – the left by fulfilling the capitalist desire to promote investment according to Leon Louw (2016: 11).

28. He must address the President’s omission in the State of the Nation Address, in terms of the long awaited undertaking to implement the President’s promise of socio – economic impact assessments as a precondition for existing and proposed laws and policies. There has to be a decisive intervention to convert veiled talk of economic liberalization into purposeful action before it becomes hotter for South Africa and all South Africans. A tall order for the Minister of Finance.

29. Hilary Joffe (2016: 11) states that Gordhan must juggle growth, fiscal constraints and confidence.” In other words there has to be radical austerity measures that must be introduced by the Minister of Finance.
30. Gordhan must target offshore funds and must allow for a second amnesty which could rake in billions of Rands in undisclosed assets says Linda Ensor (2016: 1).
31. The Finance Minister according to Dick Forslund (2016:8) “Must find alternatives to austerity measures, making cuts in government spending now will only serve to push recession closer, further increasing unemployment. It is economically wrong and the people don’t want it.
32. Tipping point looms for SA as despair grows: Concrete interventions needed in Budget because trust has disappeared coupled with serious policy bungles (Potelwa, 2016: 16).
33. Gordhan walks fiscal tightrope: SA at risk of downgrade if investors are unconvinced (Business Day, Editorial, 2016: 10).
34. Gordhan can use his strong hand: Finance Minister has returned at a tough time for the economy (Mkokeli, 2016: 1).
35. Pravin to try rescue from junkyard: Things could hardly be worse and unpopular decisions will have to be made in an election year (Donnelley, 2016: 30).
36. Business warns about economy’s woes (Moorad, 2016: 1).
37. Being a fallen angel would hurt but is there redemption. A downgrade to junk very possible. (Mothata, 2016: 15).
38. Gordhan has to start rebuilding trust. If the budget is credible and not premised on overly optimistic forecasts and assumptions, it should be supportive of the Rand. However, investors are concerned about South Africa’s growth (van Niekerk, 2016: 6).

The above paints a picture of gloom and gave the Minister much advice to avoid a downgrade by rating agencies. The Minister’s woes continued when the Machiavellian President once more made a blunder by defending his choice of Desmond van Rooyen as Minister of Finance, after firing the competent Nene. He is clearly smarting that the ANC and business leaders made him reverse his poor decision that saw the rand plummet and, the economy of South Africa destroyed by his actions. The Mercury (2016: 1) states that “Zuma said that Cooperative Governance and Traditional Affairs Minister David van Rooyen was the best qualified candidate to serve as South Africa’s finance minister. He added “That thing caused such havoc. It caused such havoc and people think Zuma just woke up one day and took a decision. Some say that he was told by certain people to appoint van Rooyen.” He made this statement and other nonsensical comments at the inaugural meeting of the presidential press corps in Pretoria and further said that “You know van Rooyen is my comrade, MK (Umkhonto we Siswe - We ask as the authors, so what, South Africa is now fighting an economic revolution because of his mismanagement of the economy) for that matter, where I come from. He is a trained finance and economic comrade, more qualified than any minister, I have ever appointed.” He made these statements on the eve of Minister Gordhan’s budget speech. It was totally uncalled for and, such statements within a damaged economy are completely unnecessary, because markets react negatively to such ludicrous pronouncements. It appears that he has no respect for Minister Gordhan, is unconcerned of the implications to the economy and markets. He remains unschooled when he talks about van Rooyen as the best qualified minister in finance. Van Rooyen has no experience and only last year obtained a Master’s Degree in financial management from London amidst some other management qualifications. This is of no significance and consequence because, he has no respect within the ANC and, on financial markets and, was a failed mayor in the North West Province. Such statements do South Africa no good and, the President must be homed in by the ruling ANC for his continuing blunders that impinge upon the tattered South African economy.
GORDHAN FACED NINE CRUCIAL CHALLENGES ACCORDING TO THE AUTHORS BUT DID NOT DEAL WITH THEM ADEQUATELY

The Minister of Finance took the baton from the President who made an uninspiring State of the Nation Address, when he presented his budget. He had very little fiscal space and even less political space to respond to the economic crisis and, the risk of a sovereign ratings downgrade. The view held by so many according to Maynier (2016: 16) that “The Minister has a free hand to do what he likes is completely exaggerated, given the back peddling on retirement reform relating to the Taxation Laws Amendment Act, following political pressure from the Congress of South African Trade Unions (Cosatu). The political outlook is fraught: ruling party alliance partner, Cosatu, is threatened by the meetings by the ANC and business, as well as possible privatization of state – owned enterprises and so on. He was therefore, in a catch twenty two situation and was I not in a position to intervene decisively because he was subservient to ANC politics. He was in a no win situation and did not please the ratings agencies and therefore his budget, would not be in a position to avoid the inevitability of a ratings downgrade to junk status.

The Nine challenges were as follows according to the authors of this narrative:

- Unemployment;
- Avoiding Junk status;
- Economic growth;
- Fiscal consolidation;
- Revenue;
- Expenditure;
- Balance;
- Debt;
- State – owned enterprises

In terms of the social grants policy, it must be remembered that such a policy is only applied in South Africa and no other country on the continent does so. It is a safety network for the government that, has failed to provide employment to the masses, as unemployment rises and according to government figure it stands at 25 percent, whilst other sources place the figure at between 35 and 45 percent. Thirty two percent of the population of South Africa receives social grants and, this is very high. The system is also abused and serves the ruling government to garner votes. It is the economic jargon of a grant meaning that, it is unremitting transfer, which brings out its essential nature. Nothing is expected in return and therefore people do not have to work and contribute to the economy. They wait for this handout month after month. Many, probably most recipients of such transfers are well aware that they are living on the fruits of other people’s labour. It destroys self – esteem. It is a major flaw that the government and the Finance Minister have to address. In other words, the only way out of this dependency syndrome is that government must create jobs. To this end it has failed dismally. This will allow people to stand on their own feet and would serve the country economically. These jobs have to be self – sustaining and each worker must produce the equivalent value to the wage paid in the form of goods and services that are in demand.

WELFARE NUMBERS ADD UP TO FAILURE

The voting support of the ANC comes primarily from lower income groups and the “poor is based on being a munificent patriarch at taxpayer expense. The ANC cares and provides a better life for all, but the ANC hands out food parcels during election rallies. South Africa’s social benefits are not limited to pensions and grants because there are only 3 million pensioners receiving grants, 18
percent of the total grant beneficiaries of the 17 million. Social benefits include grants, housing, expanded public work programmes, “work opportunity,” wages and free basic services” (Johnson, 2016: 14). If one analyses what Johnson (2016) indicates, it can be confidently asserted according to the authors that at least 60 to 70 percent of the South African population live on different types of social grants. The government misguided is proud of the welfare programme; we ought to be ashamed that 32 or 60 to 70 percent of the country’s population of 53 million is receiving different types of grants. It is an indictment of ANC policy, and its competence, that the post 1994 economic model promoted big business and labours’ interests to the exclusion of small business, entrepreneurship and job creation.

Public sector salaries and social grants are the largest expenditure items and significant contributors to government debt. The Finance Minister will not be in a position to curb social spending because he has already received opposition from the government. But clearly it has to be done. According to Johnson (2016: 14) studies have shown “Social grants have been successful in reducing extreme poverty, but they have failed to reduce unemployment, which is worse now than in 1994, and poverty is still critically high.” There is very little hope that, the situation will change in the near future. In other words the Finance Minister must wake up with his government to take decisive steps to roll back the frontiers of poverty because the unskilled, unemployed and poor are doomed in South Africa to serfdom and welfare.

THE DAY ZUMA HANDED OVER THE LEADERSHIP TO GORDHAN AS THE NEW RECALLED MINISTER OF FINANCE

If Minister of Finance succeeds, South African’s must not expect President Jacob Zuma to reward or even thank him. Zuma does not admire competence. This is the long and short of his two terms in office. Allister Sparks (2016: 11) states that “the farce that the State of the Nation Address was and, equally an out of kilter President in a State of the Nation Address, that has become something of a bizarre spectacle, in the democratic era, particularly in a poor country wanting leadership and the eradication of poverty. With a convoy of 14 black Mercedes Benzes escorting President Jacob Zuma in a white Pope – mobile to the doors of Parliament, it was a display that South Africa could not afford when the economy is reeling. This does not give hope to the poor and to the economy that is in tatters.” It was hedonistic behaviour speaking down to the people. There was no semblance of humility by politicians dressed to their sixes. It was even more ghastly by a display of pomp and circumstance modeled on British royalty, in essentially a truly African democracy. It was plain, hard to believe ceremonial pomp and glamour that was uncalled for in difficult and trying economic times.” What has the Minister of Finance has to say about this when he is calling for extreme austerity measures amidst a sea of poverty?

The only sight in Parliament was that President Zuma was a diminished man. He looked stiff and strained. His speech lacked conviction and specifics and was littered with generalizations. He opened the door for Finance Minister Gordhan to make the changes that have to be made around avoiding junk ratings. In reality, in this moment of economic crisis, Zuma has in fact handed over the leadership of the country to the Minister of Finance, who he humiliated only recently by removing him from the Treasury to a more minor ministerial post and is now fighting a proxy war against him to discredit him and eventually fire him also. If we get out of the hole that South Africa was put into by the President, it will be thanks to Gordhan. He is tough and capable. What made him see sense was the anger of the ANC to the firing of former Minister Nene and the possibility of impeachment. Impeachment means that a President violating the Constitution may not receive any benefits and may not serve in any public office. He would lose every benefit and this brought about a
panic. What is certain is that the President has been wounded and, in actual fact has surrendered economic power to the Minister of Finance, to bail the country out from his costly mistakes and truly Machiavellian behaviour.

The President’s abnormal behaviour continues when one considers the dynasty he has created in terms of wealth for his family and friends in respect to dirty dollars amassed at the expense of the nation and the building of his R246 million homestead at taxpayers’ expense. His denials and not wanting to pay back the money saw a turn around and, he is now prepared to pay back a part of the money that that the Public Protector had recommended. This turn around has angered the ANC because in supporting him, they have to now be ashamed of their blinding support for his indiscretions. The matter has been taken to the Constitutional Court by the opposition Democratic Alliance and the Economic Freedom Fighters who have petitioned the court to rule against him for compromising the Constitution of the Republic and for going against his oath of office to serve the country with diligence, fairly and to put all else aside when governing the country.

It appears that the influential Gupta family is using Duduzani Zuma, his son as a proxy for his father Jacob Zuma. They are treading a well worn post – colonial path where political power and crony capitalism are bound in a tight embrace. Sam Sole (2016: 2) points out that “As Philippines political scientist Richard Heydarian has noted, Western powers ensured a cost efficient domination of colonial societies by co-opting the local elite. The national independence process largely cemented the grip of old elites by ensuring their dominance in critical pillars of the economy as well as parliamentary institutions. This is the reason that crony capitalism under Zuma is a common feature and amongst most developing countries.”

**THE MINISTER OF FINANC’S BUDGET IN A NUTSHELL**

This is summarized from the minister’s budget speech (2016) delivered to the nation from the South African Parliament, Cape Town:

- Since October’s Mini Budget, an additional R32 billion in additional taxes are being proposed over the next three years. Roughly half of this will go into higher education with just under R12 billion the commitment of capital to be injected into the new Brics Development Bank. SA injected R2 billion into capital for the new bank during December.
- Taxes will rise by R18 billion this year and a further R15 billion a year in 2017 – 2018 and in 2018 – 2019. This together with proposed spending cuts. Will result in the budget deficit falling from a projected 3.2 percent in the coming year to 2.4 percent in 2017 – 2018.
- Government spending will be cut by R15 billion a year from what had been tabled in the Mini Budget in October of 2015 through further spending cuts in, especially personnel costs.
- A consolidated revenue target of R1 324 billion is set for 2016 – 2017, or 30.2 percent of GDP. This is an increase of 8.3 percent of the 2015 – 2016 year.
- Government expenditure is proposed at R1 463 billion (up 6 percent), resulting in a budget deficit of R139 billion, or 3.2 percent of GDP. With expenditure targeted to grow between 2.5 and 3 percentage points less than revenue over the next two years. The budget deficit is projected to drop to 2.4 percent in 2018 – 2019.
- The reduction in spending and increase in taxes has been possible because the minister says the ANC is aware that the country is in a crisis. It is primarily targeted at appeasing ratings agencies which have threatened to downgrade South Africa’s credit rating to “junk.”
- The biggest chunk of the immediate tax increase will be generated by a 30 cents increase in the fuel levy. This will generate the bulk of the R9.5 billion extra to be paid in excise duties. It comes on top of last year’s 80.5 cents a liter increase.
Capital gains tax is to rise, and is expected to raise an additional R2 billion, half each from individuals and companies. Property transfer duty on super homes (over R10 million) is being increased from 11 percent to 13 percent and will raise R100 billion.

A new tax will be introduced in April 2017 on all sugar – added soft drinks.

A tyre levy to finance recycling programmes will be introduced in October, with tax increases also applying to incandescent globes. A higher plastic bag levy and the motor vehicle emissions tax.

Increase between 6 and 8.5 percent are being imposed in the duties payable on alcoholic beverages and tobacco products.

The balance of the higher tax revenues will be generated through fiscal drag. This year there is a modest personal income tax relief of R5.5 billion for low and middle income earners. An increase in the monthly medical tax credit has been granted.

An additional R16.3 billion has been allocated for higher education over the next three years, and R5.7 billion to keep fees constant at 2015 levels; R2.5 billion will be used to clear outstanding student debt with a further R8 billion injected into the National Student Financial Aid Scheme.

Government’s spending ceiling will be cut over the next three years by R25 billion, driven primarily by an increasingly powerful Chief Procurement Officer.

The new powers of the Procurement Tsar will include monitoring of state – owned companies’ procurement plans and supply chain processes, and reviews all contracts above R10 million to ensure value for money. His mandate is to achieve savings of 5 percent a year in the next three years from the R500 billion procurement spending.

The successful Renewable Energy programme will be expanded to include gas and coal products. The proposed nuclear programme is still on the table but the size and scale will be assessed with affordability criteria.

The Treasury currently expects growth in the South African economy to be just 0.9 percent this year, after 1.3 percent in 2015.

The Industrial Development Corporation will invest R100 billion over the next five years, including R23 billion to support black industrialists.

Tax revenue for the past year rose 8.5 percent but was R11.5 billion below budget.

Among projected savings is less money to be transferred to meet shortfalls at State – Owned Enterprises. Comparatively radical proposals for the ANC have been tabled to fix, close or merge State – Owned Enterprises and introduce more private sector participation including through the sale of minority equity interests and co – investment. Privatization remains very much off the table.

A new e – tender portal kicks off in April when it will become obligatory for the entire public sector. This is expected to ensure procurement transparency and standard pricing. Among the consequences is an end to newspaper advertising and printing of tender documents.

International agreements on information around the fund flows and assets of multinational corporations and individuals kick in from 2017. A six month amnesty will be offered from October for “non - compliant taxpayers to regularize their affairs and time is running out for taxpayers who still have undisclosed assets abroad.”

About 150 000 tax free savings accounts with a limit of R30 000 have been opened with savings totaling R1 billion.
A merger to be explored between SAA and SA Express, the board of directors strengthened and a minority equity partner introduced to create a bigger, more operationally efficient airline.

Government guarantees to State – Owned Enterprises now total R467 billion or 11.5 percent of GDP and is putting pressure on South Africa’s sovereign rating. This will be addressed through co – funding in Public Private Partnerships.

Transnet is leading the way through the acceleration of private sector participation in the ports and rail sector.

A further R598 million has been allocated to enhancing capacity of Public Order Policing units.

Ahead of the Municipal elections, National Treasury will launch a data portal to provide all stakeholders with comparable, verified information on municipal financial and non – financial performance. The number of municipalities will be reduced from 278 to 257 after a significant change in demarcations costing R400 million.

Bus rapid transport systems that are operated in Johannesburg, Tshwane, Cape Town and George will be extended to Ekurhuleni and Ethekwini this year at a cost of R6 billion.

R475 million has been reprioritized to the Department of Small Business Development for assistance to small and medium enterprises and cooperatives.” (South African Budget, 2016).

The African National Congress and its alliance partners were happy with the Ministers budget but, economists in general including opposition parties were very disappointed with a lackluster budget that, did not prepare the country from the possible consequences of the inevitability of a ratings downgrade. In other words the minister’s budget cut some fat but in the main was not good enough. The editorial of the Times (2016: 12) said that “The Minister’s Budget was good in small parts but it was not good enough, as the initial reaction was negative on the markets, the Rand fell by 3 percent and so did government bonds, probably because of the perception that, it did not do enough to address concerns about growth.” Will the ratings agencies take a more sanguine view? This is hardly likely. He may have bought some time until the Mini Budget is tabled in about 8 months – time. Whether this will avoid a downgrade is left to be seen?

OPPOSITIN PARTIES REACT TO THE MINISTER’s BUDGET AND OTHER REACTIONS

The Democratic Alliance (DA) said that the spending cuts were not deep enough and said that cuts should have included slashing President Zuma’s bloated Cabinet down to 15 ministries saving the fiscus about R4.7 billion.” Julius Malema of the EFF, in an uncharacteristic move praised Gordhan and said South Africans should rally around the minister because he has averted a downgrade” (Wishful thinking). The IFP said that “It was a well – crafted speech” (This may be true but it was crafted for the ANC and not for the nation and markets). The African Democratic Christian Party (ACDP) said that “They thought that the Minister should have spent more time and money addressing the crisis brought on by the drought. We are talking about food security in the long run and this was not addressed. (The Mercury, 2016:2) Louis Flanagan (2016: 2) said as a reaction to the budget that “There are fewer taxes but more high earning taxpayers. There is a major drop in total registered taxpayers, but there are 91 993 more taxpayers and more than 42 000 new taxpayers who earn more than R1million a year. The Treasury stats indicate there are fewer taxpayers in all in the lower income categories and, this was not sufficiently addressed by the minister.” The Business Report states that “Minister Gordhan tabled a prudent budget but the Rand and bonds fell sharply but, it is left to be seen whether he will avert a downgrade. It added that the dwindling tax base may force further increases in the future and that the country’s tax revenue is below the 2015 forecast and is very worrying.” The Business Report (2016: 9) said that “Although the reaction to the budget is
pointing to a balanced budget, government revenues will, however, continue to remain vulnerable to a further deterioration in economic conditions and rating agencies will stringently assess the realism and ability to rapidly institute the new initiatives.” According to Ngobeni (2016: 8) “The budget contains ‘bold targets but concerns linger, says Standard and Poor because the minister did not outline strategic plans for economic growth. That the minister pledged to narrow the fiscal deficit but South Africa is at risk of losing its investment – grade credit rating status. The risks are tabled hereunder in the two graphs below: Rising debt under Zuma and IMF cuts South Africa’s economic growth forecast:

In a shock statement to the ANC the Minister of Small Business said that “Small business allocation by the minister is just not enough. This addition of R475 million can never be enough for us to reach out to both small businesses and cooperatives and the informal sector. The minister should have realized that that supporting small businesses would help lessen the social security burden on the state.” On the other hand the authors believe that social grants in a period of economic decline, high food prices and high interest rates make a mockery of the grant per month, lifting it by R80 to R1500 per month. If the government does not increase this grant of R1500 per month to at least four five times, the current amount, it will cause great hardship to the old and the poor.

Hilary Joffe (2016: 13) points out that Gordhan’s framework relies on optimistic growth levels. It was the old repeated again in a time of economic turmoil and when downgrade is looming on the horizon and, in this regard, it was continuity with the budgets of the past three or four years, since he began on the path of fiscal consolidation. In the short term, the more disciplined numbers the minister tabled might be enough to fend off a downgrade by the ratings agencies. But even if they are, the threat of junk status is still very much there. The global environment is unfriendly and South Africa’s own goals inhibit its growth even more.” What needs to be understood is that Minister Gordhan’s fiscal framework relies on growth forecasts, particularly in the outer two years that are more optimistic than many in the market. He will not be in a position to fool the markets and by implication investors and the ratings agencies. It relies, too, on the political leadership being willing and able to implement the cuts that have penciled in and, on Gordhan having the political cover to deliver on the budget promises. The authors do not believe that he will be able to do so because he will have to be subservient to his political principles, the ANC, its alliance partners and above all to the vociferous and uncompromising trade unions.

The Business Day (2016: 1) in its economy section states that “Shrinking growth leaves South Africa still at risk of a downgrade. Its economic growth will shrink even further this year and, there seems to be few plans on how to get it out of this quagmire. Providing, a strong platform for economic growth requires supporting private investment, addressing infrastructure bottle necks; improving policy coordination, certainty and implementation; improving labour relations and the ease of doing business.” However, the lower GDP forecasts do not bode well for stock market valuations and capital inflows in the medium – term. The current account shortfall is expected to be 4 percent of GDP this year, and to narrow slightly to 3.9 percent next year in 2018. Growth imports will slow this year because of sluggish domestic demand and the weak rand. Manufacturing performance will therefore be down because of electricity problems at least until next year. Growth in services will be affected by moderate household consumption growth, weaker disposable income growth and high indebtedness. Further exacerbated by diminished spending by households because of rising inflation, food prices and interest rates.
A FURTHER CRITIQUE OF FINANCE MINISTER PRAVIN GORDHAN’S 2016 – 2017 BUDGET

Given the dismal picture that the narrative painted in respect of the South African economy, in all three papers in this series, the authors believe that, the Finance Minister fell short, and he played to the gallery of ANC politics in an election year. In other words the budget he presented was a timid effort and not robust enough to save South Africa from a sovereign ratings downgrade by ratings agencies. There can be no excuse that, he was in the finance portfolio for two months only because, he was South Africa’s Finance Minister for a protracted period of time before he was recalled to the finance portfolio. The authors will first outline the nine issues (outlined earlier in the narrative) captured above in the narrative to determine whether his budget addressed the following:

1. **Unemployment**: There are 8.3 million people who do not have jobs. We believe that giving hope, especially to 5.4 million young people who do not have jobs, or who have given up looking for jobs was an imperative that he did not address adequately and, skirted around this very important issue, in order to grow the economy. An employment tax incentive (ETI) was implemented after a long political battle for a Youth Wage Subsidy. The ETI incentivizes employers to provide young people between the ages of 18 and 29 with jobs and work experience. The minister fell far short in terms of reviewing the implementation of the ETI and allocate funding for a rollover of the incentive between 2016 – 2017 and 2019 – 2020. He lost a golden opportunity to do so and to create opportunities for employment and subsequent economic growth.

2. **Avoiding junk status**: There is no doubt that rating agencies are in South Africa keenly watching government intervention strategies and are ready to downgrade South Africa. We are hovering just above sub – investment grade territory. Given the outcomes of the budget presented by the Finance Minister, it did not instill confidence to the markets and the markets are a true reflection because, after the Ministers budget the rand fell by more than 3 percent and so did government bonds. It is obvious that the Minister was succored into pleasing the ANC and its alliance partners and, indeed the Congress of South African Trade Unions. He plainly did not do much and, therefore, a rating downgrade is now inevitable. Even, if South Africa averts a downgrade, the economy is in shambles and a downgrade will most certainly be implemented within the next 12 to 18 months or even earlier. This will raise the cost of borrowing and will result in capital outflows, lead to further currency weakness and increase the cost of living with higher inflation and interest hikes for ordinary people in South Africa. The Minister of Finance lost his opportunity to bite the bullet and win back investor confidence and did not adequately address the risk factors, including weak economic growth, although he spoke of fiscal consolidation, this has to be seen whether, it will be carried through because of the propensity of government spending which will be exacerbated by the local elections in 2016, on the basis that there is a very serious threat to the ANC losing the elections in some major metropolitan constituencies. This is also exacerbated by high debt levels which the minister said will be addressed in 2016 by bringing it down to 3.6 percent and then 2.4 percent. He did not place an action plan on the table, as to how this will be undertaken. He was not strong on the privatization of state – owned enterprises. These are all serious issues that were not adequately addressed.

3. **Economic growth**: The National Developmental Plan (NDP) still faces opposition from the trade unions and it envisages economic growth rates at an average of 5.4 percent per year from 2010 and 2030. This is pie in the sky and will not be achieved for a protracted period of time on the basis that economic growth from 2010 has slowed down drastically and, this is continuing unabated and, in 2016 the growth rate has been downgraded by Moody’s to 0.5 percent and to 1.5 percent in 2017. Although the Minister alluded to the NDP, he did not say much as to how it will be actioned and
implemented. The World Bank indicates that South Africa requires a growth rate of 7.2 percent a year to meet the targets of the NDP. This is a pipe dream. The biggest binding constraints holding the economy back include a shortage of electricity, an inflexible labour market and a skills mismatch. However, when it comes to economic growth, there is little that the minister announced and technically speaking he can do nothing tangible in this regard and, he did not even mention the structural reform needed which would have required fundamental changes to economic policy which were not addressed in his budget speech.

4. Fiscal consolidation: We give credit to the Minister in this regard that he mentioned the importance of fiscal consolidation to the South African Economy. The former minister announced measures to narrow the budget deficit, and stabilize debt and rebuild fiscal space. The new minister has made a clear commitment to continue fiscal consolidation and mentioned it in his speech and, said that, he will maintain the consolidation process and maintain the main budget non–interest expenditure ceiling, which was set at R1.15 trillion for 2016 – 2017. A tall order but the nation will wait to see how this is achieved in spite of 3.6 percent in 2016 – 2017 and, to lower the deficit by 2.4 percent in the next budget.

5. Revenue: In spite of the minister’s assurance in his budget speech that there will be fiscal consolidation and the cutting of wasteful expenditure. His efforts was to please the ruling ANC and did not go to the heart of the problems that South Africa is confronting. He used band aid tax collection methods of insignificant importance like a tax on fizzy drinks and a tyre tax and, lost the opportunity of raising taxes for the rich and raising revenue through a one percent increase in Value Added Tax which would have brought in substantial revenue. All done and said it was in terms of financial interventions a weak and poor budget for problematic times. It has to be clearly understood that, however, weaker – than projected economic growth will result with this budget and it will not be in a position to pull the country out of its economic quagmire. Lower than expected consolidated revenue of R1.31 trillion in 2016 – 2017 will be the damning result. This despite additional revenue raising measures of insignificant consequence, principally an increase in some brackets of income tax, an increase in the fuel levy of 30 cents per liter, and revising gross tax revenue targets down by R14.6 billion for 2016 – 2017. All of this points to the reality that there will be significant shortfalls in 2015 – 2016 and 2016 – 2017. He did not raise VAT and gave tax breaks to middle income earners in an election year, raised slightly dividends tax, and capital gains tax. The minister played to the tune of his political masters indicating that he is a “lame duck” and cannot bite the bullet when required, projecting himself to be tough but in reality is weak and, should have clearly announced not only insignificant partial privatization of the South African Airways but clear cut proposals for the loss making state– owned enterprises. He should have dealt decisively with non – strategic liquid assets, such as the sale of the government’s stake in Telkom (and other entities), which would have raised an estimated R11 billion. On the other hand, he should have got rid of non – strategic immovable assets, such as land and buildings, which would also have raised billions of Rands in revenue. The sale of the government’s stake in Vodacom was a good start, raising R25.4 billion in revenue in 2015 – 2016. This momentum was lost by the minister in his current budget. Any future revenue raised through asset sales should and must be “ring fenced” and spent on the development of infrastructure to boost economic opportunity for growth and job creation. He most certainly lost this opportunity.

6. Expenditure: Cost containment measures announced are important, and they do send the right fiscal signals, but they are largely fiscal spin, providing political cover for failing to deal with the really big fiscal risks and mega projects including (“This was seen days after the budget was presented in
that, government departments, and the municipalities, did not adhere to the ministers call to curb wasteful expenditure, when the Durban municipality announced that it would be taking more than 20 councillors on a working cruise to the Portuguese Islands at a cost of more than R250 000. The Correctional Services Department has defied belt – tightening efforts announced by the minister, when they awarded a tender worth R370 million when they only had R16 million in their coffers. They are spending money that they just do not have and are blatantly defying the minister and Treasury regulations. Such happenings continue on a daily basis because there are just no controls and no accountability. Wasteful expenditure is a norm in South Africa and as long as people are not prosecuted, this will continue unabated” (The Mercury, 2016: 2- 3). the nuclear build programme, and the National Health Insurance scheme. The very high public sector wage bill, which because of inflation linked increment, will have to be revised up and cost more than the estimated R524 billion (2016 / 2017) and, R569.4 billion (2017 / 2018) and R615.6 billion in 2018 /2019. What was required and the Minister failed to achieve was real spending cuts, rather than cost containment measures, which will be well - nigh impossible in an election year, exacerbated by a public service and its politicians propensity to spend and to ignore the rules and regulations which has become a norm in the public sector of South Africa. Technically the budget failed to clearly identify comprehensive spending review aimed at identifying savings and eliminating wasteful expenditure in all three spheres of government. A comprehensive spending review would have meant and should have been announced and, must entail that the Treasury, working together with the national departments, provinces and the municipalities should have reviewed spending, the efficiency of spending, future spending priorities, for example on the NHI, the public sector wage bill and so on. In other words there should have been a total onslaught irrespective of displeasing the ruling party and its alliance partners that, the review would ensure without deviation that spending cuts on consumption expenditure rather than investment expenditure, which must not fall disproportionately on provinces and municipalities. The minister lost this important issue by not tabling it in his budget.

7. **Balance:** The lower than expected revenue, taken together with the higher than – expected expenditure announced by the minister, will definitely put pressure on the estimated consolidated budget balance of plus / minus R140 billion or about 3.3 percent of GDP, in 2016 – 2017. This will definitely increase the borrowing requirements, above the estimated minus about R165 billion or minus 3.7 percent of GDP in 2016 – 2017 as announced by the minister. Whatever the case and no matter what the minister attempts to do, it is a reality that the consolidated budget balance of minus R140 billion or minus 3.3 percent of GDP will breach the “red line” of 3 percent of GDP, in 2016 – 2017. This is very serious and is a clear indication that a downgrade looms on the South African economic horizon.

8. **Debt:** Gross loan debt is expected to rise from R2.15 trillion, or 48.6 percent of GDP in 2016 – 2017 to R2.59 trillion, or 49.4 percent (rounded to 50 percent) of GDP, in 2018 – 2019. Net loan debt is expected to rise from R1.94 trillion, or 45.4 percent of GDP in 2018 – 2019. The rate at which debt levels are increasing is most alarming: net loan debt increased by R1.3 trillion, or 239 percent, from R526 billion in 2008 – 2009 to R1. 8 trillion in 2015 – 2016. Debt service costs, including debt repayments and interest payments on debt, are now the fastest – growing expenditure item in the budget. The minister papered over this in his budget and did not paint the precise dangerous picture for the nation and particularly politicians who believe that the country has tons of money available, hidden somewhere and waiting to be spent. Debt service costs are projected to be R146.6 billion (2016 – 2017), R157.2 billion (2017 – 2018) and R174.6 billion (2018 – 2019). This means that South Africa will be spending about R474.4 billion over the next three years on debt service costs,
which is more than double the R203.5 billion that the country spends on basic education in 2015 – 2016. This reality was also not painted by the minister. High debt service costs are crowding out social spending and are set to increase unless debt levels are stabilized. The minister alluded to this but it will not be easy. The firing of the former minister and an erratic President has shattered confidence in government’s commitment to hold a fiscal line and the new Minister has to contend with this and, has no control with regards this phenomenon. Thus to avoid a ratings downgrade, the minister did not show the use of a combination of revenue raising measures and meaningful expenditure cuts in terms of his commitment to fiscal consolidation by: reducing the consolidated budget deficit this year to below 3 percent. Maintaining a consolidated budget deficit below 3 percent of GDP for the years that lie ahead. Maintaining the debt – to – GDP ratio below 50 percent between 2017 – 2018 and 2019 – 2020. The nation, the politicians and above all the Minister of Finance because of playing to the tune of the labour unions, the ruling ANC and its predatory elite, will not to be enough to avoid a ratings downgrade in South Africa.

9. **State – owned enterprises:** There are 300 state – owned enterprises with a net asset value estimated to be in the region of R274 billion (2013 – 2014) rounded off to R1 trillion as stated in the budget (2016 – 2017). A presidential review committee on state – owned entities made recommendations to improve the performance of state – owned enterprises in 2013. There are a number of failing state – owned enterprises that are constantly and, for years bailed out by government. The minister failed to deal with this vexing issue decisively in his budget and should have mentioned comprehensive privatization plans and mechanisms to intervene. He glossed over the issue and again played to the gallery afraid of his political masters and, the trade unions to bite the bullet, and pit an insignificant proposal as concerns the partial privatization of SAA, with government still being the majority shareholder. He lost a golden opportunity to privatize and to serve the interests of the country because these state – owned enterprises are an economic burden to the state and, the nation and in the main are loss – making entities. The minister, therefore, maintained the status quo to the peril of the country.

The final analysis as concerns the discussion thus far taken Minister Gordhan did not:

1. Do enough in his budget to avoid a sovereign ratings downgrade of the economy of South Africa.
2. He did not do much in terms of providing greater relief to the poor.
3. Dealing with the problems of Higher Education, some increased amounts were provided, but he did not go far enough to diffuse a time bomb waiting to explode.
4. Drought relief was not catered for adequately and the country will pay for this omission, in the months that lie ahead, food prices will rise drastically, inflation will soar, interest rates will rise consistently, the rand will weaken, the poor will get poorer and the government will not be in a position to halt service delivery strikes nor the economy of the country as debt rises and, the country will have to contend with a downgrade.
5. Technically speaking his budget was a damp – squib.

**DOWNGRADE MAY BE JUST WHAT SOUTH AFRICA NEEDS**

There is a large body of literature that argues that often things have to get really bad before the necessary economic reforms are introduced. Economists have shown that crises can be welfare – improving in the medium term, because their heavy costs force economic adjustment and reform, eventually leading to faster growth. Leoka (2016: 2) points out that “Do crises induce reform? Simple empirical tests of conventional wisdom argue Drazen and Easterly that, a crisis does not only induce reform, but is also necessary for it. Therefore, in countries where the political system does not lead to reform when needed, forced adjustment may be the only solution.” A related argument is
that easily available external funding may delay economic reform further and, therefore, make the eventual adjustment more difficult. For example, a government that can easily borrow abroad may use such borrowing to postpone necessary reforms, because there is less urgency to cut a high fiscal deficit when it can be easily financed by borrowing abroad. As argued by the IMF, external financing, acts like a pain reliever, postponing the much – needed treatment. If this is the case, a sovereign rating downgrade for South Africa, may not be as bad as it’s made out to be because it could be the rude awakening South Africa needs.

Leoka says (2016: 2) that “We talk of structural problems as if they are a permanent and unsolvable characteristic of South Africa. They are not. The most certain solution for our structural problems is economic reform and South Africa has not made sufficient progress in tackling its many constraints. These include a shortage of skills, infrastructure blockages, the structure of the labour market, barriers to entry that limit new entrants into product markets, the regulatory burden on small businesses and the capacity of the public service.” In reality, post 1994, South Africa out of its own volition has not reformed the economy to the extent that, we have become resilient to global currents. The Finance Minister’s budget confirmed that South Africa has a long way to go before it can see sustained growth. Reforms must not be delayed and politics must not become the order of the day styming development and growth and therefore, delaying much needed reform. The country continues to increase social grants without dealing with the major problem of job creation and education. Politicians increase the education budget without dealing with the issue of low quality education. Policy measures that provide short – term solutions are counterproductive and delay the need for much needed reform. “South Africa’s 10 year bond yields are trading at about 9.30 percent, a little higher than when former minister of finance Nene was unceremoniously removed in December of 2015. At these levels, the market has not been particularly punitive, but should the country sees an increase in risk premiums, the country may be forced to make tough decisions” (Leoka, 2016: 2).

The big question is, if a downgrade is inflicted upon the South African economy, will it make South Africans in general, the unproductive and inefficient public service and, the private sector, coupled with the predatory elite and politicians to acknowledge governance failures that have been inflicted upon the people. Will it make all these sectors, more productive, more resilient and efficient, in order to work harder and grow the economy, in order that we become a self – sufficient people, interested in saving the country from the morass we have been placed into, by poor governance and the mismanagement of the economy, by a government that has lost its way and ability to govern? As things stand, the authors do not believe that, this can be achieved in the short and medium term. The starting point will be to become more productive and that, our efforts should be geared to stopping the endemic corruption that permeates the country and, all citizens, including the public service, the private sector and politicians, must become accountable to the nation in a process of moving forward, once and for all. A downgrade will assist South Africa to understand that it cannot be business as usual. It has to become a winning nation. The process of reengineering a new society, a structural reform process and putting into place an accountable government lies with the voters of the country, who have been very complacent over the first 21 years of democracy. The time has come to shape a new democratic South Africa and to prepare it for success. This dream is indeed not far – fetched but at the moment under the present government, it is a dream deferred. Where and how shall we begin? This requires a national consensus barring politics, which must not be allowed to highjack the dreams and aspirations of South Africans, who have been badly let down by the body politics of the country.
MINISTER OF FINANCE PRAVIN GORDHAN SAYS DOWNGRADE WILL NOT BE THE END OF THE WORLD

Generally speaking and in terms of the discussion in this narrative, the Minister of Finance Pravin Gordhan has agreed that his budget has not done much to avoid a rating downgrade and, justifies this by stating, that South Africa has been there before in 1994, when it had to fight for an upgrade. He misses the point because in 1994 the democratic government led by the ANC had to deal decisively with apartheid debt and, there was a large inflow of capital into the country by overseas countries, desirous of seeing that South African democracy will be consolidated and, that, the country will become a beacon of hope in Africa. Today, he does not state that the rating downgrade would be because of the corruption and mismanagement of the South African economy, by the ruling ANC government, after more than two decades of South African democracy and, technically countries are not interested in South Africa because, of the endemic corruption and economic mismanagement of the country, coupled with the economic turmoil that they have to contend with.

Mariam Isa (2016: 5) states that “The minister said that fending off a downgrade depends on business and labour to spur growth. It does not matter if it is too little too late. At least people would say we tried. In wanting to appease investors Gordhan would undertake an overseas roadshow to European destinations (UK and USA) to meet with business leaders and investors together with the ratings agencies to discuss his 2016 budget.” Critics have indicated that in many ways the budget ticked all the right boxes, however, there were no new initiatives to boost growth and, this was a major downfall of his budget. The Minister of Finance must acknowledge that, he did the country a great disservice and, played the political game within his tabled 2016 budget, that the ruling ANC wanted him to play but, to the peril of the country. Mariam Isa (2016:5) points out that “The biannual review by S&P, traditionally the most critical of South Africa, showed that the average sovereign credit rating around the world had fallen by one notch since 2008, while South Africa has been downgraded by two notches since 2012 by the agency. A move to below investment grade would make South Africa one of the worst – performing countries since 2008 with regards sovereign credit ratings.” Gordhan has indicated that “ratings agencies no longer just looked at the country’s fiscal stability and indebtedness, they wanted to know where growth was coming from, and took the political economy into account (Gordhan in Isa, (2016: 5). The minister’s take on this aspect of growth is out of kilter because, his budget did not take the political economy of South Africa into account because, he played to the political gallery and eroded the chances of decisive economic intervention through sound political choices and, was unable to charter a decisive growth path in most difficult times, in terms of the diminishing political and economic reality of South Africa. Figures announced recently did not support for South Africa’s chances of keeping its investment grade rating, because the economy only grew 0.6 percent in the final quarter of last year, bringing the expansion rate during 2015 to just 1.3 percent from 1.5 percent in 2014 and 2.2 percent in 2013 and 2012. It will further diminish in 2016 and 2017. Given the economic disaster in South Africa, the Times (2016:4) reports that “the rich are fleeing the country and this will adversely affect tax revenue collection because South Africa has a very small base of taxpayers. This is the reality that confronts South Africa as the population loses hope with the ruling party and, therefore, given the political, economic and social issues that confront the country, a ratings downgrade is now on the horizon and it is inevitable, irrespective of what the Finance Minister says and spins. The downgrade of the South African economy is now an almost certainty and, the Minister of Finance’s visit to the UK and the USA to meet with the ratings agencies and, captains of business (from these countries) in March of 2016 will be of no consequence. This is because, since tabling his
budget in February of 2016, nothing has improved and, in reality the economy of South Africa, is further sliding into an abyss. This is exemplified by the reality that “The current account deficit has widened to 5.1 percent of GDP and exports are dwindling. This has happened despite a weaker rand and dividend receipts from abroad decreased. The trade gap more than doubled to R57 billion in the fourth quarter as exports, excluding gold, fell 3 percent to R969 billion. Imports rose 1.1 percent to R1.1 trillion in the three month period” (Business Report, 2016:1; Business Day, 2016:1). It has to be understood that, “Even though the depreciation in the exchange value of the rand boosted the export earnings of domestic production, the benefits were negated fully, by the further decline in international prices of South African export commodities in the fourth quarter” according to the Reserve Bank (Potelwa and Vollgraaff, 2016:1, In Business Report).

According to Bloomberg (In Business Report. 2016) “The gap of the current account, the broadest measure of trade in goods and services had increased from a revised 4.3 percent in the previous three months and, the deficit would reach 4.4 percent according to 12 economists surveyed.” South Africa relies mainly on foreign investment in stocks and bonds to help fund the current account shortfall, but these inflows were drastically reduced in the fourth quarter as investor confidence in the government weakened. Another worrying factor is that the rand weakened the most against the dollar, among its emerging market peers. It is therefore, obvious and a reality that, the weaker rand, which has declined 22 percent against the dollar in 12 months, was likely to intensify cost pressures in the economy. All of this highlights the country’s external vulnerabilities and therefore, for certain the rand will remain under pressure. The above normal inflation also does not help and, on the other hand Foreign Direct Investment (FDI) fell 14 percent to R13.7 billion. This is the reality and, therefore, South Africa is in a precarious economic quagmire which it cannot come out of and, this spells disaster for the economy of the country and, will most certainly lead to a sovereign ratings downgrade sooner than later. Economic conditions are worsening in South Africa and this spells disaster for the country and, its people. The Sunday Times, and the Business Day (2016: 2 and 2016: 1) state that the “fracas between the Minister of Finance and the Hawks investigating him continues unabated and, immediately after the Minister’s arrival from his overseas roadshow attempting to stave off a ratings downgrade, he was served with a second letter to answer the 27 questions with a deadline of Monday the 14th of March by 4 pm. This does not help South Africa and politics is once again at the helm of the toxic political framework of South Africa and at the expense of the economy.” The Sunday Times (2016) that “South Africa has only three months to save itself from a sovereign ratings downgrade and, therefore, the credit ratings agencies hold the South African economy’s fate in their hands because, they will need to see concrete action by June, 2016 and, their visits are looming, and, therefore, South Africa can ill – afford politics taking centre stage, as the inevitability of a ratings downgrade looms on the horizon because of the mismanagement of the economy. This reality will soon dawn to the peril of the nation.”

**CONCLUSIONS**

In a paper and narrative of this nature it is not possible to project on conclusions on the basis that the narrative captured the conclusions throughout the discussion. However, the authors summarize some conclusions as follows:

- The Minister of Finance did not deliver a credible budget in order to take the country out of the abyss of a sovereign ratings debate.
- His budget was a political budget to please his masters and the ANC alliance partners, but this was also not well done.
- It was technically speaking a band – aid budget.
• The opposition parties felt that the budget lacked a trajectory of clearly outlining a growth plan and did not deal with the unemployment and poverty issues adequately.
• Given the political upheaval within the ruling government, growth figures are constantly being downgraded and this stymies the much needed growth and development trajectories of the country.
• Growth figures for the implementation of the NDP are a figment of the imagination of the government and a 5 percent growth will not materialize.
• There is now a distinct risk of capital flight.
• The rise in electricity tariffs does not augur well for the population and will add to the burden of high inflation.
• Cuts in social spending were not adequately addressed in the budget and wasteful expenditure continues unabated since the budget was presented.
• Poverty, unemployment and inequality were not addressed by the minister of Finance in his budget.
• Endemic corruption and political patronage continues without a plan to curb this scourge.
• For all intents and purposes the country is in recession and this is denied by the Finance Minister and the government.
• The government is spending more than it is earning.
• There is very poor policy direction by the government and the trade deficit is increasing at alarming proportions.
• There will be an increase in interest rates.
• Inefficient policy scenarios to deal with the burden of state – owned enterprises and the drought.
• For all intents and purposes the privatization of state – owned enterprises is all lip service because the government cannot bite the bullet in this regard.
• A complete breakdown in the mining industry with a loss of jobs within a fragile and poorly performing economy, coupled with a slow down in manufacturing and commodity markets and no clear policy for the industrialization of the country.
• The rich are fleeing the country because there is no economic direction by the government.
• No clear policy to deal with the drought and to bail out agriculture that is reeling, thus threatening food security.
• Very poor policy mix is out of line in terms of the volatility of all sectors.
• Very poor governance and accountability within government and a poor performing public service.
• There is an erosion of disposable income exacerbating the circumstance of the poor and middle – income earners.
• There are greater imports and lesser exports.
• Rising import costs.
• Labour unrest.
• Amidst a host of other conclusions outlined in the narrative of this paper, South Africa faces the inevitability of a sovereign ratings downgrade by ratings agencies.
RECOMMENDATIONS
In a paper of this nature, it is difficult to make finite recommendations because recommendations were made throughout the paper. Amongst the most important recommendations the following are made:

- South Africa has to rid itself of a Machiavellian President (Jacob Zuma) who has destroyed the economy of the country. He continues to govern on the basis of political patronage.
- South Africa has to set itself economic targets and abide by the rules of the game and clearly outline a trajectory for economic growth and, to create the opportunities for dealing with the very high unemployment rates affecting the country.
- It has to curb the propensity for spending and to hold its ministers accountable and to trim the number of ministries.
- Public service numbers and their salaries have to be drastically trimmed.
- The privatization of all inefficient state - owned enterprises that are an economic burden must be dealt with decisively.
- Infrastructure development must become a priority.
- A clear plan to deal with increasing debt must be outlined and adhered to.
- Politics must not be used to stymie economic recovery and development which has become the order of the day under the ruling government.

CONCLUSION
This series of three articles dealt with the Fiscal and economic quagmire that confronts South Africa. The second paper brought to the fore the shenanigans of a Machiavellian President, the firing of a Finance Minister and the economic consequences that followed. The final paper outlined the budget tabled by the Minister of Finance, who did not table a convincing budget to take South Africa out of its economic and fiscal crisis. It alluded to a host of other issues pertinent to the economic debate in South Africa, and the difficulties that the Finance Minister confronts in the form of a Machiavellian President, who moves from one mistake to another and does South Africa great harm. The three papers clearly outlined the economic woes that South Africa is faced with and eluded to the all – embracing reality and, the consequence of a sovereign ratings downgrade to junk status which is now inevitable. This is now a reality. Such a situation will relegate South Africa as an inconsequential player on the world market and it will bring greater hardship upon all sectors of the South African economy and, will impact negatively on the greater population of South Africa that live in extreme poverty, resounding inequality and who are confronted with very high unemployment rates. This is the reality that the ruling government has not clearly understood under President Jacob Zuma. It will take years to remedy the economic challenges that confront the country and, this will add to the woes of a population that has been hard done by the ruling party that lives on its past revolutionary credentials that does not really put the bread on the table and, therefore, lives on its past glory of having contributed significantly to the liberation of South Africa from the Yoke of apartheid history and oppression. It is a legacy of the past and the ruling party continues to live and behave as though South Africa belongs to it and, not the masses of poor people. Economically, South Africa is now in the doldrums and something must be done to take it out of this quagmire or the country will face an insurrection of great proportions. On the other side of the equation is the reality that South Africa’s biggest trade partner China, which is one of the top five economies of the world, was on the 3rd of March “rated by Moody’s as an economy to be in the broad band of negative status because of its debt laden burden. This was lowered to negative from
stable which highlighted the country’s surging debt burden and questioned the government’s ability to enact reforms. At the heart of this negative rating Moody’s said that, “it would revise the outlook to stable if the nation reduces its liabilities by restructuring state – owned enterprises” (Business Day, 2016: 4). If this is the situation for China, which is South Africa’s biggest trading partner and, one of the largest world economies, it spells disaster for South Africa, coupled with the mismanagement of the country’s economy and, a South African budget that, did not enthuse any confidence, in relationship of a decisive growth path, a sovereign ratings downgrade is now inevitable for the beleaguered South African economy. Hard times have arrived for a country that sits on an economic disaster. The political economy behind the budget was dangerous. South Africa needs its leaders to look forward and steer the country away from economic ruin. In the final analysis, “if President Zuma does not cede important ground and grant the Minister of Finance and, his new found political backers the concessions they need to run the government, in the way that tough economic times demand, then the ANC leadership may have to face up to the unpleasant task of removing him. The President has to beware the Ides of March, lest he gets the political sums badly wrong and therefore, will find more than one Brutus waiting in the wings to plunge long political knives into his back” (Calland, 2016:23). It seems as things stand now within the political framework and within ANC politics that, the end is nigh for President Jacob Zuma of South Africa and, there is no doubt that under his leadership and presidency, the country has been relegated to an equation of unprecedented endemic corruption, vulgar political patronage, increased poverty, widening inequality, unprecedented unemployment, low morale and absolute economic disaster. The South African Nation waits with bated breath as rating agencies prepare to announce their decision in respect of a downgrade of the economy on the 3rd of June, 2016.

BIBLIOGRAPHY


