



IT'S NOT SO GLOOMY

There is much to celebrate about the state of SA, and we are at a unique historical position to effect positive change with hard work



SA has enjoyed only three months of hope, after suffering nearly a decade of creeping decay and lost opportunity. That imbalance of experience makes it easy to be cynical and untrusting.

It has become all too easy to overlook the positive forces that have been at work in the country in recent years, and to underestimate the potential that exists for positive change.



123RF/Aleksandar Naskovski

It is my belief that SA has many core strengths and that its challenges can be met. I am comfortable, on a daily basis, to invest pensioners' savings into this country.

We all know the bad news. So, to explain my confidence, I'd like to offer some perspective.

SA has witnessed a remarkable political change: a new president, new cabinet and clear evidence of a crackdown on corruption.

The Futuregrowth credit team has, since the fourth quarter of 2016, been in engagement with the six largest state-owned enterprises about issues of governance. We found that four had reasonable governance structures and practices and, subject to certain changes, we recommenced lending to them. Eskom and Transnet have been at the centre of serious allegations and these are being inves-

tigated through various parliamentary and judicial processes. Our analysts continue to be in discussions about governance and improved disclosure with both these organisations and are finding them co-operative. We have not yet recommenced lending to either.

As we look back, there are some very positive signs despite the past difficult decade:

- SA's constitution and judiciary have stood the test. The principles of the constitution were defended repeatedly by a free and independent judiciary.
- SA's incredibly free press played a critical role in creating a channel for truths to be aired and for the public to become aware of the problems.
- Democracy itself has played a key role. The ANC suffered meaningful setbacks in the municipal elections of 2016, and the mood of the electorate was a clear warning that change for the better was vital for the party and the country.
- Civil society found its voice through whistleblowers, e-mail-leakers, writers, academics, entertainers, financiers and others.
- National treasury is the linchpin of fiscal control, and has a strong culture, with many dedicated professionals.
- Often forgotten, the Reserve Bank has constitutional protection, a clear mandate and independence.
- And SA has a large, professional and ethical investment community with a strong pension fund investment culture, legal frameworks and regulatory oversight.

As a bond investor, I deplore the weak standards in SA's listed corporate bond market. However, that perspective can do an injustice to SA's very strong equity market and

its remarkable government bond market. Both are world class.

Finding support

Today, SA has no more governance problems in its public and private sector than many other economies. And we are in a unique historical position to effect positive change. As we seek to improve both credit market standards and corporate governance standards we are finding support, including from co-investors, regulators and the JSE.

Globally, corporate bond markets have deep, longstanding structural flaws that work to the disadvantage of investors. But I believe SA could well be the model for a new generation of global standards in credit markets.

Despite good global growth in recent years, domestic mismanagement has undermined fiscal accounts and economic confidence – resulting in low domestic growth, credit-rating downgrades, and worsening inequality.

That said, the economic outlook is brightening:

- While GDP growth estimates are still pencilled in at between 1.5% and 2% for 2018 to 2020, the rise in confidence gives a likelihood of materially better outcomes.
- Domestic inflation remains subdued, offering scope for monetary policy flexibility.
- We expect better fiscal control and growth to stabilise SA's credit rating.

As we approach the 2019 national election there will no doubt be comments and crosswinds. This may be unsettling, but during my 28 years in SA good sense has ultimately prevailed. ✕
Canter is the chief investment officer at Futuregrowth Asset Management

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