

'Classic Business' - 'The Week That Was' Transcript 16 Oct 2026, with Michael Avery

MICHAEL AVERY:

Well, time for 'The Week That Was' - in a week that saw the IMF downgrade South Africa's 2026 growth to 1% ahead of next week's 'mini-budget' - while the sub-Saharan average growth is 4.6% - a week where Rwanda has put South Africa to the post to host Formula One - and as we wait for Enoch Godongwana's to pull out of a rather 'mangy' hat next week. I'm joined by Warwick Lucas, Private Clients Portfolio Manager at Vunani, and Professor Raymond Parsons from the Northwest University Business School and the University of the Western Cape

Warwick, let's talk about the IMF and that 1%. The markets have spent a lot of the year rewarding South Africa. Actually, if you look at it, the rand has actually been quite strong. Commodities, though, coming off have also helped us. Our bond yields have improved. Foreign investors have shown flashes of interest, and even the ratings agencies have been positive. How do you reconcile that with an economy still growing at roughly 1%?

WARWICK LUCAS:

Hi Michael. I think in terms of what market returns actually look like there's a lot of 'moving parts' to market returns in general in the past year. And if I, for example, look at the returns on the MSCI Emerging Market Index, approximately 45% of that comes from memory chips in Korea - another 30% comes from TSMC of Taiwan - another 22% comes from assorted AI 'pick-and-shovel-type' businesses - and only 2% of that index return comes from the rest of the market.

MICHAEL AVERY:

Wow!

WARWICK LUCAS:

And one could segment that probably further into what the 'zigzags' are that add up to that 2%. My point is that they're messy. The markets have benefited from things that are substantially outside SA's control in some areas - precious metal prices, movements in the dollar, and generally a hunt for yield in the global context - notwithstanding that interest rates have gone higher, but that's because of general credit and inflationary concerns.

But South Africa itself earned some improvement in its 'risk premium', but you can see that that has come through in the bond market. So let's look at, say, 10-year bonds, SA versus the US. So, our 10-year bond is yielding approximately between eight and a half and nine %, depending on the day of the week that you look at it, versus the US - that just keeps going higher and higher and that's bouncing around between five and five and a half % at the moment.

So, when you then adjust for inflation in each country, there's still a big gap between SA and South Africa, but the point is it's not nearly as big as it was. The market has rewarded that credibility, as Raymond has pointed out in the past, the fact that we're great to lend to. But in terms of - are we a great place to invest in? Well, that's something else. We've still got quite a lot more credibility to establish there.

MICHAEL AVERY:

Raymond, just building on that, and that's perhaps the most uncomfortable number in the IMF growth forecasts. It isn't the downgrade in SA 's 2026 growth from 1.1 to 1% - it's really decimal points. It's the comparison. Emerging markets, 3.7%. Sub-Saharan Africa, 4.5%. So it's not like we were hit by the war in the Middle East, and everyone else has been, you know, downgraded massively - we're an outlier.

We've spoken repeatedly this year about logistics, electricity, visa reform, private investment, Operation Vulindlela. All of those are supposed to be good things - so if all those reforms are genuinely moving the needle, why is the growth dividend still so anaemic?

RAYMOND PARSONS:

Hi Michael. Three uncomfortable things initially strike me about South Africa's present growth outlook, even though, as we've frequently confirmed, several reforms are indeed pointing in the right direction.

Firstly, as you indicate, we compare badly with other countries in the sub-Saharan region, as well as with comparable emerging markets in general. We are badly benchmarked when we look at several of those comparable economies, some of which have less economic potential or resilience than South Africa

Secondly, the IMF has also indicated the extent to which South Africa's low growth rate is also 'a drag' on the SADC regional economy, as the main player in the region. And that shows up also in the IMF report.

And then thirdly, of course, as you say, everyone is now revising their growth forecasts in the light of changed circumstances. For example, I would like to mention Nedbank, which up until now was also hovering around a forecast of 1.2% GDP growth this year, have now brought it down to 1.1%, with downside risks. Not a big change. But the important point I'm wanting to make is the extent to which now our optimism or our pessimism about the economy seems to just revolve around these various decimal points - we're not thinking boldly enough as to how we can do better.

And, of course, structural reforms are, in many ways, a marathon, not a sprint. So there are time-lags that we must accept and be patient about. But think for a moment for how long, and over how many years, have we been talking about this agenda of reform and what is needed for its successful implementation. The National Development Plan alone, for example, dates back to 2012.

So I'm saying at this point, if we unpack the delays, state capture, corruption, all the investigations, capacity gaps, the policy mistakes, lack of timelines and the policy uncertainties that have so often surrounded the well-intentioned reform program in many ways, I emphasise one key overall message. It is that in both the medium-term budget and in our overall policy approach - this time we must try harder to get more things right the first time around. These cumulative mistakes and protracted delays have become extremely costly on the investor front. We need to do much better - to strengthen credibility and policy certainty - on the reform front by being seen to at least get more things right the first time around.

MICHAEL AVERY:

We know 'it's a marathon and not a sprint', but we've run a couple of 'Comrades Marathons' in the time that it's taken the president to just move to get the ESG on board to agree finally to consider whether or not it should be moving transmission away from generation and 'unbundle' the bloody thing. How long has it taken? We are growing at rates that are giving populists on the left and the right more than enough ammunition 'to take to the streets' to lynch foreigners. There's rising xenophobic sentiment. Snails would make the president look absolutely lightning fast!

RAYMOND PARSONS:

Well, Michael, the bottom line is indeed we are not implementing speedily and effectively enough the things we have often said we are committed to - and extent of this disappointment outweighs the various good things that we think we have also been doing. It further means that our whole approach to our monetary and our fiscal policies is also often lopsided, because other policies are not reducing the lags on the growth and investment fronts

MICHAEL AVERY:

Warwick, before we move to the budget next week - and we edify Enoch with some ideas or suggestions - if we could move sustainably from 1% to, let's double it, 2%, 2.5%—let's not be too ambitious—where would you see the convexity? Where is the big opportunity? Banks? Small caps? Industrials? Which part of the JSE would really 'run' if we managed to finally break out of this 1% low-growth trap?

WARWICK LUCAS:

Yes, banks are an obvious and easy starting point from the point of view of the conservatism and the competency of the management groups. Obviously stronger growth means a bit more demand for productive credit and so on, because really the banks have been very careful with the lending books, given how weak the situation with employment growth has been. That's one of the most important positions for banks - no employment growth, then you can't lend.

Retailers, it's going to vary. You obviously have some that would really enjoy the expansion on the PCE and general consumer side of the economy. But you've also

got to sort of filter out those that might have been getting mauled by the likes of Shein and Temu 'eating their lunch'. So that's one area to be a little bit more selective in.

And the industrial smaller companies: one really wants to look there for what is the operating gearing? What is the financial structure? Bearing in mind, of course, most of those are usually very geared to the local economy. So the improvement from cheaper funding and financing, and more readily available credit, is quite strong.

So, yes, as you say, a 'bump' to two-and-a-half in the growth rate would be attractive. But, of course, in the global context, one also needs to remember we still have to compete globally for capital. And the latest example: even if China is not making so much running, which it isn't, but it's still a dynamic economy. And then you have the prospect of a Bolsonaro win in Brazil, which could quite substantially draw capital. So the point is, even if we do things right, we still have to be sure that we're doing better than our potential competitors for capital.

MICHAEL AVERY:

And there's a lot of work to get us to that point. Yes, I think it was Allan Gray that was—or Coronation—saying that they see much better returns in the Nigerian stock market at the moment as well, which also doesn't have as much exposure to AI. A long way off from saying that in emerging-market circles about the JSE.

It does bring us, rather neatly, Raymond, to what confronts the finance minister next week? Commodity prices and stronger SARS collections have created what looks like some fiscal 'breathing room'. But the year-to-date numbers do show expenditure running ahead of budget and the preliminary deficit wider than the proportional budget path that we saw in February.

So, what is the real fiscal position going into this MTBPS? Because we still spend roughly 20 cents on the rand servicing our debt. Will it be pleasantly better than February, or merely less bad than it might have been?

RAYMOND PARSONS:

Well, Michael, as with all this decision-making the National Treasury as always faces some tough choices. And it's easier to spell out here what they should be doing given the known constraints. But that's our job - to contribute to the debate and to how they might think about various options.

To me it seems that, if you take a 'snapshot picture' of the latest fiscal metrics, it's looking quite reasonable

- also because, as you mentioned, the tax revenues have been up. SARS has done a good job this year. We previously also had good commodity prices. So the snapshot picture will look manageable, with some analysts' estimates even of a R50 billion plus 'windfall' budget gains being possible at this stage. The challenge is what the fiscal outlook will be if you look beyond this year - over the next three years - and where we are looking at some of the growth projections of only about 1.2% or 1.3% next year,

with downside risks. What are we going to do to be able to manage South Africa's public finances within a narrow 1%-2% growth corridor?

There's little the government can do in the present fiscal picture on the spending side, because fiscal policy is constrained by a primary fiscal surplus. In a nutshell, what does that mean? It means that the government is taking more out of the economy through taxes than it injects through spending. That is what a positive primary surplus means. By achieving this in recent years the National Treasury has successfully demonstrated that it can successfully manage government spending to have prevented debt from spiralling out of control.

Now, a country can live with higher debt if its economy is growing rapidly, because the debt will then shrink, of course, relative to national income and potential tax revenue. If you can improve the GDP figure, you can contain the actual debt figure to a much bigger extent. In other words, a primary surplus stabilises the 'numeral', which is the debt, but structural growth is what expands the 'denominator', the GDP. The strength of the budget message for South Africa will therefore mainly lie in what you can do to accelerate, reinforce, and finance off-budget structural reforms, and hence boost investor confidence.

So, what you can then say is, yes, I am going to have a 'balanced budget' in the sense that I'm going to protect—I'm going to protect the primary surplus—but I'm also going to address fiscal challenges through the drivers of higher growth. And also when we talk about the primary surplus, it's therefore not just a simple arithmetic issue, as many analysts treat it. The 'quality' of that surplus is also relevant and must also be constantly interrogated.

So that eventually comes back to the issue of - when you look at the spending side of the budget - what, for example, is the balance between consumption and investment? What the budget has to do is to reflect whether the Finance Minister is giving much more priority to the investment side of the budget, as compared to the consumption side? Success here in the medium-term budget is also a reminder that the quality of the primary surplus remains important, not just the better arithmetic number thresholds.

MICHAEL AVERY:

Yes. And we're probably looking at narrower room than we were expecting at the start of the year, just given how commodity prices have come off the boil, particularly gold and platinum group metals. And Warwick, just put a market price on possible failure for us? If Treasury nudges the deficit up -

if debt peaks later - if expenditure keeps creeping higher - where does the punishment appear first? Will it be at the long end of the bond curve? Is it the rand, or the banks? Where could investors react negatively to a budget that does surprise on the downside?

WARWICK LUCAS:

I suppose my first instinct would be that the long end of the bond market would suffer first. But, I mean, the rand would almost certainly respond almost immediately and simultaneously. So, yes, a deterioration in the fiscal outlook changes the ability for—or the amount of borrowing, I should say—that government needs and the compensation that investors would demand for holding that debt.

And it's important in terms of getting that picture right: if government receives more revenue than expected, what does it do with it? We certainly want to see that, if Treasury receives a nice temporary commodity windfall, that it resists turning that into some kind of permanent spending commitment, because that is a disaster. Because you're creating a fundamental mismatch. Commodity prices jump around all over the place, so to turn that into another annuity against the Treasury is absolutely 'a no-no'.

That can't happen.

MICHAEL AVERY:

Yes. The ratings agencies clearly think something has changed. S&P has upgraded us; Fitch has delivered its first upgrade in almost 21 years; and Moody's has us on a positive outlook and is making all the right noises ahead of this budget. And against that, we've also seen global sovereign yields rising quite sharply again. So South Africa is almost looking less bad in the global neighbourhood as well.

But for me, it's got to be growth. We have to see a budget that in some way tries to hold the fiscal line, while finding some 'wiggle room' to catalyse growth again. Raymond, what would you like to see from the finance minister?

RAYMOND PARSONS:

Well, let me put it this way. At the outset, just to deal with the short term, I'd like to, in a mischievous way, suggest building on what was said by Warwick earlier about this expected 'windfall', if it occurs. If an unexpected global shock is nonetheless accompanied by a concurrent unanticipated windfall, is there a reciprocal opportunity here to do so some offsetting here? In short, is it possible to match an unexpected economic setback with a surprise windfall gain, at least to some extent? So, you could say that some of that windfall should be, in the short term, put in the direction of some kind of appropriate but temporary alleviation of the economic pain of the higher fuel prices?

That said, however, it comes back to the bigger question of the credibility of the budget as a whole, and not just a better primary surplus. An important issue is, against the background of South Africa's greater resilience and economic buffers, how can you build on that in the 2026 medium-term budget? Once the Finance Minister has delivered his mini-budget and has ticked all the conventional boxes we want - such as the primary surplus, the deficit-before-borrowing, debt-to-GDP ratio, disciplined

government spending, a fiscal anchor etc I want him to take note of what Michael well said in an article in the 'Financial Mail' a couple of weeks ago.

What I am therefore echoing is that, at the end of the day, the overall metrics and message of the 2026 mini-budget must strongly say to decision-makers in the private sector that they are fundamentally and enthusiastically now wanting to be somebody 'who wants to build a factory, hire a worker, sink the shaft, finance the small business and take the entrepreneurial risk'. That is the broad message I would like to see emerge from the 2026 medium-term budget.

MICHAEL AVERY:

Hear, hear! Raymond Parsons, thank you very much, from Northwest University Business School, and Warwick Lucas, Private Clients Portfolio Manager at Venani, with an exceptional wrap of the week that was and a preview of the week ahead, right here on 'Classic Business'.

Ends