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On this 91st anniversary of "Black Friday," the day Wall Street crashed ahead of the onset of the Great Depression, South Africans have cause to ponder the imminence of another major economic event in OUR history; next Wednesday's Medium-Term Budget Policy Statement which will inescapably prove whether or not the ANC is serious about reforming the SA economy.

What the international investor community – and the International Monetary Fund – will clearly be watching for is the nuts and bolts of hitherto promises of how Government will significantly reduce the fiscal deficit. Elephant in the room is the contractually-agreed Civil Service pay cheque which Finance Minister Tito Mboweni has long argued the nation cannot afford. Investors will accordingly be watching intently to see if he will be able to hold his ground.

If he blinks on Wednesday and civil servants get their increases, that budget item will balloon to over 60 percent of ALL tax income! Already he has been obliged to concede the R10.5-billion SAA cash injection he so bitterly opposed so I am not optimistic. Neither is ShareFinder's long-term projection for the JSE!

While everyone outside of Government is in total agreement that the public service pay percentage is completely unsustainable and respected international monitoring organizations have long pointed out that on a per-capita basis South Africa has one of the biggest public services in the world, this group represents a powerful voting block which the ANC is clearly afraid to alienate. So, the BIG question that remains unanswered this Friday is whether Finance Minister Tito Mboweni has sufficient Cabinet backing to implement the pay cuts he has long threatened?

The other side of the equation is our post-Covid shrinking tax base of some 3-million people – that's less than five percent of our population – together with a dramatically diminished business sector which, if it is still alive after the Covid lock-down, is unlikely to have made much taxable income and is probably only producing VAT income for the Government at this stage.

Cynically, the average South African taxpayer represents a defensive minority which considers itself an "alien enemy" of the ANC whose own voting majority is of course the abovementioned public service and those on the receiving end of the dole. Thus, it is telling that studies of the house sales market indicate more than half the tiny upper-income end of Personal Tax contributors are actively looking to emigrate and take what is left of their investment capital with them.

Furthermore, the most reliable source of such taxes is from corporate PAYE which is also in deep distress.

To quote the Financial Mail's Stephen Cranston and Rob Rose in a very telling article this week, "This month, the National Credit Regulator (NCR) revealed that in the three months to June, millions of South Africans fell behind in their repayments for home loans, vehicle loans and other credit.

"In those months, 780,000 accounts were "impaired", as customers fell behind in their payments. And the number of customers "in good standing" fell to 16.9-million.

"It means that, right now, 37.1% of the South Africans who have credit are either behind in their repayments, or have some adverse listing, like a judgment, against them."

From Government perspective, it is probable that the great majority of the 2.2-million who have lost their jobs either temporarily – possibly half of them – or permanently are either domestic workers or employed in the informal sector whose incomes are probably below the tax threshold. So, few of them matter to the Receiver of Revenue although their VAT contribution certainly does.

Of far greater concern though is the 37.1 percent of South Africans who are behind on their mortgage and motor vehicle hire-purchase payments. The loss of either of these assets through bank re-possession is arguably a "last resort" situation which deeply underscores the financial crisis that has engulfed the country.

What it plainly boils down to is that Tito Mboweni must either alienate an important portion of ANC supporters by cutting social welfare benefits and civil service pay amounts or taxpayers while recognizing that at 45 percent our top taxpayers are already among the world's most highly-taxed people who in terms of the well known 'Lasser Curve' principle will arguably deliver a lesser total amount of tax income for the fiscus if tax rates are raised.

Truly Tito has only one workable alternative which is to courageously go where the ANC has never ventured before; to go for raw capitalism which so many international studies have shown is the only way a nation like ours could create jobs and recover from the economic morass we find ourselves in. But it is plainly repugnant to the majority of a Cabinet whose only economic training was in Soviet Russia!

Anyone privileged to have listened this week to a webinar featuring Sibanye-Stillwater CEO Neal Froneman would have been left both elated and deeply distressed. Froneman who, despite a swashbuckling approach to mining that harks back to the era of the Randlords, has in recent years injected sparkling new life into a twilight industry all but abandoned by the great mining houses of old. This week, however, he confessed that he had all but lost hope that South Africa has any future.

In a moment of honesty to a degree that few private sector leaders are prepared to offer these days, he referred to ongoing discussions with ANC leadership which indicated that they completely understood the dilemma - the crossroads the country now stands at - but Froneman said, they simply could not see themselves embarking on the realistic options facing them. Doing the right thing, he argued, would see the end of the ANC but, not going down that road would soon take us to a total economic collapse.

Tellingly, Froneman spoke of our unrivalled mineral resources which the world desperately needs and of completed mining projects ready to go into cash-generating operation which are lying mothballed because of a lack of reliable long-term Government commitment. These, together with scores of industrial knock-ons could alone go a long way to solving our world record levels of unemployment. All they require are believable long-term government policy commitments which our Cabinet seems unwilling to offer.

So Tito, I am writing this to you because you receive this column each week, your choices are arguably the most stark since the Parliamentary debate of the late 1930s which, by a few slender votes took us into World War Two and which at times in the following few years brought us perilously close to outright civil war as well.

Our unemployment rate is the reason why there is already a low-level crime war in this country which explains incidents like last week's Senekal confrontation. You as Finance Minister have stark choices to make and D Day is upon us. If you blink, we could well be lost!

But, if you want a foretaste of Cabinet thinking on fiscal probity, Public Enterprises Minister Pravin Gordhan yesterday announced that there was "Full Cabinet backing" for the R10.5-billion SAA loan. It was a clarion call which foreign lenders cannot possibly have missed for it is a clear indication that the ANC simply does not get the fact that millions are starving because the government cannot afford to help them but it is still prepared to support vanity projects that benefit the connected few!

SIGH!

Do enjoy your weekend!

The months ahead:

New York's SP500: I correctly predicted that a new decline had begun on October 13 and I expect it to continue until early January when a strong three-month recovery is likely.

London's Footsie: I correctly predicted a continuation of the long-term declining trend which I expect it to continue until late January when a three to four-month recovery is likely.

Germany's Dax: I correctly called the peak of this market and expect a volatile decline until the end of November when a four-month recovery seems likely.

France's Cac 40: I correctly predicted a down-hill phase which I still expect to last to the end of November when a long recovery trend to mid-April is likely to begin.

Hong Kong's Hangsen: Within an overall declining trend which began in January 2018, I correctly predicted that Asian markets would stage an interim recovery until the end of this year. I expect it to be followed by a steep January decline and a February to mid-March recovery.

Japan's Nikkei: I correctly predicted the recovery had peaked ahead of a volatile declining trend until mid-December ahead of gains until mid-March. Within this I correctly predicted a brief gain which began on time this week and should last until the end of this month. Thereafter I see declines until mid-December.

Australia's All Ordinaries: I correctly predicted an extremely volatile recovery phase had set in likely lasting until mid-May. However, I correctly expected the continuation of the recovery to be more modest from last week with increasing volatility along the way.

JSE Industrial Index: As I correctly forecast, the index remains in an extremely volatile declining phase until mid-January when a short sharp recovery can be expected within a continuing declining trend. From Monday, however, I see a recovery until the end of the month.

JSE Top 40 Index: I correctly predicted a brief decline which I still see lasting until mid-November when another upsurge is likely marking the beginning of a volatile recovery trend until mid-December ahead of the next down-trend until mid-January and another recovery to mid-February followed by declines until mid-April.

ShareFinder JSE Blue Chip Index: As I correctly predicted, Blue Chips have enjoyed a two-month recovery within an overall declining trend that is likely to last until mid-March. But now that is over and it is likely to be downhill until late January when the next brief up-tick is likely. Overall, however, I see the market continuing on down for the foreseeable future!

JSE Gold shares: I correctly predicted the decline that I expect to last for the next 12 months.

Gold Bullion: I correctly predicted the recovery would continue well into 2021 and continue to hold that view.

The Rand/US Dollar: I correctly predicted an interim month-long strengthening phase until + - November 12 before volatile weakness returns until early February when another strengthening phase is likely until July.

The Rand/Euro: I wrongly predicted several weeks of weakness. Now I see further gains until mid-November ahead of a weakening phase until the end of January. Thereafter strength should resume and continue until next September when a 17.6 Rand is possible.

The Predicts accuracy rate on a running average basis since January 2002 has been 85.96%. For the past 12 months it has been 95.11%.

CLAIRE BISSEKER: Tito Mboweni now has to pick his way through the nine circles of hell

The finance minister has overpromised on debt stabilisation but ditching it would make for terrible optics

BL PREMIUM

Finance minister Tito Mboweni. Picture: SUPPLIED

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Finance minister Tito Mboweni faces a fiscal conundrum so daunting that he has been forced to delay the medium-term budget policy statement (MTBPS) by a week. The problem is that he overpromised when he convinced the country in July that SA had to choose an "active" fiscal path that would allow debt to stabilise at 87% of GDP by 2023/2024.

This path was also sold to the IMF as the basis on which it agreed to release R70bn to shore up the 2020/2021 fiscal deficit, which is expected to be a massive 15% of GDP. However, according to work by academic economists and adopted by the president's economic advisory council, the 87% target was never remotely feasible and, even if it were, it certainly is not desirable to cut expenditure by the required R230bn given the devastation wrought by Covid-19.

The advisory committee suggests a more gradual path that would allow debt to stabilise at about 100% of GDP a few years later. But to prevent SA's fiscal credibility from taking a fatal hit in the process, it stresses that the wage bill must be cut, state-owned enterprises (SOEs) reformed, and progrowth reforms urgently implemented. In addition, it recommends that the Reserve Bank do more of the heavy lifting to increase the "inadequate" R500bn Covid-19 relief package from 11% to 15% of GDP.

This is a sensible plan, especially as Mboweni must now find R10.4bn for SAA, R6bn more to extend Covid-19 social grants, and R100bn over the next three years for mass employment schemes — none of which was a consideration at the time of the special budget in July. The problem is if Mboweni ditches the active debt stabilisation plan now, he risks a run on the rand, a spike in bond yields and more capital flight. And what will he tell the World Bank, with whom he is trying to negotiate a $2bn loan?

It will be difficult convincing a highly skeptical audience at home and abroad that SA has not abandoned debt stability because it wants to bail out a defunct airline — that's the way many will see it. But if he sticks to the 87% plan with these new expenditure pressures, he will have to cut other parts of the budget even more ruthlessly and resort to bigger tax hikes in the years ahead, which will work against any nascent growth recovery.

What to do? No wonder he asked for an extension. In February, SA's fiscal metrics looked so bleak that senior Treasury officials conceded to shocked journalists that they had "gone through the seven stages of grief" in preparing the 2020 budget. Little did we all know that the pandemic would turn the seven stages of grief into the nine circles of hell — a drain around which SA's finances are fast circling.
In short, Mboweni has two options: ditch the 87% plan and explain why the advisory committee alternative, combined with the president's new Economic Reconstruction and Recovery Plan (ERRP), is a better option; or stick to the 87% plan and deal with the blowback later when the target is inevitably missed. At the end of the day, whether the state says debt will stabilise at 87% in 2023 or 100% a few years later is hardly the point. What matters is that it actually undertakes progrowth reforms to show that SA will be able to generate sufficient tax revenue to be fiscally sustainable over the longer term.

In other words, some more near-term fiscal slippage is likely to be forgiven if the state simultaneously deals with the wage bill, reforms SOEs, fixes Eskom, eases the regulatory burden and shifts spending towards economic infrastructure to raise SA's growth potential. The ERRP promises to do all these things. Together with a credible MTBPS it might be just enough to halt SA's descent.

But don't underestimate how fraught things have become. Sinking into hell remains a possibility.

• *Bisseker is a Financial Mail assistant editor.*