

A New Era in South Africa



TALES FROM THE EMERGING WORLD | EMERGING MARKETS EQUITY TEAM | August 2024

In a remarkable twist of events, South African President Cyril Ramaphosa turned a potentially career-ending electoral defeat into a victory that may reshape the nation's political and economic landscape. In the country's recent general election, the ruling African National Congress (ANC) lost its parliamentary majority for the first time in three decades. The party that had led the country since Nelson Mandela's historic presidency in 1994 saw its support fall from around 58% in 2019 to a mere 40%. While the markets feared an ANC loss would lead to a coalition with anti-market parties on the left, the loss was so large it forced the ANC to form a government with the reform-oriented Democratic Alliance (DA) instead. Ironically, the larger-than-expected setback led to a more market-friendly outcome. How did we get here?

Ramaphosa's predecessor, Jacob Zuma, governed South Africa for nearly nine years. During that time the country saw average growth of only 2% and inflation close to 6%. While in office, Zuma seemed more interested in enriching himself than governing effectively. He abruptly quit rather than face his fifth vote of no confidence and has since been investigated by the Commission on State Capture for corruption.

In stark contrast to his predecessor, President Ramaphosa pledged a "new dawn" of effective governance and a crackdown on corruption upon taking office in 2018. This led to a brief period of "Ramaphoria", during which the country experienced strong business confidence and solid stock market returns. However, faced with opposition from within the ANC, the president failed to follow through on reforms. Ramaphosa's tenure was plagued by high levels of unemployment, which reached 33%, stagnant GDP per capita growth and deteriorating public infrastructure (*Display 1 - see following page*). Rolling blackouts, known locally as "load shedding," were a daily experience as Eskom, the state-owned utility, cut power for a record 280 days during Ramaphosa's last year in office.

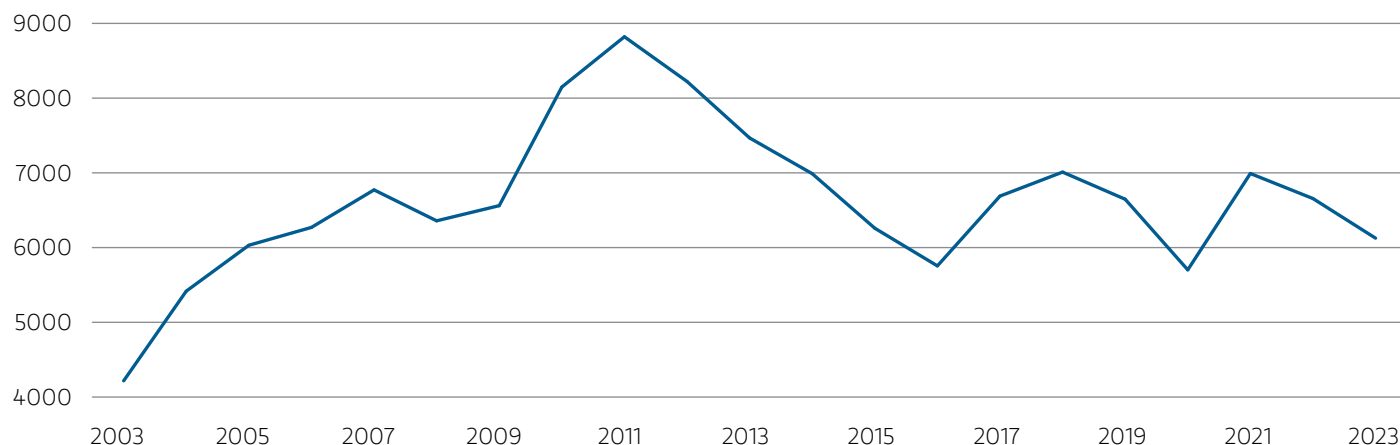
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DISPLAY 1**Is South Africa Poised for an Economic Rebound?**

South African GDP per capita (USD)



Source: MSIM. Data from 12/31/2003 - 12/31/2023.

Heading into the 2024 elections, the ANC struggled to defend its record of economic mismanagement. The party, which had helped deliver South Africa from apartheid, had fallen from grace. After garnering 70% of the vote two decades earlier, the ANC was now polling in the high 40s. As the election approached, investors feared that if the ANC's share of the votes fell below 50% the party would be forced into a coalition with radical left-wing parties. On the political fringes stood the Economic Freedom Fighters (EFF), led by Julius Malema, a former ANC youth leader who was expelled from the party in 2012. Additionally, Zuma, who was briefly jailed in 2021 for contempt of court, had returned to politics as the head of a new party, the uMkhonto weSizwe (MK), and was determined to unseat Ramaphosa. Both the EFF and MK touted anti-free market policies, such as nationalizing land, banks and mines, with a strong undercurrent of racial nationalism.

As the polls closed, the ANC limped in with 40.2% of the votes, a humiliating 17-point drop from the 2019 election, and was therefore forced to form a coalition. Zuma's MK party, in contrast, exceeded expectations, scoring nearly 15% while the EFF won a respectable 9.5%. The election outcome was initially interpreted negatively given the prospect of the new coalition, causing the Johannesburg Stock Exchange to drop and the South African currency, the rand, to weaken.

However, it soon became apparent that the ANC's poor performance and the strong showing of the far-left parties had a silver lining. Facing politically contentious coalition talks, the

embattled president announced he was seeking a government of national unity (GNU). Both the MK and EFF ruled themselves out of joining the coalition by making unreasonable demands. Zuma demanded Ramaphosa's resignation as one of his party's preconditions for joining the ANC.

At the eleventh hour, as Parliament convened to elect a new president, Ramaphosa forged a surprising alliance with the Democratic Alliance (DA), the center-right, pro-business party that had served as the country's main opposition party for 30 years. It was also a gamble for DA leader John Steenhuisen, who had led the party to 22% of the vote, to pivot from longstanding opposition to supporting the ANC. The rise in the voting share of the MK and EFF parties came directly from the ANC itself, which meant the defections of the far-left element of the ANC essentially moved the ANC more towards the center and allowed for the creation of a previously unthinkable coalition between the ANC and the DA.

The poor showing for the ANC (*Display 2 - see following page*) was expected to weaken the president's position. Instead, Ramaphosa was able to transform the ANC's vulnerability into a strength, positioning himself as a uniquely unifying figure in a fractured political landscape. Rather than being ousted from leadership, he emerged stronger than before.

This unprecedented coalition not only secured Ramaphosa's second term, but also ushered in South Africa's first-ever coalition government at the national level. The historical

significance of this cannot be overstated: for the first time since the end of apartheid, the country’s two largest parties – one predominantly black, the other historically white – found common ground in the interest of national unity.

South African markets reacted positively to the news, with the MSCI South Africa index gaining 7.5% after having fallen 3% in the two weeks following the election. The rand also strengthened as the markets fears of a “left-tail risk” were allayed.

As part of the agreement, Ramaphosa distributed cabinet positions among 10 political parties, including smaller parties like the Pan African Congress and the Freedom Front Plus, handing out 12 of 32 cabinet minister posts to non-ANC parties. While strategic posts have been allocated to the DA, with Steenhuisen heading the important agriculture ministry, the ANC maintains control over the key ministries of finance and mining.

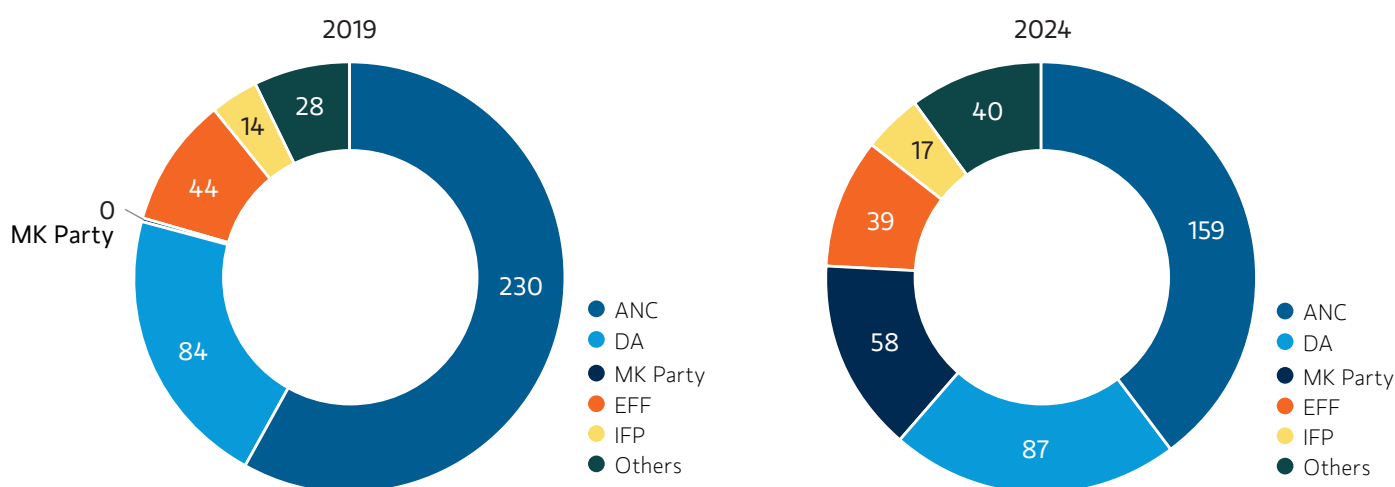
Despite the ANC’s significant decline in votes, the election outcome points to a pragmatic government, with the GNU commanding 68% of the parliament. Given the multi-party arrangement in the new government, there is potential for reforms, greater accountability and improved policy implementation.

This new political landscape also comes with some risks. Internal disagreement among the coalition partners could impede the effectiveness of government. Rifts among parties could translate into questions over whether legislation will garner sufficient parliamentary votes for passage. The ANC and DA must navigate their uneasy alliance. Elements of the ANC swore they would never work with the DA, and vice versa. Like most coalitions, the GNU is fragile and could fall apart.

Investors remember how the optimism of “Ramaphoria” in 2018 quickly waned. The recent market rally reflects hopes for tangible reforms, but investors are cautious, having been burned before. However, it is important to note that the key issue for South Africa is not legislating reform, but rather policy continuity and execution. The creation of the GNU, and the replacement of dozens of government officials, improve both the prospects for reform and the capacity for implementation.

Overall, South Africa is on a more promising trajectory following the elections. Power shortages have all but disappeared and export volumes are finally rising. Now, the new government needs to execute on reforms that are in place to push growth up to the 2.5-3% level. To achieve faster growth, more substantial reforms will be necessary.

DISPLAY 2
New Parties Make Inroads at the Expense of the ANC
 South Africa Parliament by Party Seats



Source: MSIM, South Africa.

Risk Considerations

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INDEX DEFINITIONS

The **MSCI South Africa Index** is designed to measure the performance of the large and mid cap segments of the South African market.

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