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Zondo Commission – Zuma’s agenda-driven cabinet reshuffles created havoc in financial markets

It takes a person with no appreciation for the impact that government’s social spending programmes have on the ordinary citizen to make a comment like “if the rand falls, we will just pick it up.” This is the view of National Treasury’s chief director of macro-economic policy, Catherine MacLeod, who testified at the commission of inquiry into state capture on Tuesday.

MacLeod was responding to a question by evidence leader Phillip Mokoena SC, who asked for her comment on the remark, attributed to environmental affairs minister Nomvula Mokonyane. The minister uttered the words at an ANC rally in April 2017, in defence of a surprise cabinet reshuffle by former president Jacob Zuma the month before. Two casualties of the reshuffle were finance minister Pravin Gordhan and his deputy Mcebisi Jonas, based on an intelligence report that found that they were undermining the leadership of the country in the way they ran Treasury. The pair, together with then director-general Lungisa Fuzile, had set out on a tour of several countries to meet with potential investors and rating agencies, a task they would commonly embark on once or twice a year, according to Fuzile.

“Financial asset prices may recover eventually,” MacLeod explained, “but the thing is, between the time that they have fallen and when they finally recover, government has to go out into the market and convince people to lend us money, and during that period of time we have to pay more in order to convince them to lend money to us.”

This is so that we can continue to fund our social spending programmes, she said. “Between the point where it is low, and when you pick it up, you have pensioners who are retiring and cashing in their pension funds, and those pension funds will be of a lower value.”

Gordhan was replaced by Malusi Gigaba, who had previous experience as minister of home affairs and public enterprises, but not in finance. The markets reacted negatively, presumably because Gordhan had enjoyed the confidence of investors for some time since taking over from his long-standing predecessor Trevor Manuel in 2009.

A similar disturbance of the finance ministry happened in December 2015, with the removal of Nhlanhla Nene, followed by the short stint of his successor Des van Rooyen. MacLeod spoke of the impact of this period on markets and on the South African economy. Van Rooyen’s stay – just four days – led to what McLeod’s colleague and current Treasury director-general Dondo Mogajane in November called a “catastrophic” fall of the rand, and adverse reaction from international financial markets. Prior to the move, there had been media speculation of Zuma possibly removing Nene owing to the latter’s resistance to certain pressures involving government procurement processes that did not follow the rules. According to Mogajane, the country’s GDP shrank about 1.1% as a direct result of Nene’s removal, with almost 150 000 jobs lost.

Putting matters into context, MacLeod explained that the anxiety over international markets during tumultuous times comes from the need to retain a favourable status as a country, so that it becomes

easier and cheaper to borrow. “Ordinarily, a change in finance minister should not cause a big change if the path of government is well set and there is confidence in the ability of the minister.

“What made Nenegate slightly different was the concerns about the manner in which the minister was replaced, and the individual who was replacing him as markets didn’t know him, were not familiar with him.”

MacLeod added that financial markets price according to risk: “Nothing is certain until it’s happened.”

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