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DEFENSIVE STRATEGY

Firms cling to cash amid high insecurity levels — academics

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Prolonged policy uncertainty, whether it be lack of clarity on land reform or the end state of the electricity market, has left SA's corporates sitting on pent-up cash.

Data from the SA Reserve Bank showed that by July, SA's private non-financial corporates held more than R1-trillion. This comes as fixed investment in the economy has declined to historical lows, slumping below the levels considered necessary to boost economic growth.

The pandemic shock and, more recently, unrest that has bedevilled SA's recovery, have only served to compound heightened caution from companies, according to economists.

In a paper presented at the recent biennial conference of the Economic Society of SA, North West University academics Raymond Parsons and Waldo Krugell make the point that the build-up of corporate cash reserves is not, as critics often say, because SA investors are on strike.

"This 'liquidity preference' should rather be seen as one likely barometer of reaction to excessive policy uncertainty," they argue.

The government has recognised the problem and emphasised the issue in budgets, state of the nation speeches, the Economic Reconstruction & Recovery Plan and through events such as the annual SA investment conference, which President Cyril Ramaphosa hopes will attract investment of $100bn in five years.

But "the inconsistency and implementation risks are still high", Parsons and Krugell argue, despite the commitment to new economic plans.

"Policy uncertainty in SA has remained at elevated levels for too long," they said.

"Not knowing what the government may do next has become a serious negative factor in the macroeconomic environment, now aggravated by uncertainties arising from factors such as Covid-19 and civil unrest."

Academic research is showing that policy uncertainty acts as a tax on investment and inhibits other business decision-making.

In a recent paper published by the UN University World Institute for Development Economics Research, Keagile Lesame showed that medium-sized firms in particular reduce their investment spending more sharply when policy uncertainty increases. Lesame's research suggests that every one percentage point increase in uncertainty will reduce investment by 9.7% for medium-sized firms.

$100bn
how much the presidency wants to attract in investment over five years

R1-trillion
was being held by SA's private non-financial corporates in July, according to data from the SA Reserve Bank

Large cash reserves are only a partial expression of policy uncertainty, Parsons told Business Day. "It is where a defensive strategy exists by corporates in the face of elevated policy or project uncertainty and it operates in cycles.

"Most of such cash reserves or bank deposits are, moreover, not necessarily idle but find their way back into the capital market for other purposes," he said.

Recent comments by FNB CEO Jacques Celliers underscoring the need not only for policy certainty but also for more bankable projects to come on stream point to the broader problem, said Parsons.

"The money is now there but the projects are missing," he said. "While Ramaphosa said last year that the government planned to unlock R1-trillion in infrastructure investment over the next four years, no tangible projects appear to have yet emerged.

"There's enough liquidity to finance renewed expansion plans, provided the infrastructure projects — as well as other job-rich policies — are urgently implemented," said Parsons.

"All this is doable if levels of

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Firms cling to cash in uncertainty

policy and project uncertainty could be significantly reduced."

Misgivings about policy are not the only issues at play, according to Stanlib chief economist Kevin Lings. They are complicated by fears about generally weak growth and business conditions, as well as concerns over infrastructure and power supply.

"Policy matters and policy utterances by the government matter. And government doesn't quite realise that, because part of their policy utterances are political positions," said Lings.

A cautious management culture may also be at play, said Lings. While this has served SA well in times of crisis, with large firms able to weather severe difficulties, it can mean firms are slow to take risks.

"SA does not have enough mavericks — it does not have enough people who are natural risk takers and who are willing to go against the trend," he said.

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