

## SONA: Focused on reviving economic growth and investment with enhanced policy certainty and confidence boosting measures

8<sup>th</sup> February 2019



The State of the Nation Address (SONA) reaffirmed the key economic policy objective of reviving fixed investment rates to place the economy on a sustainable faster economic growth path. Economic growth has stagnated at an average of below 2% for nearly a decade, but needs to be closer to the 3 - 5% mark in order for unemployment rates to recede from close to 30% presently, for poverty alleviation and for fiscal sustainability. The President emphasised the importance of collaboration between government, business and organised labour to aid effective implementation of infrastructure projects. Public and private sector infrastructure growth is vital to raising potential economic growth over the long run.

Restoring confidence through improved legislative and regulatory clarity and enhancing the ease of doing business is integral to a recovery in fixed investment by the private sector. The President noted the progress made over the last year in mining sector regulation. Going forward, the Competition Amendment Bill is scheduled to be signed into law and is aimed at lowering industrial concentration in various sectors. Further enhancements to the visa regime will be made to boost tourism, a sector that is labour intensive and in particular has the potential to absorb unskilled labour, especially the youth. The allocation of broadband spectrum will also be prioritised. On universal access to quality health care, the President confirmed that the National Health Insurance Bill will be submitted to parliament soon.

However, uncertainty relating to property rights is likely to persist for now. Although the President reiterated that the land reform programme would be accelerated, and the intention remains for agricultural output to be increased and food security protected, the methodology of land expropriation without compensation was not detailed.

The SONA outlined further steps to unwind state capture and deal with corruption in an effort to rebuild institutional strength. Specifically, an investigating directorate that deals with “serious corruption and associated offences” will be established within the office of the National Director of Public Prosecutions. Moreover, evidence permitting, prosecutions are expected to be forthcoming. In the event, this would likely lend support to business and investor confidence levels.

In parallel to the existing efforts to strengthen governance at many of the state owned enterprises (SOEs), the SONA set out policy actions to shore up the weak financial position of Eskom in particular. These actions will include the unbundling of Eskom into separate entities of generation, transmission and distribution. Although not mentioned in the SONA, this would create the opportunity for strategic equity partnership with the private sector. The President endorsed Eskom’s nine-point turnaround plan and emphasised the imperative of cost cutting and raising revenues (via the electricity tariff increases). In the meantime, the President affirmed that government will extend financial support to Eskom, although the quantum was not specified. Government’s guarantee exposure to SOEs is already a key sovereign credit rating weakness owing to the weak financial performance of the SOEs. The realisation of associated SOE contingent liabilities (guarantees) could push government debt well beyond the high risk benchmark of 70% of GDP. As such, the implications for the sovereign credit rating of the financial transfer to Eskom will depend on the rating agencies assessment of how effective the measures will be to improve Eskom’s financial position and whether the configuration of the transfer is deficit neutral so as to reduce the contingent liability risk.

The forthcoming 2019 Budget (20<sup>th</sup> February 2019) will contain the details of the financial support extended to Eskom. The SONA did highlight the “need to safeguard our national fiscal framework” and “achieve a positive impact on our sovereign credit rating”. As such, the Budget is not expected to show further fiscal slippage versus the 2018 Medium Term Budget Policy Statement. However, over the medium-term, in the absence of a meaningful lift in economic growth it will be difficult for government to arrest the increase in debt levels.

The President announced that the national and provincial elections will take place on the 8<sup>th</sup> May 2019. As 2019 is an election year, there will be a second State of the Nation Address. In prior years this usually occurred in the month of June.

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