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SONA: SONA evinced an appetite for accelerated implementation of structural reforms

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The State of the Nation Address (SONA) acknowledged the prevailing critical issues of economic underperformance, heightened fiscal imbalances, high unemployment, the erosion of state capacity and restoring the longer-term sustainability of Eskom. The key positive statements of the SONA surrounded increasing the supply of available electricity and the reduction of government spending.

The government intends to take “measures to rapidly and significantly increase generation capacity outside of Eskom”. This includes municipalities in good financial standing being permitted to procure power from independent power producers; increased reliance on existing wind and solar plants; the opening of bids for investment in renewable energy and faster processing of applications by industry for the generation of own use electricity. The President reaffirmed the unbundling of Eskom into separate entities of generation, transmission and distribution. Until such time as electricity generation outside of Eskom increases, and the maintenance of Eskom’s coal plants is accelerated, electricity load shedding will remain a feature. This, coupled with above inflation increases in electricity tariffs, acts as a dampener on economic activity.

A resolution on Eskom’s financing requirements was not detailed. It is also unclear whether the government is considering recent proposals for the use of public sector pension funds as the SONA stated that “workers pensions” should not be put at “risk”. In the meantime, government’s bailouts of Eskom, and other state-owned enterprises, have undermined fiscal consolidation and have tipped government debt levels toward the high-risk benchmark of 70% of GDP. The SONA recognised the fiscal predicament of unsustainably high debt levels, revenue underperformance and the unfavourable budget composition, whereby consumption spending (especially the public sector wage bill and debt-servicing costs) is crowding out public investment spending. According to the SONA, the 2020 Budget will “outline a series of measures to reduce spending and improve its composition” including the containment of the public sector wage bill. This should imply that the 2020 Budget will not show as much fiscal slippage versus the 2019 Medium Term Budget Policy Statement, although deficit and debt levels will likely still be under pressure.

The SONA referred to the need to enhance the ease of doing business and eliminate the “barriers to job creation”. In this regard, water use licences “which are so essential to operations on farms, factories and mines” will be issued in 90 days, as opposed to a period of up to 5 years previously. The registration of a company is now set to take a day and the efficiency of ports is also set to be addressed.

Effective policy implementation as well as policy certainty are required to restore confidence and enhance the investment climate which would ultimately lift potential GDP growth and employment rates. Although the SONA did not contain new decisive growth-enhancing policy initiatives, the tone suggested an impetus to get structural reforms underway. Nevertheless, policy uncertainty has not been alleviated in total and so will likely continue to undermine confidence. Specifically, the regulatory nature of expropriation without compensation has not been detailed. Whilst on universal access to quality health care, the SONA noted that mechanisms are being put in place for implementation of the National Health Insurance scheme, although it remains contested and sources of funding are unclear.

With GDP per capita set to contract for the 6th year running amid sub-1.0% economic growth, accelerated reform implementation, continued governance improvements and the stabilisation, and subsequent reduction, of fiscal deficit and debt metrics would support higher economic growth and foster an environment conducive to meaningful job creation.

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