Cosatu says new law will free up capital – Business Day 20 August 2019

With SA's economy hardly showing any signs of growth in recent times, it could do with some positive intervention from the government to show that it has a plan to get us out of the malaise we find ourselves in.

To say it has been a bad couple of weeks could turn out to be an understatement. While the ANC is caught up in internal fights, key decisions on major issues facing the country are being left unattended.

And where there has been pronouncements, they have not been perceived, at least if judged against reactions in the market, as being helpful to the government's stated aim of boosting the economy and attracting much-needed investment.

These include the ideologically driven push towards National Health Insurance (NHI), with apparently no room for debate about how it will be funded or implemented. The government is happy to push on and dismiss critics as opponents of the concept of universal health care.

Genuine questions about affordability and capacity are brushed aside. And concerns about the impact on the existing private health sector are seen as elite-driven and therefore easy to dismiss as moaning by the privileged.

So the decision by President Cyril Ramaphosa to sign into law a bill that gives the national credit regulator powers to write off unsecured loans — which do not need collateral — could not come at a worse time. It will allow the regulator to wipe off debt worth no more than R50,000 for consumers judged to be critically indebted and earning no more than R7,500 a month.

On the face of it, the intention to release the most vulnerable from overindebtedness is a noble one, but the government has not demonstrated why existing relief or restructuring methods are not sufficient.

One of the country's major banks, Capitec, on Monday made it clear that the law has already had unintended consequences, which should really have been foreseen. It will harm exactly the segment of the market that it is meant to help.

"During the two years leading to the amendment, Capitec Bank planned and managed our exposure to the consumer market earning less than R7,500 a month, being well aware of the regulatory development," the bank said in a statement. "We did this to such an extent that we can confidently say that we have sufficiently prepared for this. Our current exposure is less than 5% of our book."

Cosatu has made the argument that the bill will help the economy grow by “freeing up capital”.

While in the short term the debt relief bill will bring respite to some poor overindebted households, it will expose the banking sector to increased levels of risk that make it reluctant to extend credit to the lower end.

While overindebtedness is undesirable, debt itself is not an evil and can be a powerful tool for uplifting poorer households and communities. In fact, a lack of credit has often been cited as one of the major factors holding the economy back.

Why then introduce a piece of legislation that makes it even harder for the poor to access credit?

Banks have already signalled that they will have to introduce stricter lending criteria and approval processes, and the cost of borrowing is very likely to go up. This, as the Banking Association of SA has highlighted, will mean there will be less money for productive use in the economy. Consequently, SA’s struggling economy, which is heavily reliant on consumer spending, will weaken further.

Tighter lending criteria by commercial banks could also fuel a rise in illegal lending as desperate low-income households are forced to turn to loan sharks who charge exorbitant rates.

The debt relief law, which is meant to open the credit market and cushion overindebted consumers, is shortsighted and could thus end up having the opposite effect. It will ultimately hurt the consumer, the banking sector and by extension the broader economy.