BIZCOMMUNITY

Predictable budget delivery from Mboweni

Finance Minister Tito Mboweni's Medium-Term Budget Policy Statement (MTBPS) highlighted the many challenges South Africa faces in reigniting its economy beyond the Covid-19 crisis, but was predictable in its promises, and light on detail.

“While grim numbers around GDP growth, tax collection and government debt were expected, it is disappointing that the minister did not add much flesh to President Cyril Ramaphosa’s recently announced four-step economic recovery plan,” says Pieter Bensch, executive vice-president, Sage Africa & Middle East

The fact that the minister delayed his speech by a week heightened expectations about what he had to say, but as have now become accustomed to, the finance minister delivered a reasonably balanced budget under the circumstances, without any major surprises or glaring own-goals. Drawing a parallel to where the economy found itself back in 1994 in terms of emerging from adversity, with great potential ahead, the minister argued we now find ourselves in a similar position, says Reza Hendrickse, Portfolio Manager at PPS Investment.

“Indeed, growth has collapsed, in part through no fault of our own, given the pandemic. But although National Treasury is expecting a sharp rebound in growth in the last quarter of 2020, the economy is still expected to contract by 7.8% (worse than its June estimate), and the 3.3% rebound next year will be half that of emerging market growth, decelerating thereafter. These unexciting prospects mean that the difficulty posed by the dual objective of fiscal austerity while trying to engineer faster growth will remain an ongoing challenge,” he says.

Tax

The minister announced that the government will be implementing tax increases of R40bn over four years, despite his note that government will not be relying on taxes to do the heavy lifting in terms of relieving government’s debt burden. “The most contentious of these increases would be the rumoured Solidarity Tax, which would simply place a positive spin on a wealth tax in an attempt to foster goodwill,” says Mike van der Westhuizen, portfolio manager, Citadel.

“Although the detail will only be announced during the 2021/2022 budget speech, the proposed increase of R5bn additional tax revenue in 2021/202, to R15bn in 2024/2025 will have a negative impact on the after tax salaries of individuals, earnings of companies, dividends to shareholders and value of deceased estates,” says Hannes van den Berg, CEO at Momentum

Consult.

State-owned enterprises

Mboweni has said on several occasions that the money taps would be closed for failing state-owned enterprises, so his announcement that the government intends to pump R10.5bn into the South African Airways (SAA) albatross around its neck to cover the airline's proposed business rescue plan, and R6.5bn to settle its guaranteed debt and interest comes as a body blow.

"He has folded to the pressures from his cabinet colleagues. Unfortunately this allocation undermines the credibility of everything Treasury is saying providing little evidence or reassurance that it will adhere to other stated objectives," says Andrew Duvenage, managing director, NFB Private Wealth Management.

In addition, Eskom is to receive R23bn, although there was little detail provided on the plan to stabilise the power utility's growing – and unsustainable – debt and the Land Bank will be receiving an additional R7bn over the medium term in addition to the R3bn in support allocated in June.

Public expenditure

One of the pillars outlined in the government's economic plan was reducing expenditure through public sector wage cuts, but this relies on the assumption that government will prevail in its ongoing struggle against labour union, says Van der Westhuizen.

"Again, it was positive to see that Mboweni made a firm commitment to the reduction of senior management salaries across the entire public sector, an encouraging sign of government is putting its money where its mouth is.

"However, it is also important to note that while government also took the unprecedented step this year of refusing to implement the salary increases outlined in its 2018 agreement, labour unions showed clear resistance to the idea, launching a legal case against government. This matter is now only due to be heard by the labour appeal court in December, which crucially means that government has not yet reached any sort of agreement with labour unions regarding wage cuts. Yet, despite the major political uncertainty at play, Mboweni's numbers blithely assume that half of its expenditure savings will come from reducing its wage bill, introducing execution risk," he says.

Debt

The minister was emphatic in stating that National Treasury seeks to implement active measures to avoid a sovereign debt crisis, and time will tell whether the five-year fiscal consolidation pathway proves to be effective in this regard. South Africa's debt-to-GDP ratio is now expected to peak at 95.3% in 2025/6, compared previously to 87.4% in 2023/4, which is in keeping with the progressive shifting of these goalposts over the years.

“Mboweni confirmed that bondholders are being rewarded with a high return from holding South African debt. The minister also stressed efforts to reform Regulation 28 to make it easier to invest in infrastructure. Savers will be relieved to hear that prescribed assets remain unlikely to be used to fill a funding gap. Instead, as anticipated, National Treasury is focused on trying to reduce debt servicing costs, which at current yields is crowding out most investments, and making it hard for government to prioritise anything else,” Hendrikse says.

Business prospects

The minister said the government aims to make it cheaper and easier to do business by removing needless complex red tape. It is a pledge that the president and minister have made in several addresses over the past three years – small business owners and entrepreneurs are anxious to hear more about the details and to see implementation. Now is the time for decisive action, Bensch says.

“Given the enormous dormant potential in intra-Africa trade, I look forward to learning more about the plans to make cross-border business easier and support South Africa’s growth as an investment and financial hub for the continent,” he says.

“The emphasis on driving recovery through infrastructure investment could bode well for small and medium businesses — we hope that government will ensure that smaller enterprises benefit from some of this spending. Well-targeted infrastructure investments, particularly around transport and electricity, could boost productivity and performance in the private sector.”