Short-term pain for long-term growth

Finance Minister Tito Mboweni's maiden Medium Term Budget Policy Statement (MTBPS) reflected some of the short-term sacrifices needed for longer term, broader economic benefit.

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“These include decisions around stabilising and reducing government debt, which requires deferring current consumption and creating an environment that promotes investment to facilitate growth.

Paring down expenditure

“Containing public sector wage growth, reconfiguring state-owned enterprises and fixing the South African Revenue Service (Sars) were all cited as stumbling blocks on our path towards faster growth, but these are structural problems that will take time to address, says Reza Hendrickse, portfolio manager at PPS Investments.

It was clear going into this MTBPS that is was going to be much tougher than previous years, simply because economic growth and tax revenues are so much worse than had been forecast. Economic growth expectations for 2018 have been halved from 1.5% in February to 0.7% now. Likewise the messaging is very different compared to Budget Speech and the last MTBPS which was delivered by former Finance Minister Malusi Gigaba, says Maarten Ackerman, chief economist and advisory partner at Citadel Wealth Management.

“Slower growth will have a ripple effect in terms of tax collection which will, in turn, place additional pressure on fiscal targets and debt to GDP ratio. From a deficit of 3.6% of GDP in February, we now expect a deficit of some 4% of GDP, where it should stabilise over the budget framework.

Positives

“But despite this deterioration, it is probably a more positive budget in terms of its messaging compared to last year’s MTBPS. At that stage, we had started to make provision for projects such as the nuclear deal, resulting in a debt to GDP ratio that would be rising to 60%, a key level that signals a dip in economic soundness to the rating agencies. If breached, especially at a time of challenges coming from state owned enterprises, it could signal a credit downgrade,” he says.

Mboweni emphasised higher spending on infrastructure as a driver of growth, the need to mobilise the private sector on a larger scale to expedite implementation and greater accountability at local government level are welcome. “Although the problem is being addressed, the MTBPS also shows that the size of the public sector wage bill continues to be a major distorting factor in trying to get the right fiscal balance. The reorganisation of certain state-owned enterprises and reducing their drain on government finances is a step in the right direction but needs to be tackled boldly,” says Professor Raymond Parsons, North West University business economist.

Ending his speech off on a positive note, Mboweni announced that sanitary pads, bread flour and cake flour would be zero-rated for VAT as of 1 April 2019. Though the associated revenue loss is estimated to be around R1.2bn, it is welcome relief to low-income households.