

# Budget 2016: A new direction needed

By  Arthur Kamp

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Looking towards the 2016 National Budget to be read by Minister Gordhan on 24 February, it seems a repeat of the 2015 [Medium Term Budget Policy Statement](#) will not be sufficient.



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## Above everything, we need to stabilise our debt

Liquidity is waning and it's becoming more expensive for the state and businesses to fund their projects, not only because of a weaker rand (we're a net importer of loans and investments from other countries), but also because of uncertainty around our credit status and rising inflation, accompanied by higher local interest rates. With all these factors weighing against us, South Africa needs a decisive policy response.

If our level of debt increases as a nation, it will become increasingly difficult for us to service our debt repayments. The National Treasury should show a clear, credible path to debt stabilisation to maintain macroeconomic stability, and needs to do this by changing our fiscal policy. In its current form real GDP growth is not sufficient to support the intended level of government spending (the expenses side of the National Budget) and our current fiscal policy is therefore unsustainable.

## What the ideal fiscal policy would look like

Ideally the fiscal response should include:

1. Expenditure growth cuts. Not all expenses are alike, though. Capital expenditure is crucial for the country's development, but running costs, such as government wages need to be curtailed.

2. Increases in indirect rather than direct taxes. Ideally we'd like to see increases in consumption taxes, of which VAT is an example, as opposed to taxes on savings and income. Just increasing administrative efficiency would realistically not be enough to 'balance the books' and the state's revenue shortfall would therefore inevitably need to be plugged by increased taxes.

3. More clarity on state-owned enterprises (SOEs). We need at least the outline of a credible plan to support SOEs in a 'deficit-neutral' fashion.

## What to expect in terms of taxes

But, it is difficult in the current environment of GDP stagnation and high unemployment to deliver the 'ideal' budget. For example, VAT, the main consumption tax, is seen as regressive, and so the National Treasury may be reticent to increase the rate on this tax. Rather, we could see a range of tax increases, which may include an increase in the top marginal tax rate of high income earners, an increase in estate duty and increases in the capital gains and dividend taxes.

## The Budget cannot address the real problem

Whatever the measures taken by the National Treasury to steady the ship, Budget 2016 is, nonetheless, only the start of the "road to recovery". Ultimately, the Budget cannot address the real underlying problem, which is the lack of GDP growth. The supply side of the South African economy has dysfunctional components, including infrastructure bottlenecks and weak productivity, which only structural economic reform can tackle. Without such reform, the best fiscal plans, in isolation, are likely to fall short of what is needed.

## ABOUT ARTHUR KAMP

- Arthur Kamp is an economist at Sanlam Investments (SI).
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