



Response

February 25th, 2016

The 2016 Budget

If you find yourself having to take the wheel of a bus that is steadily gathering speed downhill, it is probably wise not to slam on the brakes or to haul it around in a sudden u-turn. Rather, try to gain control over it gently, while you figure out your best options for bringing it to safety.

Something along these lines seems to have informed Pravin Gordhan's budget speech yesterday. There were no dramatic gestures. He did not announce an increase in VAT, or even in income tax for the wealthier classes. Instead, there was a list of fairly minor increases in estate duty, property transfer levies, donations tax, capital gains tax, the fuel levy and the so-called sin taxes, which together will contribute significantly to government revenue. A tax on sugar was also announced, although it will commence only in 2017.

On the expenditure side, too, nothing very radical emerged. He repeated the assurance that spending would depend on affordability, but he did not – for example – put a moratorium on the envisaged nuclear power programme, SA's biggest current public spending prospect. A modest reduction in the state's wage bill, about R25billion, is planned, which will probably be achieved mostly through attrition.

But, more than is usually the case, this budget was not about the income and expenditure figures themselves, important though they are. It was about beginning to confront the damage that has been done to the economy by what he called the "emerging patterns of predatory behaviour and corruption." It was not necessary for Mr Gordhan to spell out what he meant by this; his decision to disassociate himself and his ministry from the Gupta-owned *New Age* newspaper's breakfast briefing spoke volumes.

The minister also referred to the need to "signal government's commitment to a prudent, sustainable fiscal policy trajectory, and [to] respond directly to the changed circumstances since the 2015 MTBPS was tabled." There has been only one significant changed circumstance since the medium term budget policy statement was tabled last October, and that was the unexpected, and as yet unexplained, dismissal of the then finance minister, Mr Nene.

It was also interesting to note that, in the section dealing with state-owned enterprises, Mr Gordhan chose to focus on South African Airways, noting the need for a "strengthened board" and indicating an intention to partially privatise it by bringing in a minority equity partner. Of all the SOEs, SAA has attracted the most negative attention of late, due largely to perceptions that despite running the airline into the red and ignoring advice from the national treasury, its chairperson, Dudu Myeni, continues to enjoy President Zuma's favour and protection. Clearly, Mr Gordhan is prepared to step on some potentially sensitive toes.

When Mr Nene was fired last year, investors panicked and the rand fell through the floor. In recent weeks it started to recover as Mr Gordhan's prudent and measured disposition began to take effect. But the big test was the budget speech. Would it offer enough evidence of a new approach in the government's direction of the economy? Would it meet the expectations of a nervous investment community, while still addressing the dire needs of our millions of unemployed, poor and marginalised citizens? Would it be enough to avoid a credit rating downgrade later this year?

On paper, the answer to these questions must be broadly a positive one. But while Mr Gordhan was speaking, across the Atlantic Ocean, Brazil's credit rating was cut to 'junk' status. And with that, the rand began to fall again. Its fall will hopefully not be too far, nor too sustained, but it serves nevertheless to remind us that, in this globalised world, there is only so much that a relatively minor economic power such as South Africa can do to secure its own future. We are to a worrying degree subject to the effects of international economic ups and downs.

All the more reason, then, to do what we can do to the best of our ability, and to avoid the kind of economic self-harm that has flowed from some of the Zuma administration's recent interventions.

Mike Pothier
Research Co-ordinator