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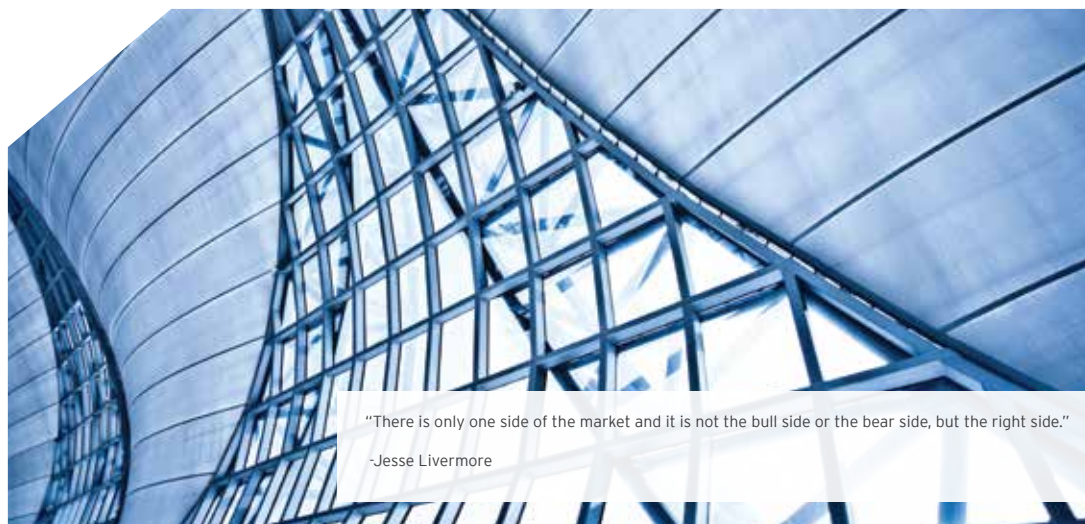
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"There is only one side of the market and it is not the bull side or the bear side, but the right side."
-Jesse Livermore

ECONOMIC COMMENTARY - By Francois Stofberg

In our opinion it was a missed opportunity that will cost us dearly. The budget did not address the actual issues: an oversized and inefficient government and subsidiaries, record high debt levels, and a growing budget deficit, but most importantly a lack of economic growth.

From the revenue side the minister missed out on an opportunity to increase company and personal income taxes; both business and individuals were expecting them. Although this would have hurt our pockets, it would have done much to reduce the deficit and debt levels (even if the government continued to overspend). Instead he chose to gather the revenue he needed through sneakier measures; fuel, tyre, sugar, plastic bag, and light bulb levies, as well as sin taxes. These taxes will cost the average household about R130 more each month (smokers can add another R26). We call these sneaky because an increase in company and personal income taxes make it easier to compare our disproportionately high taxes with other countries, now we are still poorer, but it's more difficult to put your finger on it.

The most lacking in this year's budget was on the spending side; spending will continue to focus more on social rather than economic development, and total spending will continue to be too large. A lot of noise was made by the President on how to reduce spending, but none of these were repeated in the budget itself. What is needed is a reduction in the government wage bill by either reducing the amount of government employees, or by reducing their salaries. On average, government employees are paid 28% more than private sector employees in the formal sector, the total wage bill constitutes roughly 39% of total government spending (excluding interest) and is once again set to increase by more than inflation, 8.2%. As an example, reducing government salaries to levels equal to the private sector can reduce government spending by almost R90 billion annually.

Considering both revenue and spending, the main budget deficit (not the consolidated budget the minister wrongfully refers to), will most likely increase to - 4.3%, and total government debt to 52.5%. This, together with our assumption that the economy will most likely only grow at 0.3% in 2016 make credit agencies very uneasy.

Overall the minister intends on spending R1.32 trillion in the 2016/17 financial year, a sizeable amount that represents 30% of our entire economy. We continue to believe that this mighty sword can be wielded more beneficially towards growth. However, the budget that was presented was "more of the same", exactly what we didn't need. Government's inability to make the tough structural decisions and implement accordingly will continue to erode the ability to grow our economy sustainably.