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ECONOMIC COMMENTARY - By Francois Stofberg

The 2017/18 Budget - No Radical Economic Transformation

The most important thing to take from this year's budget is that it will in no way lead to "radical economic transformation", in the sense that it will cause sustainable economic growth and job creation. However, in the context of South Africa's social unrest the tax and spending proposals might not have been such a bad idea.

The suggested taxes and spending proposals are simply more social engineering, with little to no upside to economic upliftment. At most, the tax attack on productive individuals in South Africa will bring about more short-term support to the less fortunate by way of various social transfers. However, the cause of persistent poverty and unemployment, and hence social unrest, can often be found in the inefficiency of government and government administration. Improving government's efficiency would, therefore, be a better place to start with "radical economic transformation", that will have a substantial and lasting positive impact on our economy.

Many of the most productive individuals in SA will now pay 45% personal income tax, 18% capital gains tax, and 20% dividend withholding tax, or a combination of all three. This we believe will hurt investments in South Africa and the potential for long-term economic growth that goes with it. In the short-term, however, alleviating some of the social tension might reduce the number of violent protests, which is a good think the short-run. However, constantly favouring the short term is concerning and helps to explain why we found ourselves in this 1% growth slump.

What should be done, that can lead to actual economic transformation? Reduce the size of civil service and address the ineffectiveness of government spending and the wasteful nature thereof. The government should not be an employment vehicle per se, but a supportive entity that should guide the private sector towards wealth and job creation. Address the structural issues with education: as a percentage of total expenditure SA has one of the highest amounts spent on education in the world, but we have the weakest maths and second weakest science results in the world. And I think enough has been said about the costly state-owned enterprises that might be better run in the hands of the private sector. Finally, address the issue with wasteful and irregular spending of state finances, which reached R58 bn in 2016/17 and is once again set to reach R48 bn in 2017/18.