



## DAWIE'S NOTES: EXPECT AN AWFUL BUDGET

Of all “policies”, fiscal policy is the clearest. That is so because the budget “sets” fiscal policy in a comprehensive document which includes actual figures and estimates which are thoroughly scrutinised by analysts and economists.

The budget also provides information about new taxes and tax rates which are used by all companies, retailers, manufacturers, and in fact, by just about everybody. The South African budget is especially comprehensive and is one of the most transparent budgets in the world.

The budgetary process is a continuous one that covers many years. Most of us see the budget as a yearly once-off event and do not really appreciate the work that goes into it. The impact of the budget on the economy is massive, simply because the state is by far the biggest role-player in the economy.

The budget is also not only about “the numbers”. It is, in my view, the heart of a democracy where an elected government allocates resources to achieve certain political objectives. In this process, a certain ideology is usually revealed.

More socialist-inclined governments will, for instance, take it upon themselves to provide a large array of goods and services which will require a significant contribution in the form of taxes by the productive part of the economy. This has indeed been the case the past few years.

In fact, the South African fiscus (state) is the most redistributive state in the world! This is important because “inequality” is seen by many as a “boogeyman” that needs to be squashed — and how better than by taxing the rich and giving to the poor? Few realise that we are probably overdoing redistribution via the fiscus, at a significant price paid by the economy already.

Our excessive and lopsided tax burden is one of the highest in the world and is an important disincentive in doing business in the country. While many may see higher taxes on the “rich” as a way to reduce inequality, it will be the poor who will eventually suffer when we run out of taxpayers.

No wonder, and as can be expected from a dominant political party with strong socialist convictions, we have indeed seen a significant increase in the size of the state in the past few years. State spending, especially on various social projects and on an ever-rising wage bill, kept on rising. Tax receipts, as per usual, lag behind spending but relatively low levels of state debt made this additional spending possible by borrowing more, which gradually pushed up state debt levels.

A mismanaged economy with low growth gradually undermined the tax base and a deterioration in tax administration probably also contributed to unexpected low tax receipts.

And suddenly, the state’s finances are in deep trouble.

Commitments on state spending assumed reasonable economic growth, which did not materialise, and renegeing on spending-promises is just indigestible to politicians. In the meantime, the state-owned enterprises (SOEs) were mostly ruined financially, which required massive guarantees from the state to allow them to borrow even more — just to stay afloat.

The limits of these guarantees have now mostly been reached, however, while most SOEs are in even deeper financial troubles than before and additional guarantees or cash will be needed.

A year or so ago it became very clear that the state was running out of financial leeway. Zuma was still on his quest to capture what was not yet fully under his control and decided to move the budgetary process to the presidency. Since the whole process takes time, there simply couldn’t have been enough time for President Ramaphosa’s administration to prepare a new budget.

So, this will still be a Zuma budget.

Also, I am pretty sure that Gigaba will be replaced as finance minister and although he is suddenly this disciple of a clean and effective administration, his track record is there for all to see. Additionally, the stench of Zuma will always be with him.

But firing Gigaba just before the budget is probably not a good idea, while postponing the budget is equally ill-advised.

So, this is a Zuma budget by a Zuma minister.

Let’s summarise: state finances have reached a point from where it will be very difficult to bring it back from the brink. The momentum behind state finances still reflects the Zuma administration, and the budget and the minister of finance are part of this.

In the meantime, the sudden political developments resulted in jubilation and a dramatic positive reaction by the financial markets — which may be premature. The symbol of corruption, mismanagement and incompetence has been removed, but the real work still lies ahead.



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To complicate things even further, at the most recent and previous conferences, the ANC decided to expand the role of the state even further. "Free" tertiary education and National Health Insurance, are examples of an even greater role of the state and hence, more inefficiencies and higher taxes on a dwindling tax base.

The budget is therefore likely to announce further spending increases and guarantees, and transfers to SOEs. Also expect a significant increase in existing taxes, directly or by stealth, as well as the introduction of new taxes.

A few examples of tax changes and new taxes may include: higher personal income tax and/or a new top bracket, increases in various "wealth" or capital taxes like Capital Gains Tax (CGT) and estate duties, while a tax on net assets may also be considered. As usual, the normal increases can be expected, like an increase on "sin" taxes and the fuel levy. There are even rumours that VAT may be charged on petrol — which is currently VAT-exempt.

But it's a possible increase in the VAT rate itself, that will be most controversial. The reality is that most of the other sources of revenue have mostly been exhausted, and VAT is the only realistic other significant source of revenue — but increasing VAT will come at a political price!

Will all these measures be enough to "stabilise" state finances?  
Will it be enough to prevent further downgrades?  
I don't think so.

Fact is, the real impact of years of mismanagement is only now becoming apparent. And although Zuma has gone, it's still the same ANC and they haven't changed their sinful ways.

Sure, a new and competent leader can make a difference. Let's hope it's not too late.

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