EFFICIENT GROUP

ECONOMIC COMMENTARY

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Newsletter

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OCTOBER ECONOMICS: TURBULENCE AND BUDGETS

October 2020 was an erratic month. Many cities, towns and states all across the world entered a second round of lockdown as a surge of coronavirus cases re-emerged. As the city of London enters its second national lockdown, a no-deal Brexit continues to creep forward. Boris Johnson, the United Kingdom (UK) Prime Minister, has yet to conclude a favourable exit deal with the European Union (EU). Amongst other issues, it seems that there are still concerns about the Irish border. Johnson has until 31 December 2020 (at which time the transition period ends) before the UK will face a hard exit, meaning that there will be no favourable cross-territorial trade terms such as those that the UK has been enjoying. This would be a worst-case scenario. Concurrently, there are concerns about a potential double-dip recession in Europe that is weighing heavily on global growth sentiment. So too the delay in United States (US) fiscal stimulus, uncertainty around the election and disagreement between the US and China. Consequently, developed markets closed much lower at the end of October, with emerging market currencies especially volatile.

Closer to home, it seems that Public Enterprises Minister, Pravin Gordhan, won the ideological battle against Finance Minister, Tito Mboweni, who, in his mini-budget (reluctantly) agreed to bail out the troubling national airline, South African Airways (SAA). During his medium-term budget policy statement (MTBPS), Mboweni talked a great deal about electricity generation, which we found encouraging. It seems as if we are heading in the right direction in terms of splitting Eskom into different specialised units, building reserve capacity and onboarding independent electricity providers. Although policy will only be set in February 2021, we expect some interesting announcements. We might not see a wealth tax, but the maximum personal income tax (PIT) threshold will probably increase to 50%. We might even see another value-added tax (VAT) increase. It is also expected that the fuel levy and sin tax will be increased. The latter will drive the industry underground. As seen during the national lockdown, this part of the economy thrives underground.

After seeing the latest budget figures, it is quite evident that our fiscus is stuck in a spending conundrum. There is simply no more money to spend. But, if you start spending less, people (your allies) will be unhappy with you. Less spending also means less growth, which might force us into another recession. The best solution for an entrepreneurial state is to improve efficiencies and to spend more on wealth-creating policies to increase growth and to reduce the relative size of deficits and debt. But, like you, we doubt that the South African government has the necessary political will or competency to achieve such an entrepreneurial view. Most likely, we will try to do a bit of everything: balance on the knife's edge of spending less, increasing taxes and growing a bit faster. Which, if you think about it, is actually a lot harder to do. Instead of talking and putting more plans in place, our advice is a lot simpler: fix local authorities as well as provincial and national departments, especially education and healthcare. Getting the state to work better will support the economy on a profound scale.

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