Thoughts on the 2020 budget

BY JOANNE BAYNHAN | FEB 27, 2020 | INSIGHT, JOANNE BAYNHAM, MITONOPTIAML PM (SA)

Take a bow Mr Mboweni , you have done your country proud.

I, along with many many others was immensely sceptical of what Tito Mboweni could deliver in his 2020 budget, given the lack of political will within the ANC to administer the much-needed medicine to sort out South Africa's profligate spending. But surprise us he did, and his words have been music to the currency, equity and bond markets. Predictions of a Moody's downgrade in March have now gone from 70% to 40%, but they will want to see action and not just words.

So, what did he do that was taken so well and has led to plaudit after plaudit for his budget? Very simply he did the unexpected – he has said that government plans to cut the public sector wage bill by R160 billion over the next 3 years. This was something that many expected would never happen and will now force a showdown with Cosatu, who as you can guess are not exactly enthralled by this news and no doubt in the coming days will make their anger on this known.

Sceptics reading this will say, government will back track, as they did when they threatened 0% increase in the Eskom wage bill a year ago, but I would like to highlight the following points as to why this time it might actually be different:

- Firstly, between now and 2022/23 the stock of general government debt will rise by a whopping 57% (compared to a 42% increase on MTBPS estimates). Gross loan debt excluding contingent liabilities moves from an estimated 61.6% of GDP today to 71.6% in 2022/23 (71.3% previously). **And these numbers are after pencilling in the wage bill cuts**, emphasising that the government is finally realising South Africa has no choice.
- And secondly, Cosatu is becoming increasingly weaker in the modern world we live in today. Unions have been destroyed all around the world and it is time that the government stood up to the unions. The unemployed are a far larger cohort than the unionised employed and this budget shows that government is finally standing up to the unions and putting South Africa first.
- Mr Mboweni has also increased welfare payments to the poor in this budget, which could provide the government with some bargaining power with the other members of the tripartite alliance.

It was not only the expenditure side of the budget that surprised, but after days of doom and gloom of expected VAT hikes, personal income tax hikes and worries over increased CGT and once-off tax increases of 5%, Mr Mboweni did what no-one foresaw and that was to announce no increases to personal income taxes, VAT or CGT.

Sceptics again might argue that this is foolhardy, as South Africa is currently running a large tax revenue shortfall and National Treasury needs to plug it somehow. Ironically enough, cutting taxes (taxes have been cut for lower income groups) could lead to higher tax revenue in South Africa. Increasing the tax rate can lead to more creative tax avoidance or emigration. In fact, if one looks at countries where tax rates are cut, the tax revenue often increases as tax payers are more willing to pay. So here again, I think Mr Mboweni has listened to the market and done the sensible thing as raising VAT on an already impoverished consumer and raising tax rates on tax-weary individuals was not going to work.

South Africa has a growth problem and a government that spends too much on SOEs and the public service wage bill. Miracles won’t happen overnight, but this budget was a step in the right direction. They say you should never waste a crisis and I think with this budget Mr Mboweni and the ANC have stepped up to the plate. Time will tell whether they have the political will to take on the unions, but should they fail to do so, the demise of South Africa will be on their watch. For the first time in ages, I feel that we have hope again – actions are now needed, the time for talking is over.