

Economists salute finance minister

✘ Parliament – Economists saluted Finance Minister Nhlanhla Nene for containing state spending and debt in his first medium-term budget on Wednesday, but opposition parties faulted him for not doing more to stem waste.

Wits economist Kenneth Creamer said that with growth lagging at 1.4 percent of GDP, fiscal stimulus risked becoming counter-productive by pushing up national debt to unacceptable levels.

“Nene appears to have a clear grasp of this problem, and he has signalled a clear intention to change the fiscal policy stance from stimulus to consolidation.

“This is not an easy task and will require determined action by government, and clear communication with all stakeholders in South Africa,” he added.

He forecast that this implied tax increases early next year – when Nene tables his first full budget – because the sale of non-strategic state assets alone would not swell the revenue coffers sufficiently.

“In the context of an ongoing low rate of economic growth, increased tax revenues will require a broadening of the tax base, increased tax compliance and morality, and, possibly, increased tax rates on consumption and wage earners, particularly high wage earners,” he said.

“Such tax increases will pose difficulties and adjustments for South Africans, but as Nene has indicated, such a step may be essential if the country is to avoid falling into a debt trap.”

Deloitte economist Kay Walsh interpreted Nene's comments on tax as a pointer that the overall tax burden on wealthy individuals will be increased.

"This could either be in the form of increased tax rates for high-income earners, or higher and/or additional 'wealth taxes' such as capital gains tax, luxury vehicle tax, etc," she said.

Walsh said Nene took a strong stance on the need to urgently put in place measures intended to restore ailing public finances to health.

"It is clear that the forecast economic recovery is going to take much longer than previously anticipated, with GDP growth now only expected to reach three percent in 2017 (previously 2015)."

Democratic Alliance parliamentary leader Mmusi Maimane said given this climate, Nene needed to announce more drastic measures to help South Africa match the growth achieved by other African nations.

"Other African countries are growing at a higher rate than us... and this tells you there is something wrong that we are doing, not simply an economic climate that we are in," he said.

United Democratic Movement Chief Whip Nqabayomzi Kwankwa agreed.

"We would have liked to hear him place emphasis more on what they intend doing on dealing with wasteful expenditure," he said.

Inkatha Freedom Party leader Mangosuthu Buthelezi expressed concern about the poor growth outlook and the lack of job stimulus. He commended Nene for trying to curb spending by, among other measures, withdrawing funding for vacant civil service posts.

“This is a good thing, but a drop in the ocean,” he said.

The Freedom Front Plus said it doubted Nene’s assertion that the mid-term budget marked a turning point for the country.

“I would like more figures, more honesty, tell us what the problems are and then surely some solutions,” party leader Pieter Mulder said outside Parliament after Nene tabled the Medium-Term Budget Policy Statement.

“He went broadly over it. He admits that the growth rate came down to 1.4 percent. That’s very serious. He also admits there is a shortage in revenue, and then he did some cuts; that’s good, but he ends up with... about R1.3 billion that he could cut.”

Mulder said this was too little, and suggestions of tax increases were worrying.

“That’s not good for the economy and the overall growth rate.”

But the ANC said the minister managed to find the right balance between containing state spending and protecting the needs of the country’s poor majority.

“I think that balance has been very, very important,” party treasurer Zweli Mkhize said.

“Having looked at what the minister could have done, I think they have been able to give a very frank picture of the difficult economic situation for South Africans, and that’s what we need.”

The Economic Freedom Fighters said Nene should have tackled tax evasion by big mining companies as part of his stated aim of stabilising public finances.

“Government should deal more with the issue of base erosion and capital shifting and transfer pricing because that is stealing millions of rands from South Africa... ,” Economic

Freedom Fighters Chief Whip Floyd Shivambu said.

“Nothing is being done in that regard. They pretend like everything is fine while there is a crisis of resource theft and tax avoidance.”

Creamer praised Nene for opening the way for a range of increased private sector investment initiatives, such as special economic zones, independent power projects, co-generation power projects, and renewable energy projects.

But he added: “While being absolutely necessary, increased investment is unlikely to be sufficient, given the scale and historical damage wrought by South Africa’s structural unemployment problem.

“Redistributive activities, including quality public education and public health services, as well as social security safety nets, are all necessary for stability and social cohesion.”

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