Nene slams brakes on spending

Independent Media Finance Minister Nhlanhla Nene (right) speaks to his deputy, Mcebisi Jonas, before his Medium-Term Budget Policy Statement in Parliament on Wednesday. Picture: Courtney Africa

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Finance Minister Nhlanhla Nene yesterday announced measures to try to rein in spending, stabilise government revenue and narrow the budget deficit.

Presenting his first Medium-Term Budget Policy Statement since his appointment in May, Nene said South Africa faced the challenge of having to do more with less, adding that this was a difficult time as growth in many countries had slowed and the economic outlook was uncertain.

By announcing a bid to restrain spending, Nene aimed to send a strong message to the capital markets and the credit ratings agencies which have put South Africa under a microscope amid deterioration in the country's fiscal position as tax revenue slows, debt levels rise and as growth continues to be elusive.

"We have reached the turning point," Nene told reporters before his budget speech to Parliament. "Fiscal consolidation can no longer be postponed."

To reduce growth in spending, the government will lower its 2014 budget expenditure ceiling by R25 billion over the next two years, and adjust tax policy and administration, according to the Treasury's mid-term budget statement.

It said proposals would be introduced in the 2015 Budget in February to generate additional revenue of at least R27bn over the next two years.

The Treasury said recommendations of the Davis Tax Committee, which is reviewing the tax policy, would inform proposals that would be tabled with the 2015 Budget.

But it forecast that policy and administrative reforms will raise at least R12bn in 2015/16, R15bn in 2016/17 and R17bn in 2017/18.

Nene also announced plans to shake up the way the state plugged funding holes in parastatals and the means of reducing the budget deficit. Where the government agreed that resources were required to firm up balance sheets of state-owned companies, funds would be raised through the disposal of non-strategic assets held by the government, or private investors, the Treasury said in the budget statement.

Over the next two years, financial support provided to state-owned companies, including capital injections for Eskom, would be provided in a manner that did not affect the budget balance, Nene said.

Support will depend on state-owned firms making a sound and sustainable business case, and strengthening internal governance.

This is a radical departure from government's policy of the last 20 years in which state-owned companies were regarded as sacrosanct in order to protect employment.

It also signals a shift in fiscal policy as government moves to placate rating agencies with a series of measures to reduce the budget deficit and stabilise public debt.

Nene said "rising debt levels, if left unchecked, would absorb

more and more of our spending”, adding that two years of fiscal consolidation would put the public finances on a more sustainable footing.

According to the Treasury, prudent levels of government borrowing played an important role in supporting the economy and protecting spending priorities, but continued borrowing at the current level was unsustainable.

And without a marked shift in the debt metrics, South Africa ran the risk of having its credit rating cut to non-investment grade, or what is colloquially known as “junk”, something that would hinder the country from accessing financing and raise the cost of borrowing.

The Treasury now projects that the 2014/15 budget deficit will be at 4.1 percent of gross domestic product (GDP), slightly wider than the 4 percent forecast by Nene’s predecessor Pravin Gordhan in February.

Economists polled by Reuters expected a 4.4 percent gap. Gross tax revenue had been revised downwards by R10bn in the current year, owing to underperformance on corporate income tax, customs duties, value-added tax and the fuel levy – and downside risks remained, the Treasury said.

Meanwhile, net debt was projected to peak at 45.9 percent of GDP in 2017/18 from 42.8 percent in 2014/15, an outcome that might still give credit rating agencies some discomfort. The Treasury said gross national debt was expected to reach R2.4 trillion in 2017/18, while debt-service costs would grow at 9.3 percent a year – faster than the budget as a whole – reaching about R150bn in 2017/18.

Nene said to effect the lower expenditure ceiling there would be a freeze in the budgets of non-essential goods and services at 2014/15 levels, and funding for posts that had been vacant for some time would be withdrawn, resulting in substantial savings over the next two years.

Across national departments, planned expenditure on travel and subsistence has been cut by R555 million. Advertising and communications budgets have been reduced by R240m. It said lower spending on consultants would generate savings of R370m, while spending on venues and catering would be R150m lower than previously planned.