

# Schizophrenic budget a desperate attempt to balance the books – Daniel Silke

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WHICHEVER way you look at it, Budget 2018 was always going to be punitive and it sure was.

All South Africans, especially the poor, are being made to pay for both the excesses of the Zuma era as well as the failure to enact and enable growth-orientated economic policies.

The rise in value-added tax (VAT) and fuel levies is largely an attack on the poor and presents a gamble for newly-elected President Cyril Ramaphosa as he seeks to revitalise his own political party ahead of the 2019 elections.

But Budget 2018 was a peculiar affair. In essence, it was delivered by a less-than-credible messenger under the whip from a more-than-credible new president.

More importantly though, its framework exists in something of a twilight zone it was presented in a vacuum of shifting political power and unfulfilled policy formulation.

## **Plugging the revenue shortfall hole**

Barely a week ago, even the delivery of the budget was in danger. The dramatic transition – and resultant inability to

establish any new initiatives with the sentiment-driven Ramaphosa State of the Nation Address – has resulted in a Band-Aid approach and should be seen as nothing more than a desperate attempt to balance the books.

Plugging the revenue shortfall hole while scrambling to find an additional R57bn for Jacob Zuma's legacy free higher education spend was always going to be an unenviable act. And it was left to a Zuma-leftover, Malusi Gigaba, to deliver the bad news.

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Politically, the assault on the poor is the first sign that the nascent honeymoon between elements of Ramaphosa's constituency and himself might have been paused. The severe rebuke from many civil society, NGO and unionist groupings suggests the makings of a future area of distinct disagreement with the new president's approach.

For Ramaphosa, left with nothing in his arsenal, the choices were limited indeed. For South Africans with a short memory, this year's attack on the poor is the second act following last year's budget when individual taxpayers – the middle classes were forced to cough up.

South Africa has now endured two consecutive budgets that have punitive taxes as their only outcome. Devoid of policy and economic growth, it's regrettably a natural outcome.

### **People see tax pain, investors cheer**

But while citizens were contemplating the extra travel costs and pain at the shopping tills, the markets thought otherwise. The disconnect between the two could not have been starker.

The currency rallied, stocks rose and a broad swathe of business welcomed the budget. Not too concerned with the plight of the poor, investors liked the broad mix of revenue

generating options employed.

An increase in VAT and the fuel levy was seen as restoring some balance to the excessive tax burden on personal income tax payers. The increase of 1% was viewed as manageable, especially within the context of other OECD nations whose VAT rates are higher than ours.

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Investors also cheered the fact that the individual's tax burden was recognised as being high. By shifting towards indirect taxes, the budget was less populist and the markets liked that.

With the ratings agencies – particularly Moodys -again hovering, the quasi-austerity reduction in state expenditure by a whopping R85.7bn was seen as government putting its money where its mouth is.

But make no mistake, taking this amount out of allocations to national, provincial and local disbursements is equally an attack on the poor, the effects of which are yet to be fully determined.

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President Ramaphosa will probably not want to remember Budget 2018 for much longer. He needed to get it over with – and needs to move on. Ramaphosa took some political risk in upsetting the poor but it is a non-election year and should some semblance of growth emerge, South Africans might be forgiving again.

He has gambled that this goodwill will see him through.

On balance therefore, this was a schizophrenic culmination of a tumultuous period in our recent political past. The contradictions of political transition were reflected in the

contents of the budget. And the reaction, similarly, reflects this.

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Ramaphosa will need to tread warily though. He will have to act fast to restore broad credibility in a much-anticipated Cabinet reshuffle. He needs a fresh policy approach. He needs to restore ethics. He needs delivery.

Otherwise, he sets the scene for new political cleavages as he navigates this complex road ahead.

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