

Gordhan is negotiating a minefield

Can he survive when there are so many issues that could blow up no matter which way he steps?

Lisa Steyn

Finance Minister Pravin Gordhan's budget speech next week will see him managing tight economic constraints and even tighter political ones.

Despite having almost no fiscal room to manoeuvre last year, Gordhan managed to balance the budget without having to deal with political hot potatoes such as increasing value-added tax. But with higher revenue projections indicated in October's mini-budget — more than the amount current taxes will provide — the measures he will introduce to raise the money are keenly anticipated.

Gordhan, who has been removed from the top job at treasury before and is widely speculated to be at risk of being replaced yet again, will deliver his speech on Wednesday. The stand-off between President Jacob Zuma and Gordhan is the overarching climate in which it will take place.



Political trap: Finance Minister Pravin Gordhan must trim costs and up social spending. Photo: Waldo Swiegers/Bloomberg

Zuma's State of the Nation address (Sona), delivered last week, outlined some of the ANC's 12 urgent tasks for so-called radical economic transformation. The emphasis was on immediately tackling transformation by addressing issues such as monopoly power and land redistribution.

Although political economy experts think it is unlikely that the 2017 budget will challenge anything, it is not anticipated to speak to Zuma's address either.

"In the past, we have had a programme where the State of the Nation doesn't seem to speak directly to the budget," said political analyst Somadoda Fikeni. "This is one of the inhibiting factors whenever the ruling party makes pronouncement of what its key priorities are. For example, announcements on rural development, or how important small businesses are in creating jobs, does not translate to significant budget changes."

Nomura's emerging markets research analyst, Peter Attard Montalto, said there has been a broad shift in tone in Sona — to the left — but he described these addresses as often being "a triumph of rhetoric over implementation".

Fikeni said that a finance minister is in a very confined space. "He inhabits something which is structurally constraining. There are fiscal constraints and you have to show you are cutting down. At the same time, you are given these socially generous projects, the costs for which just keep increasing."

Politically, he is also confined. This year there are major political machinations and Gordhan faces baits and traps set everywhere, Fikeni said.

Although Sona has been criticised by detractors as being more of the same, Fikeni said there is undoubtedly an unmatched level of pressure that radical economic transformation must be realised.

"If he makes moves that are radical, any recklessness which results in capital flight will be reason enough to remove him," Fikeni said. "Any conservative moves will also be seen as a way to say he is working against radical economic transformation and remove him."

Even if he wanted to, the finance minister cannot spur radical economic transformation without the policy being in place first. For example, one of the urgent tasks requires that 10% of revenue be ploughed into agricultural development, in accordance with the Maputo Declaration signed by South Africa and other African Union nations 14 years ago.

This decision is not up to the treasury, Fikeni said. "It would be a Cabinet decision and the president in question would have to be strong to force this kind of decision through."

Land reform is at the top of the ANC's list of urgent tasks and received a great deal of attention in Sona. But, said Ben Cousins, from the Institute of Poverty, Land and Agrarian Studies, there are likely to be budgetary implications, depending on how high up in the agenda land reform gets placed.

"If there were to be a greater emphasis on land reform, there would have to be a substantial increase in funds ... but it's all a matter of political will."

Currently the department of rural development and land reform receives 0.8% of the budget, which has dropped from 1% several years back, Cousins said. For the treasury to allocate the funds would require clear policy direction from the president and the Cabinet.

"But there is no evidence that statements made by government on this issue in the past have had any effect on the budget allocation," Cousins said, adding that the department, which has been found wanting before, would also have to demonstrate it can use the money effectively.

Ralph Mathekga, the head of political economy at the Mapungubwe Institute for Strategic Reflection, has long warned that the ANC,

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when pushed into a corner, is likely to become more rhetorical and populist, as evidenced in Sona.

"But not everything is unfounded and Zuma and Gordhan don't disagree on everything. They certainly don't disagree on social expenditure," Mathekga said.

"Land restitution [the programme responsible for the settlement of land claims], you can easily put some money into these things," he said, although adding that how effectively the money was used was a challenge.

"You could also put more money in the expanded public works programme through the department of public works ... And for higher education, government has worked on some additional funding packages," Mathekga said. "Gordhan, he cannot afford to offend, especially when it comes to leftists."

He is also facing a dilemma on issues such as small business. "[Small business] minister [Lindiwe] Zulu has gone on an offensive to say the money allocated is not enough," he said. "One way or another, Gordhan will have to cave on some of those issues."

The real area of contention is the state-owned enterprises, said Mathekga, noting they wanted more autonomy from treasury.

Mathekga expects Gordhan will try to avoid any hot political issues, such as the Financial Intelligence Centre Amendment (Fica) Bill, which has become the focal point of competing interests in the financial sector and was sent back to Parliament by the president.

"When it comes to the Fica Bill, saying anything about it would mean he is challenging the president," Mathekga said.

But Attard Montalto said he expects the treasury to "plant a firm flag in favour of the existing financial sector policy framework with another rallying cry on issues such as the Fica Bill".

Mathekga said the budget speech will say the same thing the treasury has been saying for the past 20 years. "It will be about efficiency, saving and cutting losses, and thwarting corruption. This is nothing new ... it's just that just now people will read it differently."