



INCENSED A protester hurls rocks at the police during clashes outside Congress in Buenos Aires, Argentina, this week ahead of a vote on an austerity budget, comprising spending cuts and tax increases, which was later approved by legislators. Argentina's economy has been in decline over the past year, with shortages of many consumer products

PHOTO: REUTERS

Treasury has not done ENOUGH

A feeble growth outlook and looming ratings downgrades paint a picture of an SA that is endowed yet bereft, rich yet poor and penny-wise yet pound foolish, writes **Thabi Leoka**

Finance Minister Tito Mboweni set the tone of his maiden medium-term budget policy statement by starting with a quote from Charles Dickens' critically acclaimed historical fiction novel *A Tale of Two Cities*.

The novel starts with the well-known opening: "It was the best of times, it was the worst of times..."

A Tale of Two Cities uses duality to highlight its themes - from the twin cities of London and Paris to contrasting female characters, one vengeful and bloodthirsty, the other nurturing and forgiving, and lookalikes with similar appearances, but with nothing in common.

Dickens uses this motif of doubles to highlight themes and connect the past and present.

In relation to South Africa, the duality depicts a country that is endowed yet bereft, rich yet poor and penny-wise yet pound foolish.

The mini budget was a lot gorier than expected.

In February, National Treasury expected GDP growth of about 1.5%, but after two consecutive quarters of negative growth it has had to revise its GDP forecast to 0.7% for this year.

Treasury expects GDP growth to increase to 1.7% next year and 2.1% in 2020.

These figures are feeble and are unlikely to improve the unemployment rate, which currently sits at 37%, if we consider discouraged workers.

Have we run out of ideas on how to reduce the unemployment rate or do we just lack ideas?

The truth is that we cannot grow this economy when more than a third of the working-age population is unemployed.

I believe we need to focus on labour-absorbing growth.

We need to take advantage of the huge potential of an underemployed and poorly skilled workforce.

The tradable sectors - manufacturing, mining and agriculture - should be the main drivers of our economy. These are high labour-absorbing sectors that require low skills, but give us high revenue returns.

What we currently have is growth in the non-tradable sectors such as finance, which requires highly skilled workers thus contributing to the high unemployment rate and wide inequality gap.

The mini budget revealed that the budget deficit will widen to 4% in the 2018/19 financial year, compared to the February projections of 3.6%.

Worryingly, Treasury expects further fiscal slippages in 2020, to 4.2% of GDP.

The shortfall or gap between government spending and tax revenues is widening because of a tepid growth outlook, increased debt servicing costs and higher Southern African Customs Union receipts.

Tax revenue collection grew by an impressive 10.7% in the first six months this year, but the high level of tax receipts was owing to a backlog in VAT refunds.

Treasury expects that after the once-off payment of overdue VAT refunds revenue shortfall will be around R27.4 billion.

For the first time since the 2008 global financial crisis, tax revenue growth did not exceed GDP growth and the shortfall has widened over the past four years, with undercollections rising from R7.4 billion in 2014/15 to R49 billion in 2017/18.

Having decided not to reduce the expenditure ceiling or increase taxes, the reprioritisation of funds from programmes that are underperforming or underspent is expected to free up R32.4 billion over the next three years. R15.9 billion will be channelled into infrastructure

programmes, clothing and textile incentives and the Expanded Public Works Programme.

The tax reprieve will be most welcomed by the majority of South Africans who have had to tighten their personal belts since the 1 percentage point increase in VAT in April.

The revenue projections, however, do provide for annual adjustments to personal income tax brackets, excise duties and levies in line with inflation.

A VAT panel, which I was a part of, was commissioned by former finance minister Nhlanhla Nene to consider how to mitigate the impact of the increase in VAT from 14% to 15%.

Although the panel recommended six items, which in terms of foregone VAT would have cost R4 billion altogether, Treasury decided to zero-rate only three of the six items - white bread flour, cake flour and sanitary pads.

While some may not understand the rationale of zero-rating white bread flour and cake flour, extensive research was undertaken by the panel and the health department, separately, on the consumption patterns of the poor.

The consumption of white bread, for instance, is high among the poor and many have argued that white bread tastes better than brown bread.

Our role was not to change the consumption patterns of the poor, but to soften the blow of the VAT increase.

We took into consideration that white bread is not as nutritious as brown bread. As such, white bread will be fortified.

This means that white bread will be enriched with nutrients such as folic acid and iron after milling.

The zero-rating of these products will be effective from April 1 next year.

The three items will result in about R1.2 billion revenue loss.

When considering the worse-than-expected revenue growth, zero-rating three of the six items makes sense.

Mboweni announced that sanitary pads will be given to school-going pupils for free. I believe this should be expanded to all women living below the poverty line.

Mboweni announced the recapitalisation of SA Airways, SA Express and the SA Post Office with R5 billion, R1.2 billion and R2.9 billion, respectively.

I believe this could be the parastatals' last government lifeline. Hopefully these entities will be able to stand on their own and not require any more bailing out by taxpayers.

Public debate has been on regarding whether to privatise them or not, but it is neither here nor there as they have proven to be reckless.

What's important is for these entities to have water-tight boards that will adhere to governance and a strong, principled executive.

Mboweni delivered his speech with great passion.

He spoke with authority and at one point wagged his finger and hushed heckling opposition parties as if he were a school headmaster.

Unlike his fellow ministers, he was until recently an ordinary member of society, incensed by corruption and poor service delivery.

I'd like to believe that this is why he gave us an austerity budget that went as far as halting public sector salary increases.

I fear that Treasury has not done enough to stave off rating agencies. We may see a negative outlook or two next month.

Leoka is an economist affiliated to two organisations. Last year she was named economist of the year



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