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'THE LATEST MEDIUM TERM BUDGET POLICY STATEMENT SHOWS THAT SOUTH AFRICA'S FISCAL ARITHMETIC AND GROWTH OUTLOOK REMAIN WEAK AND VULNERABLE', SAYS NWU BUSINESS SCHOOL ECONOMIST PROF RAYMOND PARSONS

The economic and fiscal strategies outlined in the 2018 Medium Term Budget Policy Statement (MTBPS) or 'mini-Budget' today by new Finance Minister Tito Mboweni are likely to have a mixed impact on business and the markets, given the constraints governing the fiscal framework. Although facing an unenviable task the Finance Minister nevertheless gave realistic assessment of SA's socio-economic challenges and frankly identified what needs to be remedied. Nonetheless, both the fiscal arithmetic and the growth expectations in the MTBPS have deteriorated.

The projections for future tax revenues, government spending and debt ratios therefore show a continued vulnerable fiscal situation in the period ahead. Gross debt is anticipated to continue to rise to a peak of 59.5% of GDP by 2023/24, which reflects steady deterioration in the debt outlook. It remains clear from the MTBPS that the huge costs of the economic deterioration in SA over the past decade and urgency of renewed economic growth are nowhere more apparent than in government finances - and for which there is no 'quick fix'. In any case, several outcomes from the latest MTBPS will only be apparent in the main Budget in February 2019.

On the positive side the emphasis on higher spending on infrastructure as a driver of growth, the need to mobilize the private sector on a larger scale to expedite implementation and greater accountability at local government level are welcome. Although the problem is being addressed, the MTBPS also shows that the size of the public sector wage bill continues to be a major distorting factor in trying to get the right fiscal balance. The reorganisation of certain state-owned enterprises and reducing their drain on government finances is a step in the right direction but needs to be tackled boldly.

It will, however, also require other key structural reforms if the weak short term economic recovery is to be converted into long term growth and fiscal sustainability. Deeper and tougher decisions still lie ahead if the economy is to break out of its current 'low growth trap' and exceed the expected short term growth rates of about 1.5% to 2.0%. What again clearly shines through the fiscal gloom of recent years, as well as in 2018 MTBPS, is the overwhelming need for a strong and sustainable boost in SA's flagging growth rate on the basis of significant structural reforms and their implementation.

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