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‘2019/20 BUDGET SPEECH GIVEN TO PARLIAMENT TODAY BY FINANCE MINISTER TITO MBOWENI CONFIRMS FISCAL SUSTAINABILITY DEPENDS ON A DRAMATIC AND SUSTAINABLE BOOST IN SA's GROWTH RATE ON THE BASIS OF STRUCTURAL REFORMS’, SAYS NWU BUSINESS SCHOOL ECONOMIST PROF RAYMOND PARSONS

'The 2019/20 Budget Speech given to Parliament today was a frank and realistic assessment of the extent to which the economic and fiscal challenges facing SA had escalated since the Medium-Term Budget Policy Statement (MTBPS) or mini-Budget was presented in October last year. Finance Minister Mboweni nevertheless sought in a consistent way to add financial and fiscal dimensions to the broader vision outlined in the SONA earlier this month.

But there was very limited room to manoeuvre, due mainly to muted economic growth on the one hand, and to the new annual allocations of about R23 billion to Eskom over the next three years, on the other. The key fiscal deficit ratios over the next few years are therefore set to deteriorate from what was outlined in the MTBPS, making this a Budget of unenviable compromises.

The continued commitment nonetheless by Finance Minister Mboweni to fiscal sustainability is welcome, especially in implementing serious new measures to control state spending, partly to compensate for the large allocation to Eskom. And tax revenues are down. Given the tight Budget, an increase in the tax burden was inevitable. The tax increases chosen will probably do the least harm economically.

Yet if combined with the failure to allow fully for 'fiscal drag' on personal tax, the other tax and fuel levy hikes will reduce disposable income and could inhibit consumer spending. This may constrain consumption as a growth driver. The small tax base and 'tax buoyancy' thus remain problems which need structural solutions if the persistent rise in the tax burden is to be reversed.

Hence there are still long term risks inherent in the fiscal outlook. These widespread concerns will continue to shape future fiscal imperatives, unless SA can raise its growth rate considerably. The 1.5% to 2% growth expectations over the next couple of years are simply not good enough to tackle SA's socio-economic challenges in the period ahead.

To avoid precipitating a 'debt trap' or investment downgrades in the period ahead it is therefore necessary to implement the structural reforms that can put the economy on a much higher growth trajectory. What clearly shines through the fiscal gloom of recent years is the overwhelming needs for a dramatic and sustainable boost in SA's flagging growth rate on the basis of structural economic and governance reforms.

Once the elections are out of the way in May, SA must concentrate on the fundamental measures and projects that will make it the preferred investment destination required to underpin higher inclusive growth and job creation.'

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