Business Day Budget article 2

South Africa's fiscal challenges are like an iceberg

South Africa's fiscal challenges are like an iceberg in the water ahead of a ship. The President of South Africa, Mr Cyril Ramaphosa, as the captain and Finance Minister, Mr Tito Mboweni, as his navigator, need to make drastic decisions quickly, with the knowledge that they can't see the full iceberg but need to budget for it.

The tip of the iceberg has now grown to R370,6 billion which is the ballooning budget deficit and we need to reduce that to R0 to start reducing debt effectively. The speed of debt increases the speed of the ship. The iceberg under the water still remains, such as our imploding water infrastructure including sewage and river systems, state debt guarantees that are becoming state debt and imploding municipalities whose main income is from water and electricity, commodities they are losing quickly. Also can we fix the electricity problem quickly enough?

The South African Institute of Chartered Accountants' (SAICA's) main concern remains the continual increase in public expenditure in an economic environment that does not match its tax collections. In the main, Budget 2020 does follow the same recipe as previous years by making nominal spending cuts and financing the difference through debt. It also relies on the Gross Domestic Products (GDP) recovering to just over 1 percent (%) from estimated 0,9%. Moody's, the most optimistic credit rating agency, seems less convinced, estimating GDP at 0,7% for 2020 and 0,9% for 2021.

We also do not see more measures in holding officials accountable for spending and also providing more value for spending. These remain a serious concern.

Two of the largest factors in our economic implosion remain unaddressed, namely a coherent policy framework (not just macro-economic) and significant reduction in crime. The latter is even more important as you cannot implement policy and legislation changes that no one adheres to or many actively undermine. SONA 2020 had a few proposals but not a single coherent strategy, including reviewing the structure and performance of our whole criminal justice system. A small business whether in retail, manufacturing or tourism cannot survive in our current crime-ridden country if they cannot connect goods and services to customers in all areas. No child can learn in an unsafe environment where schools are looted and destroyed, funds misappropriated, children robbed and murdered while living in the dark.

We require a proper coherent plan in this regard across all of government.

SAICA agrees with the Minister that all is not lost and we have overcome before. We know what the challenges are, it just requires political will to start addressing them.

In this regard there are positive signs in Budget 2020 that the Minister and the President have started to listen and implement change, which include:

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- Moving to a low-rate, broad-base fiscal policy with enhanced tax simplicity. Ireland and New Zealand have both migrated from fiscal disaster in the 1980s to good and stable finances based on these principles.
- Fairly burdening taxpayers and we welcome no substantial tax increases this year, though they may be unavoidable in the medium term
- Creating certainty and transparency in the macro-economic framework and we hope that broad consultation will inform this
- Reducing borrowing costs by reducing debt, though only R156 billion over 3 years is too low, it is double the previous “austerity measures”
- Reducing the wage bill by R160 billion over 3 years is welcomed. In reality, this is less than a 10% reduction of the consolidated wage bill with a R37 billion already in next year but we need to also consider what we can bear. SAICA does hope that trade unions will constructively engage and participate. SAICA believes that structurally the staffing in government should also be addressed and agree with trade unions of a skills audit i.e. if we have five personal assistants and one engineer when we need the opposite, reducing the one engineer reduces the wage bill but does not structurally fix the problem.

It will be on everyone’s mind whether government has done enough to convince Moody’s to retain its investment rating. Government is definitely making more of the right noises. However, looking at the revised estimates for national expenditure and its R23,5 billion increase, Moody’s may not be convinced that South Africa has the fiscal discipline and political will to implement these plans, irrespective of how good it is.

SAICA hopes government does and will.

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