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COMMENTARY

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MKI Economics Commentary is a brief note intended to provide MKI's interpretation of key economic events such as the Budget, MTBPS, Monetary Policy (Interest Rates) and Employment data releases.

2020 BUDGET: TAX RELIEF, GROWING DEBT AND A BID TO APPEASE RATINGS AGENCIES

Moses Kotane Institute notes the ***2020 Budget*** delivered by Honourable Minister for Finance Tito Mboweni on 26 February 2020. In what was expected to be the most challenging budget in years, with stagnant economic growth, deteriorating debt metrics and very sluggish tax collection, Treasury surprised on the positive side with a budget that supports economic growth with fiscal sustainability.

BUDGET HIGHLIGHTS

The Good:

- Tax Relief through 5.2% adjustments to the individual tax brackets and tax rebates.
- No increase in Value Added Tax (VAT) rate.
- Increase in Learning and Culture allocations to support introduction of coding and robotics from Grade R.
- Increase in exemption from transfer duties from R900 000 to R1m.
- Public sector wage expenditure to decrease by R160bn.
- Increased support to Eskom.

The Not so Good:

- Growth forecast slashed to just 0.9% from 1.7% a year ago.
- Budget Deficit to widen to 6.8% of GDP in 2020/21.

- Debt servicing costs to account for 15 cents in a rand the government collects.
- Worsening deficit at Road Accident Fund.

TAX RELIEF: TAX BRACKETS AND REBATES ADJUSTMENTS AND NO VAT INCREASE

The major positive surprise from the Budget 2020 is the relief to already over stretched taxpayers. The 5.2% adjustments to individual tax brackets and rebates will bring much needed relief to taxpayers. With Inflation projected at 4.5% in the medium-term, this tax rates adjustments will have real positive effect on spending power of the consumers. Despite wide-spread rumours of an increase in VAT, this did not materialise. Moses Kotane Institute notes any upward movement in VAT would have been counterproductive in such a constrained macroeconomic environment with rising unemployed and marked increase in household indebtedness. It was also encouraging that there is a willingness to simplify the tax code and there are plans to reduce corporate tax rate that is currently sitting at 28%. Corporate Tax rate is a major consideration by investors and a reduction in such rate may bring about increased investments.

PUBLIC SECTOR WAGE BILL

The National Treasury announced plans to reduce the public sector wage bill by a massive R160bn in the medium term. This move is designed to show the ratings agencies the Republic's willingness to rein in the budget deficit and improve the credit profile. This is a bold step indeed and it remains to be seen if labour will support such a move. Public sector wages account for around a third of consolidated government expenditure, according to Fitch Ratings.

APPEASING CREDIT RATINGS

It would appear the steps towards fiscal consolidation such as proposed public sector wage cuts are meant to convince ratings agencies, particularly Moody's, about the seriousness and commitment to reign in the budget deficit and gross-national debt. It remains to be seen if Moody's, the last of the major credit ratings agency to place SA at investment grade extends the lifeline by keeping SA at-investment grade. The increased financing of Eskom and the commitment towards stabilising State-Owned Entities is a further attempt at appeasing ratings agencies. The continued downward revisions to economic growth and rising costs of financing Eskom will further spook Moody. MKI notes that should Moody's downgrade SA to junk, the debt servicing costs will rise further. The anaemic projected GDP growth confirms ratings agencies wariness about achieving better employment outcomes and revenue collection. This will see increased calls for faster structural reforms to be implemented. It is MKI's considered view that perhaps, against all odds, Moody's will stay South Africa's investment at investment grade albeit with the negative outlook at least until November this year.

MARKETS CHEER THE RAND POST BUDGET SPEECH

As stated in the Business Report dated 27 February 2020, the long-maligned Rand firmed 0.7% against the greenback as investors cheered the government's commitments to control spending in an effort to contain the ballooning Budget Deficit.

CONCLUDING REMARKS

Moses Kotane Institute is of the view that the Budget on the whole was positive especially the more than R14bn in tax cuts. The commitment to spending cuts including in baseline spending reductions are likely to assuage credit ratings concerns about the fiscus trajectory. Infrastructure spending will likely boost the economy, however, the risk to the economic outcomes remain. We are of the view that more economic reforms are necessary to accelerate growth. Fiscal sustainability, job creation and increased revenue can only be achieved in an increasing economy.