"Realistic" budget won't deliver enough economic growth

Citadel's chief economist and advisory partner, Maarten Ackerman, chief investment officer, George Herman, and fiduciary partner, Theunis Ehlers, weigh in on the Finance Minister's "neutral and realistic budget which neither disappoints nor impresses in the current economic climate":

Source: Pixabay

The South African investment sector looked to the new Finance Minister, Enoch Godongwana to deliver an inaugural National Budget Speech that would be bold enough to move the needle on real economic growth and job creation to pull the country out of its 10-year economic slump.

They did not get what they wished for, but neither did they get a budget that was in any way counter-productive or irresponsible.

“The budget is based on sound policies and realistic goals, but it isn’t doing enough to kickstart real economic growth. The only way to reach a growth rate that can address our structural issues is if we do more to boost the private sector, by cutting red tape, boosting incentives, and creating efficiencies in the system. We need to get the private sector and foreigners to be willing to invest back into the economy, because that is the only thing that will solve problems such as joblessness, poverty and hunger,” says Citadel chief economist and advisory partner, Maarten Ackerman.

No end to South Africa's unprecedented jobs' crisis

Ackerman contends the job-creation schemes announced by Godongwana – with R76bn allocated for job-creation programmes in the medium-term and another R18.4bn being made available for the Presidential Employment Initiative – is a step in the right direction, however, is unlikely to make any significant dent in South Africa’s record-high youth unemployment rate.

“Getting the private sector to function at full capacity with less red tape will do much more than these incentives provided by Treasury,” says Ackerman.

Government’s infrastructure spending initiatives to create jobs and boost the economy - which would include the upgrade of roads, bridges, water and sewer-, transport- and school infrastructure, as well as hospitals and clinics - are also unlikely to deliver any significant gains that would help the finance minister reach his goal of 2%+ annual growth, and it will certainly help if they can take it from paper to implementation.

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Lauren Hartzenberg 23 Feb 2022

Treasury’s expected GDP growth over the next three years at 1.8% is only slightly ahead of population growth and roughly the same as the paltry growth experienced during the Zuma era. “So, we're going nowhere and that's why we're sitting with an almost 40% official unemployment rate,” says Ackerman.

Stabilising government debt

There is support for Treasury’s attempts to stabilise government debt, which had in the past financial year reached R4.3tn with the country’s debt-servicing costs likely to amount to R330bn over the medium term. This exceeds the budget allocations for health, policing and basic education, which is worrisome.

Treasury is looking to narrow the country’s budget deficit from 5.7% of GDP in 2021/22 to 4.2% in 2024/25 and to stabilise debt at 75.1% by 2024/25. It was good news that the country was reducing its borrowing requirement from R135.8bn to R131.5bn over the next two years thanks to the commodities boom, however, this is not a long-term solution.

“We know other risk factors still remain, including slow global growth, high global inflation and geopolitical risks, the ongoing and uncertain public wage negotiations, and the burden of our failing state-owned enterprises (SOEs) which we are pleased to see are receiving some ‘tough love’ from Treasury,” says George Herman, Citadel chief investment officer.

South Africa needs a capable taskforce

According to Herman, much of what Treasury said about enabling the greater broadband spectrum, the need for more efficient ports and cleaner energy all of which would increase economic activity and make the country more investor-friendly, had been said before.

Ackerman concurs: “I can't suggest any better economic policies at this point, but it is really about having capable people implementing them and more regular performance updates. The President is at the centre of making that happen.”

Windfalls and waiting games

Herman says he is relieved to see the Finance Minister acknowledge that the windfall South Africa received over the past year from a well-performing commodities sector was at best merely “a temporary revenue boost that we should be careful to increase permanent expenditure over.”

Herman also says we should not forget that the fastest growing component of all government expenses is South Africa's debt-service cost which is growing in excess of 10% per annum.

In terms of attracting more foreign direct investment, however, Herman describes the reduction in corporate income tax as a positive for South Africa's private sector. The corporate sector is, however, waiting to see what will be said in the next Government Gazette about Regulation 28. All eyes will also be on government's proposed changes to the laws that govern retirement fund withdrawals.

Theunis Ehlers, fiduciary partner at Citadel, said the reduction of corporate tax to a rate of 27% was positive, but it was still more than the 23% average corporate tax rate of the 38 Organisation for Economic Co-operation and Development (OECD) countries and would therefore not do enough to make South Africa globally attractive or competitive. Ehlers sees it as a positive that the Treasury is keeping income taxes and Road Accident Fund fuel levies contained to give ordinary South Africans a break.

So in conclusion: "The budget strikes a good balance between social spending and austerity, but the bottom line is we need better execution of our economic policies and more support from the business sector to create jobs. We are not out of the woods yet," says Ackerman.