

The 2010 National Budget

Jac Laubscher

Group Economist

17 February 2010

A Solid Performance

The 2010 national budget speech was a solid performance. Minister Pravin Ghordan's statesman's like approach, seeking the buy-in of all interest groups in striving for a successful South Africa at times sounded if this was the real State of the Nation address. The impression one got was that the budget was the negotiated outcome of a process aimed at making sure that it indeed reflected and supported Government's policy priorities. It is therefore unlikely that Parliament's newly granted power to amend money bills will upset the apple cart.

The budget speech made it quite clear that South Africa will not resolve the problem of poverty and inequality through redistribution. The focus was therefore very much on addressing poverty through job creation, which in turn depends on healthy growth, and the need to improve education outcomes to achieve fairness in access to economic opportunities..

When it comes to the policy philosophy reflected in the budget, the Minister impressed with the degree of policy continuity displayed in the Budget. As in the October 2009 MTBPS, he took his cue with regard to growth policy from the main-stream report of the World Bank Growth Commission, of which Minister Trevor Manuel is a member. There was no evidence of the much feared shift in macroeconomic policies, with the debate on the future of inflation targeting being brought to an abrupt end by the announcement that the target will remain unchanged and the Reserve Bank's renewed commitment to being flexible inflation targeters. The same comment applies to the refusal to try and peg the exchange rate of the rand.

The Minister emphasised the multi-dimensional nature of many of the challenges South Africa faces, e.g. the issue of international competitiveness, and the need therefore for a multi-dimensional policy approach in addressing them. Any doubt with regard to who is responsible for macro-economic policy in South Africa has been dispelled.

As expected the National Treasury revised its growth forecasts up, with economic growth expected to be 0,5 percentage points higher on average in the next three years. Although the revisions brought Government's projections closer to the private sector consensus, they remain somewhat conservative, especially with regard to the outlook for household consumption expenditure. Revenue projections were nevertheless not revised up, with the Minister opting for a surprisingly lenient approach to reducing individual income taxes.

The deficit projections for the next few years therefore remain virtually unchanged compared with those in the Medium Term Budget Policy Statement of October 2009. Government is clearly in no hurry to withdraw the fiscal stimulus to the economy due to the fragile nature of the recovery.

It nevertheless came as a surprise to most people that the projected budget deficit for the current fiscal year was revised down to 7,3% of GDP instead of up as a result of a reduced estimate of where government expenditure will end up.

The frustration of the National Treasury with the above budget increases in civil service remuneration that was expressed in the MTBPS showed again, with the Minister warning civil servants that future wage and salary increases will have to be restrained to allow for some increase in public sector employment, e.g. the planned increase of approximately 22 000 in the number of police men. The public sector wage bill is nevertheless expected to continue increasing at approximately 10% per annum in nominal terms, or 4% in real terms.

The amount of R846 billion for public sector infrastructure spending that was mentioned in the State of the Nation address was reiterated, although it is interesting to note that this is R26 billion less than indicated in the MTBPS.

The Minister referred extensively to the need to contain the increase in government debt in order to avoid an undue increase in debt servicing costs. However, the forecast peak of 44% in the debt/GDP ratio in 2014/15 appears to be conservative, and the debt service costs may yet increase to more than the projected 3,4% of GDP. Even at this number, non-interest current expenditure is projected to decline in real terms in the next three years, which boils down to a mild form of an austerity package.

An interesting omission from the budget was any reference to a possible increased role for Government in financing Eskom's capacity expansion, while the unexplained upward revision to the National Treasury's inflation forecast perhaps reflects resignation in the face of Eskom's tariff application. The fact that the hefty increase in the fuel levy is partly justified by the need to build a new fuel pipe line from the coast to Gauteng, in any case establishes the principle of it being in order for public utilities to finance capital expenditure through tariff increases rather than borrowings.

In summary, the most impressive characteristic of this budget is the strong signal of continuity it sends out. South Africa can rest assured that its public finances remain in good hands.