Budget 2021 25 February 2021

What did NOT happen?

It is useful to start with what was expected by many commentators, but then did not actually materialise in the budget.

There were no income tax increases. On the contrary, taxes were reduced, largely paid for by the usual culprits, sin taxes and the fuel levy, and this year joined by carbon taxes. Even more, R40 billion of tax increases over four years flagged by the Finance Minister last year, were withdrawn. Clearly there is an acceptance that higher taxes is not the way forward.

Also, no wealth tax to pay for Covid-19. No caving into expenditure demands for further Covid-19 allowances or a basic income grant. No squandering of the R100 billion better-than-expected tax collection. No abandonment of the strong stance on controlling public service salary increases. No increases in dividend tax and from next year the company tax rate is actually reduced by 1%. No large-scale extension of the Covid-19 grant and social grant increases limited to well below inflation. All these things were widely expected and predicted.

Glaringly obvious from all the 'not-happens' is that the Finance Minister's political position is not nearly as isolated as suggested by some in the chattering classes. Politically-speaking this was a tough budget. Social welfare beneficiaries got an increase less than the inflation rate. The Minister of Finance is clearly strong enough and sufficiently supported to do all these tough 'no' items.

What DID happen?

The budget does provide for free Covid-19 treatment for everyone (more than R10 billion with more in a contingency reserve). That settles the who-pays-for-vaccinations question.

It also provides money to employ more people in social job programmes, also called public employment. This must not be confused with civil service employment. The employed earn a stipend of R3 500 per month and these job programmes pull a lot of people into the labour market, teaching them some basic skills. It gives effect to President Ramaphosa's goal to employ 800 000 people in public employment programmes – about 630 000 of whom have so far been recruited.

As a direct result of all the things that did not happen, the budget does provide a clear road back to fiscal sustainability. The numbers are still horrible, but the way out is clear. Of course, occurrences like another Covid-19 pandemic or some other 'Black Swan' event can upset the most carefully laid plans. But the intent is clear. A lot hinges on the freeze in salary increases for civil servants. Again, the one thing that did not happen, is that government did not yield on this issue over the past year and is unlikely to do so in 2021, despite all the dire warnings. As a prominent economist put it "so far so good".

What may very well happen

When Covid-19 struck in 2020, we had already experienced five years of declining per capita incomes. Covid-19 was then merely the final nail in the coffin. The budget assumes 3,3% economic growth this year, which is lower than the consensus and indicates a conservative approach. That is double the population growth rate of 1,6%. After six years of decline, per capita incomes may very well increase in 2021.

One swallow does not make a summer. The crucial question is whether economic growth in 2022 and beyond can remain above population growth. That entirely depends on how much structural reform is achieved. By structural reform we simply mean changes that remove constraints on the economy and improve productivity and stimulate investment. One can also use the very loaded term "supply side" measures. Energy, spectrum, infrastructure and ease of doing business come to mind.

The budget quite religiously followed the State of the Nation (SONA) speech in committing government to pursue such reforms. So much for the narrative that the President and Finance Minister are on different pages. The political and economic lesson from the budget is clear: growth will be pursued through structural reform. It will not be pursued through fiscal policies, and there is no political pressure on the Reserve Bank to pursue it through monetary policy. As a colleague has observed, the ANC's commitment of a decade ago to pursue growth through anti-cyclical policies (spend more money when times are tough, as Biden is now doing in the US) has been jettisoned. For the US anti-cyclical policies are possible, but in post-downgrade South Africa it is not. Downgrades limit one's manoeuvring space.

Last year I published four notes on structural reform and electricity. Suffice to say that the political commitment to structural reform is very strong. But we also know how difficult implementation is. I am building a dataset on structural reform and intend to publish a first comprehensive report on the state of play at the end of March.

So what?

- The widely articulated horror expectations of the budget did not materialise.
- What did materialise was a realistic road back to fiscal sustainability.
- The budget indicates that the Finance Minister is strong enough to do what is required and enjoys the political support he needs to pull it forward.
- South Africa's road back to growth can only come from structural reform, particularly in electricity, spectrum and infrastructure. All the 'did-not-happens' in the budget confirm that the political will is clearly there. Now for the results.