

Budget 2001

Judge politicians not by their words, but by their deeds. And politicians' most important deeds are their budget. Based on that approach, this year's budget reveals three political goals.

A. Government's political priorities:

These are:

- A commitment to growth through continued tax cutting, aggressive infrastructure spending, incentives for investment and managing interest rates down
- An ongoing commitment to fiscal discipline and macro economic stability
- A commitment to help the poor, but within the context of fiscal discipline and growth first.

1. Commitment to growth

Spur higher growth rate through:

- Tax cuts, thus stimulating demand
- Higher infrastructure spending (up by 26%)
- Incentives for big and small businesses
- Better management of debt, thus pushing rates down

1.1 Tax cutter

- The largest single change in Rand terms is the amount spent on tax relief. Nett tax relief is R9,0 billion. This year the relief is favoured towards those who earn less than R100 000. Last year it was biased towards those who earn more than R120 000.
- The cumulative reduction in taxes since 1995 amount to R33 billion – equal to about 3,5% of this year's GDP.
- Since 1975 every level of taxpayer has now experienced a nett relief from fiscal drag.

1.2 Capital expenditure

- The second biggest movement in Rands is infrastructure spending. It increases by 26% or R4 bil. Capex is set to increase by 20,7% p.a. over the next three years. This compares to an average increase of 1,4% the last three years.
- Government's priorities are clear from the following budgeted increases over the next three years: capex up by 20,7%, non-salary expenditure by 7,6% and salaries by 5,8%.

1.3 Incentives

Details must still be revealed. The goal is clearly to stimulate investment, and through that growth.

1.4 Managing interest rates down – in a non-political manner

- Made possible through a firm commitment to privatisation. R18 bil of privatisation are set aside to reduce the amount that government needs to borrow.
- Combined with the proceeds of a foreign loan and some trade credits, govt can cover its entire deficit and in addition repay about R7,4 bil of debt. Effectively govt will borrow nothing on the SA capital market this year. This will help to keep the long rate down.
- Govt dissaving declined from 5,9% of GDP in 1994 to 2,6% in 1999 and about 0,6% in this budget. It is set to reach zero in 2003. As government's dissaving is the culprit in SA's savings story, this trend is fundamental and encouraging. This will do more to enhance savings than probably any other measure in the budget.

2. Commitment to fiscal discipline

- The budget deficit reduced to 2,5% of GDP in spite on increased spending and tax cuts. The deficit will decline to 2,1% of GDP over the next three years.
- State debt will decline in this budget from 44,3% of GDP to 41,4%. Thereafter it will decline by 1% p.a.
- Interest payments as % of the budget will decline by 1% p.a.

3. Commitment to help the poor:

- Maintain low inflation. Manuel made it clear that, for the sake of the poor, inflation is not on: "Inflation erodes the purchasing power of the poor and most vulnerable in our society. it colludes with debt to entrench poverty."
- Grant social pension increases that are fiscally conservative (10% for the child support grant from R100 to R110; and R30 5,5% or for old age and disability grants).
- Tax increases biased towards the lower income groups. Up to R23 000 tax relief is 100% or R340. It peaks at R3 080 or 12% at R100 000.

B. Conclusions:

- No evidence of political populism. Policy as sound and conservative as it has ever been.
- Deep commitment to growth. Whether it will translate into practical results, will have to be monitored, but the commitment is there.
- The budget underpins or reinforces the president's speech at the opening of parliament.

C. Implications for:

Capital market – help push the long rate down.

Currency market – less pressure on the R because there is no more forex relaxation.

Equity market – distinct growth agenda and lower interest rates. By and large it should be beneficial. Some sectors, like the banks, might take some heat.