**_Question:_** *Ok, a day after the budget and all the facts and info are already out there – what are the underlying trends?*

**Answer:** 4 stand out:

- fiscal conservatism is being maintained;
- there is a concerted push for 4% growth through higher spending and more tax cuts to raise disposable income and company profits;
- tax cuts to stimulate savings and,
- there is a serious push on infrastructure spending.

**_Question:_** *Fiscal conservatism is being maintained?*

**Answer:** As recently as last October, at the time of the mini-budget, the deficit for the current year was expected to be 3.2% of GDP and, for next year, 3.5%. In yesterday's budget Manuel came home with 2.3% for this year and 3.1% for next year. In rand terms this deficit is about R2.7 billion less than he expected in October. That is in spite of a bigger economy with more rands than he expected in October. One can also see fiscal conservatism in the fact that the budget, over the next three years, is not growing more quickly than the economy, thus keeping the state's take constant at about 27.5% of GDP.

**_Question:_** *So what?*

**Answer:** The smaller deficit helps to curb government dissaving, one of the few areas where one can criticise Mr Manuel's current policies. It also tells one something about politics: the furious advocacy by several groups for more social spending has been ignored. Yes, we got some spending increases, but also tax cuts for both individuals and companies and more infrastructure spend.

**_Question:_** *But moving the deficit to 3.1% of GDP from an actual 2.3% is still quite expansionary?*

**Answer:** Indeed. And that is where the push to 4% growth comes in. That higher deficit of 0.8% of GDP is equal to about R12 billion. He gave nett tax concessions of R8.5 billion (total concessions came to R10.8 billion but he clawed back R2.3 billion in sin and fuel taxes, leaving R8.5 billion nett) and for the rest he increased spending. More tax cuts and higher spending will help to stimulate growth.

**_Question:_** *Tax cuts to stimulate savings?*

**Answer:** Interest income exempt from tax up to R15 000 (from R11 000) if you are under 65 years of age and to R22 000 (from R16 000) if you are over 65. Seems small, but those cost him R310 million.

**_Question:_** *Infrastructure?*

**Answer:** The budget revealed that public sector investment is set to rise by 26% this year to 6% of GDP, rising to 6.5% of GDP in 2 years' time. This should combine with tax cuts and higher spending to achieve 4% growth.

***Question:*** *Public sector investment at 6%, but government's aim is to have investment at 25% of GDP?*

**Answer:** Over the years, since 1996, public sector investment formed about 30% of total investment in the country and the private sector made up 70%. Assuming that ratio remains, total investment can go to 21% of GDP against about 16% now. That will help push SA from 3.5% growth now to 4%.

***Question:*** *Will they be able to spend the money?*

**Answer:** In October in the mini-budget the forecast was for R72 billion of investment spend. Yesterday's figures indicate R71 billion was spent. Spending capacity has improved over the last few years. Old laggards like Public Works are now actually on budget. And infrastructure spend is now also very much a political priority through all levels of government. I expect 90% of the investment spend will take place.

***Question:*** *Bottomline?*

**Answer:** This is a growth friendly budget. It will help to catapult SA from being a 3% economy, where we have been for the last few years, to a 4% economy. With population growth at 1.3% and falling that should lead to a healthy increase in living standards.

BoE Clocktower, Clocktower Precinct, V & A Waterfront, Cape Town. P.O. Box 86, Cape Town 8000.
**Tel** 021 416 6000 **Fax** 021 416 9917 **Web** www.boeprivateclients.co.za