What economists will be listening for in the budget speech

Issued by North-West University (NWU)

19 Feb 2024

- The Minister of Finance is up for a tough speech on Wednesday.
- Economists would like to hear about spending cuts accompanied by a major review of budgets and spending.
- Further austerity measures can cause a service delivery crisis.

Professor Waldo Krugell, an economist at the faculty of Economic and Management Sciences at the North-West University (NWU), looks ahead at what to expect when the Minister of Finance, Enoch Godongwana, delivers the 2024 budget speech on 21 February.

Professor Waldo Krugell, economist at the Faculty of Economic and Management Sciences at NWU

A lot will be said before and after the budget speech this week. It is normal to be concerned about how it affects your pocket – for example, can the minister increase the grant amounts and old age pension a bit, or what will happened to sin taxes and the fuel levy? Economists take a much broader view and will be talking about the sustainability of the fiscal stance.

Simply put, it is about whether the government will be able to continue with its spending plans, tax plans and financing of the deficit over the next three years and beyond. There are several things that can go wrong. The tax income that the minister budgets for is linked to the size and growth of the economy. If growth slows, the tax income shrinks. At the same time there is a lot of pressure for extra spending, such as extending grants and bailing out state-owned enterprises. Put together, less tax income and more spending mean that the government must borrow more.

There are a few issues with borrowing more. Our quite large deficit is financed at particularly high interest rates compared to other emerging market economies. This pushes up the cost of servicing the debt. Debt service cost as a share of main budget revenue increased from 11,9% in 2024/25 to a projected 19,4% in 2024/25. That is almost 20 cents of every rand of tax revenue collected. It crowds out other spending. If one considers that the compensation of government employees makes up 36% of current revenue and transfers to households make up another 35%, that does not leave a lot of income for other spending.

The other issue is, who will buy the government's bonds? Over the past ten years, foreign investors have withdrawn from the bond market despite the relatively high interest rates that we offer. South African financial institutions, particularly the banks, have stepped in, but the Reserve Bank has warned that for the banks to hold even more bonds may start to present a risk to the stability of the financial system. In addition, offering very high interest rates to attract investors makes capital expensive for other borrowers, like corporates, who want to issue bonds. That limits investment.

All in all, it is not straightforward to determine at what level the debt burden becomes unsustainable, but at a high level it does create uncertainty that has a negative impact on the exchange rate. That is bad for inflation, interest rates, the consumer, businesses, and the economy.

So, economists will be listening for plans to put the government's finances on a sustainable footing. That means increasing taxes or cutting spending.

Though ideas like a wealth tax on individuals, or a tax on the super profits of a particular industry, are thrown about in the media from time to time, there are no serious proposals for a significant increase in taxes. Our tax base is quite narrow. There are around 385 companies in South Africa that earn over R200m in taxable income, and they contribute 65% of the total company tax take. Around 1,2 million personal income taxpayers earn over R500,000 per year, and they represent about 65% of the total personal tax liability.

There are more or less 275,000 taxpayers who earn over R1m. This group represents under 2% of taxpayers and contributes over 35% of the total personal tax take. The geese that lay the golden eggs are relatively few and probably quite footloose. Any significant tax increases are likely to have negative consequences for investment and economic growth.

Cutting spending is not easy either. The government has been doing it for some years, without much success. Recent cuts have been facilitated by freezing vacant positions and reprioritising spending away from goods and services, maintenance and capital spending towards paying salaries. Further austerity measures can cause a service delivery crisis, some part of which we are seeing now, for example, provincial health departments that are unable to appoint more doctors…

To read the full article, click here: https://news.nwu.ac.za/what-economists-are-listening-budget-speech.

- **Prof Bismark awarded National Order Of Merit by France** 27 May 2024
- **Former world and national Morganti Ju-Jitsu champion bags a PhD** 23 May 2024
- **GoAllOut student chapter breaks Guinness World Record** 17 May 2024
- **Seven Eagles to soar at the 2024 Olympic Games in France** 15 May 2024
- **Child speech database research project attracts international attention** 7 May 2024