

A tough balancing act

Finance Minister Tito Mboweni faces a tough juggling act this afternoon, when he presents the 2020 Medium Term Budget Policy Statement (MTBPS) in Parliament.



Finance Minister Tito Mboweni

The country might see tough austerities being imposed due to the country's recent dramatic deterioration in finances, says Dr Azar Jammie, Econometrix (Pty) Limited director and chief economist. "That means that the finance minister will have to retain the kind of dramatic parameters that were incorporated in the supplementary budget in June."

The problem, however, was that in June, Mboweni forecasted economic growth of -7.1%. It appears this might be forecast further down to either -8 or -8.5%.

"That in turn means government's revenue growth will need to be revised downwards sharply, meaning that the shortfall in government revenue is likely to be greater than what was incorporated in the supplementary budget," says Jammie.

In addition, he said, President Cyril Ramaphosa in his Economic Reconstruction and Recovery Plan stated that the country needed to provide further relief to unemployed people and extended the relief to them. "There is a view that the relief has to be extended beyond January as well if we are to sustain some sort of recovery because people are taking a lot of strain," Jammie said.



Mixed reactions to Ramaphosa's recovery plan

16 Oct 2020



“...Under those circumstances he will have to increase the budget deficit by probably about R20bn over and above what was budgeted for in the supplementary budget.

“That doesn’t take into account the possible extra amounts that might have to be devoted to state-owned enterprises. We are unclear on that score because President Ramaphosa spoke about attracting strategic equity partners and we don’t know what that will take into account - will it come off the budget or will we rely upon other funding sources,” he says

No cause for alarm

While some economic analysts have argued that increasing the budget deficit could be a cause for alarm and result in a large-scale sell off of government bonds and the rand, Jammie did not agree for two reasons.

The first is that the global mood around relief packages had softened enormously.

“I think the markets will be a little more forgiving of Minister Mboweni if he does increase the budget deficit from 14.6% GDP to something like 15 or 16%. This would mean a further increase in the public debt GDP ratio,” he says.

“My expectation is that of a slight increase in the budget deficit, but that will not cause excessive and undue alarm and it will not necessarily lead to rating downgrades.”

The government’s hand in this regard had been greatly strengthened by a series of events that speak to the state finally undertaking the structural reforms that are needed to improve the growth of the economy and its ability to raise revenue.

“We’ve a huge number of cases being brought to courts to fight corruption and state capture. We’ve also seen the government announce a big infrastructure investment programme with more details than any of the other ones,” he said.

Positive moves

Also, the state has passed laws that allow independent power producers to produce electricity and compete with Eskom.

“We’ve seen government announcing the launch of broadband spectrum at the end of March [and] we’ve seen the government committing itself to improving the capacity of the state. All these are positive moves in the direction of structural reform,” he said, adding that rating agencies observed such developments.

Early this month, the finance minister wrote to National Assembly Speaker, Thandi Modise, requesting the postponement of the mini-budget from October 21 to today. In a statement, Mboweni made the request having taken into consideration the complex and unusual circumstances faced by the country due to the Covid-19 pandemic, which included the tabling of a supplementary budget.



MTBPS postponed by a week

14 Oct 2020



Mboweni will table the budget at 2pm.

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