

The Budget in a nutshell

Local economic update: March 2011

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Minister of Finance, Pravin Gordhan, delivered what was considered a balanced budget under some considerable economic restraints.

Support from the economy

The South African economy has recovered from the recession of 2009 but the recovery is still fragile. Economic output increased at a better-than-expected rate of 4.4% in the fourth quarter (Q4) of 2010, bringing the overall annual growth for 2010 to 2.8%, up from -1.7% in 2009.

This improvement in the economic landscape made it somewhat easier for the Finance Minister to deliver his second budget. While the level of unemployment remains unacceptably high, the rate of retrenchment has declined with some jobs created in the last quarter of 2010 bringing the unemployment rate to a marginally lower 24%.

Government spends more than it collects

Despite the improving economic environment, revenue collection was still weak. The budget deficit (difference between revenue and expenditure) was 5.3% 2010/11 of the total budget and is expected to drop further to 4.8% in 2011/12.

The Minister was able to provide some relief to low-income earners and the poor in particular. He also provided some clarity on two burning questions: job creation and National Health Insurance (NHI) funding.

Creating jobs

The priority areas that were highlighted in the budget are similar to those put forward in the New Growth Path and are aimed at creating jobs through:

- Continuing and broadening public investment and infrastructure.
- Targeting more labour-absorbing activities in agricultural, mining, manufacturing, construction and service.
- Promoting innovation through 'green economy' initiatives.
- Supporting rural development and regional integration

Following through on these priority areas will result in sustainable economic growth with better job opportunities than the economy currently provides.

Can we meet the challenge?

The biggest challenge will be the execution of these plans. The individual departmental budget votes should provide more clarity on how jobs will be created. Currently, 42% of young people between 18 and 29 are unemployed and have nothing to look forward to. This is a recipe for social unrest so job creation is a serious priority for the government.

It was encouraging to hear that government is not planning to embark on austerity measures (such as reduced government spending, benefits and public services) similar to those adopted in some advanced economies and is not planning on any major cutbacks. Fiscal policy will continue to be countercyclical so it will support the economy in weaker times and save money during growth periods.

Social security

Government continued to expand the social grants network with the announcement that there will be a phased extension of recipients of the child support grant up to 18 years as announced by President Zuma in the State of the Nation address. In the latest budget, provision has been made for an increase in old-age and pension grants, by R60 to R1 140 a month, while the child grant increases by R10 a month to R260 in April 2011 and R270 from October 2011.

This is an important source of income to the poorest section of our population and reaffirms the government's stated commitment to improving the lives of poor South Africans. All in all, R8.9 billion has been allocated to social grants.

Economic Outlook

The Treasury forecast for economic growth for 2011 is 3.4 %; this is expected to increase to 4.1% in 2012 and 4.4% in 2013. Government expenditure is expected to continue supporting growth which will also be boosted by global economic recovery and improved commodity prices. There's been an improvement in household spending and investment supported by some steady employment gains which will help sustain the economic recovery. We expect to see increased investment by both government and the private sector where growth is expected to increase from 3.9% in 2011 to 6.8% in 2012. Export growth is expected to average 6.5% a year over the medium term as commodity exports benefit from strong demand and high prices.

Inflation worries

The forecast for inflation still puts inflation within the upper band of the target band; however, the Finance Minister does acknowledge that there are serious risks that might jeopardise this goal, such as rising food and oil prices. The current account deficit is expected to increase from 3.2% of GDP in 2011 to 5% in 2013, hopefully from increased investment and not consumption expenditure.

Tax Relief

There were no major changes in tax policy for individuals or companies. In line with the weaker revenue stream and to counter the effects of inflation, this year's budget delivered tax relief of R8.1 billion across the board, modestly up from the R6.5 billion awarded in the 2009/10 budget. The lower income groups will benefit more.

This is important as it will increase consumers' disposable income and get them spending again; consumption expenditure by households constitutes about two-thirds of GDP (gross domestic product). For sustainable economic recovery to take hold, it's important for private sector demand to increase and not depend on stimulus spending from government.

Saving incentives

In line with what the Minister called “government’s goal of encouraging greater national savings” the tax-free savings threshold of interest and dividends were raised from R22 300 to R22 800 for taxpayers under 65 and from R32 000 to R33 000 for those over 65 years of age. It was also announced that savings incentive schemes for people saving for a deposit on a first home and for parents saving for children’s education are being considered.

Considering how tight the budget is, this really shows that saving is considered a national priority.

Excise Taxes (inland taxes)

As expected, the so-called sin taxes increased. For example, a packet of cigarettes will cost 80c more, a 340ml can of beer will be 6.4c more, while a 750ml bottle of spirits will set you back R2.86c more.

The *ad valorem* tax on motor vehicles will increase to 25% for vehicles over R900 000; not many South African will be affected by this increase.

Also, to add to the expected increase in petrol prices as a result of rising oil prices, there will be an increase of 10c on fuel levy, not good news for disposable income.

Policy announcements

National Health Insurance: A rural health programme will be rolled out as a precursor to the full National Health Insurance programme. Funding options include:

- A payroll tax payable by employers, which will add cost to employers.
- An increase in the VAT rate, a political hot bed particularly with the unions.
- A surcharge on individuals’ taxable income.

The Minister emphasised that these are options only and that there will be full consultation beforehand.

Employment: There is a specific focus on youth.

- The learnership incentive scheme will be extended by five years.
- A youth employment subsidy in the form of a tax credit costing R5 billion over three years, to be administered by SARS.
- To support the objectives of the industrial policy action plan and the New Growth Path, certain investments qualify for tax relief. Consideration will be given to expanding such incentives for labour-intensive projects in Industrial Development Zones.

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