An interesting Budget for an interesting year


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2019 is shaping up to be an interesting year. Finance Minister Tito Mboweni has a tough task ahead of him as he seeks to present a Budget which will meet with public approval ahead of the national election, while also coming to terms with the pressing need to grow South Africa's economy.

At last year's Medium Term Budget Policy Statement, delivered in October, the minister spoke of the need to reform and stabilise state-owned enterprises. The state faced a R27.4 billion revenue shortfall for 2018, and an R85 billion shortfall over three years. Debt service costs are expected to grow by almost 11% every year, from R181 billion in 2018 / 2019, to R247 billion in 2021 / 2022, according to the MTBPS.

South Africa's GDP is expected to grow 1.3% this year according to the World Bank's January forecast – higher than last year, but still a concerning rate. There are also fears that Moody's, the only agency to rate South Africa above junk status, may drop its rating and the Budget speech will be a key factor Moody's will weigh up, as it gives direction on government priorities and spending plans.

We expect that the long-term priority areas of the National Development Plan will continue to guide this year's Budget. With the economy still weak, we hope that Minister Mboweni and his colleagues at the National Treasury will be prioritising growth and investment.

Eskom has asked for a R100-billion bailout from government so that it can stabilise its finances, and is being pushed to deliver a turnaround plan ahead of the Budget presentation on 20 February, according to reports. Eskom's role in the economy is a critical one, with the World Bank warning recently that it is too big to fail. It's likely, then, that funding Eskom will occupy a central position in the Budget.

In addition, former President Jacob Zuma last year committed government to funding tertiary education for students with a household income of R350 000 or less, costing the fiscus R57 billion – a decision which will continue to impact this year's Budget despite concerns that this is not sustainable.

In this climate, it is hard to see how National Treasury will be able to prioritise the National Health Insurance (NHI) scheme, despite the years of planning and political will which have gone into this initiative.

South Africa's economy has seen low growth over the past few years and ordinary consumers are feeling the pinch, with last year's tax shortfall reaching R27.4 billion. Since raising taxes will be difficult, one way of bringing in additional revenue is by increasing collections and building capacity at SARS. We expect that this will be a priority, as the MTBPS already allocated R1.4 billion to this task in October.

While government will find it difficult to raise taxes so close to an election period, and with local taxes already relatively high, we can expect to see some adjustment of tax brackets so as to tax high income earners more and give relief to lower-income taxpayers.

We also do not expect another VAT increase, particularly so close to the elections, but further clarity and guidance is needed on certain aspects of VAT regulations, for example the treatment of educational services, electronic services, and VAT deductions and crypto-currency.