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Mid Term Budget Policy Statement Commentary
Leadership is tested in times of strife

The interest of 'arm chair' budget observers like myself is piqued. When Minister Nhlanhla Nene takes the floor at 14h00 this afternoon to present his very first Medium Term Budget Policy Statement for 2015/16 he will be under intense scrutiny - firstly, because of the numbers he will present and the signals these are likely to give about Government's intentions (including the fiscal outlook for the next three years) and secondly, perhaps unfairly, because he will be compared to his predecessors: Minister Manuel for his 'swagger and style' and Minister Gordhan for his 'no nonsense' approach.
Another interesting development in the last few weeks has been the appointment of the Commissioner for the South African Revenue Service, Thomas Moyane and 'arm chair' budget observers will also be looking out for signs of consistency in messages to the South African public on tax policy and proposals in the long term.

The signals that the market would be looking for tomorrow, amongst others, would include:

- The projected economic growth rate
- The projected budget deficits
- The overall debt burden
- Whether Minister Nene can hold the line and rein in spending, in particular the ever increasing government wage bill
- Progress with the implementation of the NDP

Usually tax proposals are not addressed in this statement but all eyes will be on Minister Nene as he articulates his view on tax collections for the 2015 fiscal year and how much this is expected to deviate from targets.

Given the Presidential commitment to an ambitious mandate involving a significant investment in infrastructure to revitalise the economy, I have great sympathy for Minister Nene as he will try to build in 'austerity' measures, while staying the course that Minister Gordhan set with Government's commitment to a spending limit set for 2016/17, holding real non-interest expenditure growth to an annual average of 2.2 per cent over the three-year spending period.

A continued focus on cost reduction is vital but can only yield so much. Whilst tax collections have always out-performed estimates, the consensus view amongst economists is that this trajectory cannot be sustained against the backdrop of current economic conditions and declining growth prospects – not just in South Africa but in Africa and the BRIC region.

With a rising tax to GDP ratio (hovering around 25.3%), a profile of tax collections that is expected to mirror that of previous years with individuals likely to retain the highest level of contribution, VAT a close second and company taxes, third in line, it is to be expected that the focus will continue to be tax anti-avoidance in the form of measures to counteract tax-base erosion and profit-shifting for companies and wealthy individuals (including the expat community).

There is no quick fix unfortunately. As South Africans we need to play our part - for all South Africans "..this is indeed a difficult time" (Minister Gordhan, October 2009).

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