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THE BUDGET

State is still spending too much

DAWIE ROODT

Much of the fun in speculating about the Budget and the potential impact on the markets was removed with the introduction two years ago of the Medium Term Budget Policy Statement, or "rolling budget".

Nonetheless, Finance Minister Trevor Manuel, true to his reputation, managed to spring a few surprises.

South Africa has huge social needs. Politicians like to be seen to be addressing these needs. Manuel knows he has to provide certain goods and services, yet keep expenditure within affordable limits.

He succeeded in keeping expenditure from increasing further but total expenditure is still too high. Reducing government expenditure should remain our main fiscal goal.

The changes on the revenue side of the Budget have mostly been positive. The cut in company taxes in particular should be welcomed.

However, the total tax burden, expressed as a percentage of gross domestic product (GDP), is only marginally lower. Better tax collections during the year may again



push total revenue above the budgeted levels.

The burden of all honest taxpayers is reduced primarily because of the success of the South African Revenue Service in bringing tax evaders into the income tax net.

The surge in income tax collections allowed Manuel to reduce income taxes.

The main beneficiaries here are the lower middle-income groups, while the tax rates for higher income groups are adjusted for bracket creep.

Unfortunately, high government expenditure still prevents the minister from significantly lowering taxes in general.

As usual, sin taxes and the

fuel levy were increased. These taxes are mainly regressive in nature and neutralise some of the reductions in individual income tax.

The excellent performance on the revenue side of the Budget allowed the minister to adjust his deficit target for the current fiscal year downwards to 3,7 percent of GDP.

Revenue for the 1999/2000 fiscal year could once again bring a surprise. The budgeted deficit of 3,5 percent may be improved if government expenditure is kept in check.

The announcements on privatisation came as a pleasant surprise, especially just before the election. The potential

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1 Business Rep.

2 Kommentaar

3 Manuel T

4 Begroting

5 Parlement

6 statekink

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Die Universiteit van die Oranje-Vrystaat

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inflow from the South African Special Risks Insurance Association (Sasria) fund will, however, not reduce the government's funding requirement, since the bulk of the Sasria funds are already invested in government bonds.

However, a "cancellation" of some of the Sasria debt will reduce interest on government debt in subsequent fiscal years.

The marginal increase in the budgeted capital expenditure should be criticised.

The estimated net funding requirement is R21,1 billion compared with the R21,6 billion for 1998/99.

The envisaged foreign loans and the privatisation receipts will reduce the domestic funding requirement and put little pressure on the capital market.

Manuel frequently refers to a disciplined fiscal policy. Given the general political and economic environment, it may be true, but fiscal policy remains expansionary; it is a major contributing factor to high short-term interest rates.

But the markets will have the final say. If their reactions are anything to go by, the Budget is neutral to positive.

☐ Dawie Roodt is an economist at Equisee

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