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Looking out for smoke, mirrors in the budget

The jury is still out on whether the figures in the finance department's adjustment budget are credible, writes economics editor **Greta Steyn**

THE media canteen in Parliament was an odd choice of venue for Finance Minister Trevor Manuel's news conference this week. It is hardly the Ritz — a dingy room with many photographs of old hacks on the walls and vases filled with plastic flower arrangements.

Someone quipped that Manuel's figures were as artificial as the garish flowers that adorned the tables.

The numbers he announced for this fiscal year were almost too good to be true; one had to smell them to make sure they were real.

Total overspending in the present fiscal year is projected at only R2,6bn, of which expenditure on interest payments accounts for R1,2bn. The rise in interest payments was the result of turmoil in the financial markets and cannot, in all fairness, be seen as overspending. That leaves only R1,4bn in "real" overspending in the 1998/99 fiscal year — a spectacular achievement.

But spot the mistake.

The adjustment budget, in which Manuel this week asked Parliament to approve additional expenditure for this fiscal year, was tabled three months earlier than usual.

There is a lot that could happen in three months, especially in places such as the KwaZulu-Natal and Eastern Cape provinces.

So the figures have to be regarded with a fair amount of scepticism until nearer to the end of the fiscal year. The provinces could still make extensive use of bank credit to fund overspending, as they did last year.

Finance director-general Maria Ramos is confident that there will be no repeat of last year's financial mess in the provinces. Manuel says KwaZulu-Natal and Eastern Cape will run budget surpluses this year. But what are the guarantees?

The markets are giving Manuel and Ramos the benefit of the doubt. This trusting reaction is a little curious, as the finance team last year demonstrated a highly effective ability to use smoke and mirrors.

There might yet be no evidence of cause for concern, but there is equally no proof that things will turn out as rosy as the finance team expects.

If things do not go according to plan, Manuel and Ramos might well have to go for smoke and mirrors again. Last year's mess in the provinces was not reflected in the official budget numbers.

The use of bank credit, and the running down of bank deposits, to fund overspending in the provinces were disregarded in official calculations of the deficit in the 1997/98 fiscal year. Despite overspending of billions of rands in the provinces, the official deficit came within a whisker of the 4% of gross domestic product (GDP) projected for the 1997/98 budget.

Take away the smoke and mirrors, and the real figure was much higher. It was up to the Reserve Bank to calculate it, as Manuel was in deep denial. The Bank said the "consolidated national government" — the provinces and central government — had a deficit of 5% of GDP in the last fiscal year.

Ironically, the cover-up of last year's disaster means Manuel and Ramos could get much less credit than they deserve if things go according to plan this year. If everything works out in line with the adjustment budget assumptions, it will look as if nothing much has changed, with the official deficit hardly moving to 3,9% of GDP. It would look as if there was no progress to report. But in reality, the finance team would have sorted out a fiscal disaster at regional government level.

Whether they actually have succeeded in turning around the fiscal situation in the provinces remains to be seen. The jury is still out, and central bank figures on bank overdrafts

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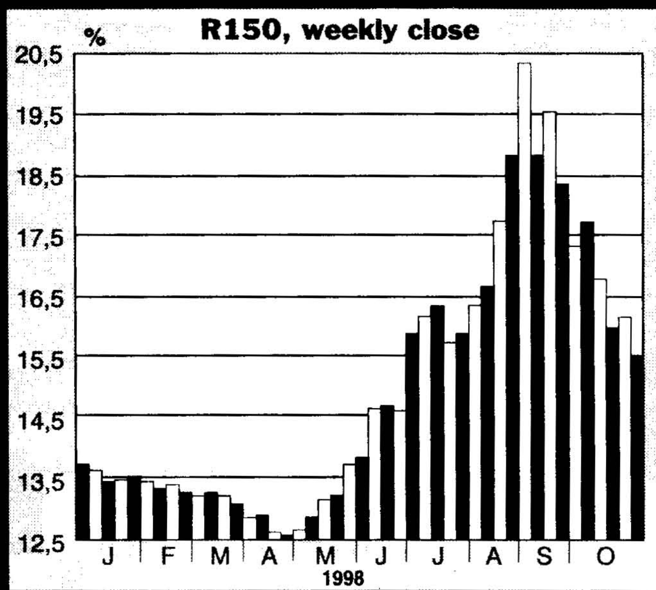
Interest rate surge



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to the provinces will be watched closely to arrive at a verdict.

The provinces are not the only credibility problem in the budget numbers. There are serious omissions in the spending numbers.

The Umsobomvu Trust, which will come into being shortly to fund job creation programmes for youths, is not reflected in any of the budget figures released in the medium-term budget policy statement.

Finance deputy director-general André Roux confirmed the trust was not reflected in the spending numbers of this fiscal year or the next.

The trust is to be funded by a once-off levy on Sanlam and Old Mutual's demutualisation. It is difficult to see why the trust's spending should not be included in the budget totals and why the levy should not be added to the revenue figures.

Similarly, spending funded by international donors is excluded from the figures. If donor funding is used by government, and not by non-government organisations, there does not appear to be a reason for excluding it from the budget.

By excluding spending from the budget numbers, government can have its cake and eat it. It will be seen to be spending substantial amounts on job creation while at the same time cutting the deficit.

If added to the numbers, the Umsobomvu Trust's spending will make no difference to the deficit, as it is financed by taxation. But it is not difficult to see why the trust is being kept off budget. The ratio of tax to GDP — already way out of line with the 25% target set in the growth, employment and redistribution (Gear) strategy — would be higher still.

At about 27%, the ratio of tax to GDP shows that South Africans have a heavy tax burden. The budget policy statement suggests that the tax burden will have to remain heavy if SA eventually is to meet the deficit target of 3% of GDP in the face of a dramatic revision of economic growth forecasts, and a rise in the interest bill.

That is the unpalatable truth to emerge from this week's figures. But is there no other way? Is government really a sitting duck in the sights of dealers in the financial markets?

Government could be a bit more pro-active about reducing its interest bill. A more aggressive privatisation programme would help to achieve this. True, privatisation is not the quick fix that it is often made out to be. But Manuel must be more imaginative about using state assets to reduce government debt.

Granted, he has shown a lot of imagination in wanting to get his hands on the SA Special Risks Insurance Association (Sasria), the anti-riot insurer underwritten by the state. Sasria has billions of rands in assets which could be used to reduce state debt.

Where there are state assets that could be put to better use, he should not hesitate to do so.

He should get his colleagues in the cabinet to breathe some life into the privatisation process.

South Africans are going to be paying the excessive interest bill left to us by the previous government for years to come. The new government is tackling the problem by reducing the deficit, but needs to be a bit more imaginative about reducing debt.

More importantly, Manuel has not yet convinced everyone that his numbers are credible, even though the markets seem sanguine. So far, so good — but it could be better.