2019 Budget Speech: 20 February 2019

Post-Budget analysis from Old Mutual Investment Group Chief Economist, Johann Els

In summary: Tough balancing act, with Eskom support done in a positive manner.

- **Negatives**: higher deficit and debt ratios, upward revision in expenditure ceiling, increased tax burden for individuals
- **Positives**: Strong statement on SOEs and no Eskom debt take-on, reduction in public sector wage bill, continued emphasis on private sector’s important role and Strategic Equity Partnerships.

Highlights:

- Upward revision to budget deficit targets and debt ratio.
- Budget has mostly been drawn up around Eskom’s needs focusing on:
  - Very strong and positive statement regarding support for Eskom and other SOEs.
  - No Eskom debt transfer, but rather an Eskom cash injection of R23 billion per year for 3 years, partially financed through public sector wage cutbacks.
  - Chief Reorganisation Officer to be appointed at Eskom.
- Unexpectedly strong statement on envisaged savings in public sector wage bill.
- R15 billion increase in tax burden for individuals.
- No corporate tax changes.
- This is still very much an expansionary budget – with total expenditure growth of +7.9% over the next three years (thus real spending growth of +2.3% on average pa)

Impact on ratings:

Despite the upwards revised expenditure ceiling and budget and debt ratios, Moody’s (as well as S&P and Fitch) should view the Eskom measures as positive.

I do expect all three to be fairly hawkish in their post budget statements, but do not expect any ratings or outlook changes from any of the agencies in the
Immediate short term. They will likely adopt a wait-and-see attitude until after the elections. The risk of short-term ratings action remains very much alive though.

**Impact on markets:**
The immediate focus will likely be on the higher deficit and debt ratios and the increased tax burden on individuals. Therefore, both the bond and equity markets could react negatively upon the release of the budget.

However, the Eskom and public sector wage bill announcements, as well as the tone of the budget speech – especially when read in conjunction with the October 2018 Medium-term Budget Policy Statement (MTBPS) and President Ramaphosa’s recent State of the Nation Address – is generally positive. This should help stabilise confidence and help create an enabling environment for further policy measures post elections. I therefore expect both the bond and equity market to eventually view the budget as neutral.

**Impact on the economy:**
This is likely to be negative for consumers, but overall this budget should help in the process of building confidence; plus this is by no means a contractionary budget – with real spending growth of +2.3% on average per annum over the next three years.

Therefore, this should turn out to be mildly positive for the economy over the medium term. From an inflationary perspective, there will likely be very little impact as the increases in fuel and excise taxes are generally lower than last year. I maintain also that this still a very deflationary environment.

**Impact on consumers:**
Heavy burden for consumers as the tax burden rises by R15 billion stemming from no relief for fiscal drag (i.e. no inflation adjustment of brackets), to fuel levy and excise duty increases. The environment is already tough for consumers, and this Budget only increases that burden.

**Impact on corporates:**
No direct impact on corporates through any budget-related policy changes, but the strong statements on Eskom, the public sector wage bill and the need to involve the private sector and create an environment where confidence should improve and enabling the private sector to invest, is clearly positive.