A death knell would have been more cheerful than the reports that followed on from the 2015/2016 fiscal year budget speech by South Africa's Minister of Finance **Nhlanhla Nene** (*pictured,*). Over month on, Wilhelmina Maboja reflects and explains why.

After the budget: The bolts and patches

As Finance Minister Nhlanhla Nene prepared to deliver his much-anticipated budget speech, the press, as well as an anxious nation, were in full budget mode, amid rumours and warnings of more belt-tightening, increased fuel and sin-taxes, and even tougher times ahead for South Africans.

Nene did not hide his head in the sand in his address, diving straight into the fact that a number of social ills had to be contended with in the South African economy, such as poor education, sanitation and unebbing poverty, at the same time as fighting off the country's current sluggish economic growth. Poverty, in particular, has been one of the biggest challenges for post-apartheid South Africa. 45.5% of South Africans live in poverty according to Statistics SA and women are disproportionately affected.

A key focus in the budget was the National Treasury's plan to increase the top rate of income tax by one percentage point to 41%. Those affected make up 10% of the population and hold over 70% of the country's wealth, according to a report by the Credit Suisse Research Institute.

Alex Smith, an economist at First National Bank, explains that while the increase in income tax, particularly for the wealthy, is a sign of a number of factors, it's nothing for people to get in a panic about.

"We have a very severe income inequality problem in South Africa. [It] is one of the most unequal societies in the world, so the idea that the finance minister proposed for income tax has to do with income inequality, bearing in mind that the income tax rate only increased for those individuals who earn above R180,000 a year," says Smith.

"By international standards, South Africa's personal income tax rates are relatively low. There are certain countries in the world with much higher personal income tax rates. It's part of a broader move by the Treasury to generate structurally higher revenues, so I think it wouldn't be at all surprising to see further tax proposals come through over the next couple of years," he adds.

Between 2011 and 2015, based on World Bank figures, South Africa's GDP growth forecast has been in steady decline, from 3.6% then to 2.2% currently. This is a slight recovery from a harsh 2014, where mining and industrial sector strikes dragged down the country's GDP, leaving it only a few notches above the 2% mark.

"If you look at the Treasury's own forecast, for each of the past five years they have revised their GDP growth forecast down. Against that backdrop, it's very difficult to ensure revenue estimates when [the economy] is consistently underperforming," Smith adds.

"The Treasury realised that they need to do something to structurally raise revenue, and they obviously realised that personal income tax is a very good way to do that in terms of the efficiency and equity benefits."

Leadership in turmoil

It's difficult to say if the country's economy is on the mend, or trying to feel its way forward in the dark, especially with handfuls of mud being slung from one end of the country's parliament to the other.

Leadership is equally in turmoil, and confidence in President Jacob Zuma's administration has been going downhill.

Eskom, South Africa's power utility, is at the forefront of the difficulties. Of the tax measures implemented for the fiscal year, many were to assist the ailing parastatal from going under.

Nene also proposed a temporary electricity tariff hike from 3.5 cents per kilowatt hour to 5.5 cents, as a means of slowing down electricity demand. The likelihood of the tariff restructure panning out as expected is slim, considering the adjacent push to increase private and public sector production.

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While an inquiry into Eskom's cashflow problems and infrastructural delays is underway, many are eyeing how effective the R23bn ($1.87bn) cash injection the government announced in October for the power utility will be. It was made to patch up the current electricity crisis.

Despite the National Treasury's unenviable position, there's a sliver of hope on the horizon. South Africa's Business Confidence Index edged up by 3.5 index points to 92.8 in February this year, from 89.3 in the previous month.

According to the South African Chamber of Commerce and Industry (SACCI), however, the budget did little to mollify growing uncertainty in the business sectors of the economy.

"It is disappointing that the budget was approached as an accounting/balancing-the-books exercise rather than inspiring the economy," SACCI said in a statement.

"The budget for 2015/2016 was the most important event during February to give direction to a lacklustre economic performance. It is apparent that government is shying away from a business-like approach for these state enterprises and rather burdening them with the duty of development agencies."

The faster South Africa's economy grows, as with other African economies, the more demand for public services and industries is expected to ramp up, placing further pressure on the Treasury to ensure that economic growth remains buoyant while keeping on with its balancing act.

Tax-free savings

What garnered light applause from the budget was the introduction of a tax-free savings plan, aimed at remedying South Africa's poor savings culture. South Africans will be allowed to save R30,000 a year (the equivalent of R2,500 a month), and R500,000 over a lifetime. No interest, capital gains or dividends tax will be taken off their accounts.

To Smith, it's a silver lining for the country's consumers. "What was also encouraging was to see a reduction in taxes for small and medium enterprises. And we have received some Unemployment Insurance Fund relief; contributions to that fund are significantly reduced for this fiscal year, and provide some relief, particularly to low-income earners," he explains.

Tax-free savings plans are a positive incentive, but a dangerously high poverty rate means that the benefits will be for the few salaried South Africans, and of those, not many have the ability to put away more than R2,000 per month in savings.

The very same savings culture is encouraged against a backdrop of a slight rise in public debt, up from 42% of GDP to 43% in the 2015/2016 fiscal year.

While the Davis Tax Committee takes a second look at South Africa's tax system, Value Added Tax (VAT) rates and capital gains tax in particular are expected to be under the spotlight as potential areas Smith believes government could raise more revenue from in the coming years.

"The [budget] does reflect that government is struggling to generate revenue, which in turn is reflective of the weak economic backdrop that we are witnessing in the country," says Smith. "There is a lot more that needs to be done. A key focus area is more on the demand side of things, and much less on the supply side," he proffers.

South Africa will need to stabilise key aspects of its economy and political landscape before ramping up growth, and it will take a few years to do so.

There is no doubt that South Africa's economy is hobbling, and has lost some of its glitter in the last few years. But despite all that, the country still remains a growing African economic hub. NA