

Economists broadly applaud steady hand

Reuters

RAZIA KHAN, HEAD OF AFRICA RESEARCH, STANDARD CHARTERED

The inflation-targeting mandate is being kept in place, with the inflation target unchanged. This will be viewed positively by the market, which had feared some sort of dilution of the Reserve Bank's price stability mandate.

It suggests that, despite a perceived level of political change, despite fears over the impact of rand strength, there is not going to be any knee-jerk reaction to make policy more populist. Investors will welcome this.

The other good news is the revision to the Treasury's estimate of the budget deficit for this year. At 7.3 percent of gross domestic product (GDP), it is well below market forecasts of 7.8 percent.

While it remains to be seen if this optimism will be borne out by the actual revenue figures, the implicit suggestion is that tax revenue collection is likely to have accelerated in the first quarter, partly on the back of economic recovery, and in part due to the efforts of the SA Revenue Service.

Finally, there will be a sense of relief all round that there was no mention of any Tobin tax, no broad attempt to discourage inflows into South Africa. In all, a positive budget that will settle a lot of the fears in the market about how likely it was that a perceived political shift would change anything.

PETER ATTARD MONTALTO, EMERGING MARKETS ECONOMIST, NOMURA

Key changes are the mining royalty bill will come in from March, taking in 5 percent of (mining groups') Ebitda or R20 billion a year. This is important for local equities. It will be negative and further erodes South Africa's competitiveness in global mining, but is an important revenue-generating measure.

No mention of mandate change. Overall, I think he didn't want to commit too much too early on this but it does not affect our view that the mandate change is on the way by year-end. The market may take today's lack of any commitment to a process for change as a signal that a change is less likely. That said, both Gordhan and Reserve Bank governor Gill Marcus are stressing that inflation will always be a priority so this could just be pre-change strategy.

Two issues we have with the budget is that it does not take any account of new costly legislation including the new industrial policy or health insurance, which is on its way. Nor does it make any further efficiency savings which is disappointing.

Overall, we think risks remain strongly to the bearish side of greater build-up of debt and sticky deficit, which the budget seems to be overlooking until these risks actually materialise.

IMRAN AHMAD, EMERGING MARKETS STRATEGIST, ROYAL BANK OF SCOTLAND

There was quite a lot of hype around Pravin Gordhan doing something dramatic but that has not been the case. We had good policy already, there is no significant change in the inflation targeting. Everyone knows the fiscal position in South Africa is very strong, the only realistic risk is of a dip in growth post-World Cup.

SALOMI ODENDAAL, ECONOMIST, CITADEL

It seems like they are focusing on getting rid of unemployment. I don't think it is something that can be done overnight. It's very important that they are formulating a longer-term policy.

It is quite heartening to hear the minister speaking of raising South Africa's competitiveness and keeping up with developments in other countries in a similar stage of development. I think that is very important so that South Africa does not get left behind. This budget needs a fairly strong pick-up in growth.

KEVIN LINGS, CHIEF ECONOMIST, STANLIB

Overall, it's a very conservative budget. He's clearly doing this in a global context because there is a lot of attention on deficits. He wants to restore that basic notion of getting discipline back into the numbers. The borrowing requirement is still huge, but it is actually coming down a bit. Bonds will be reasonably happy with this. His GDP estimates are now more realistic.

ELISABETH GRUIE, EMERGING FOREX STRATEGIST, BNP PARIBAS, LONDON

It's fairly benign overall. It seems that both the fears of the market were addressed with inflation target remaining in place and the finance minister confirming that the Reserve Bank would remain fully independent. The interesting part for me was the reference to some relaxation of foreign exchange controls and the reference to the Reserve Bank buying dollars to keep the rand stable. The fact the currency is rallying shows the market's relief.

