‘Classic Business’ - ‘The Week That Was’ - 23 Oct 2026 Transcript, with Michael Avery

MICHAEL AVERY:

Time for ‘The Week That Was’ - and to dissect the ‘mini-budget’ I'm joined by Warwick Lucas, Private Clients Portfolio Manager at Vunani, and Professor Raymond Parsons, from Northwest University Business School and the University of the Western Cape

Raymond, Warwick, welcome! We've now had 48 hours to ‘kick the tyres’’ on Godongwana’s ‘mini-budget’. The headlines are undoubtedly better - debt stabilising at 78.4% of GDP, the deficit forecast at 3.9%, slightly better, and the primary surplus continues to grow.

But let's begin with the simplest test: Raymond, is this the first budget in years where we can credibly say South Africa's fiscal position has actually turned, or merely stopped getting worse?.

RAYMOND PARSONS:

Hi Michael. First, I would describe this as a ‘surprise-free’ mini-budget, which is good for more policy certainty. In the changed economic circumstances, especially since the beginning of the year, we've got more certainty and predictability in the fiscal outlook from the latest Medium Term Budget. The National Treasury have broadly stabilised the overall debt and debt ratios, which are now looking much better. So I think the overall mini-budget looks credible. It’s not looking, as often previously, coming across like a desperate fiscal situation like ‘the little boy sitting with his finger in the dike’!

Then, secondly, I would just counsel once again, as we've discussed before, as we move ahead that when we talk about growth and the debt ratios, we’re dealing with both a ‘numerator’ and a ‘denominator’ in these ratios. So, once again, simply put, the better the economic growth, the better the ratios will eventually look. But for now, if one were to stand back and assess the mini-budget as a whole I nonetheless think it had a positive message - some new fiscal thresholds were, in fact, crossed that the markets seemed to like.

And thirdly, an important signal which was coupled with the mini-budget was that policy is beginning to move beyond resilience and economic buffers to further encourage economic growth. And I think that's quite important recognition point to take into account at this stage in South Africa’s business cycle.

MICHAEL AVERY:

Warwick, markets have had a couple of days now to digest all of this. What's the verdict from the bond market? We didn't really see much in the way of the rand or the bond market respond one way or the other - did we learn anything as investors on Wednesday that wasn't already in the price?

WARWICK LUCAS:

Yes, Michael. The funny thing is that doing the right thing is often a bit boring. And the bond market, liked it well enough - the 2035 bond yield fell about 14 basis points - so that's positive. But I think what was interesting isn't really just the 'fiscal arithmetic'. Sure, we see Treasury announcing reduced weekly bond auctions and a buyback program and so on.

But here's the paradox that I saw, and the BER also referred to, and that was that, despite the reduced auctions, the government's total gross borrowing requirement this year is actually increasing by R54 billion.

So Treasury has improved the management and maturity structure of its debt, rather than just dramatically reducing its overall financing needs. So the market is welcoming better debt management, but that's not quite the same thing as a fundamentally stronger fiscal position.

MICHAEL AVERY:

Exactly - and that's why 'we're not out of the woods' yet.

And now here's a number that got rather lost in the Finance Minister's speech - Raymond, the mini-budget highlighted a R17.1 billion rand tax revenue 'overrun". But the detailed adjustment shows that main budget revenue actually was just over R54 billion higher than February, because there's another R37 billion of additional non-tax revenue.

What do you make of the quality of that revenue 'surprise' - how much represents an economy performing better? And how much is commodity assistance and just one sort of non-recurring revenue?

RAYMOND PARSONS:

A revenue overrun is usually 'good news' but we must keep it in perspective, It all also wasn't really a surprise. We expected it, with good commodity prices and also helped by the SARS stronger tax collections, all combined to make the numbers look a little better on the revenue front. I would just nonetheless remind us that when we talk about a R50 billion 'surprise' - it sounds a lot - but it is in a budget of two-and-a half trillion rand! So let's just keep it in some sort of perspective there.

But the Finance Minister has managed the windfall gains and has been careful dealing with them. There mustn't be long-term commitments with any bonanzas. The warning message was clear: we must not rely on windfall gains over which we have no control.

I'm therefore already looking ahead to the main budget next February, where we may not have a windfall - and new assumptions may have to be made, for which the mini-budget is, of course, a curtain raiser. So the important point would be, when we move to the main budget, what more will we be able to do in terms of policies that are under our control? And I come back to the issue of growth.

And also, while we are preoccupied with the ‘debt ratios’ and ‘growth ratios’, I also ask myself: what will the ‘tax buoyancy ratio’ be next year? The revenue to GDP ratio is now expected to rise from 26.0% to 26.4%, and to 26.8% in 2029/30. So, are we here perhaps also not quite ‘out of the woods’? But we can nevertheless. say that the mini-budget is still quite an achievement - that the minister spoke with quite a lot of confidence - and we've now got to build on that platform.

MICHAEL AVERY:

Yes, I know there was some permanent revenue that was a result of SARS being ‘beefed up’ that you could probably say is not going to be non-recurring; that is more structural. But I digress.

One of the most least celebratory numbers in the entire document is our growth outlook. And back to your point, Raymond, that ‘denominator’ - 1.2% growth this year; but the IMF has us at 1%, again, and we’re arguing again over decimal points. Haven't we reached the point where that fiscal consolidation has largely done what it can, and you cannot sustainably repair your balance sheet in an economy that grows at one-and-a-bit percent just isn't, you know; good?

RAYMOND PARSONS:

Let me just again say this, Michael, Yes, SARS is doing a good job, but the country has got a taxable capacity threshold. And we are very close to that now. I come back to the ‘tax buoyancy ratio’, which we must interrogate in addition to all the other key ratios that matter.

But coming back to the growth issue. The Finance Minister himself suggested in this particular mini-budget that eventually all roads lead through stronger economic growth. Whether you want more jobs, more tax revenues, better debt ratios and a few other good things - that dimension was emphasized. But I'm not sure we've accepted the full implications of an only a 1.2% growth rate for next year and an average 2% over the next two years. Even the 1.2% this year comes with downside risks.

I just want to briefly give a background growth history. We started off several years ago with the National Development Plan projecting at 5.4% economic growth by 2030 if we did all the right things. It's been progressively adjusted to where GNU recently said, " Let's make it 3.5% growth by 2030''. With phase 3 of the government-business partnership recently it was put at 3%. Now in the mini-budget it's only about 2% over the next couple of years.

Growth is therefore remains the serious challenge at all levels and also for the assumptions on which you must base future fiscal projections. So, what we need to visibly do now is to take this better 'national balance sheet' that we saw embodied in the mini-budget and smartly leverage it to unlock more private investment and to lift the economic growth rate. Accelerated reform remains the key to investor confidence - the weakness in showing tangible outcomes for which in short I offer you what I call a new 'Parsons' Law': 'too much money chasing too little implementation'!

MICHAEL AVERY:

Yes, we certainly do. Warwick, where specifically is the missing growth impulse? Because energy is improved, logistics reform is underway, there's progress on visas and infrastructure financing. Why isn't it appearing more forcefully in Treasury's growth numbers yet?

WARWICK LUCAS:

Well, Michael, actually some of the 'nudge' was in the tail of Raymond's answer there. Because removing obstacles to growth isn't the same as generating it. Better electricity lets existing factories run more reliably, but that doesn't have to lead to new factories.

And the same, for example, with logistics. Rail performance can improve, but businesses won't necessarily invest until they believe that the improvement is permanent and justifies expansion. there's been a lot of accumulated damage to productive capacities, and municipalities are also constrained. So, if you look at private-sector economists, they're not quite as positive as Treasury, because they're less convinced that fixed investment will recover.

And here is the key thing. South Africa mustn't just identify reforms. It has to convert reforms into capital formation. And the very important sentence is that it means restoring confidence. Now, confidence isn't a 'touchy-feely' thing - it's tangible, because it's the responses and scenarios businesses anticipate or 'game out' when they engage with their environment. So, I'll give you an example.

Look at 'dysfunction' in a court. If somebody sues you commercially, it takes six years to get the matter to court. And in the meantime, the direct financial losses are devastating. And so are the lost opportunities, with capital tied up and management attention trapped

in the dispute. So that's the kind of thing that businesses anticipate before committing money.

And what we need is ‘a capable state’. Investors want reliable institutions, enforceable contracts, predictable regulation, functioning infrastructure. So, you have to build the capable state. It's not just pulling a few levers, and it's all going to be right - you actually have to have a framework.

And one of the core planks required is still the ‘rule of law’. Free-market economy models might be big on a small state, but they are certainly big on a functional state - a state that works and is a credible referee. That's what we need to do. To restore confidence, you need the capable state online. So, to deal with problems in education and justice as well. Don't just let those lumber along and just get destroyed by austerity.

MICHAEL AVERY:

Warwick Lucas, we're going to have to leave it there. Thank you very much. And Raymond Parsons, great insights as always.

Ends