

# How the 2020 budget will affect the SME sector

Finance Minister Tito Mboweni had a tough budget to deliver. The general outlook is dire and optimism is hard to find.



Guy Hosking

Guy Hosking, chief financial officer at Retail Capital, shares his impressions of the 2020 budget, particularly as it relates to small businesses in South Africa.

However, there were some positives to highlight. In the face of a bleak outlook on South Africa's financial position and growing budget deficit, the finance minister announced tax relief to individuals and cited expense control by clamping down on wasteful irregular expenditure, corruption and a bloated public sector wage bill.

According to Hosking, the focus on reductions in government spend, rather than on increases in personal income tax and VAT is the right principle. The marginal relief on income taxes, putting more spend back into consumer pockets, should be positive for SMEs and provide a boost to growing the economy.

However, cutting government spending, in particular the public wage bill, is easier said than done. The unions will provide fierce resistance to this plan. Time will tell whether the changes will be implemented expediently enough to counter the incremental cost of debt.

## Good news

More good news for the SME sector in the 2020 budget is confirmation that municipalities will be able to source their own electricity from independent power suppliers. It points the way to a general relaxation in the highly-regulated energy sector.

The impact of load shedding on small businesses is very significant, with nearly half of SME's reporting unreliable services as impacting negatively on their growth. Any move to secure consistent power to SMEs is positive. It also points the way for SMEs to generate their own electricity over time, enabling them to cut costs, and even earn revenue by feeding electricity back into the grid.

The increase of 25c per litre in the fuel levy, of which 9c will go to the moribund RAF, is less positive. This will, to some degree, counteract the tax relief that consumers will feel. It will also lead to increased costs of transportation of goods, feeding into inflation.

In an increasingly strained operating environment, impacts to the trading of the SME segment is inevitable. Access to funding for SMEs during these times becomes vital. It was disappointing that there was no mention in the Ministers speech about further support for SMEs. This leaves this key function to be provided by the private sector. There are fortunately alternative lenders available in South Africa to provide funding to SMEs who can't raise finance through traditional sources.

According to Hosking, this budget reflects the realities of the time and the fiscal constraints the Ministry faces: "The emphasis on restricting government spending, rather than relying on businesses and individuals to pay more taxes is the correct approach. The success of this will always be in the implementation. We are cautiously confident that the changes will be brought about in such a way that the political leadership can steer us through what seems to be another tough fiscal year."

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