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Invest For The Future

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South African Budget - 2022

On 23 February 2022, Finance Minister, Enoch Godongwana, delivered his maiden budget speech to parliament. The budget was largely well received, reaffirming government's commitment to fiscal consolidation. In addition, the tax revenue windfall, made possible by rising commodity prices, meant further support to vulnerable households was possible.

It was unsurprising to see National Treasury (NT) revise its growth expectation lower for 2021 given the stricter levels of lockdown experienced as the third wave of Covid-19 hit, coupled with the civil unrest that took place in KwaZulu-Natal in the middle of the year. NT acknowledged that "we do not aspire to be a below 2 percent economy" and revised its 2022 growth outlook to 2.1% as we emerge out of Covid-19 and hopefully into some form of economic normality. The budget also placed emphasis on structural reforms to aid growth, but we remain wary of major limitations such as the inconsistency of electricity supply, rising global inflation, increasing global interest rates and regulatory constraints.

Significantly, NT has also revised its inflation trajectory higher over 2022 and 2023 to an average of 4.8% and 4.4% respectively, up from the Medium-Term Budget Policy Statement (MTBPS) 4.2% and 4.3%. This upward revision has been mainly driven by revisions in two major drivers. Firstly, oil prices have been revised higher to US$75.2/bbl for 2023 and US$71.2/bbl for 2024. Secondly, food price inflation for 2022 has been raised to 5.1% from 4.7% at the MTBPS delivered in November last year. At the time of writing, the estimates for oil have already been surpassed as the world grapples with the crisis unfolding in the Ukraine and the knock-on effect on the oil price. Food inflation is being fueled by higher meat and meat product prices, fruit and vegetable prices that have been rising as crops were damaged by heavy rains at the start of the season and supply side constraints that were triggered by the pandemic.

From a revenue perspective, collections are expected to be R61.7bn above the MTBPS estimate. This windfall can be attributed to an increase in corporate tax receipts, especially from the mining sector that has been well supported by the rise in commodity prices. Also contributing to the revenue collections was the gradual recovery in consumption and wages. The overrun in revenue receipts allows for some support to disposable incomes. The government, therefore, avoided any material tax increases. Corporate Income Tax was reduced from 28% to 27% while no increases to the general fuel levy or Road Accident Fund were applied. Personal Income Tax brackets were adjusted by an inflation related 4.5% to avoid fiscal drag.

Most of the expenditure increases in this budget addressed some of the spending restraint shown in recent years. Overall, non-interest expenditure is higher by R190.2bn relative to the MTBPS. The Social Relief of Distress (SRD) grant has been extended for a further 12 months. Other social grants have received inflation-related increases, the presidential employment initiative receives extra funding and additional amounts have been made available to enable service delivery. Health and education budgets have been adjusted, but risks to spending remain in the absence of a final government employee wage agreement. Large unallocated reserves introduced in the MTBPS have, however, been preserved providing a buffer should any of the spending risks materialize.

The handling of State-Owned Enterprises (SOE's) remains a crucial area of uncertainty for the fiscus and the government's contingent liabilities. Contingent liabilities increased as more guarantees have been issued to Eskom and SANRAL. SOE support remains unresolved and constitute an ever-present risk to growth and to economic recovery.

The improvement in the revenue outlook results in a narrower main budget deficit with debt-to-GDP expected to stabilize at 75.1% in the 24/25 financial year. The trajectory beyond this remains unclear however.

Improved revenue collection, together with deficit compression, has helped to reduce the government funding requirement for the coming fiscal year. T-Bill issuance may be reduced with the size of weekly bond auctions most likely to remain relatively contained. The funding mix is still unclear as government has indicated the introduction of new funding instruments such as floating rate notes and sukuk bonds.

Overall, the speech held no surprises, was predictable and largely conservative. A safe play assisted by a large revenue windfall and improved debt metrics from those anticipated at the MTBPS. Once again, implementation is key, and success will be gauged by the outcomes as we navigate the risky waters of a local economy that is part of a much bigger global stage thrust into event risk and geopolitical tensions.

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