

Swift economic recovery reflected in budget

Dr Roelof Botha, Joint Managing Director, GOPA Group SA (Pty) Ltd

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Judging by the initial capital market reaction to the 2022 National Budget, Finance Minister Tito Mboweni has received a thumbs-up.

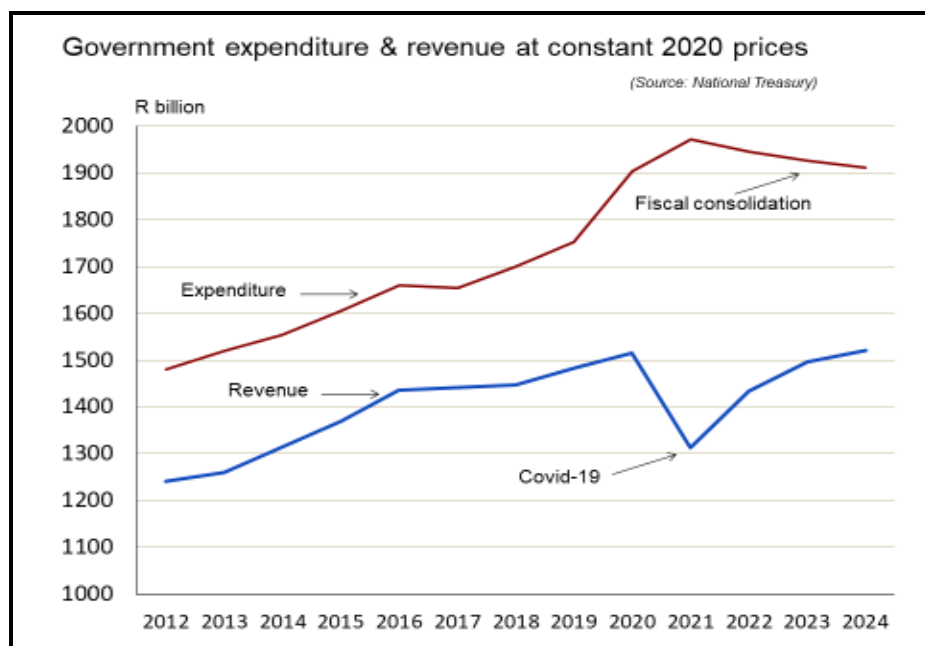
The brief rally of the rand exchange rate and long-term bond yield did not last long, however, due to a resurgent US dollar and more attractive US bonds. The yield on the US 10-year bond has gained almost 50 basis points during February and South Africa was not the only emerging market to feel the pinch of a temporary shift in investor preference for the greenback.

Fortunately, the atmosphere of doom and gloom that accompanied the mini-budget in October last year was absent during the delivery of the new budget. In fact, the mood in Parliament and amongst most of the commentators was quite upbeat and Mr Mboweni seemed to be in a jovial mood.

The main reason for the new-found relief over the country's fiscal situation is not difficult to find - the economy at large deserves most of the credit.

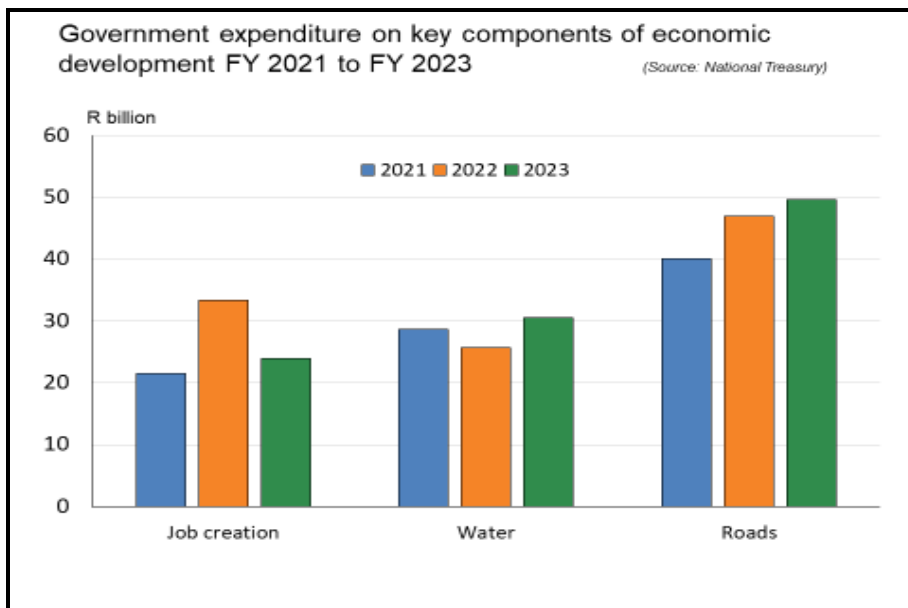
The macroeconomic guidance that was at National Treasury's disposal in October last year was restricted to second quarter GDP data, which was extremely depressing. At the time, few economists expected the strong third quarter rebound in economic activity in most key sectors of the economy and the trade balance was still gearing up for what turned out to be the largest surplus in history.

Although full-year GDP data will only be published early in March, it is already clear that the recovery has gained some momentum, especially in the retail and mining sectors.



The result has manifested itself in a huge revenue windfall for National Treasury (compared to the October forecast), which meant that National Treasury's lending requirement has been reduced by almost R100-billion – clearly the most significant feature of the February budget.

Apart from the traditional hiking of sin taxes, which were subjected to fierce criticism from the tobacco and liquor industries, concern over the size of the country's public debt lingers on. The latter is now above 90% of GDP, but National Treasury has presented a viable plan to stabilise debt and start reducing it over the next three years.



With mining companies currently realising unheard-of profits on the back of a commodity boom and soaring prices for platinum group metals and iron ore, it may well turn out that the latest revenue predictions are again conservative. If so, the 2022 mini-budget could well ring in a party mood, especially if sufficient progress has been achieved in the fight against the coronavirus.

Other highlights from the budget include the following:

- Government's intentions to contain the public sector wage bill have been made clear, with a reduction of more than R144-billion over the medium-term expenditure framework (MTEF) period
- In sharp contrast to earlier speculation over tax hikes and the introduction of a wealth tax, personal income tax relief was provided to lower income earners, albeit marginal.
- The corporate tax rate was lowered from 28% to 27%
- An allocation of R11-billion to the public employment initiative, which had created 430,000 jobs up to January 2021
- A clear shift in emphasis towards expenditure on economic development, with the latter recording the second-highest non-interest percentage increase over the 2021 budget
- A sharp reduction is foreseen in the huge amounts allocated as loans or equity investments in state-owned enterprise (SoEs). Due to the state capture and corruption that marked the Zuma administration, this figure had swollen to almost R86-billion during the 2021 fiscal year. By next year's budget, National Treasury intends to cut this to merely R3.4-billion.

Against the dire background of the Covid-19 pandemic, National Treasury deserves a pat on the back for its latest budget!