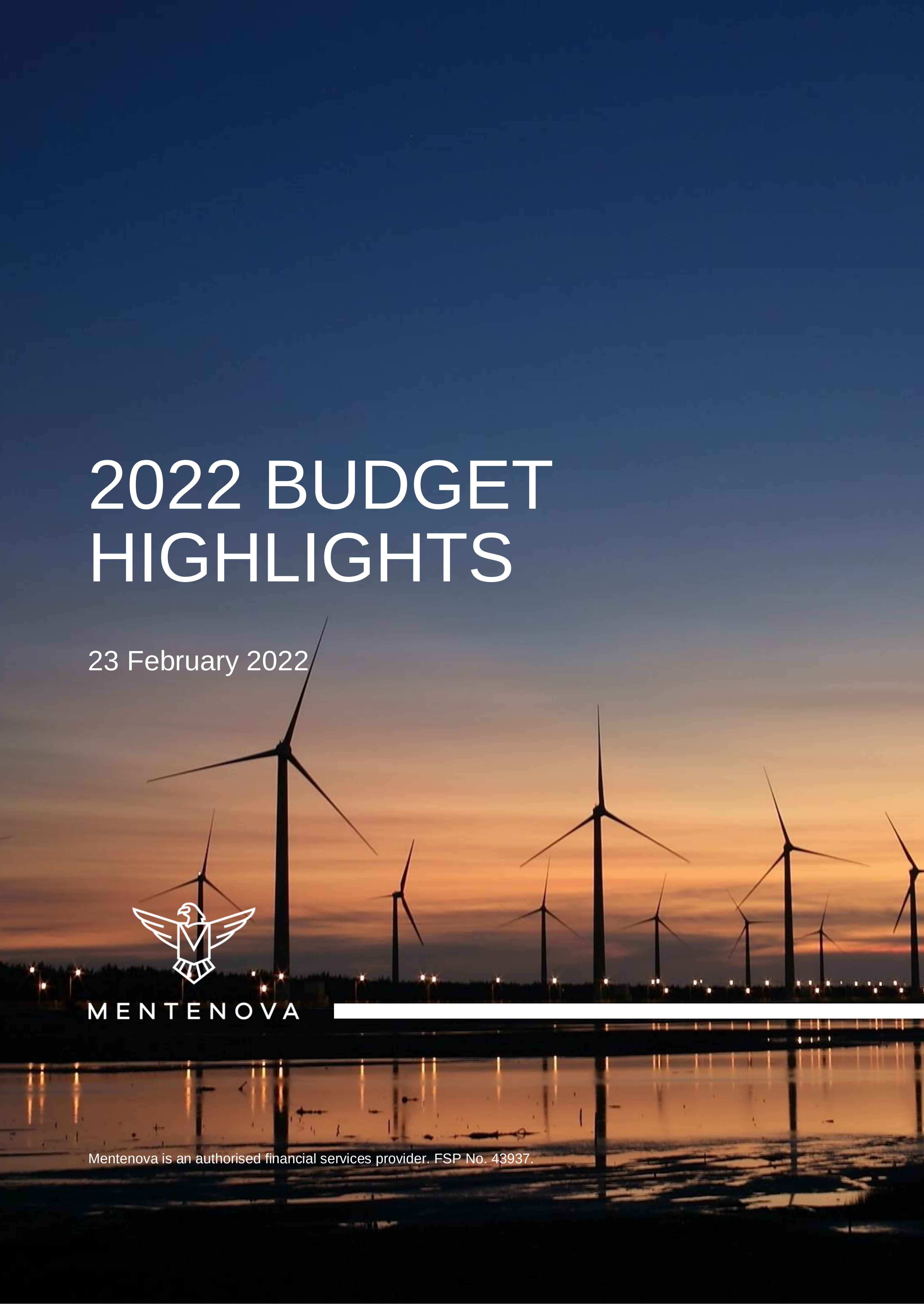

2022 BUDGET HIGHLIGHTS

23 February 2022

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BUDGET HIGHLIGHTS

Earlier today, Finance Minister Enoch Godongwana delivered his maiden budget speech for the 2022/23 fiscal year, providing clarity on how the South African government plans to allocate its expenditure and generate revenue in the coming fiscal year. Below are some of the key takeaways from the speech:

KEY FORECASTS:

- 2021-22 consolidated budget deficit forecast revised **down from 7.8% in November to 5.7%** amid an **additional R182bn in tax revenue**.
- Budget deficit is seen at **6% in 2022-23,** before narrowing to **4.2% in 2024-25.**
- The economy is expected to grow **2.1% this year and 1.6% in 2023.**
- Debt to GDP seen peaking at **75.1% in 2024-25**, down from the MTBPS forecast of **78.1% in 2025-26.**
- Gross borrowing requirements **cut by R63bn** and expected **to peak at R488bn** in 2023-24.

TAX HIGHLIGHTS:

- **Corporate tax cut by 1% to 27% -** The government delivered on its plan to adjust the corporate tax rate to 27% for the 2022-23 fiscal year.
- **Personal income tax brackets and rebates –** adjusted by 4.5% to provide relief for households.
- **Fuel and Road Accident fund levies remain unchanged –** no changes to be made to fuel levies, which is expected to provide tax relief of approximately R3.5bn.
- **Sin tax hikes -** Excise duties on alcohol and tobacco will increase between 4.5-6.5%.
- **Carbon taxes -** The carbon tax rate will increase from R134 to R144 while the carbon fuel levy will increase by 1c to 9c per litre for petrol, and 10c per litre for diesel.

EXPENDITURE HIGHLIGHTS:

- **Consolidated expenditure will increase 3.9%** from R2077trn in 2021-22 to R2157.3trn in 2022-23.
- **SOEs -** Special dispensation for Eskom to access additional guaranteed debt of R42bn in 2021-22 and R25bn in 2022-23.
- **Social grants -** R44bn allocated to the extension of welfare grants for the coming year.

RETIREMENT REGULATIONS:

- **Regulation 28** amendments to enable greater investment in infrastructure to be gazetted in April.
- Consultations are ongoing regarding the **fundamental restructuring of the pension system** to allow for partial access to retirement funding through the 'two-pot' system. Draft legislation on these amendments is expected in the middle of the year.

Finance Minister Enoch Gogongwana delivered a market-friendly budget today as he announced further downward revisions to several key fiscal metrics, enabled by improved revenue collection and commodity windfalls. This improvement in revenue allowed National Treasury to deliver on earlier plans to cut the corporate tax rate, as well as providing individuals some reprieve by adjusting income tax brackets and keeping fuel levies unchanged for the first time in more than three decades.

At the same time, National Treasury announced an extension of the COVID-19 social relief grants, increasing expenditure by R44bn in the coming fiscal year. The government meanwhile remains firmly on the hook for guarantees for major state-owned entity, Eskom. While it is encouraging that the government cut its gross borrowing requirements, debt servicing costs remain a growing line item and higher-than-expected global inflation could place further upward pressure on the cost of servicing our debt.

Overall, the recent commodity boom has given South Africa a lifeline in the context of rising unemployment and welfare demands, with the overall fiscal picture showing an improvement. However, elevated commodity prices are likely to be cyclical, and it remains crucial for the government to keep a lid on expenditure and implement structural economic reforms to put South Africa on a sustainable fiscal path in the long run. Containing public sector wage growth, addressing the Eskom crisis, and reducing SOE bailouts are seen as major hurdles to still overcome.

From a retirement fund perspective, the government appears to be forging ahead with plans to introduce the ‘two-pot’ system, while amendments to Regulation 28 have been made to encourage additional investment in infrastructure.

We continue to monitor any developments and announcements from the government to ensure that our clients remain well-informed and positioned to take advantage of any opportunities while avoiding any undue risks over the long-term.

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