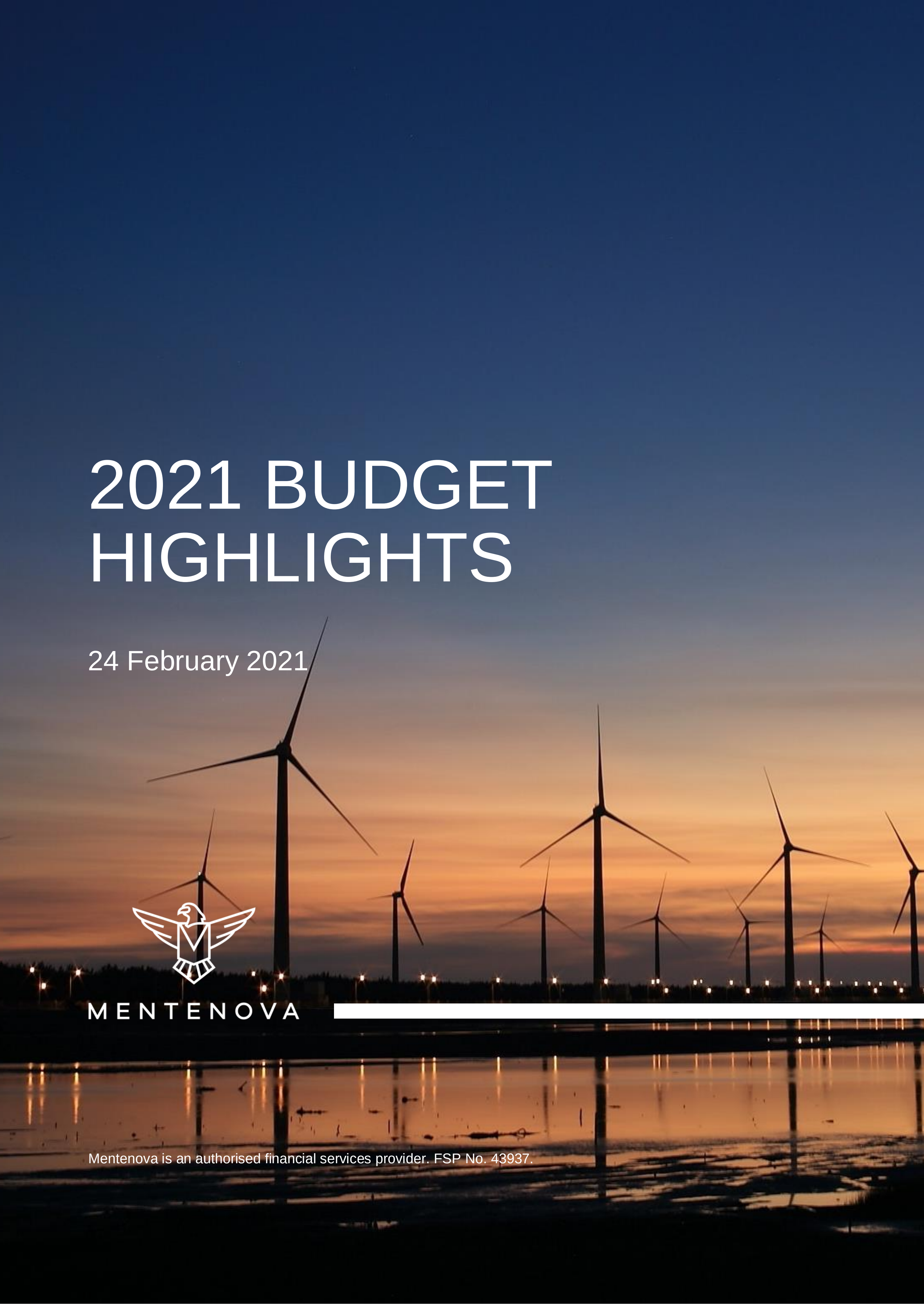

2021 BUDGET HIGHLIGHTS

24 February 2021

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BUDGET HIGHLIGHTS

Earlier today, Finance Minister Tito Mboweni delivered his highly anticipated annual budget speech for the 2021/22 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 the key takeaways from the speech:

KEY FORECASTS:

- The consolidated budget deficit for the 2020/21 fiscal year is expected to come in at **14% of GDP**, revised down from the 15.7% forecast at the October MTBPS.
- Treasury sees the consolidated budget deficit gradually declining to **9.3%, 7.3%, and 6.3% of GDP in 2021/22, 2022/34, and 2023/24**, respectively.
- Debt expected to peak at **88.9% of GDP in 2025/26**, revised down from 95.3% predicted in October
- GDP forecast for 2020 revised up from **-7.8% to -7.2%**
- GDP expected to increase **3.3% in 2021 and 2.2% in 2022**
- Gross borrowing requirements reduced from R670.3bn in 2020/21 to **R547.9bn in the coming fiscal year**

TAX HIGHLIGHTS:

- **No personal income tax hikes -** Income tax brackets will be adjusted by more than inflation, offering an estimated R2.2bn relief for households
- **Corporate tax to be reduced from 28% to 27% from April 2022 –** The corporate tax rate will remain unchanged in the current fiscal year; however, the government plans to reduce the number of tax incentives and expenditure reductions, providing room for the corporate tax rate to be lowered in April 2022.
- **Increase in the cost of fuel –** Fuel levies will increase by 27c/l, comprising 15c/l for the general fuel levy, 11c/l for the Road Accident Fund levy, and 1c/l for the carbon fuel levy.
- **SIN tax hikes** - An 8% increase in the excise duties on alcohol and tobacco products will be implemented

EXPENDITURE HIGHLIGHTS:

- **SOEs –** A further bailout of R7bn for Land Bank will be provided over the next 3 years to recapitalize the SOE after it defaulted on its debt late last year.
- **COVID-19 vaccines –** Treasury has allocated R10.3bn to purchase and administer COVID-19 vaccines through March 2024 while a further R9bn will be placed in a contingency reserve for additional vaccine funding if required. This expenditure has been funded within the existing budgetary framework by shifting spending around.
- **Public sector wage bill –** Mboweni maintained his commitment to freezing state-workers wages to reduce the size of the public sector wage bill over time

OTHER HIGHLIGHTS:

- **Pension reform –** Annuitization of provident funds to take effect from 1 March 2021
- **Regulation 28 draft amendments –** Treasury to public draft amendments to Regulation 28 in the coming week to enable greater investment in infrastructure

Today’s budget certainly delivered some surprises as Treasury back-pedalled on earlier plans to hike taxes and forecasts for the 2020/21 fiscal year came in better than expected. With the economy under pressure and little room to extract further revenue from the private sector, Treasury has prioritized economic growth and canned plans to raise an extra R40bn in tax revenue over the next 4 years, offering some relief to households and businesses over the coming years.

Encouragingly, Treasury reiterated its plans to freeze the public sector wage bill while limiting the extent of bailouts provided to South Africa’s ailing state-owned enterprises, which continue to place tremendous pressure on South Africa’s expenditure. The combination of plans for a reduction in expenditure and an improvement in the economic outlook translated into Treasury projecting an improvement in the debt outlook and a smaller budget deficit over the coming fiscal years.

While reassuring, it remains to be seen whether optimistic growth projections can be achieved in the context of significant structural challenges faced by the domestic economy. The implementation of economic reforms is still required to set the economy on a more sustainable path, while the risk of another COVID-19 pandemic continues to plague the economy as uncertainty about the timing and rollout of vaccines persists. On the other hand, the public sector wage agreement has yet to be concluded, and the cost of servicing the country’s debt remains elevated.

In conclusion, today’s budget confirmed that government plans to address the impending debt crisis in South Africa by keeping a lid on expenditure and bolstering economic growth over the coming years. This is likely to be well-received by credit-rating agencies and investors alike. However, the government’s ability to follow-through with these plans will determine whether the country can avoid further credit rating downgrades and continue to attract foreign investment down the line. We continue to closely monitor these developments on behalf of our clients to ensure that our clients remain well-positioned to take advantage of any opportunities while avoiding any undue risks over the long-term.

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