South Africa
Medium-Term Budget Policy Statement 2022
Stretching the Rand in the face of a tough outlook

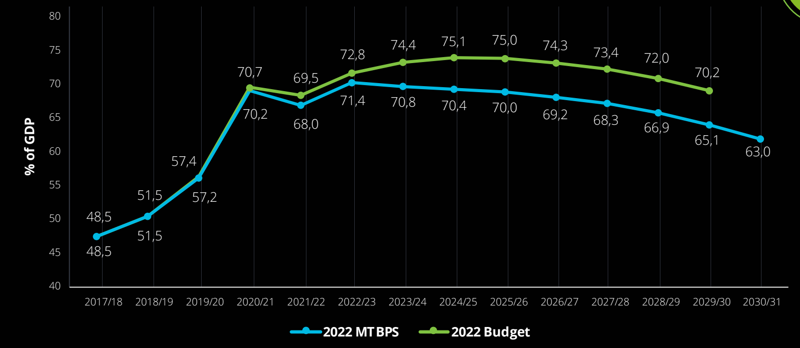
@DeloitteSA | #MTBPS2022

Deloitte

MTBPS 2022 highlights

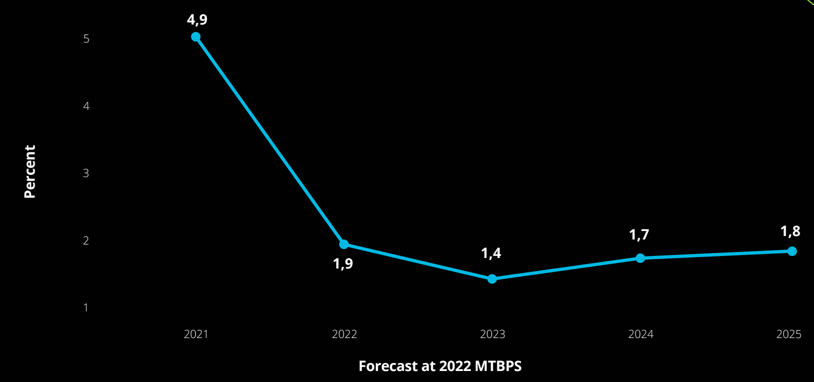
- Factors such as global economic slowdown, high energy and food prices, impact of natural disasters, tightening financial conditions, COVID-19, China's zero-COVID policy and the Russian-Ukraine war have exacerbated South Africa's structural challenges (e.g. unreliable electricity supply, costly and inefficient ports and rail network, crime and corruption, weak state capacity, and high levels of market concentration).
- Due to these factors, South Africa's expected GDP growth for 2022 has been revised down from 2.1% in February to 1.9%; average annual growth for the next three years is expected to be 1.6%.
- The fiscal outlook remains of concern and, due to global market volatilities, debt-service costs are estimated to be R5.9bn higher in 2022/23 than what was estimated at the time of the February Budget.
- National Treasury expects gross government debt to stabilise at 71.4% of GDP in 2022/23 – two years earlier, and at a lower level, than projected in the 2022 Budget Review; and hence it proposes no budget reduction to be implemented in the 2023 Budget.
- Better-than-expected revenues and expenditure discipline has improved the fiscal position. In 2023/24, a primary budget surplus (i.e. excluding interest payments) of 0.7% of GDP is expected.
- The social wage, totalling R3.56trn over the next three years, equal to 59.2% of the consolidated non-interest spending, will take up the biggest share of the budget in support of poor households and the most vulnerable in society.
- Acknowledging the importance of well-functioning and sustainable state-owned enterprises (SOEs), government is tabling a Special Appropriation Bill to provide additional funding to key SOEs. This funding will come with strict pre- and post-conditions.
- To fight corruption National Treasury is looking at means to strengthen the auditing and preventative control systems, to enable managers to manage, while putting in place mechanisms to hold them accountable.
- To avoid grey-listing by the financial action task force, National Treasury has tabled two bills in Parliament aimed at addressing weaknesses in the current legislative framework.
- Given the crippling impact of loadshedding, electricity sector reforms will be critical, with several policy and regulatory changes underway that are aimed at the creation of competitive energy market.
- To ensure Eskom's long-term financial viability, government will take over a significant portion of the utility's R400bn debt though yet to be determined debt instruments and methods.
- To improve export competitiveness, steps are being taken to enhance efficiencies in the transport and logistics sector including ports and rail. This is supported by the planned establishment of an independent transport regulator to encourage increased competition.
- Policy uncertainty, constraints to the ease of doing business and high costs of doing business have reduced capital formation by the private sector. A clear and stable macroeconomic framework, structural reforms and other enablers to growth are hoped to increase private sector investments.
- Over the medium term, government consolidated spending on building new and rehabilitating existing infrastructure (e.g., roads, bridges, storm-water systems and public buildings) will increase from R66.7bn in 2022/23 to R112.5bn in 2025/26, making spending on capital assets the fastest-growing item by economic classification.
- Given its physical risks to people, the environment, and the economy, government is committed to play its part in mitigating climate change by focusing on a just energy transition.
- Climate change poses a risk to our people, infrastructure and environment – government is committed to playing its part to combat this by finalising negotiations on the Just Energy Transition.

Gross debt-to-GDP outlook



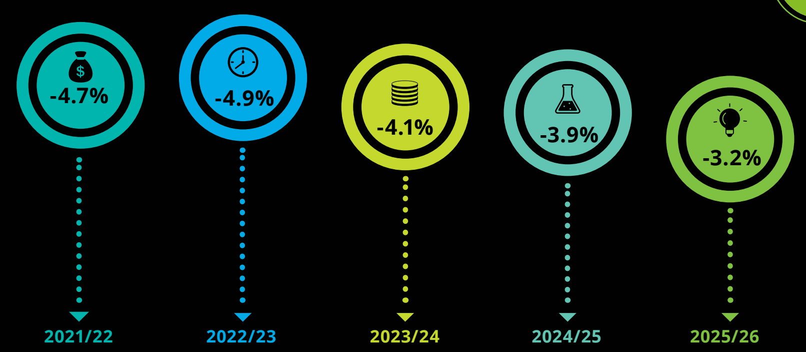
The gross debt-to-GDP outlook has improved since the 2022 Budget and is estimated to be 71.4% in 2022/23 down from the 72.8% forecast in the 2022 Budget. The debt-to-GDP outlook is now forecast to stabilise at 71.4% of GDP in 2022/23 before declining to 65.1% in 2029/30.

Revised GDP growth forecast



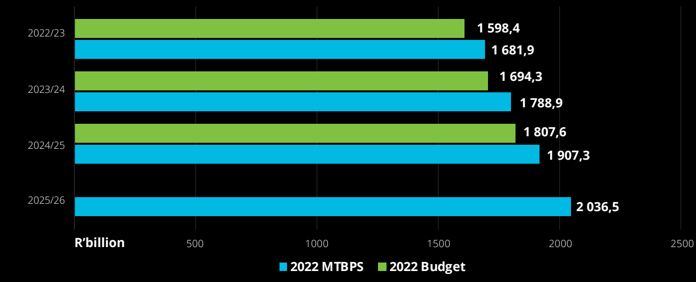
Impacted by global and local factors, GDP growth for South Africa is forecast to increase only by 1.9% in 2022 (down from the 2.1% growth forecast for 2022 at the time of the 2022 Budget) and to remain relatively low at 1.8% by 2025.

Budget deficit



The budget deficit for 2021/22 came in better than expected at 4.7%, however the deficit under the medium-term estimate is projected to worsen to 4.9% in 2022/23 before reducing to 3.2% by 2025/26. A portion of higher-than-anticipated revenue collection will be used to continue reducing the budget deficit.

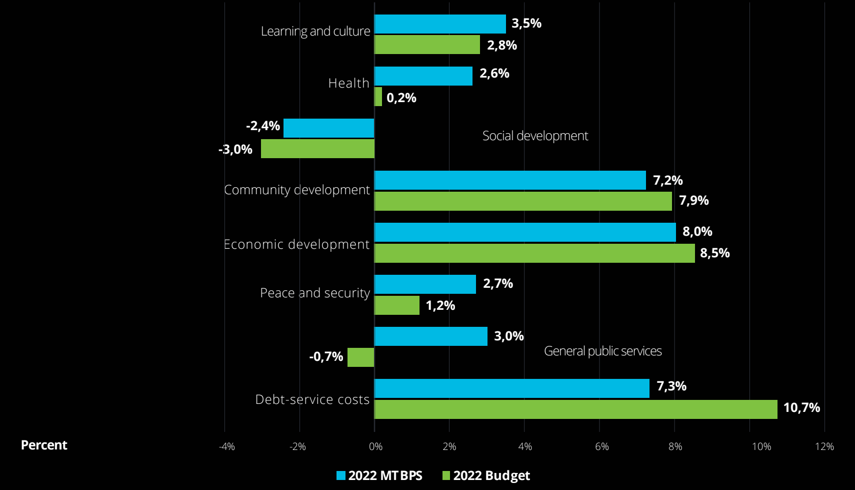
Tax revenue collection



Gross revenue collections are anticipated to be R83.5bn more than initially forecast for 2022/23 and R94.6bn more than initially forecast for 2023/24, particularly in corporate income tax.

Government spending priorities

Average nominal growth in spending in the medium term



The budget continues to prioritise social spending, including education, health and social grants. Notably the growth in debt-service cost spending is forecast to increase at a slower pace of 7.3% over the relevant medium-term forecast period, compared to 10.7% forecast at the 2022 Budget.

Contacts

Itireleng Kubeka
Managing Director
Deloitte Africa Tax & Legal
Cell: +27 79 525 0770
Email: ikubeka@deloitte.co.za

Moray Wilson
Senior Associate Director
Deloitte Africa Tax & Legal
Cell: +27 83 560 8317
Email: morwilson@deloitte.co.za