Deloitte.

In conversation with Deloitte Africa

Unpacking the impact of the 2021 Medium-Term Budget Policy Statement

Webinar summary

23 November 2021

Summary insights from the Deloitte Africa post Medium-Term Budget Policy Statement (MTBPS) engagement held on:

Date: Tuesday, 23 November 2021

Topic: Unpacking the impact of the 2021 Medium-Term Budget Policy Statement on business and taxpayers

Speakers and panel members included:

Dr Thabi Leoka
Chief Executive Officer
Naha Investment Holdings
(Guest speaker and panel member)

Alex Gwala
Director and Business Tax Leader
Deloitte Africa Tax & Legal
(Panel facilitator)

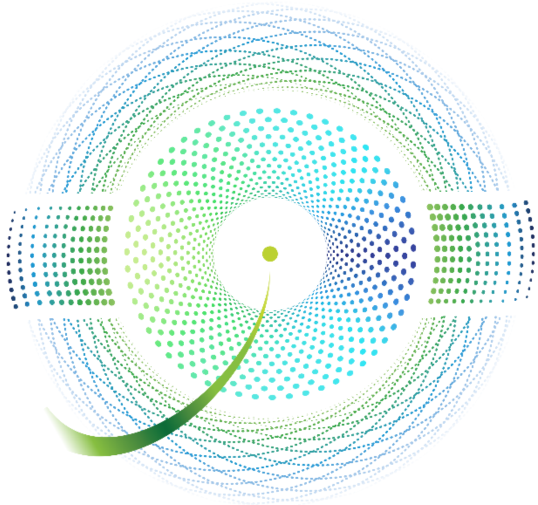
Christopher Axelson
Chief Director: Economic Tax Analysis
National Treasury of South Africa
(Panel member)

Dr Martyn Davies
Managing Director
Emerging Markets and Africa
Deloitte Africa
(Panel member)

Sudasha Naidoo
Director: Transfer Pricing Leader
Deloitte Africa Tax & Legal
(Panel member)

Gaba Tabane
Director: Government and Public Services Industry Leader
Deloitte Africa
(Panel member)

Unpacking the impact of the 2021 Medium-Term Budget Policy Statement



While the Medium-Term Budget Policy Statement (MTBPS) 2021 did not represent a radical departure from previous statements, it was well received as it focused on fiscal consolidation and the need for reforms to rebuild the South African economy. In general, the MTBPS was well received by the market as reflected in the decline of 10-year bond yields during and after the speech.

There are several reforms that are necessary especially against the backdrop of the pandemic and rising unemployment numbers. Key interventions should aim at stabilising the electricity supply, and restructuring and professionalising state-owned enterprises (SOEs).

The announcement of efficiency enhancing measures in the transport and logistics sector, the setting of concrete timelines for digital migration and the introduction of eVisas for several countries are welcomed measures and are expected to support the recovery of the local economy.

Relatively high growth distracts from underlying challenges

GDP growth over the last decade has been disappointing and insufficient to address unemployment and poverty challenges in the country. Thanks to strong commodity prices, easing of COVID-19 related restrictions and a stronger than expected global recovery, South Africa's GDP growth of 5.2% for 2021 has also been better than expected. The strong recovery of the economy, however, is also driven by base effects where soon after a big dip, economies tend to exhibit strong growth followed by a normalisation of growth rates. South Africa's relatively quick recovery is similar to the country's experience following the global financial crisis in 2008/09, where stimulus programmes by major economies led to a commodity boom and to the relatively quick recovery of the global economy. However, just like a decade ago, the global growth stimulus masked South Africa's structural challenges and the country is not doing enough to emerge stronger out of the pandemic.

Better than expected revenue collection, but debt-service-costs remain a major concern

Strong commodities prices resulted in about R120 billion in additional tax income and improved South Africa's fiscal position. The government allocated 51% of the additional income to pay off debt and the remainder to COVID-19 relief measures and Sasria to cover damages from the July riots. While spending the tax windfall on social support appears to be a reasonable option in the short term and brings much needed relief to communities, it remains debatable whether spending on measures that are more productive would have more long-term benefits.

South Africa's debt service costs are high compared to other countries (e.g. South Africa pays three times more than what Greece paid when it went into austerity) and crowds out investments. Considering debt service costs are higher than expenditure on health, security and social development, it is important to address unnecessary expenditure and to redirect it into more productive areas.

Poor financial condition and operational performance of SOEs have been a drain on the fiscus for years and their debt has risen substantially in recent years, sitting now at about R4 trillion.

Redistributive budget not enough to transform society

According to the World Bank, South Africa, while being one of the most unequal societies in the world, also has one of the highest reductions in inequality due to its redistributive budget and system, especially compared to fellow emerging markets. South Africa taxes the rich and provides social grants, basic education and healthcare, housing, and public employment programmes for the poor. While these transfers reduce inequality, they are not enough to address the underlying factors.

In addition, the quality and the impact of the interventions needs to be assessed. In the education sector, other SADC countries have better outcomes despite spending less money on it. In this context, it is important to reconsider the type of education the country focuses on. Free education, as promised by the previous administration, reflects the perception that a university degree is needed to find employment. As more students enter the university system, the burden on the fiscus gets higher, yet it fails to transform society. In contrast, other countries offer and promote training at technikons and vocational colleges, providing school leavers with more options and creating skills that the respective countries need.

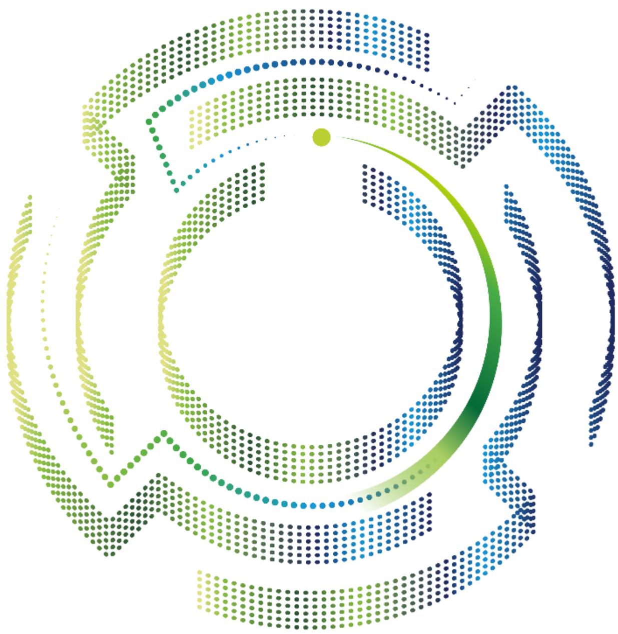
Time to rebuild: Structural reforms remain imperative

States have a choice to grow or not. If they don't grow it is often their choice. In emerging markets growth is a policy choice. In the South African context, structural reforms are crucial to lead South Africa onto a sustainable growth path.

These reforms need to focus on supply side constrains such as rail and port infrastructure and the provision of reliable electricity. The planned move towards renewable energy, and the increase of the generation threshold for private producers to 100MW, is welcomed in this context.

Policy reforms that liberalise the infrastructure sector play an important role, as they would crowd in private investment and come at no or very low cost to the fiscus. Furthermore, SOEs need to be slimmed down and made more efficient to deliver on their core mandates without crowding out private sector investment. From the National Treasury side, the department needs to find ways to improve accountability and provide assurances to taxpayers that tax money is spent effectively. This will require a more transparent procurement system and a capacitated state with strong leadership qualities.

Given that the government cannot and should not be responsible for providing employment and job creation alone, the private sector has an important role to play in sharing expertise and skills with its public sector counterparts.



Contacts

Patrick Earlam
Growth and Brand Leader
Deloitte Africa Tax & Legal
pearlam@deloitte.co.za

Bernadette Abbott
Chief Operating Officer
Deloitte Africa Tax & Legal
babbott@deloitte.co.za

Alex Gwala
Director and Business Tax Leader
Deloitte Africa Tax & Legal
agwala@deloitte.co.za

Author

Simon Schaefer
Senior Manager: Africa Insights
Deloitte Africa