Mboweni delivers a few glimmers of optimism, but there are risks

Judging by the reaction of the markets and an initial strengthening of the rand, finance minister Tito Mboweni's budget went down well. But while there are notes of hope, this budget also demonstrates a number of key risks, overly optimistic assumptions and potential weaknesses, pointing to an extremely challenging path ahead for the country.

Finance minister, Tito Mboweni. Image: sanews.gov.za

First, GDP figures have come in slightly better than hoped for in October last year, showing a contraction of 7.2% for 2020/21 rather than the over 8% contraction expected in October. National Treasury has also conservatively forecast 3.3% growth for the year ahead, before moderating to 2.2% for 2022 and 1.6% for 2023, says Maarten Ackerman, chief economist and advisory, Citadel.

“While we did expect a better number than usual for this year, coming off the exceptionally low base of -7.2% in 2020, it was really hoped that with the right reforms, we could pave the way for stronger growth in the longer term. It is clear, however, that after a rebound in 2021, we are expected to drift back below 2% in 2023,” he says.

Personal tax

To support households, businesses and the economy, the Treasury will not introduce measures to increase tax revenue this year, and previously communicated increases amounting to R40bn have been withdrawn, says Carla Rossouw, tax lead at Allan Gray. “There was also an acknowledgment that Covid-19 led to many business closures as well as job losses.”

"This is welcomed news and will go a long way to bolster the economy and South Africa's competitiveness. An above-inflation increase in personal income tax brackets and rebates (effectively reducing personal tax in some instances) also provides real tax relief to individuals at a time when most are suffering immense hardship."

The so-called 'sin taxes' were increased by 8%. Treasury announced that revenue from excise duties is expected to fall by almost half in the current fiscal year due to the alcohol bans during lockdown.

"From a wealth tax point of view, nothing was directly announced but the ending of Section 12J VCC tax benefits in June 2021 and the additional measures put in place to carefully assess complex tax structures are indirect ways of addressing this segment," says Hannes van den Berg, CEO, Momentum Consult.

Corporate tax

"The fact that corporate income tax will be lowered from 28% to 27% for companies with years of assessment on or after 1 April 2022, is fantastic news for the private sector. The reality of debt levels was made clear and Minister Mboweni took a balanced approach given the matter of Covid-19 - there were no massive shocks in the system," says Van den Berg.

Infrastructure and vaccines

Government debt to GDP is forecast to peak at 88.9% in 2025/26 and to decline thereafter, which is an improvement on the 95.2% level that was previously forecasted. In addition, the debt shortfall is estimated to be 14.0% in the current financial year but will decline to 6.3% by 2023/24. The current shortfall has increased from 5.7% in part as a result of the additional expenditure and smaller revenues due to lockdowns.

The government is committing R791.2bn for infrastructure development with the caveat that tariffs will be required to augment costs, says Luigi Marinus, portfolio manager at PPS Investments

"The minister also hinted at possible adjustments to Regulation 28 of the Pension Funds Act, as it applied to the allowance of infrastructure investments and how foreign direct investment rules will apply to primary offshore and dual listings. More information on the possible changes to Regulation 28 is expected before the end of the month.

Government has also made available more than R10bn for vaccines over the next two years and increased the contingency fund from R5bn to R12bn, should additional vaccine expenses be required," he says.

State-owned enterprises, public sector wages and debt

The more concerning aspect of the budget remains the cost to service debt, which has now increased to R269.7bn or 20.9% of gross tax revenue, as well as the annual additional borrowing requirement of more than R500bn per year over the medium term. This will mean that gross loan debt will increase from the current level of R3.95tn to R5.2tn in 2023/24.

"Little has been revealed with regard to state-owned enterprise (SOEs) spend, apart from the R7bn that was awarded to Landbank," Marinus says.

The budget made little room for increases in public sector wages. In 2020/21, wages accounted for 47% of revenue and following the decision to not implement a wage increase in 2020/21 an average increase of 1.2% per annum over the medium term was budgeted. It remains to be seen if public sector workers would agree with the minister's assessment that this was not an austerity budget.

Small business

"Particularly disappointing from Sage's perspective was the lack of focus on the small business sector. Many small businesses have had a difficult year due to the pandemic, and we have lost many of our wonderful small companies, especially in the retail and hospitality sectors, under the lockdown. We would have liked to have heard more ideas from Minister Mboweni about helping them to grow again as we exit the current crisis," says Viresh Harduth, vice president, small business, Sage Africa & Middle East.

"We were interested to hear, however, that the Department of Small Business Development has allocated R4bn over the medium term to township and rural enterprises, including blended finance initiatives. News that the Department of Tourism has reprioritised R540m over the medium term to establish the Tourism Equity Fund (TEF) to support the tourism sector recovery is also encouraging," he says.

Sars capacity building ambitions

R3bn has been allocated to modernise the South African Revenue Services' (Sars') technology infrastructure and systems and expand and improve the use of data analytics and artificial intelligence capabilities.

"Following the recommendations of the Davis Tax Committee, and in line with global best practice, the minister announced a dedicated unit within Sars to focus the lens on wealthy individuals with complex financial structures. Further, in a nod to Sars commissioner, Edward Kieswetter, the minister applauded the crackdown on tax avoidance by Sars, which he claimed netted around R3bn in additional taxes.

"In recognition of the shift towards virtual, work-from-home environments, something to look forward to is the much awaited refresh of the tax laws governing travel allowances, particularly the regime dealing with working/travelling from home," says Nazrien Kader, group head of tax for Old Mutual Limited.