INTUITION
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"Show me the money – otherwise No" says Minister of Finance

Each year the Minister of Finance delivers two budget speeches – one in February which is the implementation budget and one in October that keeps us updated on key developments relative to the 3-year budget process. The latest announcement showed some positive developments on both revenue and expenditure lines which we believe is enhancing the building blocks for more sustainable economic growth. The Minister went as far as saying no to continuous money wasting and earmarked more expenditure to enhance neglected infrastructure, even at the municipal level. South African financial markets reacted positively to his latest update – giving the Minister a thumbs-up reaction.

Willie Pelser

In February and October each year we get glued to the newswires to hear what the government is doing with the taxes that individuals and companies have entrusted to them. The main budget is tabled each February with actual changes being announced. (Examples can include changes to tax tables, VAT and specific spending plans.) The October speech is commonly referred to as the mini-budget, but in fact it is more an update of how the rolling 3-year budget planning process is performing and it highlights potential adjustments that could be implemented during the next February budget. This year was no different from any of the previous mini-budget speeches. The detail always comes in the form of many numbers and percentages, some of which you will have seen in the headlines. To save you from the potential boredom of numbers we looked at the speech from a slightly different angle.

In our opinion, there were three areas where the minister would like to put a stop to overspending (we have termed them "NO"). Encouragingly, one area where we consider it to be a resounding YES is more productive spending which should benefit the trajectory of our economic growth over the years ahead.

BIG NO. The minister has vowed not to be pressured by politics to announce and implement the Basic Income Grant (BIG). In an interview with the Sunday Times newspaper, Minister Godongwana said that if the ANC were to pass a resolution in its December conference directing the government to introduce a BIG, implementation would have to be delayed until his ministry and National Treasury have clear guidance from where the money will come.

SPEED READ

- **Finance Minister Enoch Godongwana delivered a market-friendly update on the government's three-year rolling budget process.**
- **A few "no's" expressed by the Minister and his Team at National Treasury can go a long way to avoid unnecessary and wasteful spending. "Show me where the money comes from" was the Minister's proviso. Actually having the courage to say no is a key positive for SA.**
- **Our infrastructure theme, as a key investment focus in portfolios, received an additional boost as more focused expenditure is channeled to enhance economic growth.**

Interestingly though, the Minister of Finance clearly noted that the current Social Relief of Distress (SRD) grant (initially referred to as a Covid-relief grant) of R350 a month will be extended for one more year until March 2024. The grant currently benefits 7.4 million people at a cost of around R44 billion per year. This is over and above the existing social security grants system. Currently, 18.6 million South Africans receive a social grant, which is around 31% of the population. Importantly, while discussions are still underway to consider options for a replacement for this temporary grant, a permanent extension of the SRD grant, or a similar new grant, needs to be matched by a corresponding permanent increase in tax revenue, or a permanent decrease in spending, or a combination of the two. This shows that the government is not trying to be populist by using the current tax windfall to fund large increases in social spending.

NO to continuous bail outs. The tone of the speech was to warn badly run State Owned Enterprises that that there is no more money to be poured down that bottomless pit. However, in the interest of "re-building" the productive side of the economy, there were allocations to Transnet to repair flood damaged areas and for the maintenance of freight rail locomotives. SANRAL also received a substantial allocation of R23 billion – much of which is to offset the debt incurred when Gauteng's highways were improved before the World Cup and which was meant to be recouped through the controversial e-Toll system. By helping to repay this debt, the allocation will ensure that SANRAL is sustainable once more and therefore able to accelerate infrastructure maintenance to support economic growth. More on this point of spending at the end of this article.

NO to escalating debt to GDP. The revenue line of the Budget has benefitted from unexpected windfalls over the last few years – namely a positive commodity cycle and efficiency gains at SARS. Government knows this will not continue forever and has toned down future assumptions on the rate of growth in taxes.

The R83.5 billion tax revenue windfall, together with muted growth in expenditure, has allowed the Minister of Finance to present an improved set of key fiscal parameters. National Treasury is now projecting a budget deficit for 2022/23 of -4.9% of GDP, which is an improvement from the deficit of -6.0% projected at the time of the National Budget in February 2022. In early 2021, the Budget Deficit was at 10% of GDP, so this represents a sizeable move in the right direction.

Furthermore, this new outcome signals an ongoing commitment by National Treasury to fiscal discipline. Thanks to a smaller deficit, government is able to reduce its borrowing requirement, which in turn implies that gross government debt will decrease to 71.4% of GDP for the 2022/23 fiscal year, down from 72.8% previously projected. Furthermore, it is expected to stay close to the 70% mark for the forseeable future, while debt-service costs will rise to 19.0% of main budget revenue by 2025/26. Bear in mind that just three years ago we were staring at a financial cliff, where Debt to GDP was expected to reach 100% of GDP. At that point our credit rating was downgraded to junk status. It is encouraging that the rating agencies have endorsed this mini budget. It is an important step towards restoring our credibility.

While these fiscal parameters remain concerningly high in absolute terms, they are a substantial improvement relative to projections made before the Pandemic. However, the deficit and debt targets are only achievable if the government continues to implement significant fiscal reforms, especially in relation to salary costs, while at the same time ensuring that economic growth improves well beyond 2% per annum. This, unfortunately, suggests that the risks to government finances remain firmly to the downside until the various initiatives to embed fiscal discipline and lift economic growth have been more fully achieved.

YES to more "brick and mortar". The "Yes" I referred to in my opening comments confirms a theme we have been emphasizing for more than a year - namely rising infrastructure spending. Encouragingly, National Treasury does envisage an acceleration in fixed investment spending in both 2023 and 2024 after many years of sustained contraction. This growth in fixed investment is supported by the government's current infrastructural development initiative, allowing the private sector to get more fully involved in the provision of electricity as a key example.

Positively, in this year's medium-term update, the Minister focused on allocating money more appropriately and emphasized the importance of infrastructure investment to lift economic growth, drive employment creation and encourage innovation. In general, the Minister's speech committed to increasing on-budget infrastructure allocations to remedy the erosion of infrastructure. For example, the Cities Support Programme was announced to target capacity building and service delivery improvements in the eight largest metro areas. It will focus on the implementation of structural reforms as well as improving service delivery across the public sector.

Over the medium term, the government's consolidated spending on building new and rehabilitating existing infrastructure will increase from R66 billion in 2022/23 to R112 billion in 2025/26. This includes roads, bridges, storm-water systems and public buildings. Spending on capital assets has become the fastest-growing item by economic classification, a step in the right direction.

The reaction of financial markets on Budget Day was positive, echoing our conclusion that this was a solid set of numbers. However, as the head of SARS, Edward Kieswetter, noted, there is unfortunately no substitution for higher economic growth in resolving South Africa's fiscal constraints and social dilemmas. The country needs a concerted and coordinated effort to lift business and household confidence, improve investment (specifically from the private sector), and enhance skills and productivity. The road is long, but at least we are starting to move in the right direction.

The world and financial markets have lurched from one crisis to the next over the past few years.

Will 2023 be any different?

Join us as we look ahead to what the new year may hold.

Topic: **The World in 2023**

Natal Midlands	
Date:	24th of November 2022
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg	
Date:	6th of December 2022
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

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