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Budget 2022: some positives but risk remains
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The Minister of Finance, Mr Enoch Godongwana, was met with the unenviable task of having to suitably toe the line between fiscal debt containment, bolstering public infrastructure and investment expenditure, while simultaneously securing the social welfare net with the tabling of the 2022 National Budget. Under the circumstances, he delivered a sound budget, using the tax revenue windfall to satisfy this trifecta of needs while staving off significant expenditure pressure. But we are under no illusion that South Africa's medium-term fiscal position remains tenuous, and marked by significant execution risk.

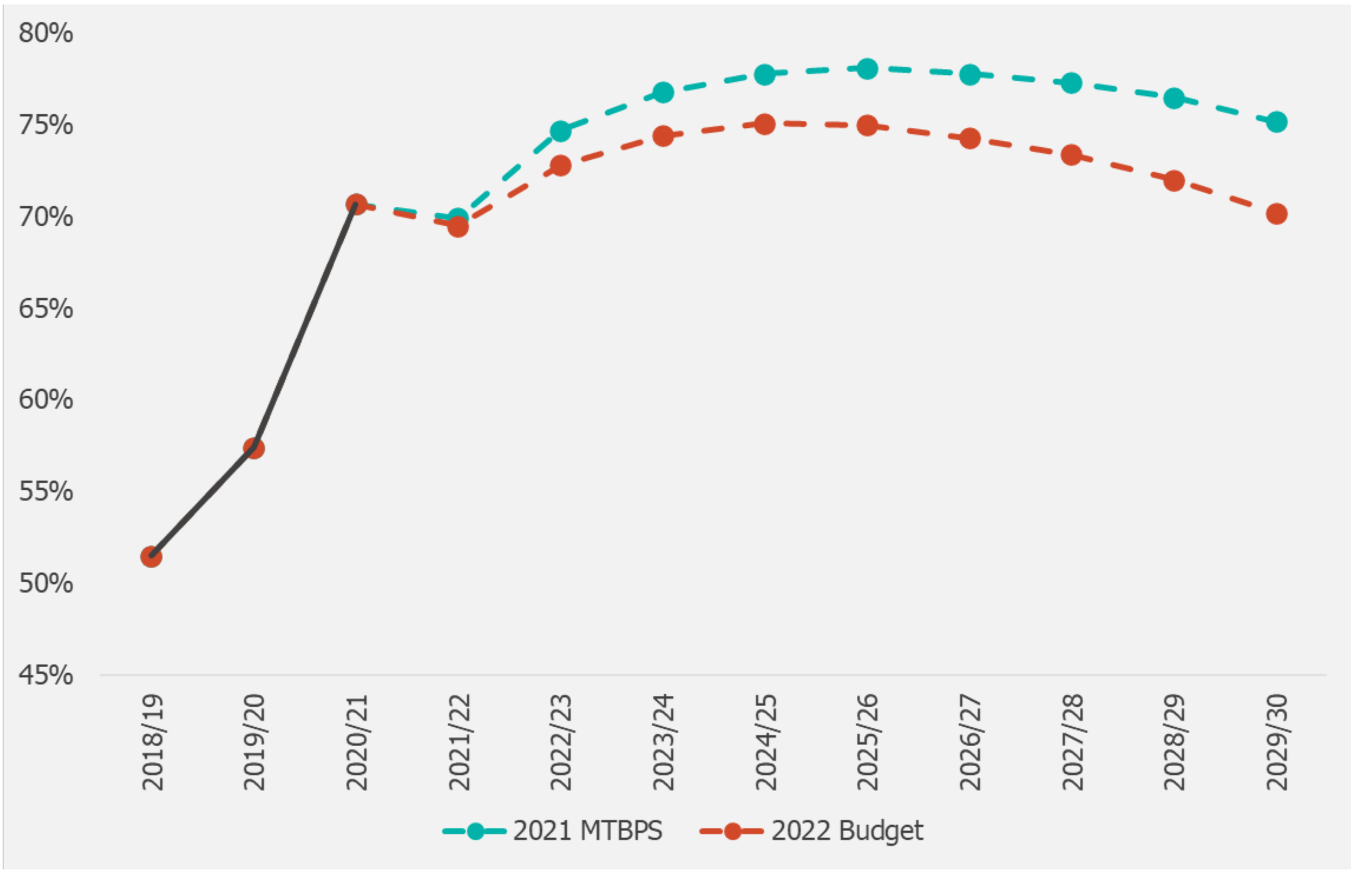
The main theme heading into this budget was the revenue overrun that National Treasury would account for in its Medium-Term Expenditure Framework (MTEF) as a result of extraordinary corporate income tax receipts, and - just as important - its resolve to maintain fiscal probity and ensure debt sustainability. National Treasury increased its budgeted revenue receipts by R253 billion over the MTEF, relative to its 2021 Medium-Term Budget Policy Statement (MTBPS) estimates. Unlike in previous budget iterations, where we had faulted National Treasury's overly optimistic macroeconomic assumptions, this budget is commendably tempered in its expectations and provides the grounds for potential revenue overruns in the medium-term.

Some positives

In another break from recent history, but consistent with the indication provided in the tabling of the 2021 National Budget, Mr Godongwana announced a one percentage point *decrease* in the corporate income tax rate from 28% from 27%. Base-broadening measures will be implemented to ensure that there is no effect on corporate income tax receipts. A historically narrow tax base, and the relentless sequence of tax hikes between 2015/16 and 2018/19 against a weak economic backdrop has highlighted the retardant effect that tax hikes have on employment, investment expenditure and economic growth. We are pleased that an increased emphasis will be placed on broadening the tax base over the MTEF. A capable revenue service is central to any effort to broaden the tax base, and recent indications pleasingly point to a recapacitated and increasingly effective South African Revenue Service (SARS). Among the instituted changes at SARS of late is the implementation of a majority of the Nugent Commission recommendations, with those of the State Capture Commission said to follow soon. A dedicated new unit focusing on high-wealth individuals has also been established, with a cumulative R5 billion collected through these and other "enforcement activities".

On the expenditure front, while disappointed, we were unsurprised by the cumulative R175 billion expenditure overrun in the medium-term relative to the 2021 MTBPS estimates – and with it a breach of the so called Expenditure Ceiling. COVID has inflicted significant damage to an already floundering economy and some degree of payback to austere departmental budget cuts in recent years was always likely in the event of a fiscal revenue overrun. Mercifully, MTEF expenditure pressure does not completely account for the corporate income tax windfall, resulting in the attainment of a primary surplus in 2023/24, a year earlier than previously forecast by National Treasury. This outlook brings the peak of South Africa's sovereign debt profile tantalizingly into view, which is now expected to reach 75.1% in 2024/25, a year earlier and three percentage points lower than envisioned at the 2021 MTBPS.

Graph 1: Gross debt-to-GDP outlook



Source: National Treasury

Inadequate cover for inevitable pressures

The 2022 National Budget reads as a strong signal of National Treasury's intent to reign in fiscal excess and ensure debt stability. Amidst the economic havoc wrecked by COVID, it has also gifted the fiscus a lifeline – a super commodity cycle and buoyant corporate income tax receipts. While these gains aid in stabilising South Africa's fiscal position, they provide inadequate cover for the myriad of expenditure pressures that will continue to stalk the fiscus in the years ahead – each critically important and of ever pressing need. The list includes financial support to state-owned enterprises, national health insurance, securing the social welfare net with the provision of a basic income grant in some form or another, and combating the collapse of infrastructure and service delivery across many provinces and municipalities by supporting the financial needs of subnational government.

While buoyed by National Treasury's resolve to maintain debt sustainability with the tabling of the 2022 National Budget, the medium-term execution risk remains abundantly clear: without consistently higher real GDP outcomes, which can only be led by macroeconomic structural reform, the aforementioned expenditure pressure will eventually come to bear on the fiscus.

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