# 2021 Budget Analysis

Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

# Outline

- Introduction
- Policy priorities and funding
- Economic situation
- Fiscal framework and contingent liabilities
- Revenue trends
- Summary

# Introduction

- The PBO was established to support the Finance and Appropriations Committees in both Houses of Parliament with the implementation of the Money Bills and Related Matters Act
- This presentation provide an analysis of the 2021 Budget Review, which includes a summary of the Estimates of National Expenditure and the Appropriations Bill. The Division of Revenue Bill will be discussed on 17 March 2021
- The presentation analyses on how 2021 budget proposals are likely to affect government service delivery, economic recovery, socio economic situation and the public finances
- The 2021 Budget proposes measures to
  - Reduce debt to GDP levels
  - Respond to COVID-19 pandemic-related health and social needs
  - Improve the composition of expenditure
- This presentation includes:
  - The alignment of the Presidential priorities with the 2021 Budget
  - It includes the detail of the reprioritisation towards the funding priorities
  - It shows the shift in the proportion of the budget within the functional budget groups as well as the shift in the economic groups
  - A discussion on the economic situation informing budget decisions
  - Changes to the fiscal framework
  - Changes to tax policies

# Policy priorities

State of the Nation Address

Spending per budget function group

# Policy priorities

- The 2021 SONA provided the strategic direction for the 2021 Budget
- The 2021 Budget is framed by the two policy objectives set out by the National Treasury in the 2020 MTBPS:
  - Promoting economic recovery
  - Returning the public finances to a sustainable position
- Medium-term fiscal policy focuses on:
  - Extending temporary support in response to COVID-19
  - Narrowing the budget deficit and stabilising debt as a share of GDP
  - Exercising continued restraint in non-interest expenditure growth while improving the composition of expenditure

# Budget's response to SONA

| **SONA: Presidential priorities** | **Budget response to SONA** |
|---|---|
| Defeat the coronavirus pandemic | • The budget funds the COVID-19 vaccination campaign<br>• In 2021/22 government allocated R1.3 billion for vaccine purchases<br>• An additional estimated R9 billion could be drawn on from the contingency reserve<br>• **Net change to the Health function is: -R8.8 billion in 2021/22 from the NRF** |
| Accelerate economic recovery | • Government's immediate priority is to support a rapid return to economic growth to address the slowdown in economic activity during the COVID-19 lockdowns<br>  • The vaccination programme will support the reopening of the economy and GDP growth of 3.3 per cent in 2021/22<br>• Government will support the economic recovery by extending short-term economic support and undertaking reforms to lower the cost of doing business and stabilise public finances<br>• Operation Vulindlela was initiated to focus on implementing high impact reforms<br>• **Net change to the Economic development function is: - R8.3 billion in 2021/22 from the NRF** |

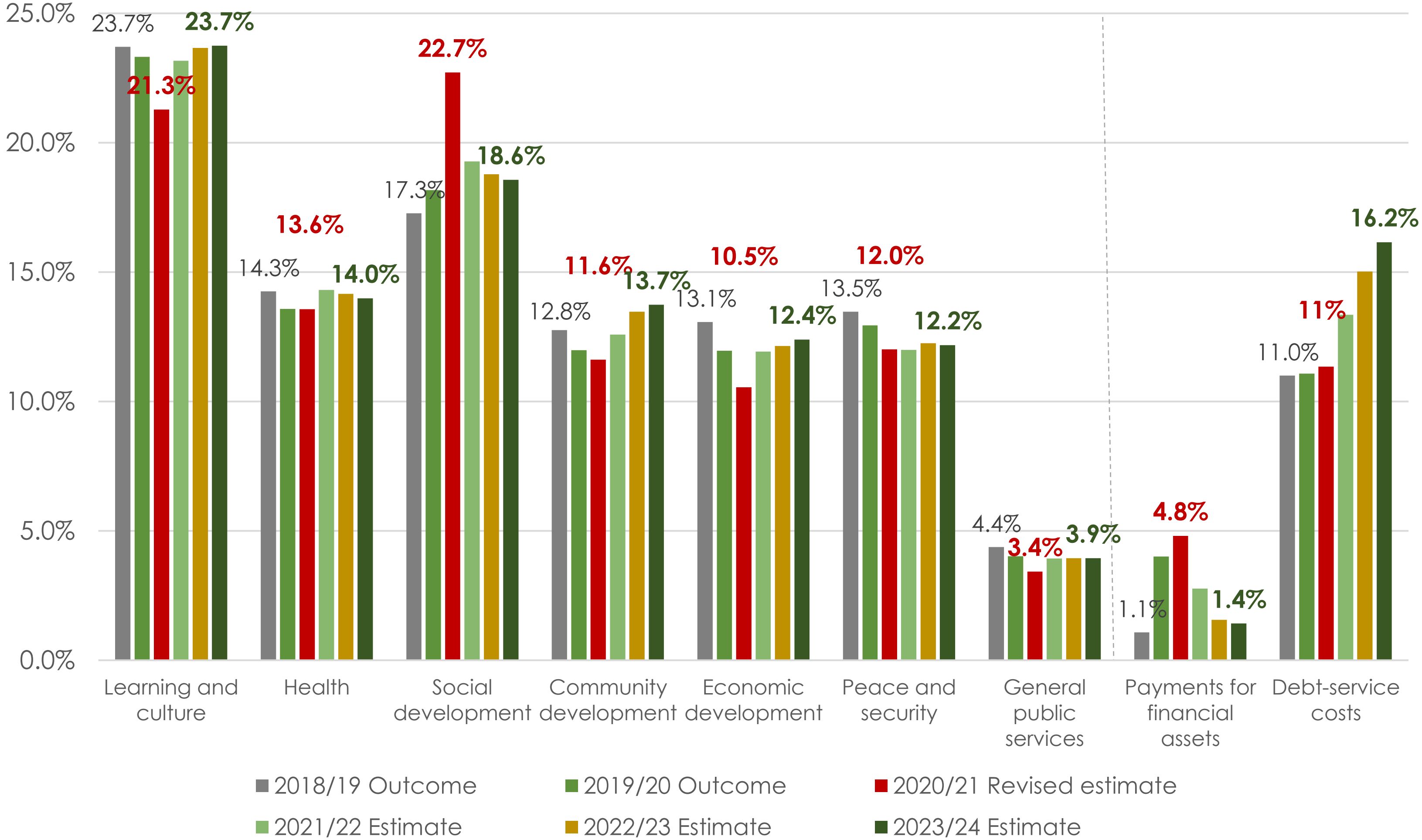
# Budget's response to SONA

| SONA: Presidential priorities | Budget response to SONA |
|---|---|
| Implement economic reforms to create sustainable jobs and drive inclusive growth/Mass public employment programme<br><br>(Energy Security prioritised) | • 2020 Adjustments Budget: R12.6 billion was made available for public employment programmes (a cumulative amount of R83.2 billion was referred to in the budget speech, but is not clear what was included)<br>• 2021 budget is supplementing this by R11 billion (provisional) for the Presidential Youth Employment Initiative, taking the total funding for employment creation to nearly R100 billion<br>• **Net change to the General public service function is: + R32.6 billion in 2021/22 from the NRF** |
| Fight corruption and strengthen the state | • Department of Justice and Constitutional Development is allocated R1.8 billion to improve business processes and to support law enforcement agents in the fight against crime and corruption<br>• **Net change to the Peace and security function is: - R23.9 billion in 2021/22 from the NRF** |

# Reprioritisation towards Presidential priorities

| Health function group | | | |
|---|---|---|---|
| R million | **2021/22** | **2022/23** | **2023/24** |
| **Net change from the 2020 baseline (percentage)** | **-3.6%** | **-11.1%** | -10.9% |
| **Health** | **1 905.0** | **-1 835.6** | **-4 736.2** |
| COVID-19 vaccination programme | 4 350.0 | 2 100.0 | - |
| HIV, TB, malaria and community outreach grant: Covid component | 1 500.0 | 900.0 | - |
| HIV, TB, malaria and community outreach grant: HIV and AIDS component | -1 677.4 | -2 174.5 | -2 567.9 |
| **National Treasury (Provincial Health departments)** | **-10 130.0** | **-25 954.5** | **-19 931.1** |
| Provincial equitable share: Provision for COVID-19: Non-COE | 5 816.8 | - | - |
| Provincial equitable share: Provision for COVID-19: COE | 2 183.2 | - | - |
| ***Provincial equitable share reduction*** | ***-18 130.0*** | ***-25 954.5*** | ***-19 931.1*** |
| **Net change to function baseline** | **-8 823.6** | **-28 611.9** | **-25 229.5** |
| **Economic development function group** | | | |
| **Net change from the 2020 baseline (percentage)** | **-5.1%** | **-6.9%** | -7.1% |
| **Public Works and Infrastructure** | **-333.3** | **-438.8** | **-734.3** |
| Expanded public works programme integrated grant for provinces | -17.4 | -22.6 | -41.1 |
| Expanded public works programme integrated grant for municipalities | -31.3 | -40.7 | -73.8 |
| **Transport** | **336.3** | **141.5** | **5.3** |
| South African Civil Aviation Authority | 277.6 | 187.9 | 85.8 |
| Road Traffic Infringement Agency | 215.8 | 165.9 | 143.5 |
| **Net change to function baseline** | **-8 323.3** | **-11 656.3** | **-11 734.6** |
| **General Public Services function group** | | | |
| **Net change from the 2020 baseline (percentage)** | **40.0%** | **-9.8%** | -5.7% |
| **National Treasury** | **2 267.9** | **-5 266.6** | **-4 140.7** |
| Land and Agricultural Development Bank of South Africa: Purchase of equity | 5 000.0 | 1 000.0 | 1 000.0 |
| New Development Bank | 565.5 | - | - |
| Development Bank of Southern Africa | 73.8 | 50.4 | 55.5 |
| Auditor-General of South Africa | 50.0 | 50.0 | - |
| South African Revenue Service | 322.1 | -840.2 | -787.6 |
| ***Provincial departments - Provincial equitable share reduction*** | ***-3 510.4*** | ***-5 025.3*** | ***-3 859.1*** |
| **Public Enterprises** | **64 278.3** | **-7 435.5** | **-6 020.9** |
| Payments for financial assets: Eskom: Purchase of equity | 31 692.9 | - | - |
| **Net change to function baseline** | **32 585.4** | **-7 435.5** | **-6 020.9** |

# Spending priorities per budget function group



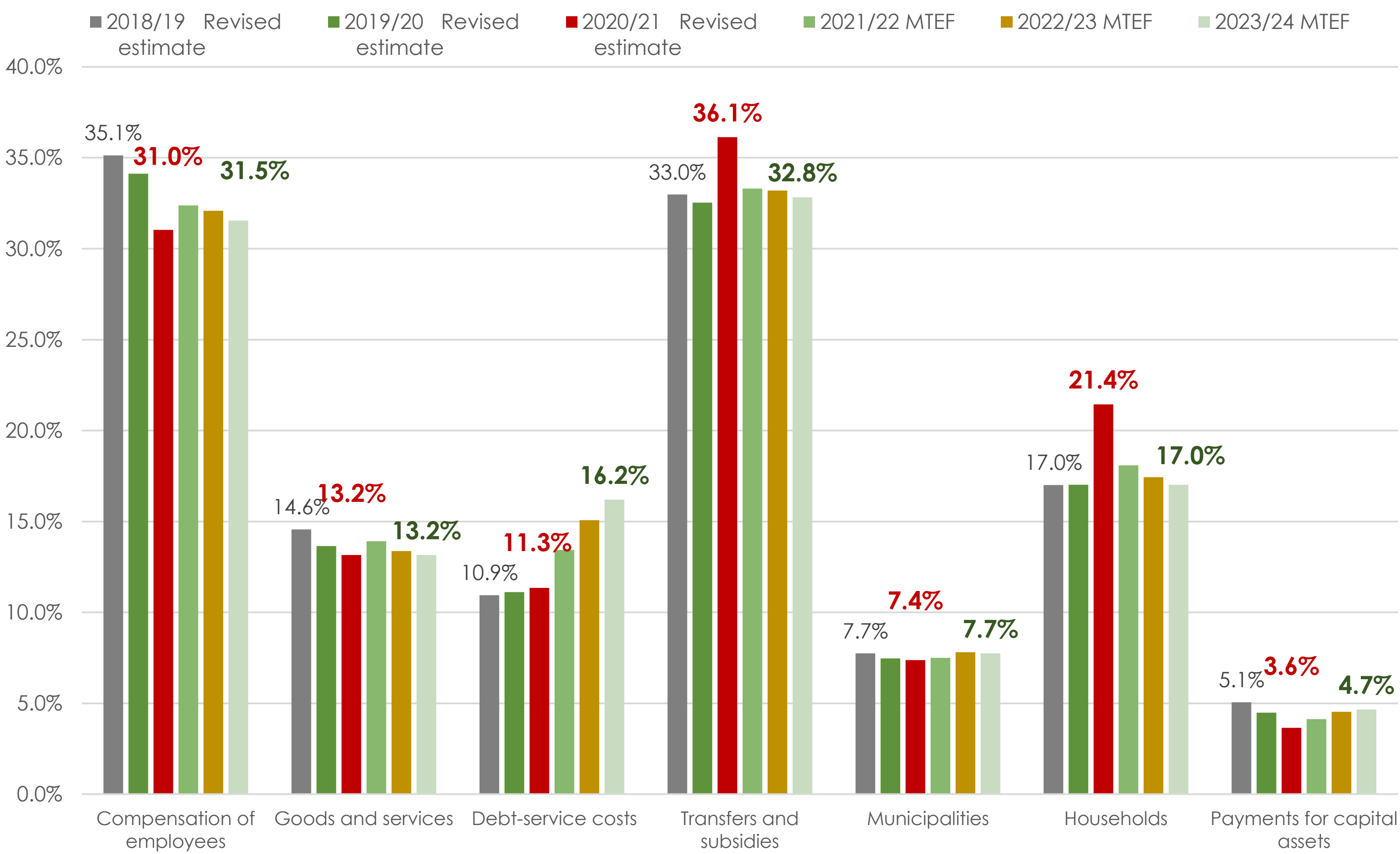

Note: The consolidated budget includes the main budget framework and spending by provinces, social security funds and public entities financed from their own revenue sources.

# Expenditure: changes within a selection of national votes 2020/21 to 2021/22

| R million | Adjusted appropriation 2020/21 | Change from Main appropriation 2020/21 | Estimated Main appropriation 2021/22 | Change from Adjusted appropriation 2021/22 | Change from appropriation 2020/21 2021/22 |
|---|---|---|---|---|---|
| 2 Parliament | 2 015.8 | -7.5% | 2 144.1 | 6.4% | -1.7% |
| 3 Cooperativ e Gov ernance | 106 942.8 | 11.1% | 100 875.9 | -5.7% | 4.8% |
| 4 Gov ernment Communication and | 725.1 | 0.6% | 749.7 | 3.4% | 4.0% |
| 13 Public Works and Infrastructure | 7 724.4 | -4.3% | 8 343.2 | 8.0% | 3.4% |
| 16 Basic Education | 23 395.0 | -7.6% | 27 018.1 | 15.5% | 6.7% |
| 17 Higher Education and Training | 94 094.9 | -3.4% | 97 784.0 | 3.9% | 0.3% |
| 18 Health | 58 052.6 | 4.6% | 62 543.3 | 7.7% | 12.7% |
| 19 Social Dev elopment | 230 807.3 | 16.7% | 205 226.9 | -11.1% | 3.8% |
| 25 Justice and Constitutional Dev elopment | 18 666.3 | -6.0% | 19 119.8 | 2.4% | -3.7% |
| 27 Office of the Chief Justice | 1 188.1 | -5.7% | 1 211.8 | 2.0% | -3.8% |
| 28 Police | 99 560.9 | -2.1% | 96 355.5 | -3.2% | -5.3% |
| 29 Agriculture, Land Reform and Rural Dev elopment | 15 247.6 | -9.3% | 16 920.4 | 11.0% | 0.7% |
| 30 Communications and Digital Technologies | 3 280.9 | -3.3% | 3 692.9 | 12.6% | 8.8% |
| 31 Employment and Labour | 3 299.3 | -9.3% | 3 505.7 | 6.3% | -3.6% |
| 32 Env ironment, Forestry and Fisheries | 9 937.8 | 11.0% | 8 716.8 | -12.3% | -2.7% |
| 36 Small Business Dev elopment | 2 277.8 | -5.4% | 2 538.3 | 11.4% | 5.5% |
| 39 Trade, Industry and Competition | 9 273.3 | -16.3% | 9 736.6 | 5.0% | -12.1% |
| 40 Transport | 57 354.7 | -7.5% | 66 691.8 | 16.3% | 7.5% |
| 41 Water and Sanitation | 16 994.3 | -1.3% | 16 910.1 | -0.5% | -1.8% |
| **Total appropriation by vote** | **1 025 349.7** | 6.5% | **980 583.9** | -4.4% | 1.8% |

2021/22 Estimates mainly reverse some of the reprioritisation of allocations during the supplementary and adjustments budgets in 2020/21

# Spending priorities per economic classification



# Structural reforms: Wage bill

- **Understanding the strategy of reductions in the wage bill**
  - Average reduction in personnel numbers on a national level over the MTEF: 2.1 per cent
  - Average increase per unit cost over the MTEF: 2.4 per cent (varies between -1.7 per cent and 5.7 per cent this may indicate that higher level positions will be replaced by lower levels and increase in salaries or filling higher level positions).
  - Number of funded posts are estimated to amount to 408 267 and number of posts additional to the establishment is 4 231 (2021). The elimination of this practice will reduce staff numbers by 1 per cent.
  - Provincial status: Annual average growth in CoE: Basic Education, (0.8 per cent) and Health (0.9 per cent), provides no room for the increase in numbers or notch increases.
  - If the number of Education and Health service workers these rates should be applied only to administration and not frontline workers.
  - Sustainability of the mass public employment programme: EPWP or other initiatives:
    - Social Development created more than 2000 job in 2020/21, which disappeared in 2021/22

# Structural reforms: Other

- **The ideal structure to ensure efficiency and effectiveness**
- Macrostructure:
  - National votes transfer almost 70 per cent of their budgets to other institutions. The incorporation of the smaller institutions as programmes in departments:
    - Could have a major impact on staff numbers
    - Merging other smaller departments with departments providing similar functions could not just result in a possible savings of R4.3 billion, but also reduce duplication
- Balancing expenditure within the economy for effective and efficient service delivery
  - The trade-off between compensation of employees and consultants should be prevented (several adverts noted for service providers to update plans or to monitor policy implementation).
  - Trade-off between compensation and transfers

# Structural reforms: Processes and systems

- Reviews, monitoring reports and evaluations:
  - GTAC received an additional R41.5 million in 2021/22
  - Departmental performance plans show several monitoring and evaluation reports on services delivery as outputs
  - Parliament produces BRRR
  - DPME produces evaluations
  - NT: guidelines, frameworks and instructions
- The Parliamentary Budget Office on monitoring service delivery
  - Performance information on public entities (transfers) is not available on the systems provided by government for reporting, for example:
    - Social development does not report on the quarterly performance on expenditure or the number of beneficiaries of social grants.
    - SASSA reports only on operational expenditure. No reporting on social grant beneficiaries on a quarterly basis.
    - Performance information on conditional grants are not available on a quarterly basis.
  - The ENE provides a very useful selection of performance indicators per department and for public entities. Performance on these indicators should be included with the quarterly expenditure reports presented to Parliament to assist Parliament and the public to:
    - Monitor the implementation of the budget
    - Prevent departments from not reporting for example Small Business Development does not provide any performance history in the ENE

# Economic situation

Where will growth come from

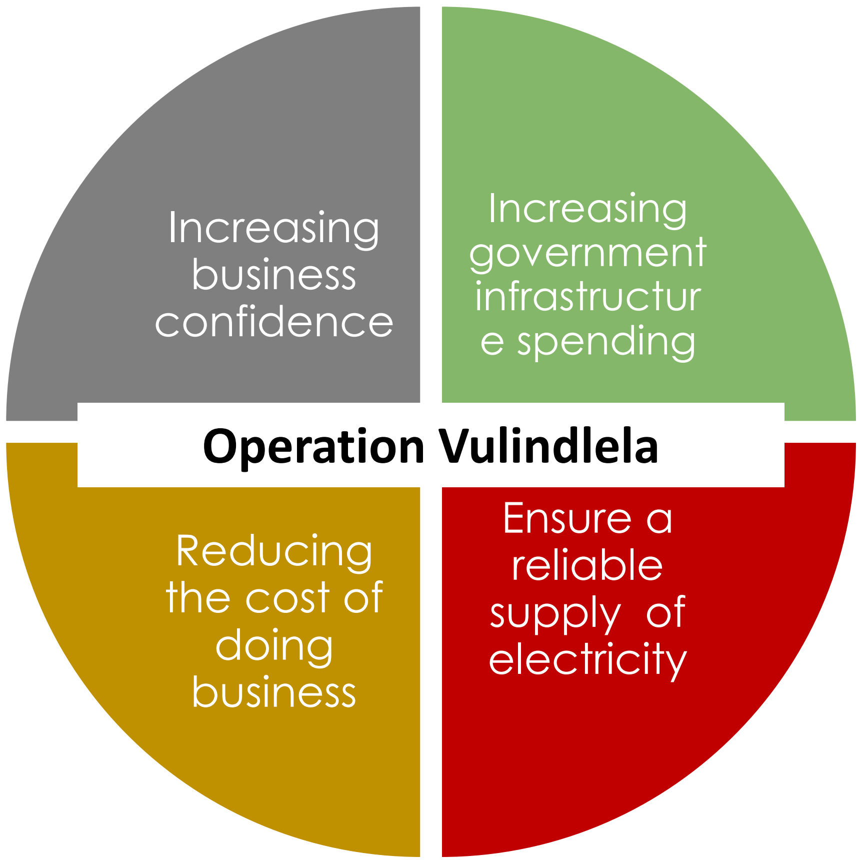
Macroeconomic approach

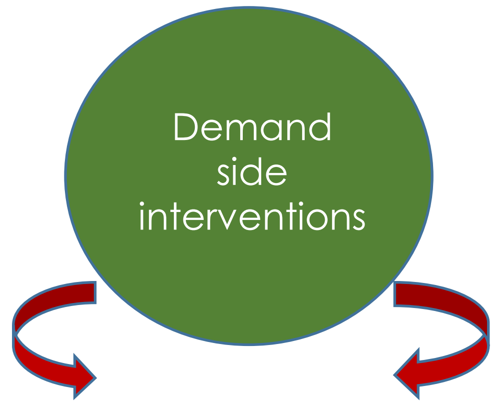
# The budget does not support growth during the MTEF nor recovery and reconstruction

- The proposed expenditure reductions over the medium term does not strike a balance between immediate support for the economy and shoring up the country's finances
- A big risk to SA's post-pandemic reconstruction is sparsity of direct budgetary interventions to grow aggregate demand & drive investment, jobs & growth
- Key components of government's approach are off-budget, these include structural reforms and a fund to leverage private infrastructure investment
- The economy requires both supply-side and demand-side interventions: the success of supply-side interventions depends on responses of private businesses to structural reforms & leveraging infrastructure investment
- Despite the successes with Operation Vulindlela, the time frame for implementation of the structural reforms remains uncertain and response times by the private sector to these reforms may likely occur after the MTEF
- Uncertainty remains high and private businesses prefer to keep their assets liquid in financial assets rather than sunk in fixed investment projects for years
- Financial markets were very profitable during the pandemic & this continues
- At the same time, more unemployment, poverty and inequality have increased the risk of social and political instability

# Pandemic-induced low growth and structural issues in the economy: What does the Budget tell us?

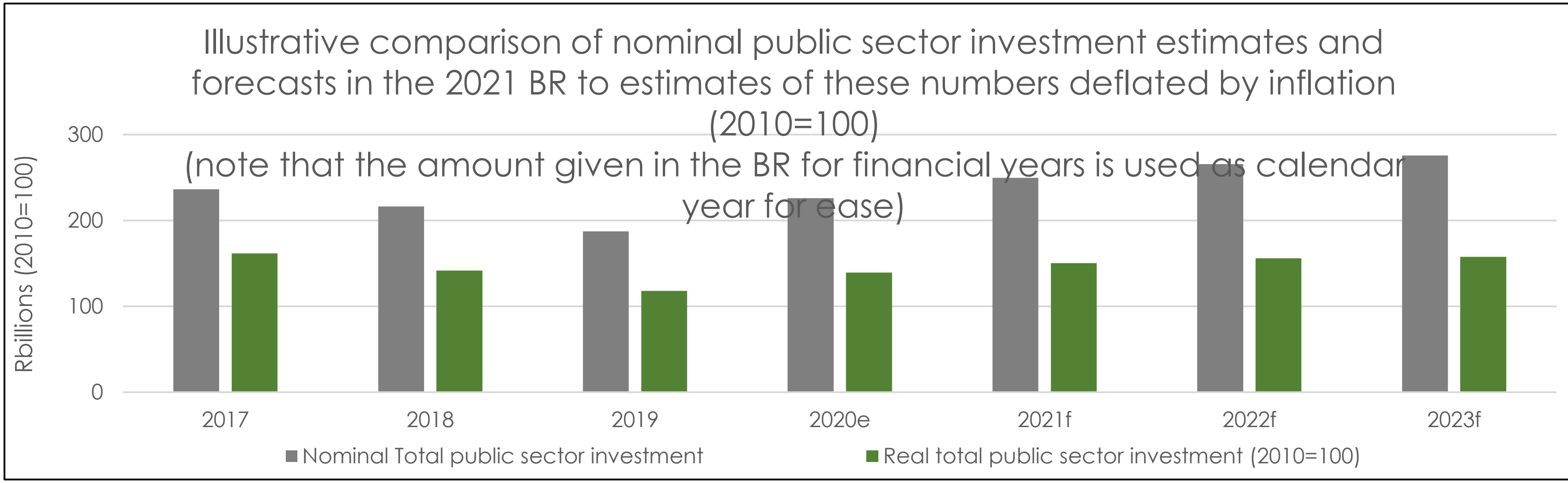
The Budget Review is dominated by supply-side interventions to dealing with low growth induced by the pandemic and the prevailing structural issues in the South African economy

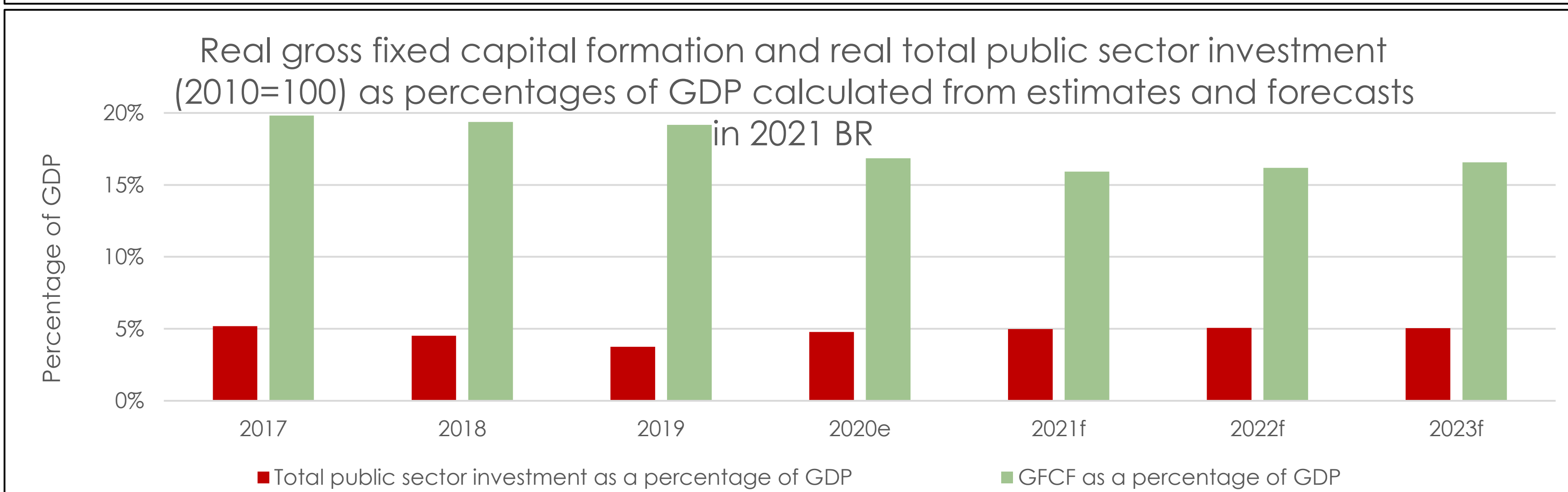


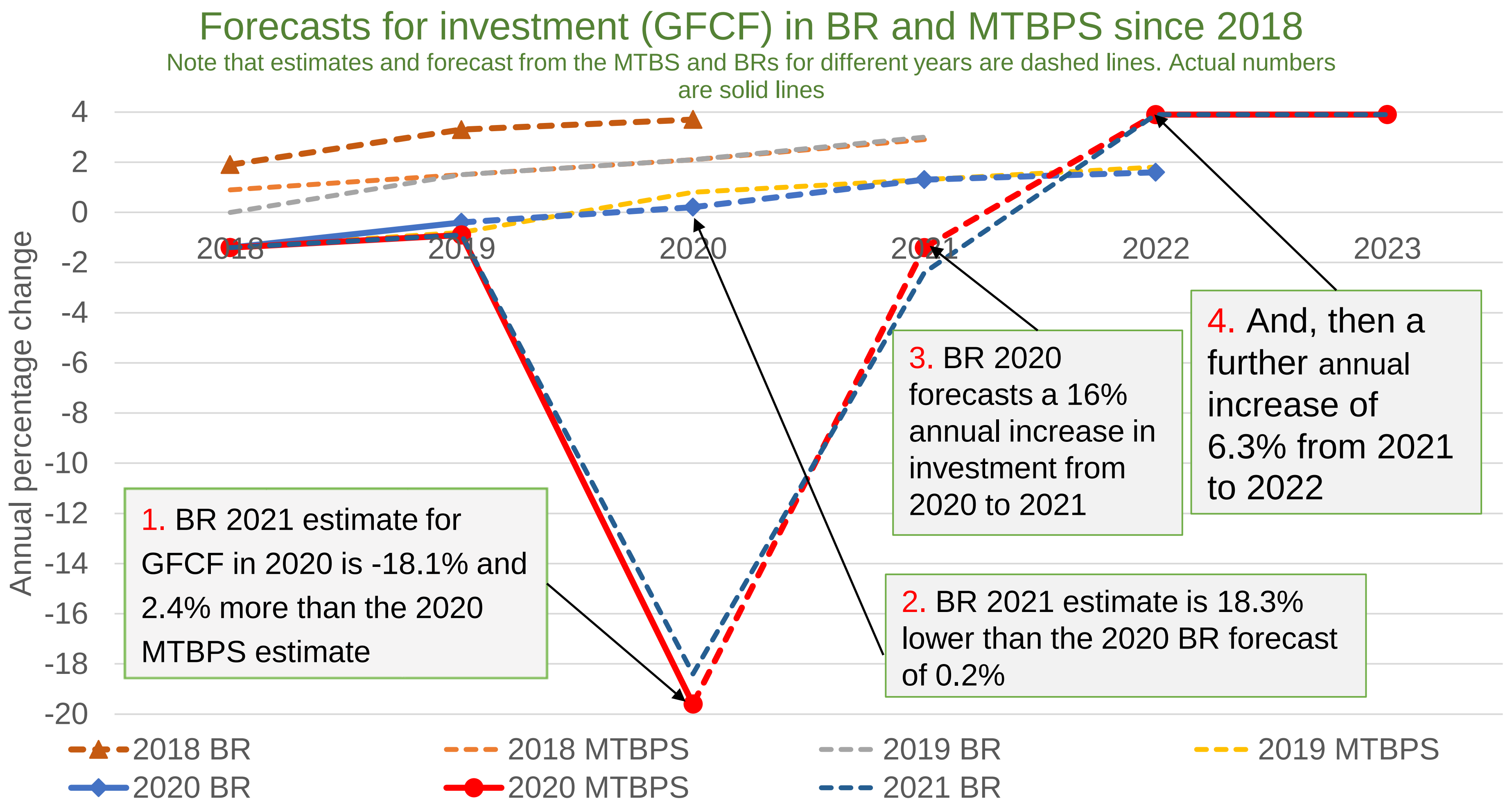

Expansionary fiscal and monetary policy can be used in a mutually reinforcing way to boost Aggregate Demand

# The potential impact of public sector infrastructure investment in the MTEF



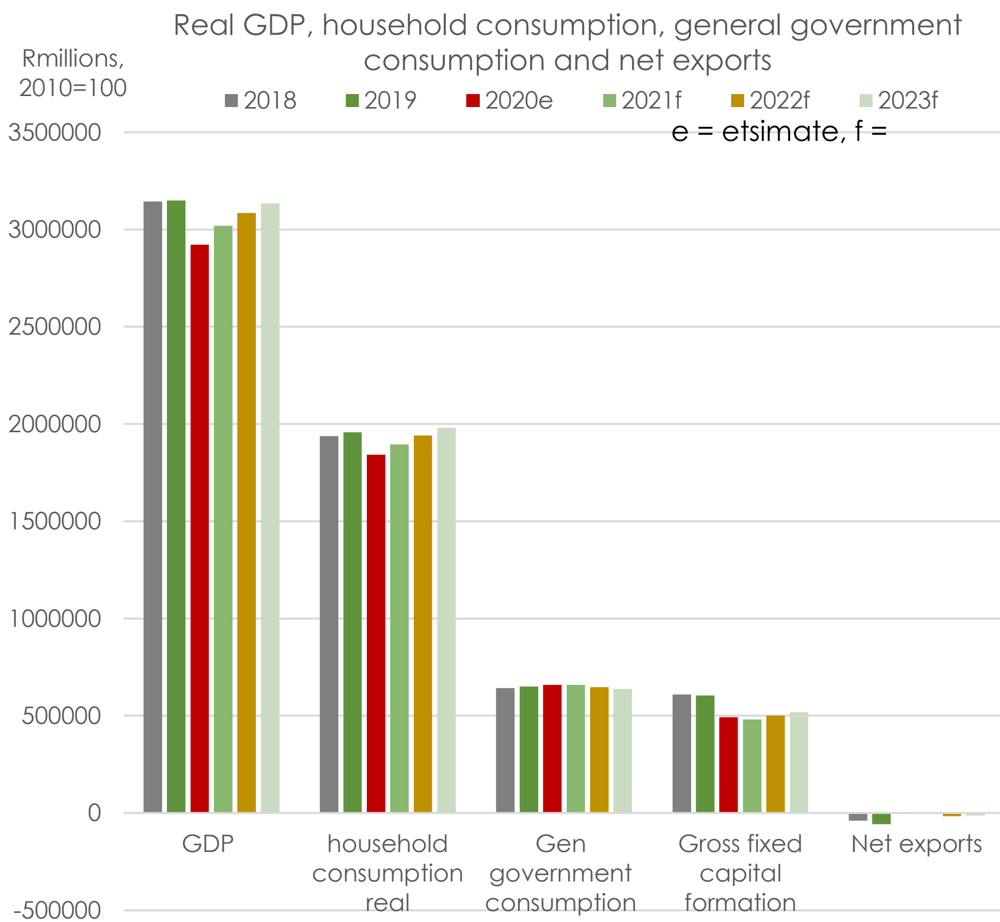

The contribution of public sector investment over the MTEF (as outlined in Appendix D of the 2021 BR) will not have a very large impact on GDP growth in the MTEF




- There was a real decline in investment growth during 2018 of 1.4% and 2019 of 0.9% while the 2018 BR forecast was much overestimated at 1.9% for 2018 and 3.3% for 2019
- The 2021 BR forecasts an improvement from a drop in investment of 18.1% in 2020 to a much smaller decline of 2.4% in 2021, and
- BR 2021 very possibly overestimates investment growth again at 3.9% for 2022 & 2023
- Therefore, based on these trends, BR 2021 overestimated investment growth at 3.9% for 2022 & 2023

# Increasing consumption by poor households is key for recovery and reconstruction

- The 2021 Budget is focused on reducing expenditure and debt levels rather than providing immediate support for economic growth and adequate support for grants and services to households
- The 2021 BR depends on private investment to drive growth in the MTEF when that growth actually requires greater welfare and purchasing power of poor household




- MTEF GDP growth forecasts in the 2021 BR are almost totally dependent on real growth in household consumption
- Gen. gvt consumption is a negative contributor to GDP growth in MTEF
- The 2021 BR forecasts for investment growth over the MTEF are very likely to be overestimated
- Real reductions in social expenditure, incl. social grants will not only hurt the poor but constrain growth and government revenue

# The search for job-creating economic growth: the unemployment crisis

| | Oct-Dec 2019 | Jul-Sep 2020 | Oct-Dec 2020 | Qtr-to-qtr change | Year-onyear change | Qtr-to-qtr change | Year-onyear change | |
|---|---|---|---|---|---|---|---|---|
| | Thousand | | | | | Per cent | | |
| **Population 15–64 yrs** | **38 727** | **39 167** | **39 311** | **143** | **583** | **0,4** | **1,5** | |
| **Labour force** | **23 146** | **21 224** | **22 257** | **1 033** | **-889** | **4,9** | **-3,8** | |
| **Employed** | **16 420** | **14 691** | **15 024** | **333** | **-1 397** | **2,3** | **-8,5** | |
| **Formal sector (non-agricultural)** | 11 331 | 10 306 | 10 495 | 189 | -836 | 1,8 | **-7,4** | 1 |
| **Informal sector (non-agricultural)** | 2 918 | 2 456 | 2 521 | 65 | -397 | 2,6 | **-13,6** | |
| Agriculture | 885 | 808 | 810 | 2 | -75 | 0,3 | -8,5 | |
| Private households | 1 286 | 1 121 | 1 197 | 76 | -89 | 6,8 | -6,9 | |
| **Unemployed** | **6 726** | **6 533** | **7 233** | **701** | **507** | **10,7** | **7,5** | |
| **Not economically active** | 15 581 | 17 944 | 17 054 | -890 | 1 473 | -5,0 | **9,5** | 2 |
| **Discouraged work-seekers** | 2 855 | 2 696 | 2 930 | 234 | 75 | 8,7 | **2,6** | |
| **Other (not economically active)** | 12 726 | 15 248 | 14 124 | -1 124 | 1 398 | -7,4 | **11,0** | |
| **Rates (%)** | | | | | | | | |
| **Unemployment rate** | 29,1 | 30,8 | 32,5 | 1,7 | **3,4** | | | |
| **Employed/population ratio (absorption)** | 42,4 | 37,5 | 38,2 | 0,7 | **-4,2** | | | 3 |
| **Labour force participation rate** | 59,8 | 54,2 | 56,6 | 2,4 | **-3,2** | | | |

**Source: StatsSA**

# The search for job-creating economic growth: the unemployment crisis

1

Compared to Q4:2019, a net loss of 836 000 jobs in the formal sector employment was driven by the Finance , Manufacturing , Construction and Community and social services industries in Q4:2020. In the informal sector 396 000 more net job losses were observed as compared to the fourth quarter of 2019

2

A large number of people moved from entered the labour force between the two quarters.

The movement however, was proportionately more for the unemployed than for the employed, which resulted in an increase of 1,7% in the unemployment rate to 32,5%.

3

The labour force participation rate was higher in Q4:2020 as compared to Q3:2020. The rate has declined year-on-year. The absorption rate increased by 0,7 % to 38,2% in the fourth quarter of 2020 compared to the third quarter, but decreased year-on-year.

**Unemployment crisis**

# Fiscal framework

Budget balance

Contributors to stabilising debt

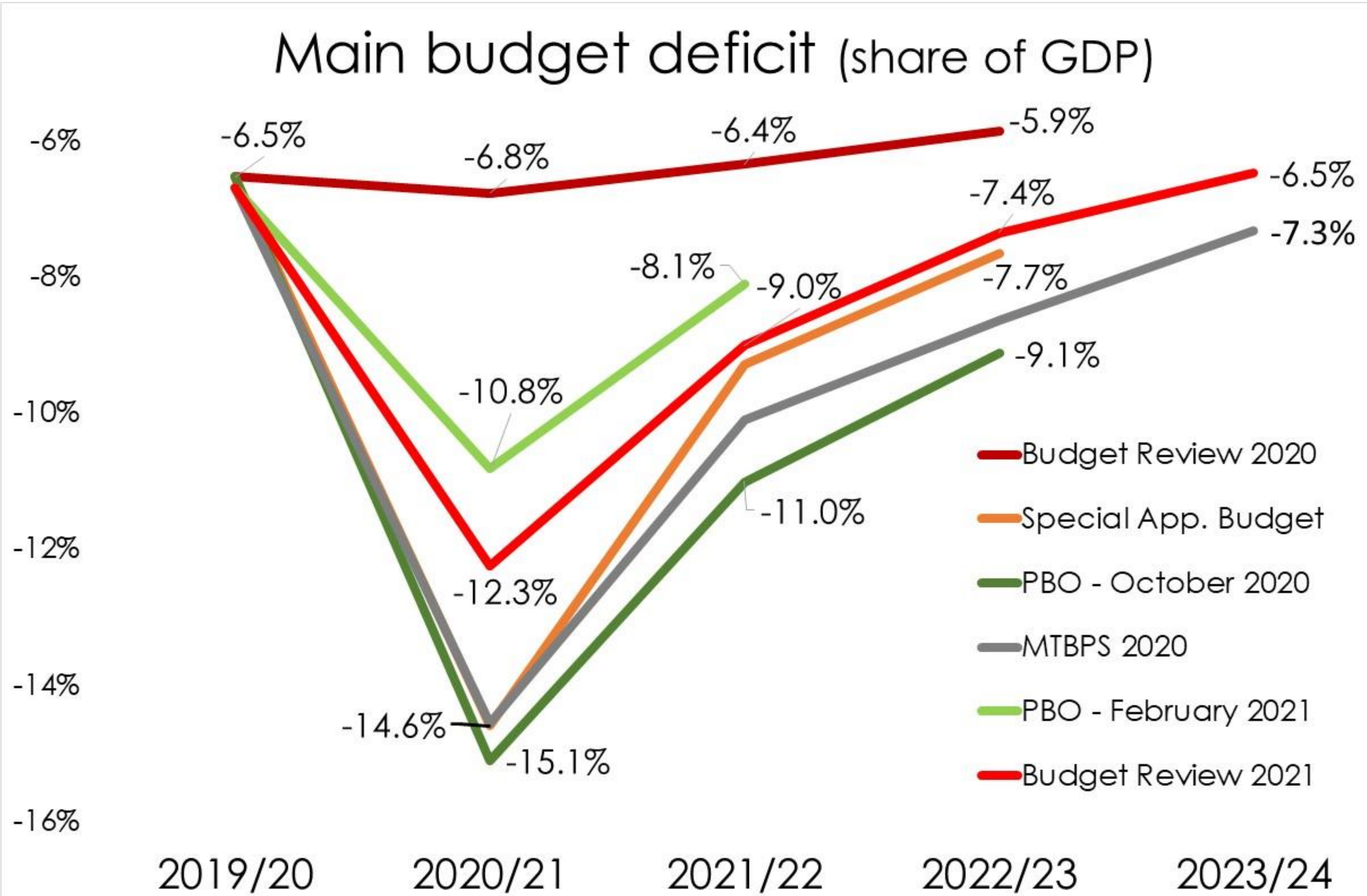
Contingent liabilities and risks

# Revised growth outlook

| GDP growth outlook - calender year* | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| National Treasury - Budget 2020 | 0.9% | 1.3% | 1.6% | - |
| National Treasury - Supp Budget - June 2020 | -7.2% | 0.3% | 1.5% | - |
| National Treasury - MTBPS 2020 | -7.8% | 3.3% | 1.7% | 1.5% |
| National Treasury - Budget 2021 | -7.2% | 3.3% | 2.2% | 1.6% |
| South African Reserve Bank - January 2020 | 1.2% | 1.6% | 1.9% | - |
| South African Reserve Bank - September 2020 | -8.2% | 3.9% | 2.6% | - |
| South African Reserve Bank - January 2021 | -7.1% | 3.6% | 2.4% | 2.5% |
| IMF - World Economic Outlook - January 2020 | 0.8% | 1.0% | - | - |
| IMF - World Economic Outlook - October 2020 | -8.0% | 3.0% | 1.5% | - |
| IMF - World Economic Outlook - January 2021 | -7.5% | 2.8% | 1.4% | |

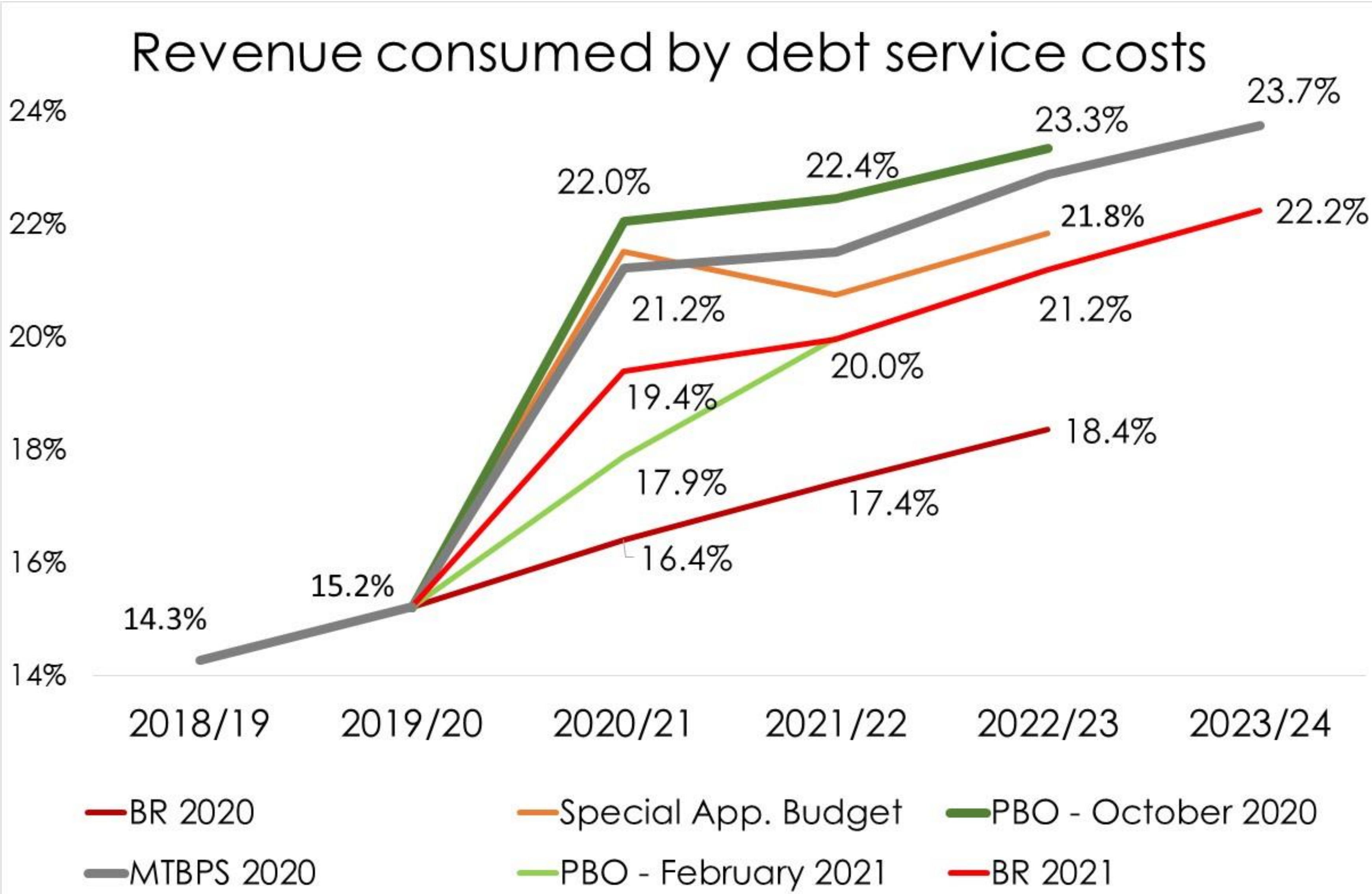
*Growth projections correspond to publication date and not forecast date

# Fiscal outlook: budget balance



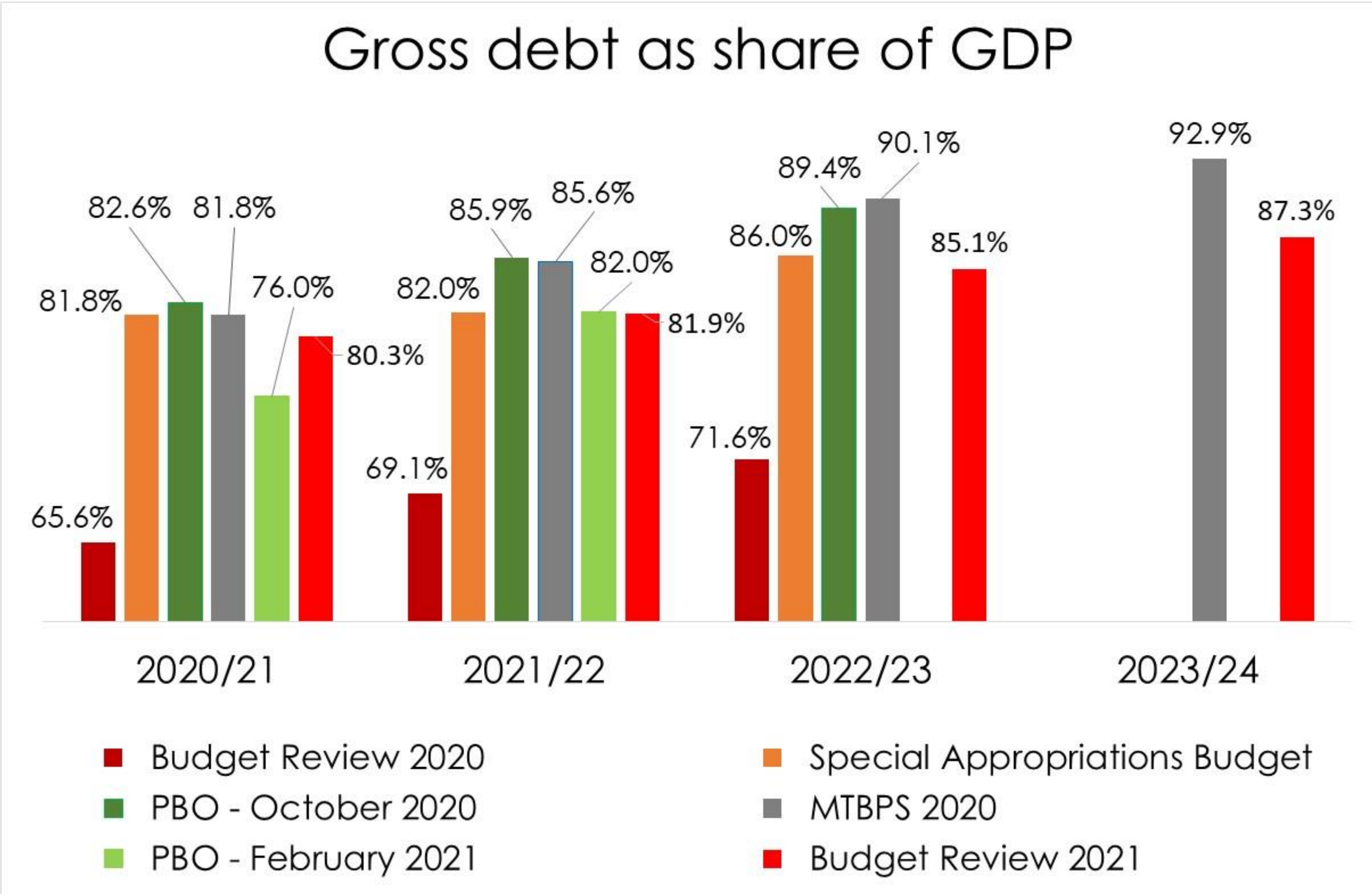

Data: National Treasury and PBO estimates using Bloomberg median polls

# Fiscal outlook: Debt service costs




Data: National Treasury and PBO estimates using Bloomberg median polls

# Fiscal outlook: debt




Data: National Treasury and PBO estimates using Bloomberg median polls

# Contingent Liabilities and DFIs

| R billion | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|
| **Multilateral institutions** | **260.7** | **341.9** | **381.6** |
| *of which:* | | | |
| *New Developm ent Bank* | *57.9* | *93.0* | *100.9* |
| *African Developm ent Bank* | *53.9* | *66.5* | *56.8* |
| *International Monetary Fund* | *85.9* | *111.8* | *159.3* |
| *World Bank Group* | *29.5* | *36.4* | *30.4* |
| **Other contingent liabilities** | **303.1** | **472.4** | **510.3** |
| *of which:* | | | |
| *Export Credit Insurance Corporation of South Africa* | *20.5* | *20.5* | *15.6* |
| *Post-retirem ent m edical assistar* | *69.9* | *69.9* | *69.9* |
| *Road Accident Fund* | *173.6* | *332.2* | *375.0* |

*Source: National Treasury*

# Risks and Contingent Liabilities and DFIs

- Gross borrowing requirement increased by R237.6 billion to R670.3 billion in 2020/21 as a result of Government's response to the COVID-19 pandemic
- Gross loan debt is expected to increase to R5.23 trillion (87.3 per cent of GDP) by 2023/24, and to settle at 88.9 per cent of GDP in 2025/26
- Contingent liabilities are expected to increase by R12 billion over four years from R1.11 trillion in 2020/21 to R1.23 trillion by 2023/24
- Large and persistent increases in budget deficits – resulting in higher debt and debt-service costs – compromise the sustainability of the public finances
- The total amount for approved guarantees is expected to increase by R96.2 billion to R581 billion by the end of March 2021
- Government guarantee exposure is estimated to decrease by R3.4 billion to R410.3 billion by the end of March 2021
  - Eskom guarantees, which constitute the largest exposure at 77.2 per cent guarantees, decreased by R10.1 billion due to maturing guaranteed debt
  - Approximately R90 billion of the Covid-19 business loan guarantee scheme had been approved by the Reserve Bank, as at 11 February 2021

# Revenue trends

Tax proposals

Tax developments

# Impact of tax proposals on 2021/22 revenue

| R million | | Effect on tax proposals |
|---|---|---|
| **Gross tax revenue (before tax proposals)** | | **1 365 124** |
| **Budget 2021/22 proposals** | | **-** |
| **Direct taxes** | | **-2 200** |
| **Personal income tax** | | |
| Increasing brackets by more than inflation | -2 200 | |
| Revenue if no adjustment is made | *11 200* | |
| *Higher-than-inflation increase in brackets and rebates* | *-13 400* | |
| **Indirect taxes** | | **2 200** |
| **Taxes on international trade and transactions** | | |
| Introduction of export tax on scrap metal | 400 | |
| **Specific excise duties** | | |
| Increase in excise duties on alcohol | 1 100 | |
| Increase in excise duties on tobacco | 700 | |
| **Gross tax revenue (after tax proposals)** | | **1 365 124** |

- The 5 per cent increase in the personal income tax bracket will not affect gross tax revenue, because the balance of the R2.2 billion tax revenue shortfall will be recouped from indirect taxes:
  - 8 per cent Increase in excise duties on tobacco & alcohol
  - Fuel levy increase of 15c/litre for petrol and diesel from 7 April 2021
  - Road Accident Fund increase of 11c/litre from 7 April 2021
  - Carbon fuel levy increase by 1c/litre from 7 April 2021
- Paid-up retirement annuities increase from R7 000 to R15 000 from 1 March 2021

# Estimates of individuals and taxable income, 2021/22

| Taxable bracket R thousand | Registered individuals Number | % | Taxable income R billion | % | Income tax payable before R billion | % | Income tax relief after R billion | % | Income tax payable after R billion | % |
|---|---|---|---|---|---|---|---|---|---|---|
| R0 - R801 | 7 183 913 | – | 256.2 | – | – | – | – | – | – | – |
| R80 - R150 | 1 855 292 | 26.7 | 211.1 | 8.6 | 15.7 | 3.0 | -1.3 | 9.4 | 14.5 | 2.8 |
| R150 - R250 | 1 691 889 | 24.3 | 329.3 | 13.4 | 29.5 | 5.6 | -1.8 | 13.4 | 27.7 | 5.4 |
| R250 - R350 | 1 283 954 | 18.4 | 378.4 | 15.4 | 54.5 | 10.3 | -2.3 | 16.8 | 52.3 | 10.1 |
| R350 - R500 | 981 993 | 14.1 | 409.1 | 16.6 | 76.6 | 14.5 | -2.6 | 19.5 | 74.0 | 14.3 |
| R500 - R750 | 612 177 | 8.8 | 369.1 | 15.0 | 88.4 | 16.7 | -2.4 | 18.1 | 86.0 | 16.7 |
| R750 - R1 000 | 262 643 | 3.8 | 226.2 | 9.2 | 65.1 | 12.3 | -1.3 | 10.0 | 63.8 | 12.4 |
| R1 000 - R1 5C | 159 127 | 2.3 | 191.1 | 7.8 | 61.9 | 11.7 | -0.8 | 6.1 | 61.0 | 11.8 |
| R1 500 + | 113 192 | 1.6 | 346.3 | 14.1 | 137.7 | 26.0 | -0.9 | 6.6 | 136.8 | 26.5 |
| **Total** | **6 960 267** | **100.0** | **2 460.7** | **100.0** | **529.4** | **100.0** | **-13.4** | **100.0** | **516.0** | **100.0** |
| **Grand total** | **14 144 180** | | **2 716.8** | | **529.4** | | **-13.4** | | **516.0** | |

- Increasing brackets by 5 per cent, to ensure that taxpayers (households) continue to pay tax liability similar or slightly lessor than the year;
- The increase in PIT bracket will largely provide relief to middle to lower income earners;
- Top four brackets (higher earners) receive about 20 per cent of the inflation adjustment
- Medical tax credits for is adjusted for inflation; however not all employees or households have medical aid

# Tax revenue developments

- The venture capital company (VCC) incentive won't be extended beyond 30 June 2021 due to not sufficiently achieving its objective.
  - More than R11 billion was invested in 360 S12J venture companies, which provided significant tax deductions to wealthy taxpayers, while:
    - Only 37 per cent of these companies created new jobs after receiving funding
    - Small businesses development was slow
    - Economic activities were not generated as planned
- National Treasury is currently reviewing research and development tax incentives that expires in October 2022
- National Treasury will review current travel and home office allowances to investigate their efficacy, equity in application and simplicity of use
- The previously announced tax increase totalling to R40 billion over four years has been withdrawn to support households, businesses and the economy

# Corporate Income Taxation developments

- Corporate Income Tax will be lowered from 28 per cent to 27 per cent with effect from 1 April 2022:
  - There is a lack of evidence that lowering the tax rate or tax relief is a major factor considered for investment. A study by IGR in 2018 has shown that out of 10 factors considered before investing, Corporates tax was below at no 05
  - Limiting interest expense deductions, limiting assessed losses
  - PBO recent research brief and other studies has shown that RSA CIT tax rate (28 per cent) compares well with many developing countries; South Africa like many developing countries rely more on income tax (including CIT) as source of government revenue than advanced countries;
  - The PBO's 2017 presentation showed that despite the CIT 28 per cent rate, the Effective Tax Rate (actual tax paid by corporate tax payers) is far lower  (lower than 15 per cent) that the statutory rate. The same presentation showed that RSA- ETR was far lower than many countries including advanced countries;
  - Some sector effective tax rates are even far lower, for e.g. that of the mining sector is reported to be to be lower than 10 per cent, Judge Dennis from the DTC, has noted that South African ETR is lower than the CIT statutory rate
  - On the contrary, SMMEs and informal business continue to experience higher EFR than their larger counterparts, in part due to compliance costs associated with claiming the tax relief and allowed deductions
  - Therefore, government has to lead investment drive and the private sector will follow as that would provide confidence in the economy

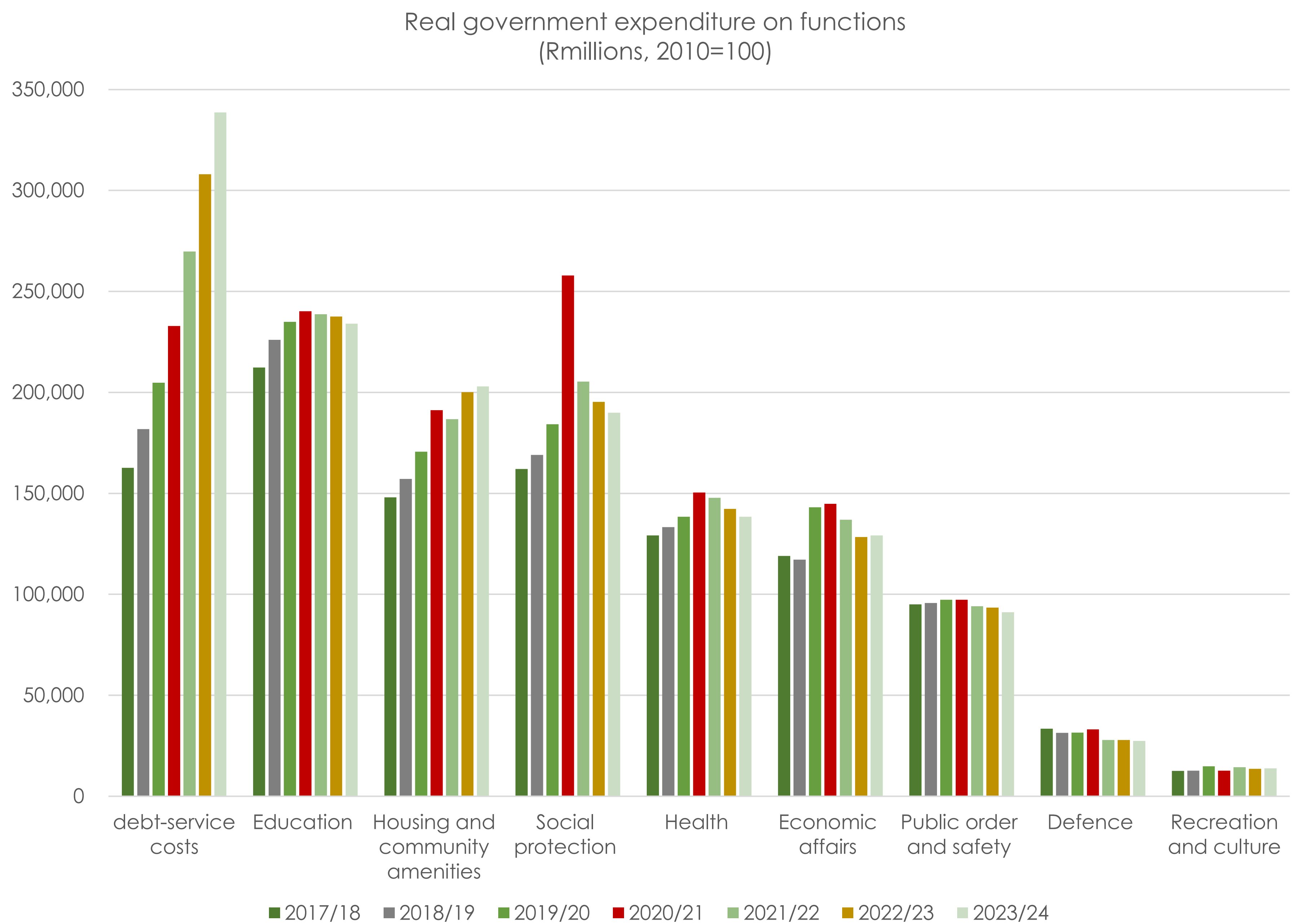
# Summary

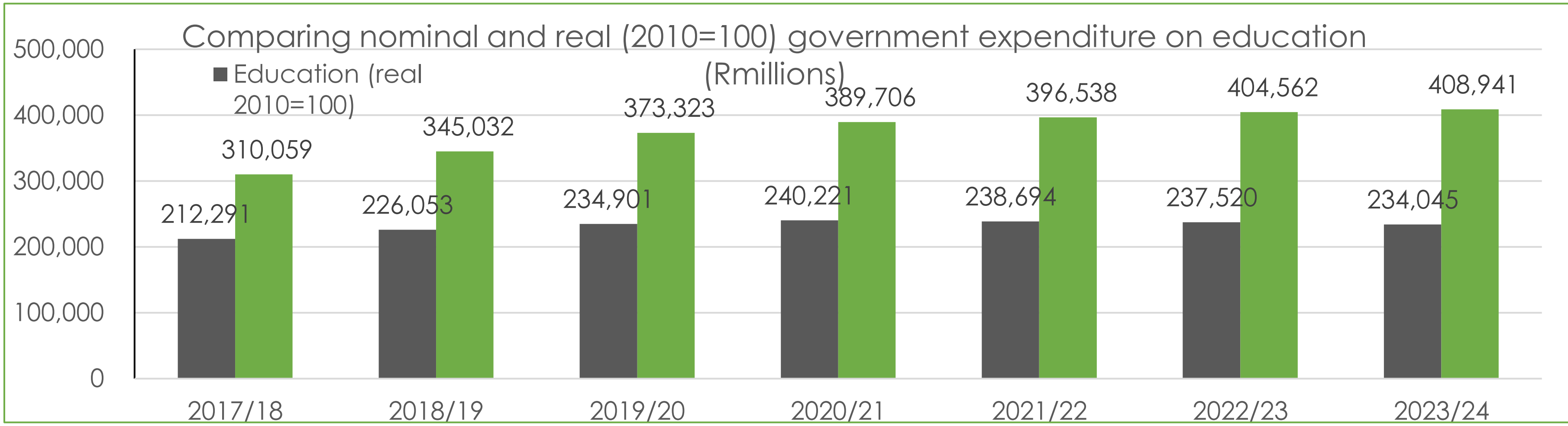
- This budget reprioritises funds mainly towards ensuring Energy Security
- It suggest that employees are replaced by consultants (Over the MTEF, the wage bill is estimated to grow by 1.5 per cent, while goods and services, including consultants is estimated to grow by 3.7 per cent)
- Direct budgetary interventions to grow aggregate demand & drive investment, jobs & growth are not visible
- Key components of government's approach are off-budget, these include structural reforms and a fund to leverage private infrastructure investment
- Higher levels of unemployment, poverty and inequality have increased the risk of social and political instability
- Expansionary fiscal and monetary policy can be used in a mutually reinforcing way to boost Aggregate Demand
- Adjustment of the personal income taxation brackets by 5 per cent, will ensure that taxpayers continue to pay tax liability similar or slightly less than the 2020/21 financial year

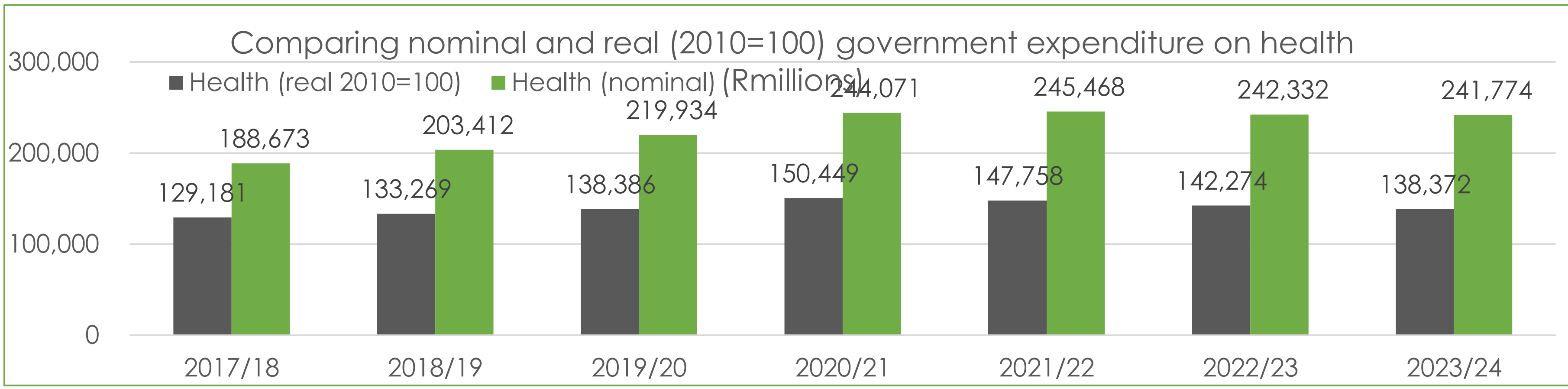
# Summary

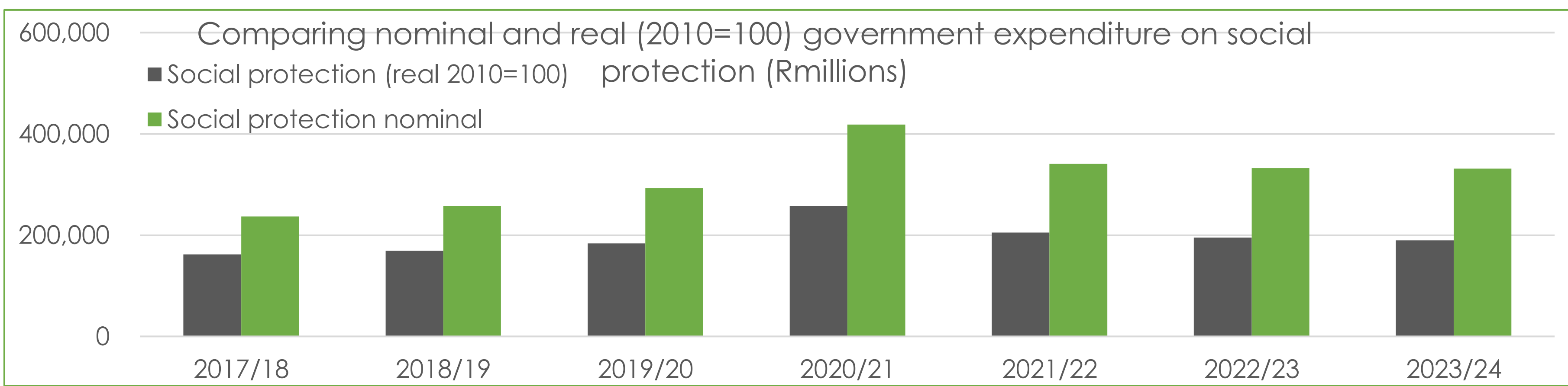
- Tax increases, previously announced, amounting to R40 billion over four years have been withdrawn to support households, businesses and the economy
- Lowering the corporate income taxation rate or giving taxation relief does not always lead to increasing investment levels, but government investment in the economy has better potential to crowd-in private investment
- Large and persistent increases in budget deficits – resulting in higher debt and debt-service costs – compromise the sustainability of the public finances unless government can stimulate growth in GDP
- The total amount for approved government guarantees is expected to increase by R96.2 billion to R581 billion by the end of March 2021
- Eskom guarantees, which constitute the largest exposure at 77.2 per cent of government guarantees, decreased by R10.1 billion due to maturing guaranteed debt

# Thank You

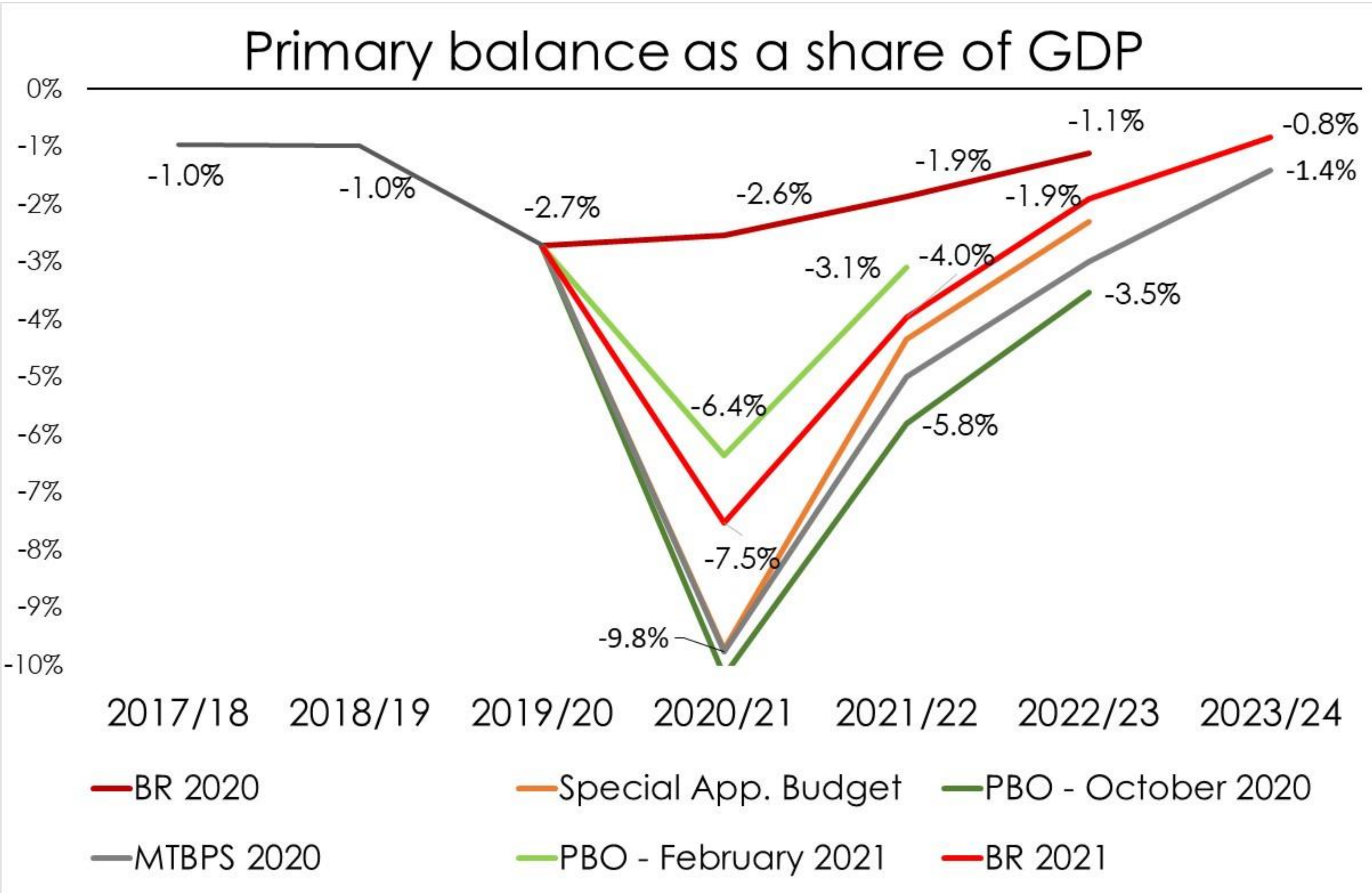

Real government expenditure on functions
(Rmillions, 2010=100)
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
debt-service costs
Education
Housing and community amenities
Social protection
Health
Economic affairs
Public order and safety
Defence
Recreation and culture
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24


Comparing nominal and real (2010=100) government expenditure on education (Rmillions)
Education (real 2010=100)
500,000
400,000
300,000
200,000
100,000
0
212,291
310,059
226,053
345,032
234,901
373,323
240,221
389,706
238,694
396,538
237,520
404,562
234,045
408,941
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24


Comparing nominal and real (2010=100) government expenditure on health (Rmillions)
Health (real 2010=100)
Health (nominal)
300,000
200,000
100,000
0
129,181
188,673
133,269
203,412
138,386
219,934
150,449
244,071
147,758
245,468
142,274
242,332
138,372
241,774
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24


Comparing nominal and real (2010=100) government expenditure on social protection (Rmillions)
Social protection (real 2010=100)
Social protection nominal
600,000
400,000
200,000
0
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24

# Fiscal outlook: Primary balance






Data: National Treasury and PBO estimates using Bloomberg median polls

# Ability of Digitised Economy taxation to close tax revenue gap

- The PBO research brief showed that:
- South Africa was one of the first countries to introduce taxation on the consumption of digital economy activities, VAT; leading to R2billion additional tax revenue with 4 years and 200 new foreign taxpayers
- However, South Africa is yet to initiate a process to develop tax rules that will specifically focus on taxing income generated from digitalised economic activities;
- Complaints over the years from both online and offline industries in South Africa, that they are taxed while their global counterparts operating in the country escape some local taxes;
- Lack of suitable taxes for income from digital economy lead to an unfair advantage by MNEs operating domestically over local business; e.g. MultiChoice vs Netflix;
- South Africa continue to loose revenue potential by lacking tax regime that focuses on digital economy, more so with expected rapid digitization of economic activities
- The Presidential 4IR Commission report that we gazette by Minister Stella Ndabeni in 2020 has actually recommended that government should have digital economy tax framework
- RSA is currently a member of the multilateral committee led by OECD to develop digital economy tax framework; however:
  - No consensus on the current proposed framework, due to its potential ineffectiveness in generating much needed additional revenue for developing countries
  - High compliance costs if it were to be implemented, more so for developing countries
  - Recent study, 2021, has shown that the OECD proposed framework far more complex to implement and depart from international norm of simplifying multilateral tax system
  - The proposal further increase parallel tax system to the current global tax system