Fiscal Intervention Package

ECONOMICS | SOUTH AFRICA

A budget-neutral additional spending package but much depends on revenue performance

- The **National Treasury** has tabled an R38.9 billion package to reintroduce the Covid relief grant and support businesses and employees impacted by the July unrest in Kwazulu Natal and Gauteng.
- The package, equivalent to 0.7% of the projected 2021/22 GDP, will be funded solely from existing resources. The Treasury does not envisage additional borrowing and expects the budget deficit and debt stock to remain on the path projected at the time of the 2021 Budget speech.
- Funding for the package will be from the adjustment of departmental budgets, which will raise R2.65 billion, and the expected excess revenue will cover the additional R36.3 billion expenditure. New spending totals R31.2 billion, while the extension of the Employment Tax Incentive scheme for four months transfers R5 billion to businesses.
- The breakdown of the spending package is:
    - The Social Relief of Distress grant is reintroduced until March 2022 at an additional R26.7billion for the fiscal year. Therefore, total relief spending is R29.2 billion, as R2.5 billion was set aside in the 2021 Budget statement. Coverage is extended to child caregivers.
    - Support for uninsured businesses that incurred losses during the unrest totals R2.3 billion. It will be funded by the reprioritisation of R1 billion in the Departments of Small Business Development (DSBD) and Trade, Industry and Competition DTIC), while R1.3 billion will be allocated from the fiscus.
    - The South African Special Risks Insurance Association (SASRIA) receives an initial allocation of R3.9 billion, with National Treasury affirming that it will extend extra financial support to the entity should the need arise. The insurer disclosed that its reinsurance facility totals R6.5 billion. Private sector estimates of the total damage due to the unrest are close to R50 billion, suggesting that SASRIA will not cover all the damage without an additional injection from the fiscus.
    - The security cluster is allocated an additional R950 million to stabilise the situation in the affected areas. The army gets R700 million while R250 million is set aside for the police services.

TABLE 1: Fiscal intervention measures and financing

	R'mn
Additional spending	**31 198**
Social Relief of Distress grant	26 700
Transfer to SASRIA	3 900
Businesses not covered by SASRIA	2 300
Security services	950
Defence	700
Police services	250
Employment Tax Incentive	**5 000**
Funded via expected excess fiscal revenue	**36 198**
Budget reallocations from DSBD and DTIC	**2 652**

Source: National Treasury

- In addition to the spending measures, R5.3 billion is withdrawn from the Contingency Reserve to procure Covid-19 vaccines as the immunisation programme is fast-tracked. The amount is on top of the R4.3 billion set aside in the 2021/22 budget.
- The Unemployment Insurance Fund provides a further R5.3 billion for workers who lost their jobs due to the lockdown restrictions. Details on income support for those who lost their jobs due to the unrest will be communicated.
- Payments on Pay As You Earn (PAYE) for qualifying industries and excise duties on alcohol are deferred for three months, effective 1 August.
- Budget allocations for 2021/22 will be reprioritised to fund the wage agreement with public sector unions. A deal encompassing a 1.5% pay progression increase and monthly cash allowances for the lowest-paid workers ranging between R1 220 and R1 695 has been reached. It will add between R18 billion and R20 billion to the public sector wage bill. The suspension of the increase for 2020/21 remains subject to a Constitutional Court ruling. National Treasury is considering proposals for workers who have lost some of their income due to lockdown effects to make withdrawals from their retirement funds.
- **Implications for the budget:** It is encouraging that the government has adopted a budget-neutral package. However, the effect of the additional spending on the fiscal position and the need to reduce the budget deficit and the debt stock will be determined by several factors. According to the South African Revenue Service, revenue collections over the first three months of the tax year have risen at the fastest pace in three years. The strong trend follows the additional R37.8 billion collected in 2020/21. Strong revenue collections will help to narrow the budget deficits. However, a weaker-than-expected economic growth trajectory would dampen the fiscal outlook.
- The public sector wage agreement was reached for only the current fiscal year. Therefore, the outcome of negotiations for the 2022/23 to 2023/24 fiscal years will profoundly impact the National Treasury's ability to reduce the public sector wage bill.
- The financial state of the key state-owned enterprises will be another critical factor. Their distressed financial positions, which have been worsened by the macroeconomic effects of Covid-19 in many cases, could result in additional bailout packages in the coming years. The National Treasury set aside R42.2 billion for bailouts between 2021 and 2024 after transferring a cumulative R232.3 billion to the large SOEs between 2008 and 2020.
- **Conclusion:** National Treasury recommitted to ensuring fiscal sustainability and prudent management of the budget while helping businesses and consumers to deal with the effects of the lockdowns and the destruction caused by the riots. Encouragingly, the instability in the affected areas has been contained, and economic activity is gradually being normalised. The Treasury stressed that the relief grant is not meant to be a permanent social protection grant. Against the backdrop of the increasingly louder vocal support for a basic income grant, the stance is prudent. A debt-financed social programme would not be sustainable. Social protection will absorb an average of 13.6% per annum of consolidated government over the three years to 2023/24. Considering the estimated 7.2 million unemployed individuals, a permanent basic income transfer would bring the total number of people on the social protection system to 26 million, just over 45% of the population. A permanent solution will be higher economic growth rates and better developmental outcomes. Job creation requires the acceleration of measures to boost investment, and the economic growth potential will help create jobs and alleviate poverty. This will also help to broaden the tax base.

GROUP ECONOMIC UNIT

Isaac Matshego +27 10 234 8358 | isaacmat@nedbank.co.za
Nicky Weimar +27 10 234 8357 | nickywe@nedbank.co.za

DISCLAIMER

The information furnished in this report (the "report"). which information may include opinions. estimates. indicative rates. terms. price quotations and projections. reflects the existing judgment of the author(s) and the prevailing market conditions as at the date of this report. which judgment and conditions are subject to change without notice. modification or amendment. This report does not necessarily reflect the opinion of Nedbank Limited ("Nedbank"). The information herein has been obtained from various sources. the accuracy and/or completeness of which Nedbank does not guarantee and for which Nedbank accepts no liability.

Any prices or levels contained herein are preliminary and indicative only and do not represent bids or offers. These indications are provided solely for your information and consideration. The information contained in this publication may include results of analyses from a quantitative model which represent potential future events that may or may not be realized. and is not a complete analysis of every material fact representing any product. Any estimates included herein constitute Nedbank's judgment as of the date hereof and are subject to change without any notice. Nedbank and/or its affiliates may make a market in these instruments for our customers and for our own account. Accordingly. Nedbank's may have a position in any such instrument at any time.

Nedbank recommends that independent tax. accounting. legal and financial advice be sought should any party seek to place any reliance on the information contained herein. This report is intended for use by professional and business investors only. It may not be considered as advice. recommendation or an offer to enter into or conclude any transactions. This report has been prepared for general dissemination and information purposes only and may not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. Any additional information relative to any financial instruments and/or financial products reviewed in this report is available upon request.

135 Rivonia Road Campus
135 Rivonia Road Sandton 2196 South Africa

nedbankgroup.co.za

NEDBANK