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THE INVESTMENT EXPERTS

# Mini-Budget Speech Review October 2022



In this budget speech a lot of questions linger, South Africans are seeking clarification on a variety of important subjects, including inflation which is evidently rising along with the rest of the world. Although inflation may have slowed down in part, it is still driving up wage demands.

**Will the government provide financing for Eskom and free the parastatal from its chronic predicament?**

Will Godongwana address the economic risks posted by state owned enterprises such as Denel, SANRAL, and Transnet?

**Below are the highlights of the Mid Term Budget Speech:**

- The International Monetary fund (IMF) revised the global growth forecast for 2022 and 2023 due to energy disruptions in Europe, higher inflation, and more aggressive interest rate hikes by major central banks which have prompted capital outflows from emerging markets, raising fears of economic contractions in the near term and a probable slide into global recession.
- Treasury now forecast real Gross Domestic Product (GDP) growth of 1.9% in 2022, down from 2.1% in February. The economy is expected to grow at a 1.6% annual rate over the next three years.
- The first half of 2022-2023 saw a 9% increase in revenue collections over the same period the previous year. Moreover, the estimated gross tax income for 2022-2023 is expected to increase by R83.5 billion when compared to the 2022 Budget.
- A primary budget surplus of 0.7% of GDP is anticipated in 2023-2024, defined as income surpassing non-interest spending. The gross debt is now anticipated to stabilize at 71.4% of GDP in 2022–2023 sooner than anticipated.
- Gross loan debt is expected to increase from R4.75 trillion in 2022/23 to R5.61 trillion in 2025/26, driven mainly by the budget balance and fluctuations in the interest, inflation, and exchange rates.
- The IMF revised the global growth forecast for 2022 and 2023 due to energy disruptions in Europe, higher inflation, and more aggressive interest rate hikes by major central banks which have prompted capital outflows from emerging markets, raising fears of economic contractions in the near term and a probable slide into global recession.
- The load shedding problem will be addressed by removing the licensing threshold for embedded generation projects, where the pipeline has grown to 100 projects with a total capacity of over 9000 MW. Moreover, the Electricity Regulation Amendment Bill will be enforced to enable the creation of an independent transmission and system operator and therefore reducing the reliance on a single monopoly utility.

- In comparison to the 2022 Budget, main budget non-interest expenditure will rise by a net R52.4 billion in 2023-2024 and R58.5 billion in 2024-2025. This includes the upcoming two years' worth of additions that are being considered:
  - R66.9 billion for local governments to spend on health, education, and the provision of free basic services, as well as an extension of the COVID-19 social relief of distress grant by one year.
  - For security and safety, allocated R8.9 billion.
  - R11.3 billion for infrastructure investment, which will be used to repair provincial highways and restore damaged municipal infrastructure.
- The social wage will continue to make up the largest portion of the budget for helping poor households, amounting to R3.56 trillion over the next three years. The fields of social development, health care, and education receive the highest allocations.
- The South African Revenue Services (SARS)' VAT refund payments are anticipated to greatly exceed pre-COVID levels while import and domestic VAT receipts are anticipated to outperform the 2022 Budget.
- Due to the tax relief offered between April and July 2022, fuel levy collections are anticipated to be lower than those in the 2022 Budget.
- Government plans to increase main budget non-interest spending in 2022-2023 by a total of R37 billion over projections from the 2022 Budget.
- Conditional on a resolution to phase 1 of the Gauteng Freeway Improvement Project, R23.7 billion will be provided to SANRAL to pay off government-guaranteed debt.
- R5.8 billion for Transnet - half of which is shifted funds to repair infrastructure damaged by the recent floods, and half to increase locomotive capacity.
- R204.7 million for Denel to reduce contingent liabilities arising from its weak financial position and R3.4 billion - if set conditions are met - to complete its turnaround plan.
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- National Treasury are taking all required precautions to avoid being placed on the Financial Action Task Force's "grey list". Two proposals that address the flaws in our legal system have already been introduced in Parliament.

In his closing remarks, the minister highlighted that, since the 2022 Budget, **the budgetary situation has improved as a consequence of higher-than-anticipated revenue collection**. Therefore, the government will raise spending on local

governments' free basic services, infrastructure, and security and safety while decreasing investment on health, education, other these sectors.



**Callan Luckock**  
Office Manager

## Contact Us

### **Global & Local**

The Investment Experts

18th Floor Metalbox, 25 Owl Street,  
Auckland Park, Johannesburg, 2092

T | +27 11 486 2500

[info@globallocal.co.za](mailto:info@globallocal.co.za)  
[www.globallocal.co.za](http://www.globallocal.co.za)



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