Wrap-up commentary from Old Mutual's panel of experts

Here is the wrap-up commentary from Old Mutual's panel of experts, following the Budget Speech delivered by Finance Minister, Enoch Godongwana:

Source: Pixabay

Pension Fund reform

Michelle Acton: key account manager at Old Mutual Corporate Consultants We are pleased that the Minister has given the green light to the proposed restructuring of the retirement system for individuals to allow for greater preservation and partial access to funds via the two-pot system.

We welcome that the focus has shifted from “immediate access” to improving retirement-fund outcomes. More detail is required in terms of understanding the parameters that would allow for early access. This will need to be provided in the draft legislation that will be published for comment towards the middle of the year.

More information on how National Treasury plans to tax contributions is also critical to the successful roll out of the reform. Our current retirement-fund tax dispensation is a significant incentive to encourage retirement savings, so we do not believe that this should be amended due to the proposed two-pot system.

Regulation 28

Andrew Davison: head of Advice at Old Mutual Corporate Consultants National Treasury has been working to enhance South Africa’s capital-flows management framework. This is important given the increasing global extent of trade and finance and hence capital flows.

One of the unexpected, but nonetheless welcome, changes in Budget 2022 is the announcement that the offshore limit for all insurance, retirement and savings funds will be harmonised at 45% inclusive of the 10% African allowance. This implies that the current Regulation 28 offshore limit of 30% will increase to 35% with a further 10% in the rest of Africa (the current limit on Africa is 10%, so no change).

This will provide greater flexibility for retirement funds (and other institutions) to access a wider set of opportunities for growth as well as diversification. The Minister also provided an update on the changes to Regulation 28 to enable greater investment in infrastructure by retirement funds with this expected to be gazetted into law by March 2022.

Boring is good

Johann Els: Old Mutual Investment Group, economist The overall message of unflinching commitment to fiscal consolidation in the 2022 Budget is positive from both a ratings and market perspective.

It may have been boring – but boring is good. As a result, this budget means ratings have very likely troughed and I expect further positive ratings news. Moody's could potentially upgrade their current "negative" outlook to "stable" in the near future (following Fitch's similar move after the November 2021 MTBPS).

Of significance is the debt ratio which is set to peak at 75.1% from the previous peak expected at 95.3% in the Oct 2020 MTBPS. It could be even lower at 73.5% on my estimates.

The Budget is bond friendly as the fiscal deficit and debt ratios are peaking at lower levels. It is equity-friendly as there are significant tax giveaways for consumers to lighten the load on their pockets.

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The earlier primary surplus target, the earlier stabilisation in the debt ratio, the tax giveaways for consumers, the lower company tax rate, no significant extra funds for SOE's are all among the things markets will like.

While the overall message about the future is strong, it is equally clear we are not out of the woods yet. However, fiscal risk has reduced substantially over the past two years and there has been a better than expected recovery. It is clear we are in a vastly improved position with significantly less debt-default risk compared to two years ago.

A financial tightrope

John Manyike, head of Financial Education, Old Mutual The Minister of Finance, Enoch Godongwana, effectively walked a financial tightrope with his budget and in the process, except for the usual rise in sin taxes, has given stressed South Africans much-needed breathing space.

Small business

Small business plays a pivotal role in growing our economy and creating employment opportunities. It was, therefore, gratifying to see that the government has committed itself to the tune of R20bn this year to support small business.

Vitally and long-awaited is the commitment by the government that it will underwrite the first 20% of losses for banks and other eligible small and medium-sized loan providers to small businesses.

This is a significant move that will encourage banks and other loan providers to adopt a less conservative approach to financing small businesses. It will help meet the oft-aired criticism that banks and lenders have been far too conservative when assessing loans. This move will also encourage new companies - that have yet to prove themselves - more readily approaching institutions for financial support.

The introduction of an equity-linked loan guaranteed support mechanism, details of which will be announced later, will also be welcomed.

The employment tax incentive, which will be increased by 50% to R1,500 a month, will provide an added incentive for SMEs to create work opportunities. This will mean that as many SMEs as possible will operate and draw their labour from nearby communities, and the extra money could flow into needy areas of the country.

Taxation

By opting to keep money in the pockets of South Africans and leave tax rates unaltered and adjust brackets and rebates by 4.5% (the inflation rate), the Minister has given taxpayers more breathing space.

However, this joy will be short-lived as inflationary pressures are caused by the continuing high cost of fuel and expected increases in interest rates.

The rise in interest rates is inevitable because the Reserve Bank lowered rates during the Covid-19 pandemic. South Africans who wisely continued paying at the ‘old rates’ - on which loans were written - will have made savings during the past year and should, therefore, not be impacted too harshly by rising rates.

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Fuel and Road Accident Fund levies

The Minister confounded predictions in this area by announcing that there would be no levies added to the petrol and diesel prices, or the RAF contribution, providing tax relief of R3.5bn to South Africans.

However, this welcome news is presently being overshadowed by developments between Russia and Ukraine which have seen the costs of Brent crude already exceed the US$99 a barrel barrier today.

South Africans will inevitably have to pay this cost if prices continue to rise. At least, however, additional local taxes will not increase this burden.

Short-term insurance market

Garth Napier, managing director, Old Mutual Insure This year’s Budget Speech was very positive, especially since the risks facing our country and the short-term insurance market are becoming increasingly complicated to manage.

We welcome the following announcements:
* The bounce-back scheme to support SMEs is a huge positive given the centrality of SMEs to South Africa’s economic future. Government has committed to provide R50m in loan guarantees as well as to partnering with loan providers to underwrite the first 20% of loans.

* Government has committed to support Eskom. This is especially important as we are getting more and more concerned about the likelihood of grid collapse, something that our economy and insurance sector cannot afford.
* From an investment and infrastructure perspective, government has announced R17.5bn spend over the medium term to support infrastructure catalytic projects, which is important for driving job growth and employment. It has also committed R76bn to job-creation programmes over the medium term.
* We are very happy that government will be providing SASRIA with R7.1bn in funding. Recapitalising SASRIA and ensuring it is a stable entity is critical for all of our customers who have SASRIA cover. This is because a repeat of the riots from 2021 would devastate the economy and the insurance industry. SASRIA will be in a very difficult financial position to honour claims on a similar scale to those experienced in 2021 without government's support.

Budget of the average family

Lizl Budhram, Old Mutual personal finance, advice and product strategy manager Minister Godongwana started his speech by emphasising that this is a 'tough love budget', aimed at charting a course to growth and fiscal sustainability. Debt stabilisation is one of the key objectives and the Minister referred to this more than once.

Regarding the fight against corruption, the Minister underscored the important role of accounting officers to ensure the integrity of procurement processes, as well as the importance to differentiate between corruption and minor transgressions of the rules.

The 'love' part of the 'tough love budget' was reserved primarily for the South African public. The Ministers announced an inflation based 5% adjustment to income tax brackets and rebates. Practically this results in an increase of the income tax threshold from R87,300 to R91,250 (for a taxpayer under the age of 65). The medical tax credit amounts were also increased to between R10 and R15, putting more money back in the pocket of taxpayers.