Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 36th year of service to the investing public of South Africa

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Angry! I am angry with the politicians who have stolen South Africa's dreams of a better life for all, squandered the wealth of infrastructure they inherited, disregarded the expert advice the world has so freely offered them, but worst of all because it has left our people with little to hope for.

And yet, with just a little proper planning it could have turned out so much better. Now, instead, we face the agonies of having to evict an arrogant group of leaders who continue to assert that they alone occupy the moral high ground while they continue to steal from the poorest of the poor. It is a shame!

I spent my working life as a newspaperman fighting the racially-unfair apartheid system but have lived to see the worst fears of the Nationalists materialise in a socialist state that has failed EVERYONE with the possible exception of the politically-connected few.

My very sobering analysis last Friday of the average living costs of South Africa's Top 10 Percent – and in particular the devastating tax take which makes it impossible for our top-earners to benefit materially from their elevated financial status, and is instead forcing them head for the emigration door in ever-increasing numbers – has had me thinking all week of how things could be differently arranged.

There are, of course, other countries which tax their top-earners even more heavily than South Africa does. But then they are administered by competent and efficient bureaucrats who are able to routinely deliver world-class public services in vital areas like public safety, healthcare, transport and education: services which even our poor have to provide for themselves.

Now, with examples like Durban's holiday industry no longer able to survive because to swim in our ocean is to court serious disease, and while industry is unable to make real profits because of continuous "load-shedding," it is clear that South Africa cannot wait to see the end of the ANC. The only good part about this is to remind myself of the ancient sailing truth that, "The night is always darkest before dawn."

But here is my positive note, drawn from my own experience of living through Afrikaner nationalism and ANC misrule; it is that one can nevertheless always prosper if one has a plan!

Let me explain! I have never been someone who meekly accepted the "average status" which society applies to individuals, not in my youth and even more so in my "declining years." Thus, when I elected to become a newspaperman I recall the momentary despair of my family who had not generally had a good experience of newsmen and, as I was told, the general inaccuracy of their reporting. But even more so, theirs was a very real concern that the industry was a notoriously poor payer.

Yet, against the background of the analysis I provided last week of the impossibility of prospering in South Africa by being average - which to be truthful has changed little in my lifetime - I prospered, not only professionally, but above all financially because, I believe, I was fortunate to enjoy a legacy of a childhood growing up in a family which was financially savvy, planned ahead and competitively played the stock exchange game.

By the latter I mean that my parents competed against each other in a very friendly game of trying to outdo each other to make the most out of the JSE each month. So, by osmosis, I grew up knowing which shares were Blue Chips at a time when most of my friends were out playing "cowboys and crooks" in the garden.

Furthermore, I inherited a hundred pounds from my grandmother which provided me with an independent income of five pounds a year from the age of five.

In modern language that annual interest amount of five pounds was, of course R10 which is chump change today but back in the day represented a weekly sum of 23 cents at a time when, like most of my friends I was receiving pocket money of a Tickey a week. Greybeards like me will understand that a Tickey was 2.5 pennies and so that annual five pounds represented a ten times greater amount than my weekly income….and it was to radically change my attitude to money.

So, how is this relevant to today's Top Ten Percenters: South Africa's 3.54-million top earners who each take home a minimum of R783 750 a year? Well I believe that being financially savvy is the only real determinant of who will end up numbered among the Top One Percent. This latter, furthermore, are globally the only truly wealthy folk among us.

The very first lesson my financially savvy parents taught me was to save for the things I wanted. Like all my friends I had decided, aged around nine years old, that what I most needed in the world was a sports bike fitted with a Sturmey-Archer three-speed gear. Along with school friends, I had so often stood outside the bicycle shop with my nose pressed to the glass, gazing with wonder upon this thing of amazing beauty.

In an era right after World War Two when cars were few and far between on our roads, boys who owned bicycles were free to roam far and wide. So owning a sports bike with shiny-silver drop-handlebars was infinitely more than just a show-off possession. It was a right-of-passage from infancy to incipient teenager status which held out the infinite prize of 'freedom.'

Like most of my friends I would pester my parents each night after our collective bicycle shop visits to please provide a bike for Christmas. And, savvy folk that they were, I always received a cryptic answer which went something like this, "Santa might bring you one…or not. But the way to be sure, is to save up and buy one for yourself."

The message was loud and clear. You can either plan your future or leave things to a random fate. But the eleven pounds price of a new bike seemed a total impossibility to save for on a Tickey a week!

However, the great lesson to be learned here is that once you have identified a worthwhile need, it is not all that difficult to make a plan that will help you achieve it. So I became a voracious saver. Around Guy Fawkes time I, having a long-time interest in Chemistry, made fireworks which I sold to my friends. I joined the church choir and earned a Tickey a service, two shillings for singing at weddings and, just once, ten shillings for singing a solo while a happy couple signed the wedding register.

There were many other ventures: A friend and I set up a pavement stall dispensing lemon cordial which we had made ourselves from raiding a family lemon tree. We also made meringues which we had baked in a home-made oven. We collected tropical fish in Natal river mouths and sold them to neighbours who had fish ponds, made sweets which we sold to school friends and, later, I started an electronics business making and selling crystal sets and, ultimately, complex hi-fi amplifiers.

Miraculously the money poured in while we learned some of the most fundamental lessons of entrepreneurship.

Well within that first year I had more than enough to pay for the dreamed-of bike. Surprisingly, however, achieving it was almost anti-climactic because I had caught the business and investment bug and so it did not take me long to identify another saving goal…and I was off again.

Now some would say, "You had the cash all the time. You had your Grandmother's Hundred pounds. So why not dip into that and get instant satisfaction?" Well the other vital lesson my parents taught me was, "You can do whatever you like with the income buy you NEVER" touch the capital.

In fact I became at that time such a zealous saver that my family had to intervene in my tender years to teach me one last, but overwhelmingly important, lesson. In a nutshell it can be summed up with the statement, "Don't let money become your God."

Initially I had to almost be dragged to the sweet shop on pocket-money-day and be instructed to choose something to spend SOME of my money on. Later I refined that into a rule that I would always save at least a tenth of my income, and that became the mantra which, in later years as a financial journalist, I tried to sell to all of my readers because, as I was to prove with endless spread-sheet examples, that way lay the path to financial freedom…of being able to choose early retirement, of not being subject to corporate tyranny because the real reason I needed my job was for the spiritual and mental pleasure it gave me…but NEVER solely for my pay cheque.

And what an important life lesson that was. By age 16 I had opened my first stockbroking account and was on my way to financial independence. It took me until my 40's to make my first million but along the way that broking account gave me overseas trips, a number of quite exotic sports cars, my first yacht and and….I was able to pay cash for my first home. Most of all, though I am meticulous in the discipline of once a week checking that my personal budget is on track, I have never in my life had a serious financial worry.

Planning to cope with the occasional exceptional bill sometimes takes a little budget re-adjustment, but I have never had a sleepless night about how I was going to pay for something and, from my experience of the world, I know that is a rare privilege. But it all comes down to 'having a plan.'

So how does all of this apply to the Top Ten Percenters who are not able to enjoy the real benefits that their elevated earning power confers upon them? Well quite simply, if you plan your financial affairs properly from the start you will never be a wage-slave.

So let us take a sharp pencil to the average living expenses of the average Mr Top 10 Percent which I detailed last week. Remember, to be part of this grouping you need a minimum annual income before tax of R783 750 or assets of R2 628 650. From this derived monthly income of R62 214, the Tax Man takes the first bite with a massive R25 037.42. Groceries for a family of four average R8 796 a month, the municipal bill for rates, electricity and water R3 259, household bond payment R11,579 at an interest rate of 9%, a monthly car repayment charge of R7,163 over a 72-month repayment term and education costs of R7 083 a month for one child.

Add that up and it is clear that our supposedly wealthy Top Ten Percenter is already R703 a month under water and needs his wife to go out to work if the family is to enjoy ordinary things like medical aid, annual holidays and the "obvious luxury" of having more than one child. And of course a family with a working mother introduces other social dynamics which previous generations regarded as undesirable during the child-rearing stage!

So is it possible to beat the system and do things differently? Well my example of doing things differently started with the first bike. I paid cash for it after a year of saving and my first car was no different. Furthermore, since I have never ever bought anything but used cars, every vehicle I have owned came with a big cash discount.

Most folk I discuss it with suggest I must have been born wealthy when I say I paid cash for my first home as well, and of course in a relative sense that was true because of my early savings habit and discovery of the stock exchange had by my late 20's put me well above the average of my peers. But the truth is that I obtained a short-duration private bond from the owner of a derelict house on the outskirts of the city and I paid it off within two years, while at the same time working most weekends to restore the ruin to a modern homestead.

That the house stood on two acres of land and was considerably larger than the homes bought by most of my colleagues at the time, was completely incidental. Needless to say both my wife and I had cars and mine was a Jaguar...and everything was paid for. So, you can extract 30 percent from the basic budget I have just calculated...or 41.6 percent if you factor in the additional car.

Now I am not going to try to argue that, even with that head-start, things were financially easy. But I had medical aid and a pension scheme because they were a compulsory corporate requirement. I also had life assurance and I also managed to save a little during the expensive start-up time of newly-weds.

What ultimately made all the difference was that by the time I married and was faced with the countless expenses of providing for a young family, I had already created a comfortable nest egg which, with careful nurturing has since given me relative wealth. What I do resent, however, is that although I have to concede that my eldest children enjoyed relatively inexpensive 'Government' schooling, that is the only benefit the Apartheid state ever delivered to me. The rest I had to do myself.

I competed against colleagues of all races for executive status within a profession which refused to comply with the National Party Government's 'Job Reservation' policies and, perhaps, racially-segregated living meant less competition for residential property when I bought my first house. But I can think of NOTHING else that living in the apartheid state conferred upon me. So I utterly refuse to accept the guilt which people like SA Federation of Trade Unions General Secretary Zwelinzima Vavi would like to heap upon me in justification for his call for a Wealth Tax in order to fund a R140-billion Basic Income Grant for the poor....for the additional R40 000 a year he believes the Top Ten Percenters can afford from their already tax-broken family budgets!

The inequality in South Africa troubles me deeply, but it is not my fault! I am NOT responsible for the financial mis-allocation and the corruption that has brought this country to its knees. Indeed, it is not my fault that the ANC's failure to maintain and develop infrastructure has all but killed our once great civil engineering companies which were the primary engines of economic growth.

I did not kill off the spirit of self-sufficiency of rural people by instituting a level of grants just sufficient to prevent mass starvation, while simultaneously ending the cabbage patches which once fed so many of our people. And I am not to blame that, under the ANC administration of this country, Education has failed to the extent that a large proportion are not equipped for gainful employment....and I am not going to even try to excuse myself for not condemning my family to the horror of our public hospitals.

I do love the country of my birth and I will probably be the last to leave. I will continue to do what I can to alleviate the plight of my fellow citizens. But I refuse to take the blame for the damage politicians have done to the beloved country!

The month ahead:

New York's SP500: I correctly predicted the market would see a brief retraction until the 23rd before the next month-long upsurge occurs. Now the recovery can be expected with the first up-surge likely to last until March 24 ahead of the next retraction to April 13 within a long drawn-out recovery.

Nasdaq: Similarly with The S&P500, I correctly predicted a decline which I still should end around now followed by a recovery trend until March 21 ahead of weakness until late April. Overall I see the trend going down until September before real growth returns.

London's Footsie: I wrongly predicted the start of modest gains which I saw lasting until March 22 ahead of a ten-week retraction. However, I believe recovery is merely delayed and, although I see losses from March 23 to May 31, the longer-term trend is for gains until late October.

France's Cac 40: I correctly predicted the start of a long recovery which I continue to expect will last until late July.

Hong Kong's Hangsen: I correctly predicted a continuing decline which I still expect to last until early May before the next long recovery begins.

Japan's Nikkei: I correctly predicted the protracted decline which began last August was likely to last until late April before the next long but volatile recovery trend begins.

Australia's All Ordinaries: I correctly predicted that declines would continue until around now followed by gains until March 23 when I expect another brief decline to April 13 followed by fairly steady gains until late August.

JSE Top 40 Index: I correctly warned that the decline which began in January is likely to continue until October.

ShareFinder JSE Blue Chip Index: I correctly predicted the beginning this week of a long but VERY volatile recovery until late-October.

Rand/Dollar: I correctly predicted weakness which I still expect to last to March 7 followed by a brief recovery until March 22 then weakness until April 6 followed by gains all the way to November.

Rand/Euro: I correctly predicted weakness which I still expect to last until early April followed by a two-week respite to March 20 and then further weakness until month-end ahead of a recovery to mid-May.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.69 percent. For the past 12 months it has been 94.2 percent.

By South African Finance Minister Enoch Godongwana

I am honoured to table the following documents before this House:

- The 2023 Division of Revenue Bill
- The 2023 Appropriation Bill
- The Estimates of National Expenditure
- The 2023 Budget Review
- The Second Adjustments Appropriation Bill (2022/23 financial year)
- The Eskom Debt Relief Bill and
- The Budget Speech.

We are tabling the 2023 Budget in a difficult domestic and global economic environment.

The global recovery is slowing.

Domestically, load-shedding has become more persistent and prolonged, impacting on service delivery and threatening the survival of many businesses. This is compounded by disruptions to freight and logistics networks.

Households are under pressure from the rising cost of living, and unemployment remains stubbornly high.

We are navigating this difficult environment with policies that support faster growth and address fiscal risks.

Our pursuit of higher growth remains anchored on three pillars.

Firstly, we are ensuring a stable macroeconomic framework to create a conducive environment for savings, investment and growth.

Secondly, we are implementing growth-enhancing reforms in key sectors, particularly in energy and transport.

And thirdly, we are strengthening the capacity of the state to deliver quality public services, invest in infrastructure and fight crime and corruption.

In this Budget we are allocating additional resources towards these endeavours without compromising the sustainability of public finances.

ECONOMIC OUTLOOK

GLOBAL OUTLOOK

Since the 2022 Budget, global growth estimates for 2023 have been revised lower.

The International Monetary Fund projects global growth to slow from an estimated 3.4 per cent in 2022 to 2.9 per cent in 2023.

Global economic risks remain high, including those related to the ongoing war in Ukraine, and could impede growth if they materialise.

The reopening of the Chinese economy, however, may offer some reprieve by supporting a stronger rebound in global trade and demand.

DOMESTIC OUTLOOK

South Africa's economy grew by an estimated 2.5 per cent in 2022.

This is an upward revision from 1.9 per cent projection in the 2022 MTBPS, reflecting a better-than-expected outcome in the third quarter of 2022.

At R4.6 trillion, the size of the economy in 2022 was bigger than the pre-pandemic levels in real terms, evidence of a robust economic recovery even in the face of lingering COVID-19 scarring.

However, the medium-term growth outlook has deteriorated.

Real GDP growth is projected to average 1.4 per cent from 2023 to 2025, compared with 1.6 per cent estimated in October.

FISCAL OUTLOOK

Madam Speaker, in these conditions, government must maintain a prudent fiscal stance.

The fiscal consolidation strategy we adopted several years ago has (1) restrained growth mainly in consumption expenditure, and (2) allowed us to use part of higher- than-expected revenues to reduce the deficit.

As a result, we are bringing the fiscal deficit down without resorting to tax increases or further cuts in the social wage and infrastructure.

A primary fiscal surplus will be achieved in the current financial year, and this will be maintained over the medium term. This is a critical policy stance.

In addition, we must consider the consolidated position, which includes debt-service costs.

In this regard, the consolidated fiscal deficit is projected at 4.2 per cent of GDP for 2022/23, and this will reach 3.2 per cent in 2025/26.

These figures include the impact of the partial take-over of Eskom debt, which I will elaborate on later.

Mainly due to this Eskom debt relief, government debt will stabilise at a higher level of 73.6 per cent of GDP and in 2025/26. This is three years later than anticipated in the 2022 Medium Term Budget Policy Statement.

In general, government debt is high. The gross debt stock is projected to increase from R4.73 trillion in 2022/23 to R5.84 trillion in 2025/26. And because debt is high, our debt-service costs are also high.

Debt-service costs are projected to average R366.8 billion annually over the medium term, reaching R397.1 billion in 2025/26. These are resources that could otherwise be used to address pressing social needs or to invest in our future.

There are risks to the fiscal outlook. These include a worsening of the economic outlook, a further weakening of the finances of state-owned companies, and an unaffordable public-service wage agreement.

If these risks materialise, they will require us to make difficult budgeting trade-offs. For these reasons, we must continue exercising fiscal restraint.

Accordingly, government non-interest spending will be kept below the level of revenue into the future, and we will continue targeting the stabilisation of debt.

SUPPORTING ECONOMIC GROWTH

Madam Speaker,

Eradicating poverty, inequality and unemployment is as urgent today, if not more so, as it was at the dawn of our democracy nearly 30 years ago.

A growing economy is key to achieving this objective. Implementing growth-enhancing reforms is a crucial element of our growth strategy.

IMPLEMENTING GROWTH ENHANCING REFORMS

To fast-track the implementation of these reforms, we initiated Operation Vulindlela, a joint initiative of the Presidency and National Treasury to accelerate the implementation of structural reforms by fostering collaboration and coordination across Government, just over two years ago.

Since its inception, Operation Vulindlela has made progress in fast-tracking reforms in the priority areas of electricity, water, telecommunications, transport and immigration.

In water, the backlog of water license applications has been cleared, and new licenses are now being issued within 90 days.

Later this year we will table a law to establish an infrastructure agency to leverage the assets in the water sector for increased investment in water resource infrastructure.

In digital telecommunications, we will soon switch-off the analogue signal and finalise the migration to digital signal. This will unlock the benefits of the spectrum auction and unleash renewed investment in the sector.

We are introducing new regulations to enable the accelerated rollout of telecommunications infrastructure.

We are clearing the backlog in work visa applications and are implementing the recommendations of the skilled immigration review.

Despite these gains, the challenges in electricity and logistics threaten to undermine the reform agenda.

ENERGY AND ESKOM

Madam Speaker,

The lack of reliable electricity supply is the biggest economic constraint.

Record levels of load shedding were experienced in 2022 - 207 days of load shedding compared to 75 days in 2021.

In response, we are acting decisively to bring additional capacity onto the grid. We are also working to transform the electricity sector to achieve energy security in the long- term.

As part of this, during the MTBPS we announced that the government will take over a portion of Eskom's debt. We are doing this for two reasons:

Firstly, doing so will ease pressure on the company's balance sheet, enabling it to invest in transmission and distribution infrastructure. It will also allow Eskom to conduct the maintenance required to improve the availability of electricity.

Secondly, R337 billion of Eskom's debt is already government guaranteed. Explicitly taking on this debt, will reduce fiscal risk and enhance long term fiscal sustainability.

DETAILS OF THE ESKOM DEBT RELIEF

We are proposing a total debt-relief arrangement for Eskom of R 254 billion.

This consists of two components. One is R184 billion. This represents Eskom's full debt settlement requirement in three tranches over the medium term. Second is a direct take-over of up to R70 billion of Eskom's loan portfolio in 2025/26.

Because of the structure of the debt relief, Eskom will not need further borrowing during the relief period.

Government will finance the arrangement through the R66 billion baseline provision announced in the 2019 Budget, and R118 billion in additional borrowings over the next three years.

CONDITIONS

Honourable Members, the arrangement is accompanied by strict conditions to safeguard public funds.

These conditions include:

- Requiring Eskom to prioritise capital expenditure in transmission and distribution during the debt-relief period.
- For the company to focus on maintenance of the existing generation fleet to improve availability of electricity.
- That the debt relief be used to settle debt and interest payments only.
- And that Eskom implement the recommendations emanating from an independent assessment of its operations, which has been commissioned by the National Treasury.

Details of the debt relief, and the reasoning behind the conditions are set out in full in the online annexure.

MUNICIPAL DEBT

At the end of December 2022 Municipalities owed Eskom R56.3 billion and the debt is rising. Undertaking a debt-relief of this magnitude without addressing this risk would be counterproductive.

We are working with Eskom to provide a solution to this problem, wherein Eskom will provide incentivised relief to municipalities whose debt is unaffordable.

However, the relief will come with conditions.

And to avoid a repeat of debt build-up over time, the relief will attach measures, including the installation of prepaid meters, to correct the underlying behaviour of non- payment and operational practices in these municipalities.

Eskom's long-term financial viability depends on its customers paying their dues.

National Treasury will publish details for accessing the debt relief in a circular in March 2023. Implementation will start from 1 April.

More generally, the culture of non-payment, not only by municipalities but by all organs of state and individual household customers is concerning.

Such behaviour undermines and cripples our institutions and makes it impossible for them to deliver services.

To change this, the National Treasury is exploring ways to encourage all to improve their behaviour and do the right thing.

ENERGY – FISCAL SUPPORT PACKAGE

Madam Speaker, the energy and electricity sector, here at home and globally, is undergoing a rapid process of systemic change.

Green technologies are becoming cheaper, and the deployment of low-carbon solutions is accelerating.

We recognise that we have a role to play in encouraging adaptation and mitigation.

I am pleased to announce two tax measures to encourage businesses and individuals to invest in renewable energy and increase electricity generation.

From 1 March 2023, businesses will be able to reduce their taxable income by 125 per cent of the cost of an investment in renewables.

There will be no thresholds on the size of the projects that qualify, and the incentive will be available for two years to stimulate investment in the short term.

As announced by the President, we will also introduce a new tax incentive for individuals to install rooftop solar panels to reduce pressure on the grid and help ease loadshedding.

Individuals who install rooftop solar panels from 1 March 2023 will be able to claim a rebate of 25 per cent of the cost of the panels, up to a maximum of R15 000. This can be used to reduce their tax liability in the 2023/24 tax year. This incentive will be available for one year.

Changes to the Bounce Back Loan Guarantee Scheme are also proposed to incentivize renewable energy, rooftop solar, and address energy-related constraints experienced by small and medium enterprises.

Government will guarantee solar-related loans for small and medium enterprises on a 20 per cent first-loss basis.

National Treasury will launch the Energy Bounce Back Scheme in April 2023.

CLIMATE CHANGE

More broadly, part of addressing the persistent electricity supply shortage must involve implementing a just transition to a low carbon economy. Climate change poses considerable risks and constraints to sustainable economic growth in South Africa.

We are among the most water-scarce countries in the world, and recent events have shown that extreme weather events such as floods, heatwaves and drought, are occurring more often.

Our Just Energy Transition plan addresses these urgent climate challenges. It aims to significantly lower emissions of greenhouse gases and harnesses investments in new energy technologies, electric vehicles, and energy-efficient appliances.

Most importantly, it ensures that communities tied to high-emitting energy industries are not left behind, and are provided with new skills and new economic and employment opportunities.

Through the Just Energy Transition Investment Plan, launched by the President in 2022 at the COP27, R1.5 trillion will be invested in our economy over the next five years, supported by a coherent industrial policy to enable innovation and economic diversification.

South Africa, through its role in the G20, the IMF and the World Bank, has stressed that developed nations could do more to support the energy transitions of developing nations, especially by ensuring that the financial support includes a much larger grant- funding component.

INFRASTRUCTURE INVESTMENT

Infrastructure investments lay the foundation for inclusive and sustainable growth; they address supply-side constraints; and expand access to basic services.

Overall, the public sector is projected to spend R903 billion on infrastructure over the medium-term. The largest portion of this, around R448 billion, will be spent by state- owned companies, public entities and through public-private partnerships.

These spending plans are mostly for strategic projects in the following sectors:

- Transport and logistics will spend an estimated R351.1 billion, including for SANRAL to improve the road infrastructure network.
- Water and sanitation is planned to spend R132.5 billion over the next three years, mainly by the water boards.
  As we undertake infrastructure projects, we need to crack down on criminality in the construction sector. The extortion and intimidation of lawfully appointed contractors and the workers they employ cannot be tolerated.
  Madam Speaker, allow me to highlight a few of the shovel-ready projects approved through the Budget Facility for Infrastructure:
    - The 488-bed Limpopo Central Hospital will finally begin construction in March this year.
    - Phase 2 of the Welisizwe Rural Bridges programme breaks ground in April this year. It plans to install 96 bridges annually to enable rural communities in the Eastern Cape, KwaZulu Natal, Mpumalanga, Limpopo, Free State, and North West to safely access schools and workplaces. R3.8 billion is allocated for the programme over the medium term.
      The Sol Plaatje Municipality will repair aspects of the Riverton Water Supply Scheme, which is the only water source and supply system to Kimberly.
    - The construction of enabling bulk infrastructure, such as roads and water components for the Lufhereng Mixed-Use Development in Gauteng, begins in June 2023. It will support the development of 31,000 mixed housing units.
    - Access roads for the Mzimvubu Water Project are nearing completion. The construction of the Ntabelanga Dam will begin later this year. Additional funding during the next financial year may be required to ramp up implementation.
      Site establishment for the Clanwilliam Dam project is completed. All surface works and 15% of all concrete works will be completed by the end of this year.

Our focus is not only on building new infrastructure, but also on maintaining existing infrastructure. We do this to ensure that it lasts long and performs to the required standard.

At the same time, we are looking at initiatives to leverage private sector resources in public infrastructure delivery. This is to strengthen state capacity to expand infrastructure delivery and to catalyse private finance.

The initiatives include:

- Funding the development of a continuous, investible and transparent pipeline of projects and programmes.
- Fast tracking the implementation of the Public Private Partnerships (PPP) regulatory review framework recommendations.
- Pilot the implementation of conditional grant pledging that we enabled during the MTBPS. Its aim is to ensure the rollout of infrastructure is not constrained by the availability of funds in a particular year, if there is capacity to deliver more.
- The interventions in supporting growth are critical to the health and sustainability of the economy.
- They need to be complemented by a policy environment that promotes the performance of productive sectors in an integrated way.
- This will require difficult but necessary trade-offs to ensure that the appropriate support is properly targeted at the correct products and value chains.

REVENUE AND TAX PROPOSALS

Let me now turn to the revenue outlook and tax proposals.

Tax revenue collections for 2022/23 are expected to total R1.69 trillion. This exceeds the 2022 Budget estimate by R93.7 billion, and the 2022 MTBPS estimate by R10.3 billion.

Over the medium-term, revenue projections are R6 billion higher than the estimates of the 2022 MTBPS.

As a result, there are no major tax proposals in this budget.

The improvement in revenue is due to higher collection in corporate and personal income taxes, and in customs duties. This partially offset the lower value-added tax estimates.

Madam Speaker, our country is reaping the benefits of a more efficient and effective tax administration, that is building trust to increase voluntary compliance and boost revenue collections.

Nilesh Solanki from Gauteng was one of nearly 2,000 South Africans that submitted a tip for the 2023 Budget Tips competition. He asked that we consider not increasing tax rates.

Nilesh, you will be happy to know that for 2023/24, government will provide tax relief of R13 billion.

In addition to the tax measures I have announced to promote investments in renewable energy, the general fuel levy and the Road Accident Fund levy will not be increased this year.

To ease the impact of the electricity crisis on food prices, the refund on the Road Accident Fund levy for diesel used in the manufacturing process, such as for generators, will be extended to manufacturers of foodstuffs. This takes effect from 1 April 2023 for two years.

The personal income tax brackets will be fully adjusted for inflation, which will increase the tax-free threshold from R91 250 to R95 750.

Medical tax credits will also be increased by inflation, to R364 per month for the first two members, and to R246 per month for additional members.

The retirement tax tables for lump sums withdrawn before retirement, and for lump sums withdrawn at retirement, will be adjusted upwards by 10 per cent. This means that the tax-free amount that can be withdrawn at retirement increases to R550 000.

The brackets of the transfer duty table will also be increased by 10 per cent, allowing properties below R1.1 million to avoid any transfer duty payments.

The research and development tax incentive will be extended for 10 years, and will be refined to make it simpler and more effective.

The urban development zone tax incentive will also be extended, by two years, to allow for the review of the incentive to be completed.

After further consultations, government intends to publish revised draft legislation on the 'two-pot' retirement system. This will include details on the amount that could be immediately available when the system is implemented from 1 March 2024.

Any withdrawals from the accessible "savings pot" would be taxed as income in the year of withdrawal.

After a review and consultation last year, and taking into account the impact of the Upstream Petroleum Resources Development Bill, the minimum royalty rate for oil and gas companies will be increased to 2 per cent. The maximum rate of 5 per cent remains unchanged.

Due to the difficult operating environment for the sugar industry from the impact of flooding and social unrest, the health promotion levy will remain unchanged for the following two fiscal years, to enable the industry to diversify or restructure.

Government proposes an increase in the excise duties on alcohol and tobacco of 4.9 per cent, in line with expected inflation. This means that the duty on:

- A 340 millilitre can of beer increases by 10 cents,
- A 750 millilitre bottle of wine goes up by 18 cents,
- A 750 millilitre bottle of spirits will increase by R3.90,
- A 23 gram cigar by R5.47,
- And on a pack of 20 cigarettes, the duty rises 98 cents.

On illicit trade, over the past three years, SARS has taken several steps to enhance its effectiveness in combating illicit trade, particularly in tobacco.

To this end, SARS has completed 2 316 seizures of cigarettes & tobacco products to the value of R598.8 million.

An additional R18 billion worth of schedules and assessments have been raised, targeting syndicated tobacco-related crimes.

Furthermore, SARS has collected more than R1.2 billion in revenue and handed over 92 cases for criminal proceedings with the NPA of which 2 resulted in successful convictions relating to tobacco smuggling syndicates.

EXPENDITURE PROPOSALS

Madam Speaker, the 2023 Budget proposals reflect this government's priorities by making targeted allocations for specific programmes.

Over the medium-term, more than 60 per cent of non-interest expenditure goes to the social wage, while spending on buildings and other fixed structures – such as roads and dams – will increase from R62 billion in current year to R104.2 billion in 2025/26.

We are increasing allocations to key frontline departments above existing baselines, moving toward a change in the composition of spending from consumption to investment, maintaining a large social security safety net, while striving for sustainable levels of debt..

This is not an austerity budget. It is a budget that makes tough trade-offs in the interests of the country's short and long term prosperity.

The 2023 Budget allocates additional funding totalling R227 billion over the medium term. There are several priorities that will be funded through this additional money.

R66 billion is allocated to Social Development over the medium term, with R36 billion to fund the extension of the COVID-19 social relief of distress grant until 31 March 2024.

R30 billion will be used for inflation-linked increases for other social grants. As a result:

- The old age and disability grants increase by R90 on 1 April 2023 and a further R10 on 1 October 2023. The result is a total increase to R2090.
- The child support grant rises from R480 to R510 on 1 October 2023, while the foster care grant increases from R1070 to R1130 over the same period.
- R23 billion and R22 billion will be allocated to health and basic education respectively, to cover the shortfall in compensation budgets and to improve services.
- R8 billion is allocated for basic services through the local government equitable share. We have allocated R14 billion over the medium term to fight crime and corruption, with the following specific allocations:
    - The South African Police Service is allocated R7.8 billion to appoint 5,000 police trainees per year.
    - The National Prosecuting Authority receives R1.3 billion to support the implementation of the recommendations of the State Capture Commission and the Financial Action Task Force.
- The Financial Intelligence Centre is allocated an additional R 265.3 million to tackle organised and financial crime.
- The Special Investigating Unit is allocated R100 million to initiate civil litigation in the special tribunal, flowing from proclamations linked to the recommendations of the State Capture Commission.
- The Department of Defence is allocated an additional R3.1 billion to enhance security on South Africa's borders.
- Finally, an injection into the budget of the SARS is proposed. In addition to a direct allocation for capital and ICT projects, provisional allocations are set aside to improve revenue raising capabilities of SARS.
- I am also tabling the second adjustments appropriation bill for the 2022/23 fiscal year. The Bill proposes an allocation of R45.6 billion to provide for the carry-through costs of the 2022/23 public-service wage increase.
- R1 billion is allocated to South African Airways to assist the carrier with the business rescue process. The South African Post Office is allocated R2.4 billion.

The allocations for these state-owned companies will be accompanied by strict conditions to ensure sustainability, accountability and transparency. If the conditions are not met, the money will not flow.

PUBLIC SECTOR WAGES

Madam Speaker,

This Budget provides for the carry-through costs of the 2022/23 wage increase. In addition, the Budget includes pay progression, a housing allowance, and other benefits for civil servants. The Budget also provides additional funding for safety and security, education and health. In

health, the funds are to hire new staff, address shortfalls in compensation budgets, and retain additional health workers appointed during the pandemic, as well as to clear the backlog in health services.
As for the wage negotiations that just commenced, the budget does not pre-empt the outcomes. Nevertheless, this and future wage negotiations must strike a balance between fair pay, fiscal sustainability, and the need for additional staff in frontline services.

An unbudgeted wage settlement will require very significant trade-offs in government spending because the wage bill is a significant cost driver.

It will mean that funds must be clawed back in other ways.

Mainly, this will mean restricting the ability of departments and entities to fill non-critical posts. It will also mean achieving cost-savings from major rationalisation of state entities and programmes.

As indicated by the President in the SONA, the National Treasury has already identified where large savings can be achieved.

In this regard, during the upcoming financial year, the National Treasury will work with the Presidency on concrete proposals to achieve savings by rationalising or closing public entities. Recommendations will be made to the President and Cabinet and should form part of the next budget.

DISASTER RESPONSE

In relation to the recent floods and the national disaster declared in various provinces, R695 million is available in this financial year for immediate relief. A further R1 billion will be available next year.

The emergency response also requires provinces and municipalities to reprioritise existing allocations to cater for the immediate needs of affected communities, such as temporary shelter and social assistance.

The contingency reserve will also be used to fund emergency responses, including as undertaken by the Defence Force.

As it pertains to Recovery and Repair, which relates to longer term rehabilitation and rebuilding of damaged infrastructure, assessments of the extent of the damage and costs need to be determined.

Funding for this component will be through the normal budget process.

FINANCIAL ACTION TASK FORCE

South Africa has been a voluntary member of the Financial Action Task Force (FATF) since 2003, which sets global standards to combat money laundering and the financing of terrorism across national borders.

In 2021, FATF published its mutual evaluation report highlighting vulnerabilities in the country's anti-money laundering system. We have since made substantial progress to address these weaknesses.

Two laws have been enacted to address the technical deficiencies in the legislative framework, namely the General Laws Amendment Act of 2022, and the Protection of Constitutional Democracy Against Terrorist and Related Activities Amendment Act.

The laws address 15 of the 20 legislative deficiencies identified by FATF. The remaining 5 deficiencies will be addressed through regulations and practices that do not require legislation.

We recognise the need to be more effective in implementing our laws, particularly in fighting organised and sophisticated crimes.

Addressing the FATF issues is part of the broader fight against corruption, crime, state capture and the deliberate weakening of the institutions of law and order in our country.

The FATF Plenary will make its decision later this week on whether or not to put South Africa under increased monitoring, otherwise known as grey listing. We should be prepared for that possibility.

DIVISION OF REVENUE

The 2023 Budget increases allocations for all three spheres of government, to assist with urgent spending pressures. Relative to the 2022 Budget, direct provincial allocations increase by R92.7 billion, to R2.17 trillion over the medium term.

This increase consists of R76.9 billion added to the provincial equitable share and R15.8 billion added to direct conditional grants.

Local government allocations will increase by a total of R14.3 billion, made up of R8.1 billion in the local government equitable share and R6.2 billion in direct conditional grants. This takes the total direct allocation to R522 billion over the same period.

These allocations alleviate some of the financial pressures, particularly in health, education, and free basic services where the costs of providing services are rising.

CONCLUSION

Madam Speaker, our economy is facing significant risks. Uncertainty is on the rise. It requires us to do bold things. To put the fear of failure aside and execute the difficult trade-offs needed to get from where we are now, to where we want to be in the future.

The measures in this budget reflect these realities and the need to act boldly.

Madam Speaker, I am grateful to the President and Deputy President for their support and leadership.

Thank you to the Deputy Minister of Finance, and the National Treasury team, led by the Acting Director-General.

My sincere thanks to the Commissioner of the South African Revenue Service, and the Governor of the South African Reserve Bank.

Let me also thank my colleagues in the Ministers' Committee on the Budget and in the Budget Council who have shared the load of the tough decisions that have to be made.

Similarly, to the Parliamentary Committees of Finance and Appropriations, I express my sincere appreciation.

My gratitude also goes to Mr Neil Bell from Parliament's Bills Office.

He retires in May this year after 41 years of going the extra mile to support the tabling and passing of the Budget and other legislation in Parliament.

Mr Bell, a Bells to you, and the thousands of public servants who work behind the scenes to keep our country going.

Lastly, thank you to each and every South African.

I apologise for helping the ANC retain power - Philani Mavundla

Daily News story by Willem Phungula

Durban — Ousted eThekwini deputy mayor Philani Mavundla has apologised to the city's citizens for helping the ANC retain power.

Speaking during a media briefing jointly organised with the ActionSA, Mavundla went out of his way and said he regretted his actions and asked for forgiveness.

He said had he not assisted the ANC, he believed the city would not be in the mess it was in now. Mavundla blamed the mayor and the city officials for ignoring the 40 letters he had written to warn them about the looming disaster.

The former deputy mayor produced two audit reports on the state of the wastewater works with recommendations for urgent intervention, which he claimed were totally ignored by both ANC provincial and city leadership. In the report, which was compiled in November 2021, Mavundla said it was discovered that out of 27 of the city's wastewater works plants, 17 had run to total failure. Mavundla added that 24 of them had no operating licences.

"I wish to apologise to you eThekwini residents. I regret having let you down. Had I not helped the ANC, maybe we wouldn't be in this mess, but all is not lost as we go to ask it (ANC) to force the council to give you the service you deserve," said Mavundla.

He added that if the court does not rule in their favour, they would appeal. If they don't win in the South African courts, they will approach the international court. Furthermore, he said he informed the top government and ANC leadership about the matter, who all referred it back to the city, saying it was the responsibility of the city to fix the damaged infrastructure. Mavundla further stated that engineers are no longer able to repair ships in the harbour because of the raw sewer which is floating there.