Newsletter | February 2021

Capricorn Asset Management
a member of **Capricorn Group**

How to submit a deposit or withdrawal instruction via Capricorn Online

Did you know you can submit a deposit or withdrawal instruction using Capricorn Online?

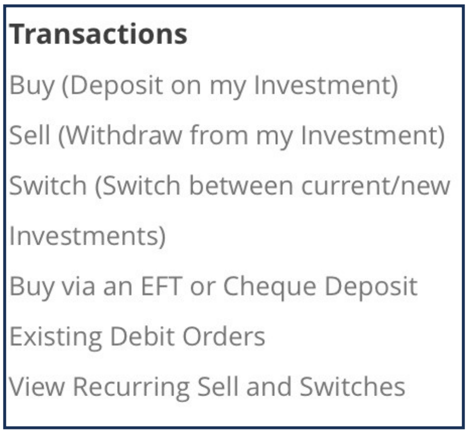
Simply click on the “Investor“ tab, then select “Buy” or “Sell” under the “Transactions” menu and then select the fund you wish to deposit into or withdraw from and it will be processed accordingly.

The cut-off times for instructions submitted via Capricorn Online has been extended from 11:00 to 12:00.

Not yet registered for Capricorn Online?

Simply complete the **Capricorn Online registration form** and email it to cam.service@capricorn.com.na

Upon successful application, our sales team will contact you with the next steps to complete the registration process.



Transactions
Buy (Deposit on my Investment)
Sell (Withdraw from my Investment)
Switch (Switch between current/new Investments)
Buy via an EFT or Cheque Deposit
Existing Debit Orders
View Recurring Sell and Switches

Image: Extract from Capricorn Online Transaction Menu.

Client Reverification Process

As per the Financial Intelligence Act 13 of 2012 a data quality check need to be done on an ongoing basis.

This means that we need to reverify your account details and may require updated FIA documentation, financial information or additional documentation as per regulatory requirements.

You may receive a letter from our office to supply us with the relevant documents. Kindly submit these documents to our offices, or at any Bank Windhoek branch.

South Africa Budget Review

Tito Mboweni, the Minister of Finance (MoF) tabled a hopeful Budget, hitting all the right notes and the markets heaved a collective sigh of relief. Things are, at least, not worse than feared. However, the fiscal position remains precarious. Credit rating agencies are unlikely to downgrade SA further, but will continue to issue warnings.

The Budget does not change our view that the SARB’s repo rate will remain flat for the year, the currency will move sideways to stronger and the yield curve will remain very steep, as funding pressures keep longer term rates high. We do not expect a default by the South African state on its debt, foreign or domestic.

The good

- The deficit is lower than feared. As a % of GDP it is budgeted to fall from 14% last year to 9.3% this year, FY22. Over the next two years it is seen at 7.3% and 6.3%.
- This is largely due to a Revenue overrun in FY21 of about R100bn to bring total Revenue to R1.4tn (down 11% on the previous year). For instance, Personal Income Taxes, Corporate Income Tax and VAT collections at one stage were expected to be down 14%, 25% and 19%. These are now estimated at -9%, -11% and -10%, respectively.
- No tax hikes apart from the usual Fuel Levy and Sin Taxes. The latter adds to our above-consensus view on inflation for the year. A Corporate Tax rate cut

is envisaged for next year to 27% from 28% - a "nod" to business. Tax brackets are adjusted to more-than-compensate for fiscal drag. The Total Budgeted Revenue for FY22 is R1.5tn (consolidated).

- Expenditure growth should largely be under control. The Total Budget Expenditure is R2tn in FY22, virtually flat compared to FY21. The Wage Bill (32% of Expenditure) is expected to grow by 2.1% and spending on Goods and Services (13.8% of the total) by 3.5%, both much lower than our expected inflation of 4.6% for the FY22.
- A strong bounce in nominal GDP growth of 8.8% is expected for FY22 from a contraction of -4.4% in FY21, the first such contraction in post-Apartheid SA. We feel its over-optimistic and should be closer to 7.5%. Nevertheless, still a sharp bounce, which, together with a "better SARS", should support Revenue growth. The latter is expected at 11.6% up for FY22.

The bad

- The deficit and concomitant funding requirements remain huge. Over the five years to FY20, the funding requirement was, on average, R200bn p.a. Over the next five years, including Covid hit FY21, the average is likely to be R460bn p.a. The Total Budgeted Deficit for FY22 is R500bn.
- Total Transfers and Subsidies that go to households which amounted to R440bn in FY21, driven by Covid relief, will be lowered to R360bn in FY22. This will be a drag on the disposable income of households, already facing rising unemployment as well as rising inflation.

The ugly

- Problems in SOE's persist. Transfers and Subsidies to Public Enterprises amount to R38bn, which is 52% higher than last year. The so-called "Other payments for Financial Assets" amounts to R48bn. We suspect that this is where some of the financial support to SOE's are hiding.
- Governance in Departments, Provincial Governments and Municipalities is atrocious. Lack of financial reporting and qualified audit opinions are plentiful. In FY22 R150bn is budgeted for support to Municipalities alone.
- The debt trajectory is unlikely to be as positive as the MoF expects. We still expect it to turn closer to 100% of GDP. Very little emphasis, in the Budget and in commentaries on it, is placed on the Interest Bill. In the five-year period in the run-up to FY10, interest took up 9% of Revenue, on average. Since then, it rose fast and by FY24 will take up 20% of Revenue. This crowds out a lot of other spending, such as on social upliftment and fixed investment. Capital investments amounts to only about 6% of total Expenditure and includes the above mentioned "Other payments for Financial Assets".

Namibian Budget

The date for the Namibian Budget is yet to be determined.

A key aspect for Namibia is the budgeted spending on the SACU pool which is down by -27% in FY22 to R46bn from R63bn in FY21. The following year, FY23 it is down a further 27% to R33bn, before recovering to R58bn. If this plays out, it will put big pressure on the Namibian Budget. That is why we believe it is better to roll the November-2021 Eurobond, because funding pressure from the domestic market may rise significantly if SACU revenue shrinks as envisaged in the SA Budget. The MoF mentions SACU revenue in his speech, saying that some "extra" payments will be made to soften the blow, but it will not make up for the shortfall.