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South Africa
Medium-Term Budget Policy Statement 2020

Balancing today's demands with tomorrow's opportunities

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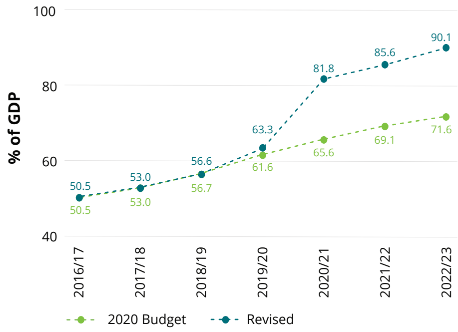
Charting a course towards fiscal sustainability and growth

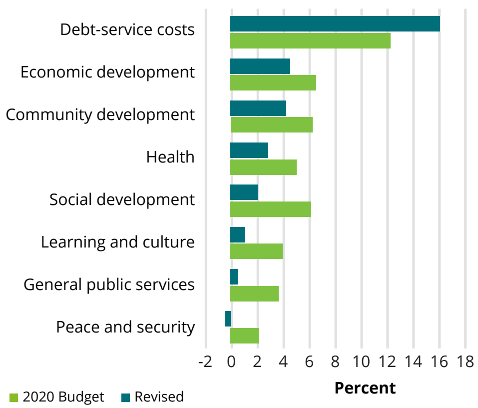
Gross debt-to-GDP outlook



The gross debt-to-GDP outlook has deteriorated significantly since the 2020 Budget and is estimated to be 81.8% in 2020/21, up from the 65.6% forecast in the 2020 Budget. The debt-to-GDP outlook is now forecast to increase to 95.3% of GDP by 2025/26.

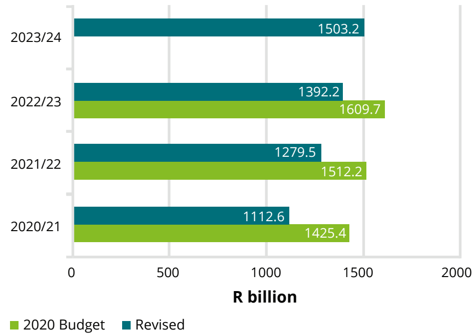
Government spending priorities

Average nominal growth in spending



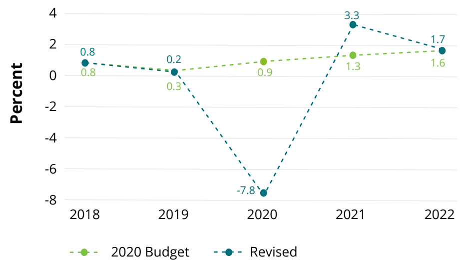
The budget continues to prioritise social spending, including education, health and social grants, however, the growth in debt-service cost spending is forecast to increase at a faster pace of 16.1% over the medium-term forecast period, compared to a 12.3% forecast in the 2020 Budget. A key focus over the next three years will be infrastructure spending.

Revenue collection



Gross revenue collections are anticipated to be R312.8 billion less than initially forecast for 2020/21 and R232.7 billion less than initially forecast for 2021/22.

GDP growth forecast



Currently, global GDP is expected to contract by 4.4% in 2020 (emerging and developing economies are forecast to contract by 3.3% in 2020). In contrast, GDP for South Africa is forecast to contract by 7.8% in 2020 (down from the 0.9% growth forecast for 2020 at the time of the 2020 Budget), rising to a GDP growth rate of 3.3% in 2021 (coming off a low base in 2020) and moderating to 1.5% in 2023.

Budget deficit

The budget deficit for 2019/20 came in close to expectations at 6.4%, however, the deficit under the medium-term estimate is projected to worsten to 15.7% in 2020/21 before improving to 7.3% in 2023/24.

MTBPS Highlights

- Following the June 2020 Supplementary Budget, the MTBPS 2020 prioritises economic recovery and fiscal consolidation post South Africa's response to the COVID-19 pandemic.
- No further details regarding a possible solidarity tax for high earners, increases to the fuel levy and estate duties, which were proposed by the President's Economic Advisory Council and presented in July 2020, were presented. It is possible that more details will be shared in the 2021 Budget.
- The MTBPS outlines a re-composition in spending from consumption towards investment expenditure over the medium term through key non-interest spending reductions.
- Key to this is a reduction in the public sector wage bill, with an average annual growth proposed of only 0.8% over the next three years, however, various obstacles remain.
- Expenditure priorities over the medium term are centred on learning and culture, and social development, with a key focus on increasing infrastructure spending over the next three years.
- After re-examining spending priorities and with revised tax revenues over the medium term, the debt-to-GDP ratio is only expected to stabilise by 2025/26, at 95.3% – leaving no room for fiscal slippage.
- Various risks remain, including spending pressures burdening the public purse from a number of underperforming state-owned enterprises (SOEs).
- Also, to improve spending efficiency and reduce wasteful expenditure, a zero-based approach to budgeting will be piloted at National Treasury and the Department of Public Enterprises next year.
- The key challenge of raising the longer-term growth potential of South Africa remains. National Treasury and the Presidency have partnered to establish *Operation Vulindlela* – a delivery unit that will look to coordinate and accelerate the implementation of prioritised growth-enhancing structural reforms.

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