Investec

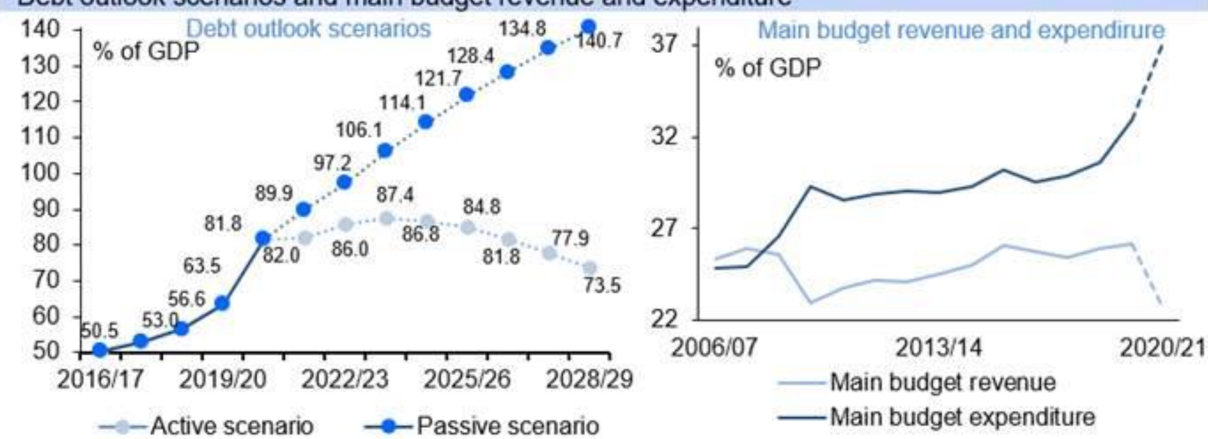
SA Economics

Budget Note:

Wednesday 24 June 2020

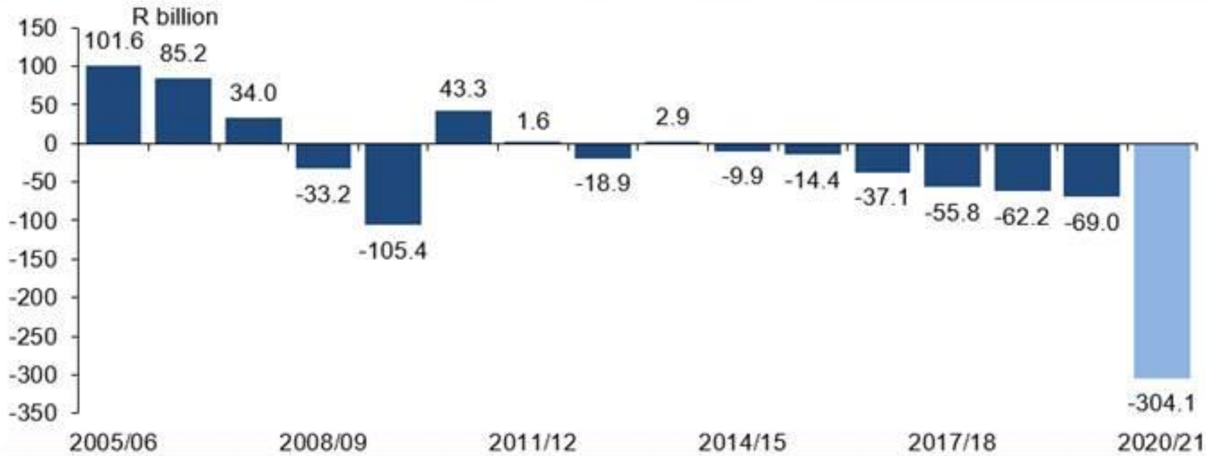
The 2020 Supplementary Budget Review projects a sharp deterioration in government debt, with stabilisation in 2023/24 likely at close to 100% if SOE contingent liabilities are included, which signals marked rating downgrades

Debt outlook scenarios and main budget revenue and expenditure



Source: National Treasury

In-year revenue compared with Budget forecasts (2020/21 prices)



Source: National Treasury

- Today's Supplementary Budget Review shows that this decade is expected to begin with a massive plunge in the health of government finances, with a fiscal deficit of -14.6% of GDP and gross debt as % of GDP of 81.8 projected for this fiscal year, versus the previous projections of a fiscal deficit of -6.8% of GDP and debt at 65.6% of GDP for 2020/21.

- The rating agencies are likely to downgrade SA further on the back of this budget, as the key objective of any credit rating agency is to assess the ability of a country (or corporate) to repay its debt, and with SA now signalling that its debt burden will rise to 87.4% by 2023/24 this has deteriorated SA's ability to repay its debt.

- It is not possible to continuously borrow out of debt, nor to indefinitely borrow to make debt payments, and fund current expenditure. Debt interest payments do have to be made to avoid default. SA is on a negative outlook from Moody's, at Ba1 (BB+). The rating agencies will likely downgrade SA after the budget, if not in November 2020, then sooner.

- Some limited positive news emerged from the adjusted budget today, and that is the announcement that SA's debt is projected to peak at 87.4% by 2023/24, as opposed to pre-budget 'leaks' that SA's debt is further estimated to rise to 90.9% by 2023 and over 100% by 2025, climbing to a massive 113.8% by 2029.

- However, SA has been falling though the credit ratings increasingly quickly, and is at BB from Fitch (for both its foreign and local currency ratings), while from Standard and Poor's SA's local currency rating is BB but its foreign currency (country) rating is BB-. The next step after BB- is single B, followed by the C grade ratings and then D, for default.

- While SA projecting a peaking, and hence stabilisation of debt is positive, it will not be enough to avoid SA being pushed into the single B credit rating categories over the course of the next few years, with 87.4% still a huge figure for an emerging market's government debt, and one which does not tally with debt sustainability.

- This is particularly because the credit rating agencies tend to look at SA's debt in conjunction with that of its guarantees that it has extended to the State Owned Entities' debt, and the calculation, when including all these contingent liabilities takes the figure to around 100% of GDP by 2023/24.

- The biggest risk SA faces in its massive quantum of debt issuance is investor appetite, which, while strong will not last forever. SA will likely run out of space in the domestic market, which is the biggest absorber of SA's government debt, as SA has a limited quantum of savings, which have been used to mostly fund government issuance so far.

- Furthermore, government is increasingly eyeing private sector savings to fund its infrastructure projects, via prescribed or voluntary assets, with pension funds already a very large holder of state debt. The huge ramp up in projected debt and issuance is at odds with the limited savings pool in SA, and will add to pressure for further credit rating downgrades.

Government guarantee exposure[1]

R billion	2017/18 Guarantee	2017/18 Exposure[2]	2018/19 Guarantee	2018/19 Exposure[2]	2019/20 Guarantee	2019/20 Exposure[2]
Public institutions	**469.8**	**327.3**	**487.7**	**368.1**	**484.4**	**385.3**
of which:						
Eskom	350.0	250.6	350.0	285.6	350.0	297.4
SANRAL[3]	38.9	30.4	38.9	39.5	37.9	39.9
Trans-Caledon Tunnel Authority	25.7	18.9	43.0	14.3	43.0	13.5
South African Airways	19.1	11.1	19.1	15.3	19.1	17.3
Land and Agricultural Bank of South Africa	9.6	3.8	9.6	1.0	9.6	0.9
Development Bank of Southern Africa	12.2	4.1	11.4	4.3	10.0	4.6
South African Post Office	4.2	0.4	2.9	–	–	–
Transnet	3.5	3.8	3.5	3.8	3.5	3.8
Denel	2.4	2.4	3.4	3.4	6.9	6.9
South African Express	1.1	0.9	2.8	0.2	1.9	0.2
Industrial Development Corporation	0.4	0.1	0.5	0.1	0.5	0.1
South African Reserve Bank	–	–	0.3	–	–	–
Independent power producers	200.2	122.2	200.2	146.9	200.2	161.4
Public-private partnerships[4]	9.6	9.6	10.5	10.5	8.7	8.7

Source: National Treasury February 2020

1. A full list of guarantees is given in Table 11 of the statistical annexure in the Budget Review
2. Total amount of borrowing and accrued interest for the period made against the guarantee
3. The exposure in 2017/18 excludes adjustments to inflation-linked bonds as a result of inflation rate changes
4. These amount only include the national and provincial PPP agreements

Total national government debt

R billion	2019/20 Preliminary	2020/21 Budget	2020/21 Revised	2021/22 Medium-term estimates	2022/23 Medium-term estimates
Domestic loans[1]	2 874.1	3 227.6	3 476.2	3 899.2	4 316.0
Short-term	360.7	409.0	506.7	562.7	626.7
Long-term	2 513.4	2 818.6	2 969.5	3 336.5	3 689.3
Foreign loans[1]	387.2	334.4	497.8	471.8	514.9
Gross loan debt	**3261.3**	**3 562.0**	**3974.0**	**4 371.0**	**4 830.9**
Less: National Revenue Fund bank balances	-263.6	-221.6	-210.5	-115.5	-116.0
Net loan debt[2]	**2 997.7**	**3 340.4**	**3 763.5**	**4 255.5**	**4 714.9**
As percentage of GDP					
Gross loan debt	*63.5%*	*65.6%*	*81.8%*	*82.0%*	*86.0%*
Net loan debt	*58.4%*	*61.5%*	*77.4%*	*79.9%*	*83.9%*

Source: National Treasury

1. Estimates include revaluations based on National Treasury's projections of inflation and exchange rates
2. Net loan debt is gross loan debt minus the bank balances of the National Revenue Fund

- QE globally has spurred risk appetite for high yielding bonds, but foreigners make up only about 40% of South Africa's bond holdings and have not massively increased their holdings this year to date, while the SARB has been active in the market suppressing bond yields through its bond buying programme.

- But bond yields cannot be suppressed infinitely by the SARB, as limits exist on the quantum it can purchase. This is due both to a cap on bond purchases in primary market legislation and the Southern African Development Community's treaty limitation that Central Banks should not provide more than 10% of funding to government.

- The Supplementary Budget Review (SBR) shows debt service costs as a % of main budget revenue at close to 22% this year, from below 16% last year. National Treasury also present two debt scenarios, an active and passive scenario (see above at the top), with the passive scenario most likely leading to debt default and IMF rescue.

- Today's SBR further says "(g)iven the extent of fiscal consolidation now required, however, both expenditure reductions and tax increases are necessary to stabilise debt." "Revenue collection for 2020/21 is now expected to be R304.1 billion lower than the 2020 Budget estimate."

- The Finance Minister is set to announce tax increases in the 2021 Budget, with today's supplementary budget not having had sufficient time to deliver the workings behind these. "The active scenario assumes tax increases of R5 billion in 2021/22, R10 billion in 2022/23, R10 billion in 2023/24 and R15 billion in 2024/25."

- "Revenue shortfalls include tax relief measures amounting to R26 billion in foregone revenue implemented as part of the COVID-19 relief package. More significantly, the shortfall reflects the expectation that the tax base will temporarily shrink as businesses close and people lose their jobs."

- "Main budget expenditure is now projected to increase to 37.2 per cent of GDP in 2020/21, relative to the 2020 Budget estimate of 32.5 per cent. This reflects the response to COVID-19 and higher debt-service costs."

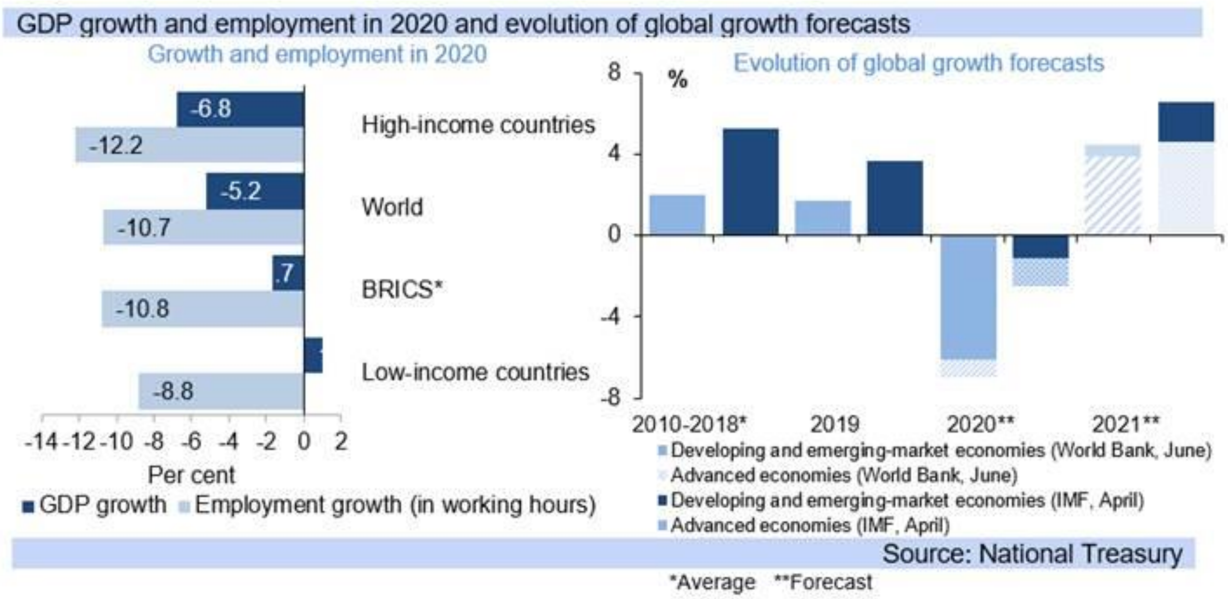
- "Consultations on the MTEF will also be guided by the principles of zero based budgeting, in which departmental expenses must be justified, accompanied by rigorous analysis. Programmes that have little impact on economic performance or service delivery will be phased out."

- "Narrowing the budget deficit and stabilising the debt-to-GDP ratio require continued spending restraint, economic measures to boost long-term growth and reforms to state-owned companies to reduce their reliance on public funds. Additional tax revenue should come primarily from improved tax collection as enforcement is strengthened to enhance compliance, alongside other revenue measures."

Macroeconomic outlook for June 2020 - summary					
	2019	2020	2021	2022	2023
Real percentage growth			Forecast		
Real GDP growth	0.2	-7.2	2.6	1.5	1.5
Investec	0.2	-10.1	1.6	1.9	2.1
GDP at current prices (R billion)	5 077	4 900	5 227	5 536	5 873
Investec	5 077	4 728	5 184	5 513	5 900
Consumer price index (CPI)	4.1	3.0	3.9	4.3	4.5
Investec	4.1	3.4	4.0	4.8	5.0
			Source: National Treasury		

Macroeconomic outlook for February 2020 - summary	2019	2020	2021	2022
Real percentage growth	Estimate		Forecast	
Final household consumption	1.1	1.1	1.3	1.6
Investec	1.1	1.2	1.6	2.0
Gross fixed-capital formation	-0.4	0.2	1.3	1.9
Investec	-0.2	2.4	2.5	3.2
Exports	-2.1	2.3	2.6	2.8
Investec	-3.2	1.7	4.4	4.1
Imports	0.2	1.8	2.5	2.8
Investec	0.2	2.1	4.7	4.4
Real GDP growth	**0.3**	**0.9**	**1.3**	**1.6**
Investec	**0.3**	**0.8**	**1.6**	**2.0**
Consumer price index (CPI)	4.1	4.5	4.6	4.6
Investec	4.1	4.4	4.9	5.0
Current account balance (% of GDP)	-3.4	-3.4	-3.5	-3.7
Investec	-3.7	-3.7	-3.7	-3.7

Source: National Treasury



- National Treasury has reduced its actual nominal GDP forecasts, which would also have helped widen the fiscal deficits, besides the markedly lower revenue collection estimates. A -7.2% fall in GDP is now estimated for this year, versus growth of 0.9% y/y it previously projected for 2020. We continue to expect a contraction of -10.1% y/y this year.

- Our economic forecasts have worsened primarily this year due to a much slower pace of anticipated recovery in economic activity than previously expected. Furthermore, there is unlikely to be a material rebound in economic growth in SA in 2021, we forecast only 1.6% y/y.

- The ongoing weak ability of SA to meet the electricity needs of an economy growing at over 1.0% y/y (3-5% pa real growth is needed to reduce unemployment) will be a key limitation to economic growth in the second half of this year and into next year. Even SA's 16.3% qqsaa statistical rebound in SA will be threatened by Eskom's weak supply capacity.

- National Treasury forecasts economic growth of 2.6% y/y in 2021, likely only if the electricity needs of the economy can be met, and if substantial fixed investment occurs, but government is already competing with the domestic savings needed for this investment with its heighted bond issuance programme, and in potentially seeking prescribed assets.

- While the Covid-19 pandemic is expected to wane as a key risk factor to South Africa this year, ongoing weak and anaemic domestic economic growth is likely to continue to be SA's key threat, not from the lockdown's temporary lagged effects, but due to the ongoing lack of substantial, effective growth enhancing government reforms in SA.

- Furthermore, the tax increases envisioned will provide a drag on economic growth, while there are still risks to the economic outlook. The SBR adds "a failure to attract sufficient international capital to finance the current account deficit would also constrain growth" – with this funding typically foreign purchases of SA's bonds and equities.

- Failure to put in place measures to invigorate and support economic activity in South Africa, instead of impeding them, slows down the economic growth rate and so increases employment. This indeed is an issue with the R200bn credit loan guarantee scheme, which is reactive for businesses in distress, and not forward looking for fiscal stimulus.

- Furthermore, foreign appetite for SA bonds has been weak on the low growth outlook of the domestic economy. The SBR does say "(g)overnment envisions a package of economic reforms that will improve productivity, lower costs and reduce demands of state-owned companies on the public purse."

- "These measures include finalising electricity determinations, unbundling Eskom and taking other steps to open up energy markets, modernising ports and rail infrastructure, and licensing spectrum." "Raising domestic savings levels and removing the barriers to long-term investments, both domestic and foreign, are key reform objectives."

Main budget non-interest expenditure increases	
R million	**2020/21**
Support to vulnerable households for 6 months	40,891
Health	21,544
Support to municipalities	20,034
Other frontline services	13,623
Basic and higher education	12,541
Small and informal business support, and job creation and protection	6,061
Support to public entities	5,964
Other COVID-19 interventions	1,766
Allocated for COVID-19 fiscal relief package	**122,425**
Land Bank equity investment	3,000
Provisional allocations for COVID-19 fiscal relief package	19,575
Total	**145,000**
	Source: National Treasury

Main revisions to non-interest spending plans by economic classification					
	Budget 2020	**Reductions**	**Allocations**	**Other adjustments**	**Revised**
Current payments	**265,720**	**-10,791**	**12,614**	–	**267,544**
Compensation of employees	187,668	-1,429	837	–	187,077
Goods and services	77,891	-9,362	11,777	–	80,306
Rent on land	161	–	–	–	161
Transfers and subsidies	**1,215,936**	**-87,680**	**108,118**	**-8,122**	**1,228,251**
Provinces and municipalities	781,934	-46,482	49,921	–	785,373
Departmental agencies and accounts	143,296	-12,676	8,695	-8,122	131,193
Higher education institutions	44,803	-3,210	2,327	–	43,920
Foreign governments and international organisations	2,829	-109	1	–	2,721
Public corporations and private enterprises	32,525	-6,423	3,070	–	29,172
Non-profit institutions	9,073	-1,748	1,177	–	8,503
Households	201,477	-17,033	42,926	–	227,370
Payments for capital assets	**15,303**	**-2,414**	**1,692**	–	**14,582**
Payments for financial assets	**42,552**	–	**3,000**	**13**	**45,565**
Provisional allocations: COVID 19 package	–	–	**19,575**	–	**19,575**
Provisional allocations not assigned to votes	**-7,786**	–	–	–	**-7,786**
Contingency reserve	**5,000**	–	–	–	**5,000**
Total	**1,536,724**	**-100,885**	**145,000**	**-8,109**	**1,572,731**
					Source: National Treasury

- The 2020 supplementary Budget is not an austerity budget, but the 2021 Budget is likely to be one, if only in part. However, the alternative is much worse. “The fiscal position, which was already unsustainable, will require significant adjustments as the immediate health effects subside.”

- Additional reforms, in line with Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa are necessary to bolster economic growth and include: “Lowering the cost of doing business, reducing red tape and improving access to development finance for small, medium and micro enterprises.”

- Additionally, “(s)upport for agriculture, tourism and other sectors with high job creation potential. Facilitating regional trade. Reducing the skills deficit by attracting skilled immigrants. Revamping the skills framework, and undertaking a range of reforms in basic education and the post-schooling environment to improve outcomes for workers – and the firms that can employ them.”

- “To realise the full benefits of these reforms for the economy’s growth potential over the long term, implementation should begin now.” “The COVID-19 pandemic has led to a sharp deterioration in the economic and revenue outlook. The fiscal position, which was already unsustainable, will require significant adjustments as the immediate health effects subside.”

- Without urgent application of the reforms, resulting in sustainably faster economic growth, the massive fiscal deterioration now envisioned will catch up with both the rand and bond yields in South Africa at some stage, with both at risk of being materially weaker in the future. Today the rand saw weakened to R17.43/USD from its close yesterday of R17.24/USD.

- SA’s GDP growth <u>needs to be substantially faster</u> than that forecast in this supplementary budget today to prevent SA risking falling off a fiscal cliff. Revenue collections need to be substantially higher as a consequence of faster economic growth, not huge austerity measures, and substantially hiking taxes will merely slow economic growth down further.

- South Africa is not growing fast enough, and is not envisioned to grow fast enough to earn enough money to support its projected debt burden. South Africa’s tax buoyancy ratio at the start of the year was not sufficient to cope with more tax hikes, and it will be greatly reduced.

- SA needs tax cuts instead to stimulate economic growth (as occurred in the 2000s) but this is unlikely, and a huge cut back on the cost of the civil service and other current expenditure. SA should have been running a primary surplus at the start of the year to cope with the envisioned tax hikes for next year without it severely affecting economic growth.

- That is, GDP forecasts of National Treasury today are likely too optimistic, and GDP growth will be weaker next year, while the tax increases will further suppress economic growth. Huge tax incentives are also needed for corporates to spur faster economic growth and investment in SA.

Main budget framework			
	2019/20	2020/21	
R billion/percentage of GDP	Preliminary	Budget 2020	Revised
Main budget revenue	**1,345.3** 26.2%	**1,398.0** 25.8%	**1,099.5** 22.6%
Main budget expenditure	**1,690.6** 32.9%	**1,766.0** 32.5%	**1,809.2** 37.2%
Non-interest expenditure	1,485.8 28.9%	1,536.7 28.3%	1,572.7 32.4%
Debt-service costs	204.8 4.0%	229.3 4.2%	236.4 4.9%
Main budget balance	**-345.3** -6.7%	**-368.0** -6.8%	**-709.7** -14.6%
Primary balance	**-140.5** -2.7%	**-138.7** -2.6%	**-473.2** -9.7%

Source: National Treasury

Major revisions to non-interest spending plans	Budget 2020	Reductions	Allocations	Other adjustments	Revised
General public services[1]	618,840	-24,310	25,055	13	619,599
Economic development	88,381	-12,145	4,649	–	80,886
Learning and culture	151,543	-15,617	10,560	-8,122	138,364
Health	55,516	-2,631	5,544	–	58,430
Peace and security	207,006	-4,185	10,170	–	212,991
Community development	219,727	-26,322	28,430	–	221,835
Social development2	198,497	-15,675	41,016	–	223,837
Provisional allocations: COVID-1! package	–	–	19,575	–	19,575
Provisional allocations not assigned to votes	-7,786	–	–	–	-7,786
Contingency reserve	5,000	–	–	–	5,000
Total	**1,536,724**	**-100,885**	**145,000**	**-8,109**	**1,572,731**

Source: National Treasury

1. Includes the provincial equitable share that funds a range of functions including health and basic education
2. Includes Department of Women, Youth and Persons with Disabilities

- **Revisions to in-year spending plans and the division of revenue**:
  Since the tabling of the 2020 Budget, in-year spending priorities have changed significantly due to the emergence
  and spread of COVID-19.
  This special adjustments budget revises government's spending plans for 2020/21 in line with the fiscal relief package announced in April 2020. Consolidated spending for 2020/21 has been revised from R1.95 trillion as tabled
  in February to R2.04 trillion, mainly due to additional funding of R145 billion allocated for government's COVID-19
  response.
  Net in-year suspensions of spending amounting to R100.9 billion have been implemented for national departments,
  provinces and local government. Further suspensions may be announced in the October 2020 Medium Term Budget
  Policy Statement (MTBPS).
  Provinces will reallocate at least R20 billion to the COVID-19 response in their own budgets.

- **Fiscal outlook: taking action to stabilise public debt:**
The COVID-19 pandemic has led to a sharp deterioration in the economic and revenue outlook. The fiscal position,
which was already unsustainable, will require significant adjustments as the immediate health effects subside.
In 2020/21, the consolidated deficit is projected to increase to 15.7 per cent of GDP. If this trend is not reversed,
South Africa is likely to face a sovereign debt crisis.
Government remains committed to achieving fiscal sustainability, measured as stabilisation of the debt-to-GDP ratio,
and to narrowing the budget deficit. This will require large spending reductions and moderate tax increases in the
forthcoming medium-term expenditure framework. Over the next several months, government will prepare fiscal consolidation proposals that will be published in the October 2020 Medium Term Budget Policy Statement (MTBPS).

- **COVID-19 tax relief measures:**
An increase in the employment tax incentive by R750 per month for eligible employees and a further R750 per
month incentive for all other employees who earn less than R6 500 per month from 1 April 2020 to 31 July 2020.
A 35 per cent deferral of employees' tax liabilities (pay-as-you-earn) for businesses with a gross income of up to
R100 million for four months from 1 April 2020.
A 35 per cent deferral of the first or second provisional tax payments to be made between 1 April 2020 and
30 September 2020, and of the second provisional tax payment to be made between 1 October 2020 and 31 March
2021 for businesses with a gross income of less than R100 million.
A four-month exemption in the skills development levy from 1 May 2020.
A 90-day deferral for payments of alcohol and tobacco excise duties from 1 May 2020.
A three-month postponement of the filing and payment date for carbon tax liabilities to 31 October 2020.
Postponement of measures to broaden the corporate income tax base (restricting net interest expense
deductions, and limiting the use of assessed losses carried forward) to at least 1 January 2022.
A four-month 10 per cent increase in the available tax deduction for donations made to the Solidarity Fund from
1 April 2020.
Consideration of applications to the South African Revenue Service, on a case-by-case basis, to defer tax liabilities
without penalty if the business can show it is incapable of making payment due to the pandemic.
The measures were included in the Draft Disaster Management Tax Relief Bill and the Draft Disaster Management Tax
Relief Administration Bill published for public comment on 1 April 2020 and again on 1 May 2020. These bills will be
tabled in Parliament later this year.

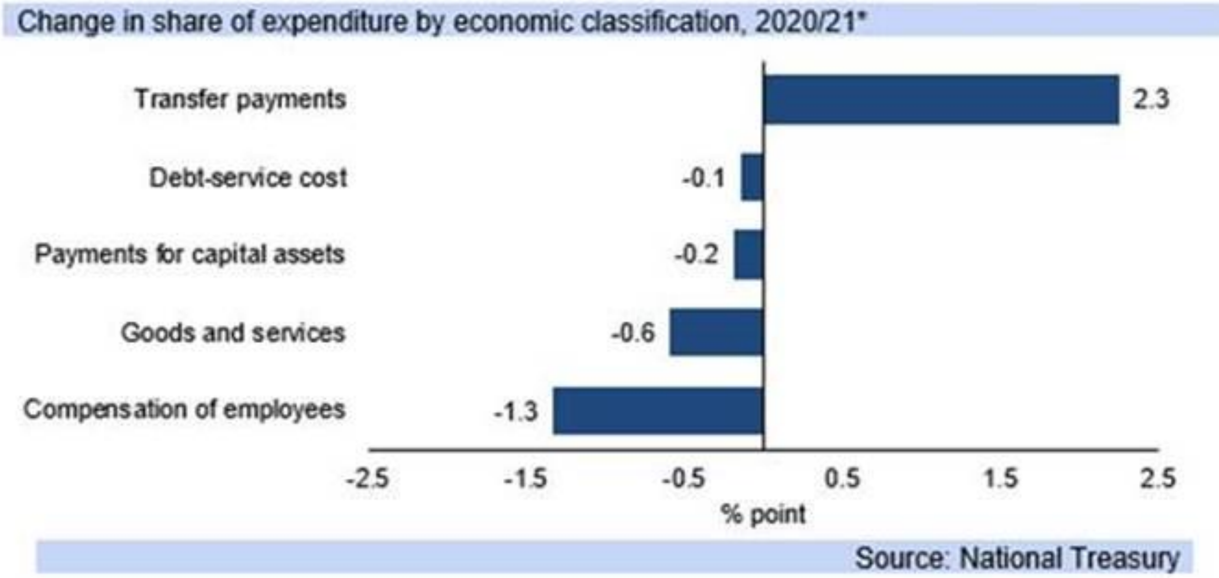
- **The Land Bank:**
The Land and Agricultural Development Bank of South Africa holds 29 per cent of South Africa's agricultural debt. The
bank's main source of revenue – net interest income – has declined over several years because lending rates have not
increased alongside rising funding costs. The cost of funding increased as the Land Bank tried to reduce liquidity risk
caused by the mismatch in its long-dated assets and short-term liabilities. In addition, impairment charges have been
increasing, primarily due to persistent drought, further reducing profitability.

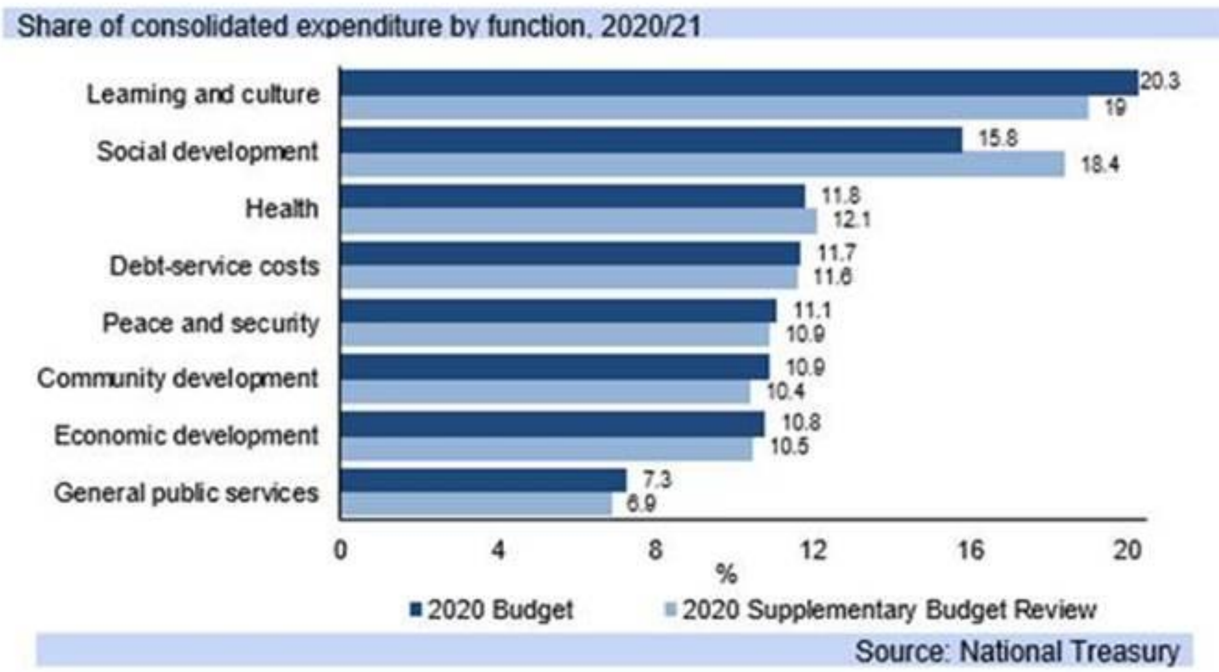
In January 2020, Moody's downgraded the Land Bank's credit rating, citing its deteriorating financial position, a constrained agricultural sector and fiscal constraints that may reduce financial support.

The downgrade led to a significant liquidity shortfall as numerous investors did not refinance debt. Despite government guarantees of R5.7 billion, the Land Bank could not raise adequate funding and defaulted on its debt obligations on 1 April 2020. The National Treasury is supporting the Land Bank and its corporate finance advisors as it engages its lenders to negotiate solutions to its default position and craft a long-term restructuring plan to ensure sustainability.

The Land Bank seeks an emergency liquidity bridge facility of R3 billion while the restructuring plans are finalised.

Government is allocating R3 billion as an equity investment to recapitalise the Land Bank, enabling the settlement of this facility. The restructuring plan will inform possible further funding requirements to ensure the Land Bank's sustainability.



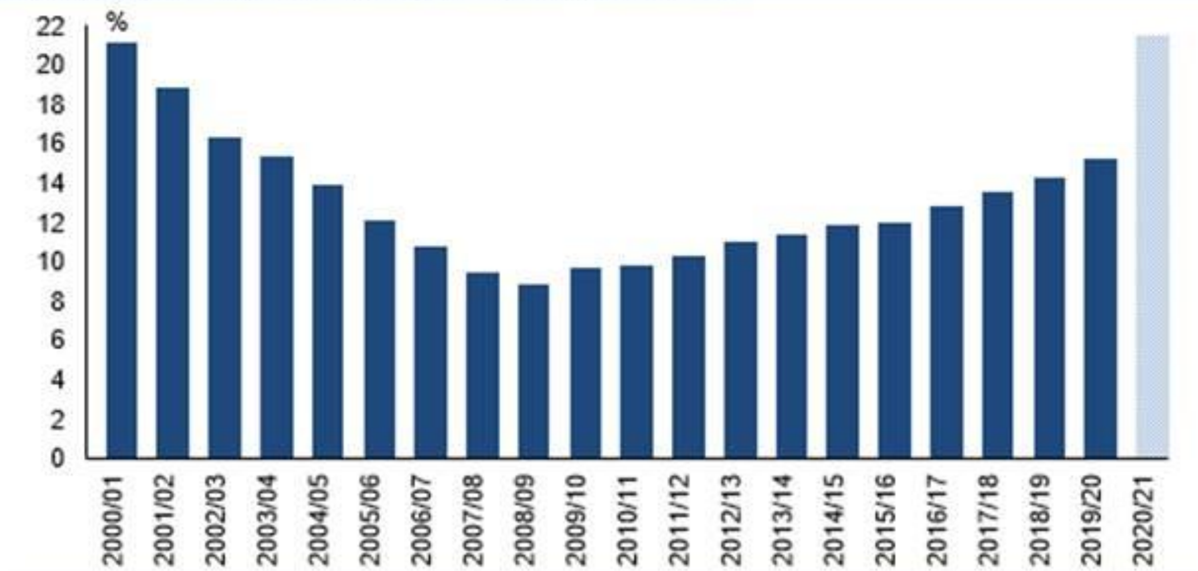


- **Building a bridge to recovery beyond COVID-19:**
  Government has responded to the COVID-19 pandemic with large-scale economic relief measures. Support is
  targeted at the most vulnerable South Africans. These steps will also build the capacity of the public health system to respond to the pandemic.
  The National Treasury expects the economy to contract by 7.2 per cent in 2020. Households and firms are grappling with the combined effects of economic restrictions and the continued spread of the virus.
  The public finances, which had reached an unsustainable position before the pandemic, are now dangerously overstretched.
  This special adjustments budget is a bridge to the October 2020 Medium Term Budget Policy Statement (MTBPS). Over the next several months, government will prepare a set of far-reaching reforms. Determined implementation of these measures will stabilise public debt, contain the budget deficit, and fully restore economic activity to build confidence, increase investment and promote job creation.

- **The public health response to COVID-19:**
  South Africa is at a relatively early stage of the pandemic. The health sector interventions implemented to date have
  focused mainly on behaviour change (for example, social distancing, wearing masks and not going to work when sick),
  early detection of cases through community screening and testing, contact tracing, disease surveillance and public health
  campaigns to reduce transmission of the virus in communities.
  As the pandemic evolves, the focus of interventions will shift towards managing the increased volumes of patients that
  require hospital care. The sector is preparing to rapidly scale up the capacity of hospitals to treat COVID-19 patients,
  including within intensive-care units. This will involve setting up field hospitals and other temporary facilities, procuring
  equipment, recruiting staff and buying medicines. The sector is also initiating the contracting of private hospitals to
  supplement public-sector capacity. Tariffs have already been agreed on.
  To protect health workers from infection, government is obtaining a large supply of personal protective equipment such
  as masks, gloves, aprons and face shields. The sector is also managing quarantine and isolation, ensuring that primary
  healthcare facilities can care for milder COVID-19 cases without infecting other patients, and strengthening health
  screening at airports and borders.

- **The public health response to COVID-19:**
  Although the early lockdown helped to slow transmission of the novel coronavirus, infection rates and deaths are expected to continue to increase.
  Ahead of the expected peak in infections, the health sector is preparing for a rising number of cases, including expanding capacity and ensuring personnel are protected.
  A total of R21.5 billion has been reprioritised to public health services, of which about R16 billion is for provinces and R5.5 billion for the national Department of Health, inclusive of conditional grants. Of the R5.5 billion, R2.6 billion has been reprioritised within the national department and R2.9 billion is additional funds. Allocations have been informed by
  epidemiological modelling, a national health sector COVID-19 cost model and provincial plans. A new R3.5 billion COVID-19 component has been formed in the HIV, TB, malaria and community outreach grant.
  Expenditure and progress will be continuously monitored to determine the need for further in-year adjustments. The main spending areas include:
  Public health interventions, including testing and support to the National Institute for Communicable Diseases. Community health workers have played an important role in screening and tracing, especially in hotspots.
  Expanding hospital capacity to care for larger volumes of patients, including intensive care, field hospitals and high care.
  Procuring personal protective equipment, hospital beds, linen, oxygen and ventilators, and hiring new staff.

Debt-service costs as a proportion of main budget revenue



Source: National Treasury

Estimates of individual taxpayers and taxable income, 2020/21

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief after proposals		Income tax payable after proposals	
R thousand	Number	%	R billion	%	R billion	%	R billion	%	R billion	%
R0 - R80[1]	6,822,326	–	218.8	–	–	–	–	–	–	–
R80 - R150	2,084,683	29.2	235.3	9.3	23.8	4.2	-1.4	10.2	22.4	4.1
R150 - R250	1,771,582	24.8	354.3	14.1	30.9	5.5	-2.1	14.8	28.8	5.3
R250 - R350	1,071,402	15.0	318.3	12.6	47.2	8.4	-2.0	14.0	45.3	8.3
R350 - R500	1,029,509	14.4	424.1	16.8	81.0	14.4	-2.8	20.0	78.2	14.3
R500 - R750	615,177	8.6	368.2	14.6	90.4	16.1	-2.5	17.6	87.9	16.1
R750 - R1 000	266,169	3.7	225.7	9.0	65.9	11.8	-1.3	9.6	64.5	11.8
R1 000 - R1 500	182,883	2.6	217.2	8.6	71.0	12.7	-0.9	6.6	70.1	12.8
R1 500 +	125,029	1.8	376.4	14.9	150.6	26.9	-1.0	7.2	149.6	27.4
Total	**7 146 434**	**100.0**	**2,519.5**	**100.0**	**560.8**	**100.0**	**-14.0**	**100.0**	**546.8**	**100.0**
Grand total	**13,968,760**		**2,738.3**		**560.8**		**-14.0**		**546.8**	

Source: National Treasury

1. Registered individuals with taxable income below the income-tax threshold

- **Income and other support for vulnerable households:**
  The economic restrictions imposed to slow the spread of COVID-19 have led to severe distress for households that lack
  income and savings, as shown by long queues for food parcels. Between three and five million informal-sector workers
  and their families are particularly vulnerable. As many of these workers live with grant recipients, government has
  used the existing grant system to support those most vulnerable. About 64 per cent of individuals who live with an
  informal worker also reside with *child support grant* recipients, and 25 per cent live with an *old-age pension grant*

recipient. The numbers rise to about 80 and 28 per cent respectively for the poorest 50 per cent of households.
Government has made funds available to support vulnerable groups, including temporarily increasing existing social
grant payments and introducing a new *social relief of distress grant* for unemployed adults. Estimates of uptake for
the new grant remain uncertain but the 2020 MTBPS will provide further clarity in this regard. Lengthy administrative
procedures, such as registering new beneficiaries and checking their incomes, are required before the new grant can
be paid.

- **The Unemployment Insurance Fund COVID-19 benefit:**
The UIF is compensating affected workers through a new national disaster benefit called the COVID-19/Temporary
Employer/Employee Relief Scheme Benefit. It covers people who test positive for COVID-19 or need to be quarantined
as a result of exposure, reduced work time and unemployment benefits. This benefit is applicable to employers
registered with the UIF and who make monthly contributions as required by law.
The minimum benefit payable is equal to the national minimum wage of R3 500 per employee, or the sectoral minimum
wage and a maximum benefit of R6 370. It is payable for the duration of the national lockdown or up to three months,
whichever period is the shortest. At the start of the scheme, only employers could claim for their employees and
employees were paid either through the employer or the relevant Bargaining Council. Effective from June 2020, all
employees can claim the benefit directly, including workers not registered with the UIF. As at mid-June 2020, the UIF
had paid a total of R23 billion to over 4.7 million employees under this benefit.

- **Immediate relief provided through the 2019 Division of Revenue Act:**
Since government declared a national disaster on 15 March 2020, it has invoked provisions in the Division of Revenue
Act to facilitate the immediate release of disaster funds. These included the release of R466 million from the provincial
disaster relief grant to fund the purchase of personal protective equipment by provincial health departments and
R150.2 million from the municipal disaster relief grant, mainly for sanitisation in municipalities. The relevant provisions
were invoked on five grants, allowing the use for disaster alleviation of more than R5 billion in potential underspending.
From this, the National Treasury has approved the reallocation of over R4 billion for the provision of emergency water
and sanitation, sanitisation and other COVID-19-related activities. As announced in the 2020 Budget Review, the National Treasury still intends to review and improve the disaster funding system.

Local Currency – Long term			
	S&P	Moody's	Fitch
Brazil	BB-	Ba2	BB-
Russia	BBB	Baa3	BBB
India	BBB-	Baa3	BBB-
Turkey	BB-	B1	BB-
Mexico	BBB+	Baa1	BBB-
South Africa	**BB**	**Ba1**	**BB**
China	A+	A1	A+
Nigeria	B-	B2	B
Kenya	B+	B2	B+
Namibia	NR	Ba2	BB
Ghana	B	B3	B
Botswana	BBB+	A2	NR
Mozambique	B-	Caa2	CCC
Zambia	CCC	Ca	CC
Ethiopia	B	B2	B
Rwanda	B+	B2	B+
Uganda	B	B2	B+
Angola	CCC+	B3	B-
Dem. Rep of Congo	CCC+	Caa1	NR
			Source: Bloomberg

Foreign Currency – Long term			
	S&P	Moody's	Fitch
Brazil	BB-	Ba2	BB-
Russia	BBB-	Baa3	BBB
India	BBB-	Baa3	BBB-
Turkey	B+	B1	BB-
Mexico	BBB	Baa1	BBB-
South Africa	**BB-**	**Ba1**	**BB**
China	A+	A1	A+
Nigeria	B-	B2	B
Kenya	B+	B2	B+
Namibia	NR	Ba2	BB
Ghana	B	B3	B
Botswana	BBB+	A2	NR
Mozambique	CCC+	Caa2	CCC
Zambia	CCC	Ca	CC
Ethiopia	B	B2	B
Rwanda	B+	B2	B+
Uganda	B	B2	B+
Angola	CCC+	B3	B-
Dem. Rep of Congo	CCC+	Caa1	NR
			Source: Bloomberg

Credit ratings

	S & P	Moody's	Fitch	R & I
	AAA	Aaa	AAA	AAA
	AA+	Aa1	AA+	AA+
	AA	Aa2	AA	AA
	AA-	Aa3	AA-	AA-
Investment grade	A+	A1	A+	A+
	A	A2	A	A
	A-	A3	A-	A-
	BBB+	Baa1	BBB+	BBB+
	BBB	Baa2	BBB	BBB
	BBB-	Baa3	BBB-	BBB-
	BB+	Ba1	BB+	BB+
	BB	Ba2	BB	BB
	BB-	Ba3	BB-	BB-
	B+	B1	B+	B+
	B	B2	B	B
Speculative grade	B-	B3	B-	B-
	CCC+	Caa1	CCC	CCC+
	CCC	Caa2	CC	CCC
	CCC-	Ca3	C	CCC-
	CC	Ca	RD	CC
	C	C	D	C
	D	WR	WD	
	NR		PIF	

Source: Bloomberg