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Government Finance Update: A sharp fall in tax revenue led to a marked budget deficit of R22.3bn in June

31st July 2020

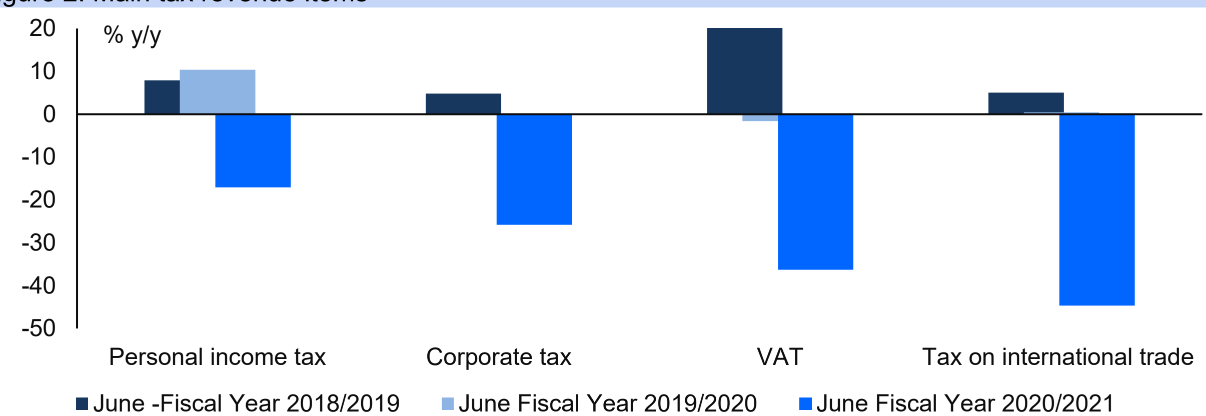
Figure 1: Main budget revenue and expenditure

Rmn	June 2020	May 2019	Cumulative 2020/2021	Cumulative 2019/2020
Revenue:	108 554	147 241	239 756	317 987
Expenditure:	130 850	123 635	365 578	375 451
Balance:	-22 296	23 606	-125 822	-57 464

Source: National Treasury

- Government finance figures revealed a marked budget deficit in June of R22 296m, versus a surplus of R23 606m incurred in June of the 2019/2020 fiscal year. Indeed, the month of June (during 'normal' operating times) typically incurs a budget surplus on account of increased tax revenues. Accordingly, the cumulative deficit for 2020/2021 thus far is R125 822m, compared to – R57 464m recorded during the same period last year.
- Specifically, on the revenue side, tax collections weakened by a further 29.1% y/y for June (following May's 28.7% y/y fall) to R100.2bn, compared to the 2.6% y/y rise in the same period last year. The notable under-recovery in revenues for June can be ascribed to a 17.1% y/y decline in personal income tax receipts, coupled with a 25.8% y/y fall in corporate tax collections. Additionally VAT and taxes on international trade plunged by a further 36.3% y/y and 44.7% y/y respectively. The ban on tobacco products continues to suppress excise tax revenue. While the temporary lift of the alcohol prohibition in June saw excise tax receipts lift moderately, the reinstatement of the ban will see excise tax revenue dwindle once again in the coming months.
- The collection of personal income tax will continue to be constrained by further anticipated job losses as a result of the pandemic, with unemployment rates forecast to climb notably from current levels.
- Additionally, the likely marked increase in business closures will continue to weigh heavily on corporate tax collections. Specifically, according to a Stats SA business impact survey released in June, "54,9% of businesses indicated they can survive between 1 and 3 months without any turnover." Moreover, business confidence, as indicated by the RMB/BER business confidence index, dropped to an all-time low in Q2.20.
- On the expenditure front, debt service costs grew by 15.1% y/y to R23.29bn in June. According to details outlined in Treasury's supplementary budget, debt-service costs are anticipated to "(i)ncrease from R204.8 billion in 2019/20 to R236.4 billion in 2020/21, or from 4 per cent of GDP to 4.9 per cent of GDP." Additional sovereign credit downgrades would further amplify borrowing costs.

Figure 2: Main tax revenue items



Source: National Treasury, Investec

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