



Government Finance Update: Deteriorating fiscal metrics continue to make SA susceptible to a ratings downgrade

3rd February 2020

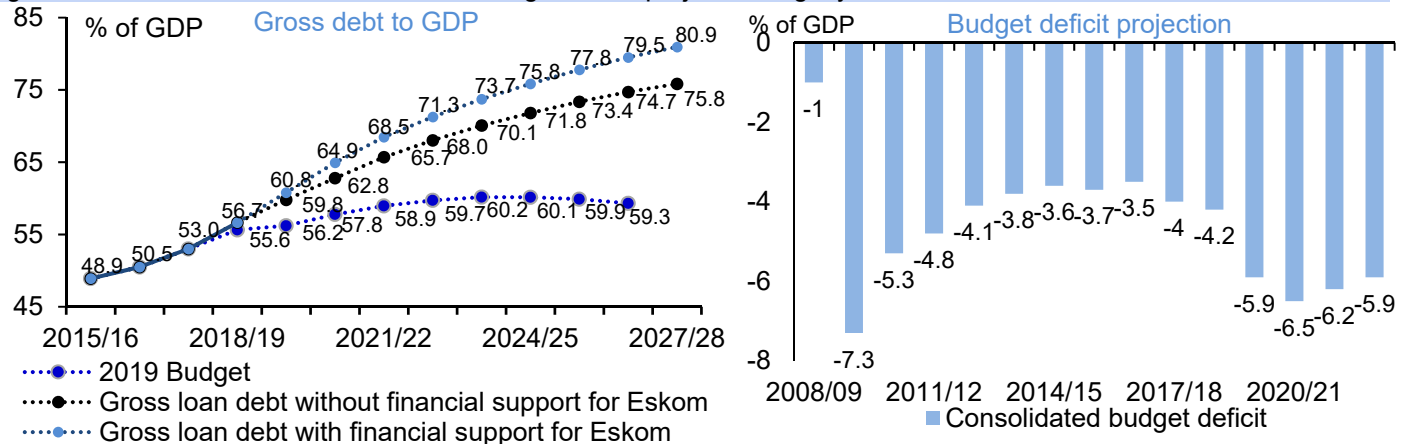
Figure 1: Main budget revenue and expenditure

Rmn	Dec 2019	Fiscal year to date	2019 MTBPS*	% of target
Revenue:	160 350	967 040	1 359 084	71.2
Expenditure:	162 519	1216 752	1 683 352	72.3
Balance:	-2 169	-249 711	-324 268	77.0

*Medium Term Budget Policy Statement Source: National Treasury, Investec

- The cumulative budget deficit for the first nine months (April to December) of the 2019/20 fiscal year totalled R249.7bn versus a deficit of R163.1bn incurred in the corresponding period of the 2018/19 fiscal year.
- Revenue collections for the year to date totalled R967.0bn translating to an increase of 4.8% y/y, however this was outpaced by a 12.0% y/y growth in expenditure to R1216.8bn.
- We do not anticipate total revenue amassed to reach the target put forward in the MTBPS, as it is currently only hovering at around 71.0% of the projected figure.
- The lift in revenue growth in the month of December, was largely underpinned by the 7.4% y/y and 4.2% y/y increase in personal income tax and VAT collections respectively.
- December typically sees increased tax revenue inflows versus the prior months from corporate income tax provisional payments for companies with December year-ends. However corporate income tax collections were essentially flat at R57.08bn versus R57.48bn the prior year.
- On the expenditure front, cumulative interest costs climbed to R127.4bn for the year to date, translating to a 10.6% y/y increase. Over the medium term (2019/20 – 2021/22) debt service costs are expected to remain the fastest growing spending category, reflecting the increase in government debt levels.
- Economic growth prospects have softened further, with a lacklustre GDP growth reading of below 0.5% projected for 2019. Personal income tax growth will likely be restricted by job losses, slower wage growth and an increase in immigration levels. Similarly, the subdued economic climate, exacerbated by electricity load shedding has seen numerous corporates shut downs, reducing the corporate tax pool.
- According to Stats SA’s latest liquidations and insolvencies release, “(I)iquidations increased by 10,7% in 2019 compared with 2018”, with company specific liquidations up 11.0% y/y.
- Heightened financial support to cash strapped SOEs, coupled with persistent revenue shortfalls, will continue to weigh negatively on the fiscal metrics. In turn making SA vulnerable to a sovereign credit rating downgrade by Moody’s ratings agency to non-investment grade. South Africa’s rating with S&P and Fitch is already at non-investment grade.

Figure 2: Gross debt-to GDP outlook and Budget deficit projection slightly wider



Source: National Treasury



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