Investec

Government Finance Update: Weak economic activity slows growth in tax collections in June

31st July 2019

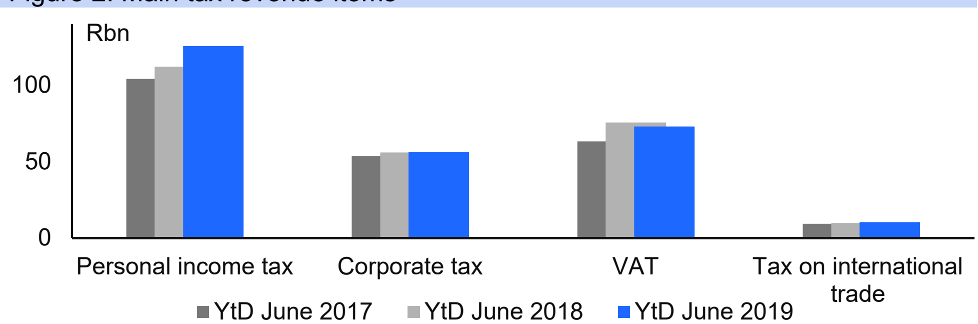
Figure 1: Main budget revenue and expenditure

Rmn	June 2019	Fiscal year to date	2019 Budget	% of target
Revenue:	147 241	317 987	1 403 464	22.7
Expenditure:	123 635	375 451	1 658 707	22.6
Balance:	23 606	-57 465	-255 243	22.5

Source: National Treasury, Investec

- The cumulative budget deficit for the first three months (April to June) of the 2019/20 fiscal year totaled R57.5bn versus a deficit of R27.59bn incurred in the corresponding period of the 2018/19 fiscal year.
- The slower revenue growth stemmed mainly from an underperformance in corporate tax revenue collections. June typically sees increased tax revenue inflows from corporate income tax provisional payments for companies with June year-ends. However, corporate income tax collections were essentially flat at R53.81bn versus R53.90bn the prior year.
- In June 2019, expenditure lifted by 13.6% y/y to R123.64bn.
- Revenue collections in the year to date totaled R317.99bn translating to an increase of 6.8% y/y. This was outpaced by the 15.4% y/y growth in expenditures to R375.45bn.
- On the revenue side, tax collections rose by 4.9% y/y in the year to date to R317.14bn compared to a 9.7% y/y rise in the same period last year. The slowdown in growth can be ascribed to particularly weak growth in corporate tax collections, of 0.5% y/y. Additionally, VAT collections fell by 3.5% y/y, partially on account of higher statistical base factors established in 2018 when the VAT rate was increased by 1% to 15%.
- Government finance figures for June reflected a traditional budget surplus of R23.61bn, which was insufficient to counteract the budget deficits recorded in April and May.
- Indeed, June 2019's budget surplus was lower than the R33.82bn surplus registered in June 2018, given a sharp slowdown in revenue growth. Specifically, revenue grew by 3.3% y/y in June to R147.24bn compared to growth of 8.7% y/y in June 2018.
- On the expenditure front, cumulative debt service costs totaled R28.08bn in the year to date, translating to a 15.4% y/y increase. Over the medium term (2019/20 – 2021/22) debt service costs will remain the fastest growing spending category, reflecting the increase in government debt levels (see figure 3).
- Economic growth is projected to stagnate below 1.0% in 2019. The muted economic growth environment as well as the effects on profitability of higher operating costs, will continue to dampen corporate tax collections. Growth in personal income taxes will be restricted by job losses and slower wage growth.
- The combination of revenue shortfalls and further financial support to state-owned enterprises, especially Eskom, will impact negatively on the fiscal metrics. Specifically, the 2019/20 consolidated government budget deficit is widely expected to exceed 6.0% of GDP, (versus the 4.5% deficit forecast by National Treasury in the 2019 Budget) and debt levels are seen to tip 60% of GDP (versus 56.1% National Treasury forecast) (see figures 4 & 5). As such, SA remains vulnerable to a sovereign credit rating downgrade by Moody's to non-investment grade. SA's rating with S&P and Fitch is non-investment grade since 2017.

Figure 2: Main tax revenue items



Source: National Treasury, Investec

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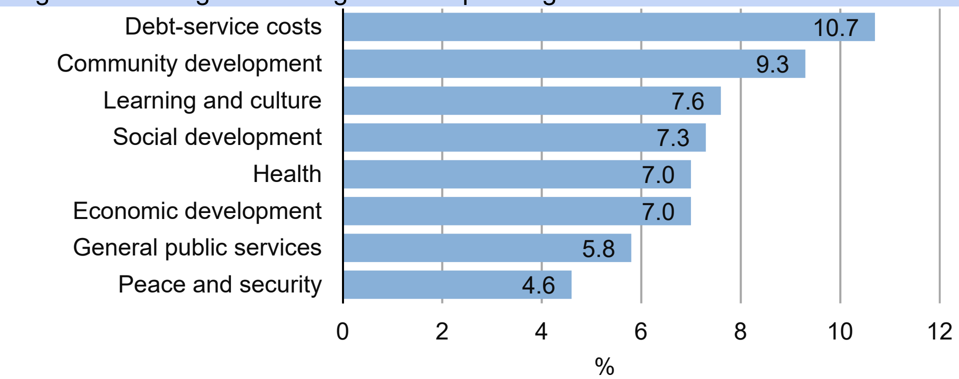
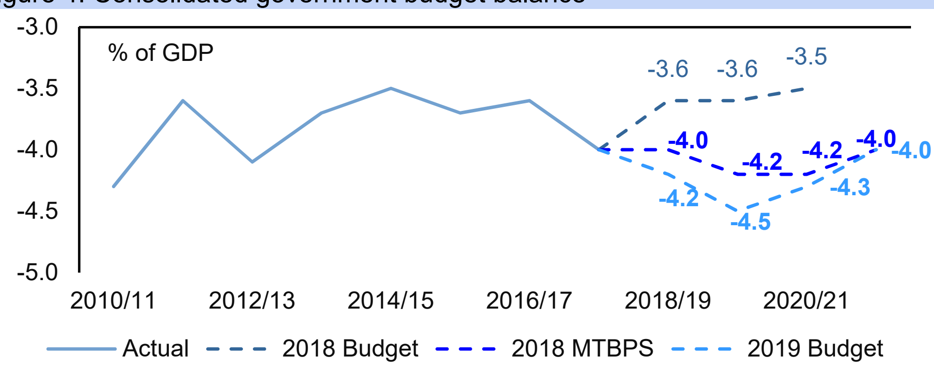
Figure 3: Average nominal growth in spending



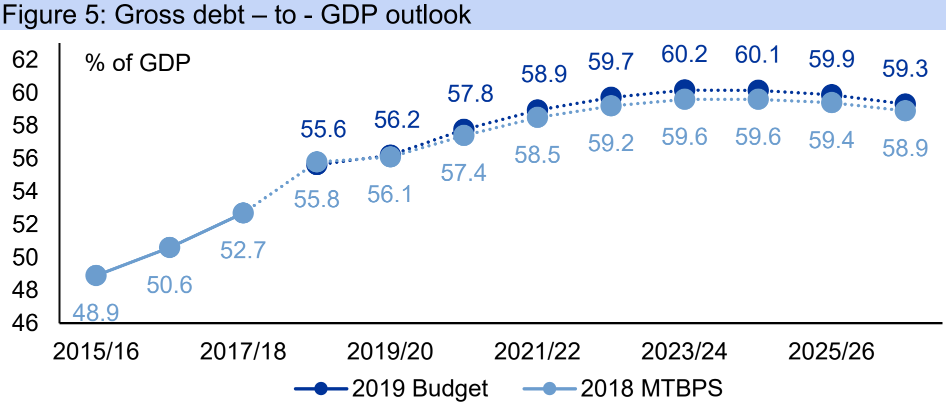
Source: National Treasury

Figure 4: Consolidated government budget balance



Source: National Treasury

Figure 5: Gross debt – to - GDP outlook



Source: National Treasury

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