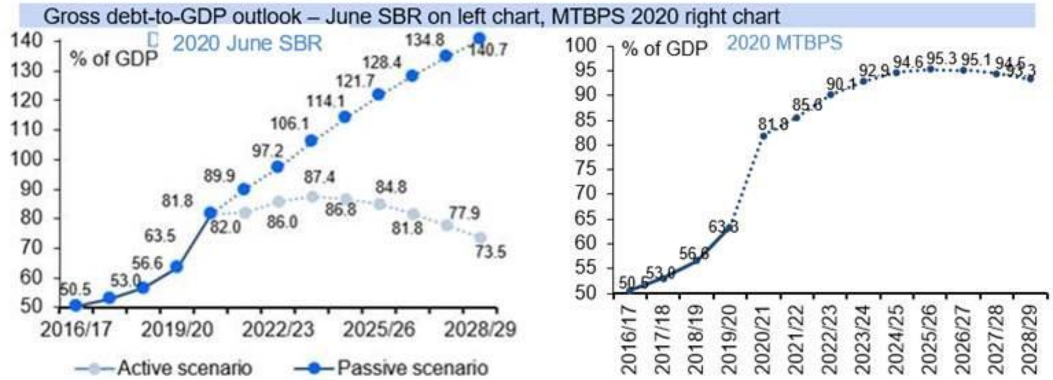
SA Economics

Wednesday 28 October 2020

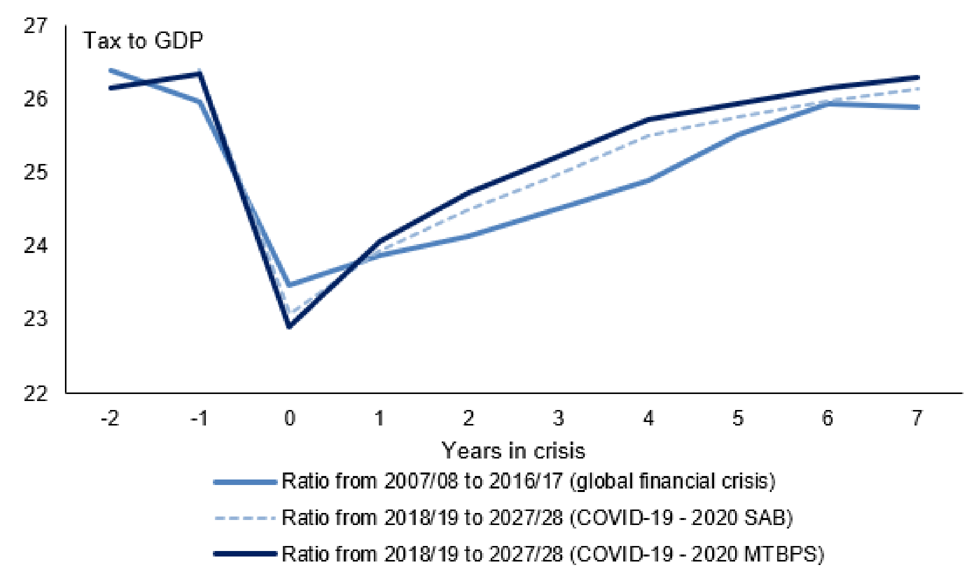
MTBPS Snapshot: a further ramp up in debt to GDP projections confirms Moody's & Fitch credit rating downgrades in November, S&P is a risk, bringing universal single B ratings closer. The MTBPS banks on growth & expenditure cuts

Gross debt-to-GDP outlook – June SBR on left chart, MTBPS 2020 right chart



Source: National Treasury

Tax-to-GDP after crisis



Source: National Treasury and South African Reserve Bank

Consolidated budget balance							
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
R billion		**Outcome**		**Revised**		**Medium-term estimates**	
Main budget	-208.6	-231.3	-345.1	-707.8	-537.4	-486.6	-437.5
Social security funds	9.3	6.8	-3.3	-49.1	-1.0	-2.4	-2.5
Public entities	8.3	26.3	13.4	5.1	2.0	4.2	5.7
Provinces	0.8	1.0	5.0	-9.3	0.6	1.0	0.9
RDP Fund	-0.3	-0.2	-0.6	-0.0	-0.1	-0.1	-0.1
Consolidated budget balance	**-190.5**	**-197.3**	**-330.6**	**-761.1**	**-535.9**	**-483.9**	**-433.4**
Percentage of GDP	*-4.1%*	*-4.0%*	*-6.4%*	*-15.7%*	*-10.1%*	*-8.6%*	*-7.3%*

Source: National Treasury

- 2020's Medium–Term Budget Policy Statement (MTBPS) has projected a further deterioration in government's debt to GDP projections and fiscal deficits. Over the medium-term, gross debt is projected to now stabilise at 95.3% of GDP in 2025/26, from 87.4% of GDP for 2023/24 that was outlined in June's Supplementary Budget Review (SBR).
- The rating agencies are likely to downgrade SA on the back of this budget, as the key objective of any credit rating agency is to assess ability to repay debt, and SA is evincing even further fiscal slippage from the June SBR estimates. The deficit is now expected at 15.7% of GDP this year, from 6.4% of GDP last year in 2019/20.
- The 2020 MTBPS has outlined substantial cuts to its non-interest expenditure projections (R300bn over three years) with the majority of the cuts to be applied to the wage bill (not social welfare or infrastructure), while acknowledging that there will be likely legal consequences to cutting the wage bill, and to its proposed three year wage freeze.
- While these expenditure cuts are largely in line with the expectations from the markets, it does not nullify the massive rise in South Africa's future debt quantum announced in June, and with a further elevation of debt projections to even closer of 100% (above 100% with SOE debt the state guarantees) this is not seen as sustainable for an EM.
- The rand has weakened in response, to R16.50/USD, as SA's credit risk, which is the perceived risk of default, has risen further, as the sheer quantum of debt issuance is projected to just climb further, which will increase borrowing costs (interest expenditure), and likely lift bond yields, with foreign appetite for SA debt dwindling.
- That said, the budgeted figures today do present more realistic projections for SA both on the debt and fiscal deficit side, as does the realism that severe tax hikes will cause slower economic growth, and not yield what is needed to plug the revenue gap given the very low tax buoyancy ratio.
- Today's budget is not a full austerity budget, but it certainly contains austerity with very substantial expenditure cuts detailed over the MTEF (2021/22 to 2023/24), and there is a notable shift in expenditure from consumption to infrastructure for the purpose of enhancing growth.
- However, investors and rating agencies will worry over the ability of government to implement the cuts, which detail a R60bn cut in the first year of the MTEF, a R90bn cut in the second year of the MTEF and a R150bn cut in the third year of the MTEF, a staggered approach which will require departments to adjust spending.
- Union opposition is likely to be strong, as the voracity persist, but SA needs to reign in expenditure which has not had a material multiplier effect on GDP, and instead has seen GDP growth decline over the past decade, despite higher and higher public sector renumeration in total. The rating agencies will view the planned expenditure cuts positively.
- National treasury has revised down its growth forecast to -7.8% y/y for this year (previously -7.2% y/y), and 3.3% y/y next year from 2.6%. Tax revenues are expected to be R312.8bn

lower than in February, deteriorating further from the SBR, while tax increases of R5bn are scheduled for next year, but likely will mainly be raised by failing to adjust for fiscal drag.

- Eskom receives an allocation of R23bn and SAA R6.5bn for settling debt and interest and R10.5bn for SAA to implement its business plan, while ICSA is detailed R84.7m for the licensing of spectrum due March next year. Eskom is a priority for economic growth, but the allocation to SAA, which is more than the level of taxes to be raised next year, was met with market dissatisfaction as it is not needed for economic growth.
- There has been ongoing fiscal slippage in SA's public finance figures deteriorate each year, and fiscal consolidation remains elusive as South Africa moves ever closer to an unsustainable debt trap. Some fiscal consolidation is planned by closing the budget deficit to 7.3% of GDP by 2023/24 and stabilising the debt to GDP ratio by 2025/26.
- This however is not marked fiscal consolidation, and does not bring the fiscal deficit down to the accepted 3.0% of GDP, or the debt projection down to around 50% of GDP, and so will not likely be seen as a game changing positive factor, and so not allay rating downgrades in November.
- Today's budget has however taken a much more significant step than has occurred in the two earlier this year, and those over the past decade by focusing heavily on expenditure cuts, and the correct methodologies to raise economic growth and so repair its finances over the long haul.
- The rating agencies may avoid downgrading SA by two notches at their country reviews on 20th November this year, but not enough has been done overall to comfortably avoid a one notch downgrade, especially as both Moody's and Fitch already have SA on a negative outlook.

Medium-term revenue framework

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
R billion		**Outcome**		**Revised**		**Medium-term estimates**	
Gross tax revenue	**1,216.5**	**1,287.7**	**1,355.7**	**1,112.6**	**1,279.5**	**1,392.2**	**1,503.2**
Gross tax revenue growth	6.3%	5.9%	5.3%	-17.9%	15.0%	8.8%	8.0%
Nominal GDP growth	6.3%	4.8%	4.6%	-5.6%	9.4%	5.9%	5.9%
Buoyancy	*1.00*	*1.22*	*1.16*	*3.18*	*1.59*	*1.50*	*1.35*
Non-tax revenue	19.2	23.9	27.6	24.9	22.3	23.3	25.0
Southern African Customs Union[1]	-56.0	-48.3	-50.3	-63.4	-46.1	-31.5	-42.5
National Revenue Fund receipts[2]	16.6	12.0	12.8	23.8	7.9	4.3	1.4
Main budget revenue	**1,196.4**	**1,275.3**	**1,345.9**	**1,097.9**	**1,263.6**	**1,388.3**	**1,487.1**

Source: National Treasury

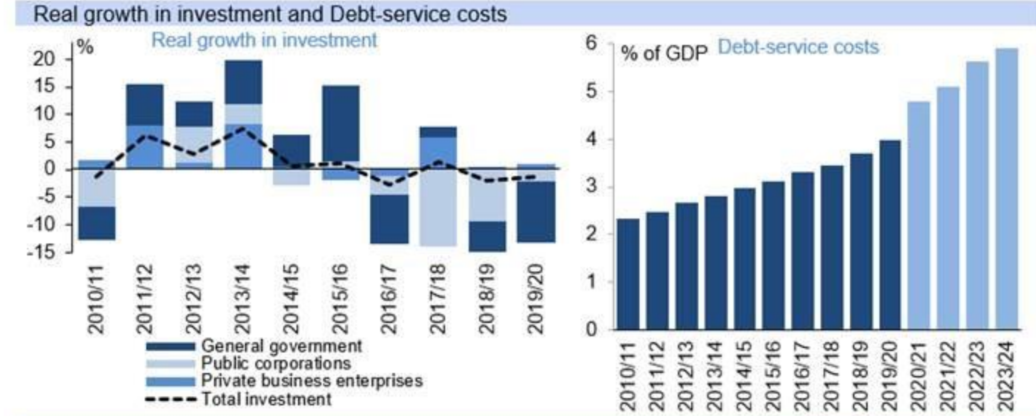
1. Amount made up of payments and other adjustments
2. Mainly revaluation profits on foreign-currency transactions and premiums on loan transactions

Real GDP growth and projections and Main budget revenue and spending *

Source: National Treasury

*Excludes Eskom financail support and transactionn in financial asets and liabilities

Real growth in investment and Debt-service costs



Source: National Treasury

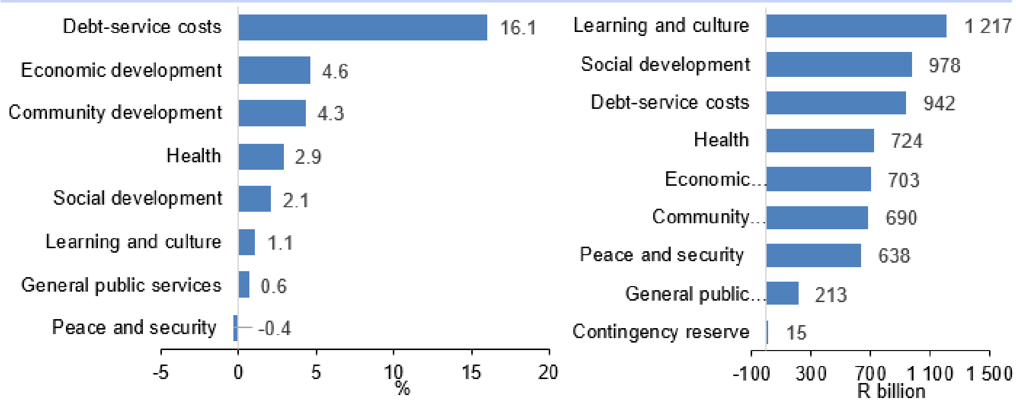
*Excludes Eskom financail support and transactionn in financial asets and liabilities

- **The crux of this budget from a market positive perspective has been the cut in planned expenditure**, but higher debt projections has had a negative impact on the currency, although it has since recovered to R16.33/USD, and the actual rise in debt and deficit ratios as % of GDP are negative on their own as it weaken the starting base for fiscal consolidation.
- National Treasury highlights that "(s)ince **2008, the real cost of the public-service wage bill has risen by 51 per cent**. … the main reason for this growth is an increase in unit costs, rather than headcount…with much state borrowing funding consumption, the wage-setting process has become divorced from economic reality."
- On **employee compensation**, the MTBPS shows that as a **share of total spending will decreases from 32.7% as estimated in the 2020 Budget Review to 31.3% over the medium term**, with "(s)alaries for civil servants have grown by about 40 per cent in real terms over the past decade".
- Government recognises that "(n)arrowing the deficit and improving the composition of spending **requires reductions in the growth of the wage bill**, which accounts for about one-third of the consolidated budget", and that it is likely to be taken to court by the unions for not implementing prior wage agreements.
- However, given the extreme collapse in the economy this year, the **force majeure** of the 2020 Covid-19 crisis may have a **good chance of success in the courts**, and as such is the only hope to repair government finances with "state-owned companies and municipalities struggling to pay salaries."
- Specifically, "Government proposes growth in the public-service wage bill of 1.8 per cent in the current year and average annual growth of 0.8 per cent over the 2021 MTEF period.

To achieve these targets, which are essential for fiscal sustainability, **government has not implemented the third year of the 2018 wage agreement**."

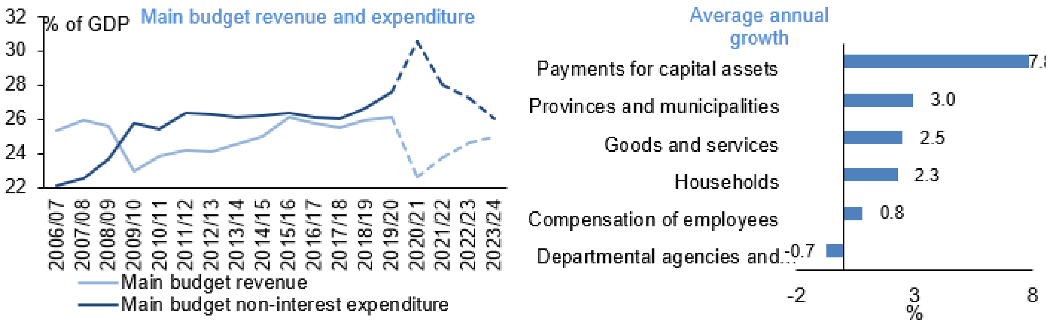
- Furthermore, the Budget Guidelines propose **a wage freeze for the next three years** to support fiscal consolidation. Additional options to be explored include harmonising the allowances and benefits available to public servants, reconsidering pay progression rules and reviewing occupation-specific dispensations.
- The next round of wage negotiations is due to start soon and work is underway to formulate government's position. In addition, government is coordinating work relating to developing a comprehensive public-sector remuneration strategy for the medium to long term …to better balance … fairness, equity and affordability."

Average nominal growth in spending and Consolidated government expenditure by function, 2020/21-2023/24



Source: National Treasury

Main budget revenue and expenditure** and average nominal spending growth, 2020/21-2023/24***



Source: National Treasury

**Excludes Eskom financial support and transactions in financial assets and liabilities
***Excludes COVID-19 fiscal relief measures in 2020/21

Consolidated government expenditure, 2020/21 -2023/24

R billion	2020/21 Revised[1]	2021/22	2022/23 Medium-term estimates	2023/24	Average annual growth 2021/22–2023/24
Learning and culture	398.3	399.0	406.7	411.3	1.1%
Health	226.2	235.3	242.0	246.3	2.9%
Social development	315.4	312.2	329.9	335.7	2.1%
Community development	208.2	221.1	232.2	236.4	4.3%
Economic development	211.3	224.7	236.3	242.0	4.6%
Peace and security	216.8	210.7	213.3	214.5	-0.4%
General public services	69.8	71.0	70.4	71.2	0.6%
Payments for financial assets	86.5	42.9	26.2	23.7	–
Total expenditure by function	**1,732.6**	**1,716.7**	**1,757.0**	**1,781.0**	**0.9%**
Debt-service costs	225.9	271.8	317.6	353.1	16.1%
Contingency reserve	–	5.0	5.0	5.0	–
Total expenditure	**1,958.4**	**1,993.5**	**2,079.6**	**2,139.2**	**3.0%**
Consolidated expenditure including June 2020 budget adjustments	**2,037.8**	**1,993.5**	**2,079.6**	**2,139.2**	**1.6%**

Source: National Treasury

1. 2020/21 excludes June 2020 budget adjustments

- Specifically on expenditure, "(m)ain budget non-interest spending has increased by R36 billion in the current year compared with 2020 Budget estimates. This reflects net additions made for the COVID-19 fiscal relief package, as discussed in the June special adjustments budget. …(n)ew proposed allocations of R34.3 billion in 2020/21, …are financed through reallocations and baseline reductions.

  Government proposes downward adjustments to main budget spending plans over the next three years. Relative to the 2020 Budget, **total main budget non-interest expenditure is projected to decrease by R62.9 billion in 2021/22, R92.9 billion in 2022/23 and R150.9 billion in 2023/24**.

- These downward adjustments reflect:

  - Reductions of R60 billion in 2021/22, R90 billion in 2022/23 and R150 billion in 2023/24, mostly falling on compensation. Other noninterest spending items are also reduced, while funding for buildings and other fixed structures, provincial and local capital grants, and the Infrastructure Fund is protected.

  - Lower estimated spending by the National Skills Fund and sector education and training authorities of R2.8 billion in 2021/22, R2.7 billion in 2022/23 and R0.9 billion in 2023/24, reflecting the decline in skills development levy projections.

- Early retirement savings anticipated in national departments of R109 million in 2021/22 and R118 million in 2022/23. Main budget non-interest expenditure is projected to contract in real terms in each year of the MTEF period.

- As a share of GDP, **non-interest expenditure will moderate from a peak of 32.4 per cent in 2020/21 to 26.4 per cent by 2023/24**. This includes a contingency reserve of R5 billion per year over the medium term. Due to a wider deficit, weaker currency and higher interest rates, debt-service costs will continue rising over the medium term.
- The main budget expenditure ceiling provides an upper limit within which departments prepare their budgets. Expenditure exceeded the 2019/20 ceiling … due to early payment of social grants. In the current year, expenditure breached the ceiling by R45.2 billion … (on) the emergency response to COVID-19.
- **Compared with the 2020 Budget, the (expenditure) ceiling (in the MTBPS) is lower by R58.9 billion in 2021/22 and R89 billion in 2022/23.**

Consolidated government fiscal framework, 2019/20 – 2023/24

	2019/20	2020/21	2021/22	2022/23	2023/24
R bn/% of GDP	Outcome	Revised	Medium-term estimates		
Revenue	**1,518.1**	**1,276.7**	**1,457.6**	**1,595.8**	**1,705.7**
	29.5%	26.3%	27.4%	28.3%	28.6%
Expenditure	**1,848.8**	**2,037.8**	**1,993.5**	**2,079.6**	**2,139.2**
	35.9%	41.9%	37.5%	36.9%	35.9%
Budget balance	**-330.6**	**-761.1**	**-535.9**	**-483.9**	**-433.4**
	-6.4%	-15.7%	-10.1%	-8.6%	-7.3%
Total gross loan debt	**3,261.3**	**3,974.1**	**4,551.8**	**5,071.3**	**5,536.2**
	63.3%	81.8%	85.6%	90.1%	92.9%

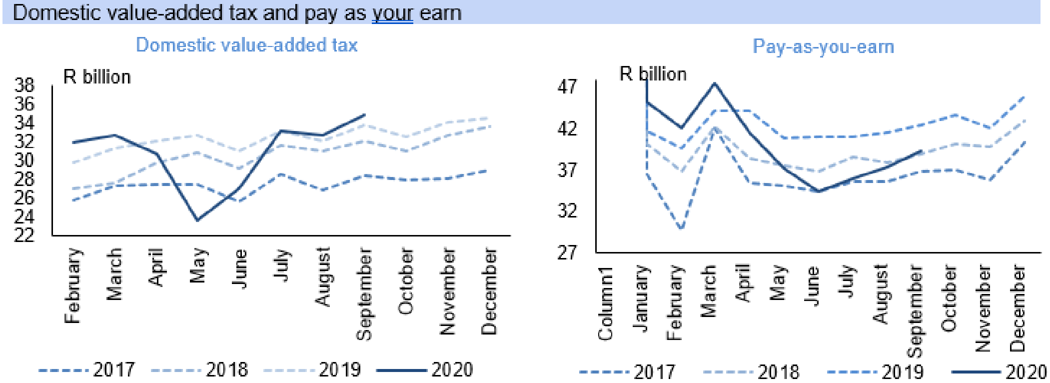
Source: National Treasury

Macroeconomic projections

	2019	2020	2021	2022	2023
Percentage change unless otherwise indicated	Actual	Estimate		Forecast	
Final household consumption	1.0	-7.9	4.7	2.2	1.9
Gross fixed capital formation	-0.9	-19.6	-1.4	3.9	3.9
Real GDP growth	**0.2**	**-7.8**	**3.3**	**1.7**	**1.5**
GDP at current prices (R billion)	**5,078**	**4,885**	**5,240**	**5,553**	**5,877**
CPI Inflation	4.1	3.2	4.1	4.4	4.5
Current account deficit (% GDP)	-3.0	-0.8	-1.6	-2.0	-2.7

Source: Reserve Bank and National Treasury

Domestic value-added tax and pay as your earn



Source: National Treasury and South African Reserve Bank

- The gross tax revenue estimate for 2020/21 has been revised down by R8.7 billion compared with the projection in the June special adjustments budget. This deterioration is aligned with revised economic growth projections and the expected performance of the major tax bases.

- Gross tax revenue is expected to be 17.9 per cent lower than collections in 2019/20, or **R312.8 billion below the 2020 Budget forecast.** The tax-to-GDP ratio is expected to decline substantially, dropping from 26.3 per cent to 22.9 per cent. A strong and sustained rebound in economic growth is required for the tax-to-GDP ratio to return to levels seen in 2019/20.
- Tax revenues, which fell sharply during the first several months of the coronavirus pandemic, have begun to recover. However, monthly collections remain well below 2019/20 levels in many tax categories. For example, domestic value-added tax (VAT) collected in the first six months of 2020/21 was 6.7 per cent lower than the same period in 2019/20.
- **Improved tax collection and administration continues to be an important element in achieving fiscal consolidation**. The South African Revenue Service continues to rebuild its capacity following several years of mismanagement. Near-term objectives include:

  - Finalising the tax gap study in December 2020 to quantify the difference between how much tax should be collected and how much is collected.

  - Remaining focused on international taxes, particularly aggressive tax planning using transfer pricing. • Increasing enforcement to eliminate syndicated fraud and tax crimes.

  - Continuing to use third-party data to find non-compliant taxpayers.

  - Collecting pay-as-you-earn and VAT debt, and ensuring that outstanding taxpayer returns are filed and liabilities paid.
- Medium-term revenue outlook – tax revenue is expected to increase to R1.5 trillion, or 25.2 per cent of GDP, by the end of the MTEF period. The **extraordinary shock to economic output in 2020/21 translates into large revenue shortfalls that will persist over the medium term**.
- The improvement in revenue collection over the next four years includes the revenue proposals announced in the June special adjustments budget, including **tax increases of R5 billion in 2021/22, R10 billion in 2022/23, R10 billion in 2023/24 and R15 billion in 2024/25.** It does not include any additional revenue from more effective collection.
- The Southern African Customs Union (SACU) common revenue pool forms part of the National Revenue Fund and main budget calculations. **Payments to SACU partners have been revised down sharply** over the next two years compared with 2020 Budget estimates.

Revisions to non-interest expenditure for 2020/21	
	R million
Non-interest expenditure (2020 Budget Review)	**1,536,724**
2020 special adjustments budget (SAB) net additions	36,006
Revised non-interest expenditure (2020 SAB)	**1,572,731**
COVID-19 fiscal relief package allocations	**19,431**
Employment creation	12,634
Extension of special COVID-19 social relief of distress grant	6,797
Increases in allocations since 2020 SAB	**14,904**
South African Airways	10,500
Other allocations in AENE[1]	4,404
Resources used to fund adjustments since 2020 SAB	**(33,286)**
Net of provisional allocations for COVID-19 fiscal relief package	(19,575)
Reductions to fund South African Airways allocation	(6,970)
Drawdowns, suspensions and projected underspending[2]	(6,740)
Other adjustments[3]	**(1,050)**
Revised non-interest expenditure (2020 MTBPS)	**1,572,731**
Change in non-interest expenditure from 2020 SAB	–
Change in non-interest expenditure from 2020 Budget	36,006
	Source: National Treasury

1. 2020 Adjusted Estimates of National Expenditure
2. Including suspensions, projected underspending and drawdown on the contingency reserve and of provisional allocations announced in 2020 Budget
3. Including an increase of R66 million in NRF payments and R1.1 billion downward adjustment to skills development levy

Main budget expenditure ceiling[1]							
R million	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
2018 MTBPS	1,225,455	1,314,865	1,416,597	1,523,762	1,630,026		
2019 Budget Review		1,310,156	1,407,595	1,502,052	1,607,758		
2019 MTBPS		1,307,235	1,404,675	1,493,029	1,591,287	1,673,601	
2020 Budget Review			1,409,244	1,457,703	1,538,590	1,605,098	
2020 MTBPS			**1,418,408**	**1,502,867**	**1,479,709**	**1,516,052**	**1,529,585**
							Source: National Treasury

1. The expenditure ceiling differs from main budget non-interest expenditure. The precise definition and calculation of the expenditure ceiling is contained in Annexure C

Total national government debt					
End of period	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
R billion	**Outcome**	**Revised**	**Medium-term estimates**		
Domestic loans[1]	**2,874.1**	**3,497.9**	**4,043.1**	**4,530.7**	**4,964.8**
Short-term	360.7	503.7	570.7	641.7	703.7
Long-term	2,513.4	2,994.2	3,472.4	3,889.0	4,261.1
Fixed-rate	*1,863.2*	*2,227.4*	*2,634.7*	*2,913.9*	*3,264.0*
Inflation-linked	*650.2*	*766.8*	*837.7*	*975.1*	*997.1*
Foreign loans[1]	**387.2**	**476.2**	**508.7**	**540.6**	**571.4**
Gross loan debt	**3,261.3**	**3,974.1**	**4,551.8**	**5,071.3**	**5,536.2**
Less: National Revenue Fund bank balances	-263.6	-204.6	-183.5	-168.1	-147.6
Net loan debt[2]	**2,997.7**	**3,769.5**	**4,368.3**	**4,903.2**	**5,388.6**
As percentage of GDP:					
Gross loan debt	*63.3%*	*81.8%*	*85.6%*	*90.1%*	*92.9%*
Net loan debt	*58.2%*	*77.6%*	*82.2%*	*87.1%*	*90.4%*
					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

- The consolidated budget includes the main budget and spending financed from revenues raised by provinces, social security funds and public entities. In 2020/21, the consolidated budget deficit has been revised **from 6.8 per cent of GDP projected in the 2020 Budget to 15.7 per cent of GDP**.

- **Public entities, social security funds and provinces are projected to have a combined cash surplus over the medium term**, partially offsetting the main budget deficit. Over the next two years, the consolidated budget deficit is projected, on average, to be 3.4 percentage points of GDP wider than the 2020 Budget estimates.
- The main budget balance and the primary balance will narrow to stabilise debt in 2025/26. Compared with the 2020 Budget Review estimates, both metrics have deteriorated.
- As a result of this year's steep economic contraction, **government's gross borrowing requirement** – the sum of the budget deficit and maturing loans – has increased by R342 billion to **R774.7 billion**, relative to the 2020 Budget. This is a **marginal decline from the June estimate of R776.9 billion in 2020/21**.
- In the current year, **short-term borrowing has increased** by R95 billion **to R143 billion**, relative to the 2020 Budget estimate. This is **marginally lower than the June estimate.** Short-term borrowing will average R66.7 billion per year over the next three years. **Long-term borrowing in the domestic bond market** will be **kept at R462.5 billion**, **unchanged from June 2020**, and average R469.9 billion per year over the medium term.
- In the special adjustments budget, government announced borrowing of US$7 billion from **international finance institutions**. This has been revised to US$7.3 billion, (R121.4 billion), of which US$5.5 billion has been disbursed, with the remainder expected by 31 March 2021.
- **Gross loan debt** is expected to increase from R3.97 trillion, or 81.8 per cent of GDP, in 2020/21 to R5.54 trillion, or 92.9 per cent of GDP, in 2023/24. The key drivers of this increase remain the budget balance and fluctuations in the interest, inflation and exchange rates.
- Compared with the 2020 Budget estimate, **debt-service costs will increase by R3.8 billion to R233 billion in 2020/21.** These costs will reach R353.1 billion, or 5.9 per cent of GDP, by 2023/24. **As a share of expenditure, debt-service costs will increase from 12.9 per cent in 2020/21 to 18.3 per cent in 2023/24.**
- Large fiscal adjustments and **an improving economic outlook** will narrow the budget deficit by 7.3 percentage points of GDP over the medium-term expenditure framework (MTEF) period, and by an additional 1.8 percentage points in the subsequent two years.
- The aim is to reach a **main budget primary surplus by 2025/26**. This target is expected to result in debt stabilising at 95.3 per cent of GDP in the same year." These targets will only be achieved if governent is successful in cutting the wage bill's previous projections.

National government gross borrowing requirement and financing					
	2019/20	2020/21	2021/22	2022/23	2023/24
R billion	Outcome	Revised	Medium-term estimates		
Gross borrowing					
Main budget balance	**-345.1**	**-707.8**	**-537.4**	**-486.6**	**-437.5**
Redemptions	**-70.7**	**-66.9**	**-65.5**	**-150.6**	**-155.7**
Domestic long-term loans	-19.4	-52.5	-60.9	-134.2	-112.9
Foreign loans	-51.2	-14.4	-4.6	-16.4	-42.8
Total	**-415.8**	**-774.7**	**-602.9**	**-637.2**	**-593.2**
Financing					
Domestic short-term loans (net)	36.1	143.0	67.0	71.0	62.0
Domestic long-term loans	305.4	462.5	472.2	500.8	436.8
Foreign loans	76.1	121.4	49.4	49.3	66.6
Change in cash and other balances	-1.8	47.8	14.3	16.1	27.8
Total	**415.8**	**774.7**	**602.9**	**637.2**	**593.2**

Source: National Treasury

Borrowing from international finance institutions					
Institutions	**Disbursement date**	**Interest rate**	**Terms (years)**	**Grace period[1] (years)**	**Amount billions**
New Development Bank	20 July 2020	6-month LIBOR[2] plus 1.25%	30	5	US$1.0
International Monetary Fund	29 July 2020	1.100%	5	3	US$4.3
African Development Bank	15 October 2020	3-month JIBAR[3] plus 0.8%	20	5	R5.04

Source: National Treasury

1. A period after the disbursement where no capital repayments are required
2. LIBOR (London Interbank Offered Rate)
3. JIBAR (Johannesburg Interbank Average Rate)

- The State details that "(a) **sharp drop in public infrastructure investment**, mostly driven by **declines in spending by state-owned companies** (has occurred). Between 2016/17 and 2019/20, total public infrastructure spending fell from R250 billion to R183 billion, or from 5.7 to 4 per cent of GDP.
- The financial position of **state-owned companies and public entities** was weak before the onset of the pandemic. The current increase in requests for recapitalisation largely reflects the **in-year deterioration in their operating environment.**
- Lenders have called the guarantees of South African Express and the Land Bank, with a negligible effect on the fiscal framework. **Larger calls on guaranteed debt are expected unless steps are taken to turn around the most indebted state-owned companies."**
- National Treasury forecast "(r)eal GDP growth is forecast at -7.8 per cent in 2020, revised down from -7.2 per cent projected in the 2020 special adjustments budget. The economy is expected to recover to a real GDP growth rate of 3.3 per cent in 2021, with **growth averaging 2.1 per cent over the medium term**.
- A range of immediate and short-term measures will be taken to rebuild confidence, kick-start the economy and continue to mitigate the effects of the pandemic. And **structural reforms** will promote faster, more inclusive growth and employment over the medium to long term."
- There will be "focus on rolling out infrastructure, expanding energy generation capacity, creating mass public employment and supporting rapid industrialisation. At the same time, **government will implement structural reforms such as modernising network industries, reducing barriers to entry, and increasing regional integration and trade**.
- The **National Treasury estimates that reforms in these areas can raise growth to over 3 per cent over the next 10 years and create more than 1 million jobs**. The plan is accompanied by a detailed implementation schedule that will be overseen by a council chaired by the President. It will be supported by a leadership team that coordinates reporting and identifies areas where more effective partnerships are required.

- The Infrastructure Fund will complement the plan's focus on capital investments. **Government has committed R100 billion over 10 years (of which R18 billion is over the medium term)** to this blended finance fund, which is designed to crowd in private-sector finance and expertise to support infrastructure delivery. To improve infrastructure planning and fast-track a project pipeline, an Investment and Infrastructure Office has been created in the Presidency.

Gross tax revenue

	2019/20			2020/21				
R billion	**Budget Review**	**Outcome**	**Deviations**	**Budget Review**	**SAB**[1]	**Revised**	**Deviation from Budget Review**	**Deviation from SAB**
Persons and individuals	527.6	527.6	0.0	546.8	455.5	454.2	-92.6	-1.3
Companies	216.7	211.5	-5.2	230.2	154.6	159.6	-70.7	5.0
Value-added tax	344.2	346.7	2.5	360.6	301.3	287.7	-72.9	-13.6
Dividends tax	29.1	27.9	-1.2	31.2	16.7	20.7	-10.5	4.0
Specific excise duties	46.8	46.8	0.1	48.8	36.3	33.8	-15.1	-2.5
Fuel levy	79.3	80.2	0.9	83.4	63.2	68.4	-15.1	5.2
Customs duties	56.3	55.4	-0.9	59.5	45.8	40.3	-19.2	-5.5
Ad valorem excise duties	4.1	4.1	0.0	4.3	3.9	3.2	-1.1	-0.7
Other	54.8	55.4	0.6	60.6	44.1	44.8	-15.8	0.7
Gross tax revenue	**1,358.9**	**1,355.7**	**-3.2**	**1,425.4**	**1,121.3**	**1,112.6**	**-312.8**	**-8.7**

Source: National Treasury

1. 2020 special adjustments budget figures

Revised revenue projections

R billion	2020/21	2021/22	2022/23	2023/24
2020 Budget	**1,425.4**	**1,512.2**	**1,609.7**	
Buoyancy	0.93	1.00	1.01	
2020 special adjustments budget	**1,121.3**	**1,291.4**	**1,394.0**	**1,508.9**
Buoyancy	3.23	1.58	1.46	1.33
Revised estimates	**1,112.6**	**1,279.5**	**1,392.2**	**1,503.2**
Buoyancy	3.18	1.59	1.50	1.35
Change since 2020 Budget	**-312.8**	**-232.7**	**-217.5**	
Change since 2020 special adjustments budget	**-8.7**	**-11.9**	**-1.8**	**-5.7**

Source: National Treasury

Main budget framework

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
R billion/percentage of GDP		**Outcome**		**Revised**		**Medium-term estimates**	
Main budget revenue	**1,196.4**	**1,275.3**	**1,345.9**	**1,097.9**	**1,263.6**	**1,388.3**	**1,487.1**
	25.5%	*25.9%*	*26.1%*	*22.6%*	*23.8%*	*24.7%*	*24.9%*
Main budget expenditure	**1,404.9**	**1,506.6**	**1,690.9**	**1,805.8**	**1,801.1**	**1,874.8**	**1,924.6**
	29.9%	*30.6%*	*32.8%*	*37.2%*	*33.9%*	*33.3%*	*32.3%*
Non-interest expenditure	1,242.3	1,324.8	1,486.2	1,572.7	1,529.3	1,557.2	1,571.5
	26.4%	*26.9%*	*28.9%*	*32.4%*	*28.8%*	*27.7%*	*26.4%*
Debt-service costs	162.6	181.8	204.8	233.0	271.8	317.6	353.1
	3.5%	*3.7%*	*4.0%*	*4.8%*	*5.1%*	*5.6%*	*5.9%*
Main budget balance	**-208.6**	**-231.3**	**-345.1**	**-707.8**	**-537.4**	**-486.6**	**-437.5**
	-4.4%	*-4.7%*	*-6.7%*	*-14.6%*	*-10.1%*	*-8.6%*	*-7.3%*
Primary balance	**-45.9**	**-49.5**	**-140.3**	**-474.8**	**-265.7**	**-169.0**	**-84.4**
	-1.0%	*-1.0%*	*-2.7%*	*-9.8%*	*-5.0%*	*-3.0%*	*-1.4%*

Source: National Treasury

- Government spending remains too high for the tax base – and this gap has likely increased as a result of the 2020 recession. Recent tax increases have generated less revenue than expected, and evidence suggests that tax increases can have large negative effects on GDP growth
- Without a major reduction in public spending, debt will continue to accumulate and interest payments – which already consume 21 cents of every rand of main budget revenue – will crowd out other spending.
- Consolidated government spending will grow below inflation at 1.6 per cent, increasing from R2.04 trillion in 2020/21 to R2.14 trillion in 2023/24. Nevertheless, spending levels remain near historic highs both in nominal terms and as a proportion of economic activity. Main budget spending averages 33.2 per cent of GDP over the MTEF period.
- More than 80 per cent of the total compensation reductions occur in the learning and culture, health, and peace and security functions. These labour-intensive functions account for the majority of personnel in the public service.
- Consistent with government's aim of shifting spending from consumption to investment, payments for capital assets grow above inflation, increasing from R88.9 billion in 2020/21 to R111.5 billion in 2023/24, at an annual average rate of 7.8 per cent. Little was mentioned on the NHI.
- Over the medium term, government will phase in the principles of zero-based budgeting – supported by comprehensive expenditure reviews that are underway – to analyse and justify departmental spending. These initiatives will help to streamline bureaucracy, eliminate programmes that no longer add value and reform those in need of improvement.
- South Africa's public spending levels are not matched by high levels of quality or efficiency in the services delivered by the state. This has led to an over-emphasis on incremental changes to annual budgets – and rising allocations – without adequate analysis of programme effectiveness.
- To address this problem, some reforms to the budgeting process are necessary, and government proposes to implement the principles of zero-based budgeting. Since June 2020, the National Treasury has been reviewing government spending to improve efficiency.
- More than 30 spending reviews across all functions have been conducted. The reviews make use of large data systems to understand service-delivery outcomes, and how these might change under different scenarios. Preliminary findings indicate that:

  - Many policies are designed and adopted without considering their total costs and affordability. • Multiple institutions share overlapping responsibilities or mandates, leading to duplication of work.

  - In several high-spending procurement areas, including information and communications technology, and infrastructure, it appears that government is overpaying for goods and services. The spending reviews will be used to inform the zero-based budgeting approach that government will use to review baseline allocations in the 2022 MTEF period.
- The 2020 MTBPS delivered on expectations around cutting expenditure, but markets were disturbed by the elevation yet again by government planned borrowings. This ongoing, escalating fiscal slippage was a hallmark of the Zuma Presidency, and has leached into the Ramaphosa Presidency, with severe fiscal consolidation now needed.

Consolidated government expenditure by functions[1]

R billion	2019/20 Outcome	2020/21 Revised[2]	2021/22 Medium-term estimates	2022/223	2023/24	Average annual growth 2020/21 – 2023/24
Learning and culture	**383.4**	**398.3**	**399.0**	**406.7**	**411.3**	**1.1%**
Basic education	261.1	267.8	267.8	272.0	274.5	0.8%
Post-school education and training	111.8	118.7	119.7	123.0	124.9	1.7%
Arts, culture, sport and recreation	10.5	11.8	11.5	11.8	11.9	0.2%
Health	**223.2**	**226.2**	**235.3**	**242.0**	**246.3**	**2.9%**
Peace and security	**212.8**	**216.8**	**210.7**	**213.3**	**214.5**	**-0.4%**
Defence and state security	50.8	52.0	47.2	47.7	48.1	-2.5%
Police services	104.3	104.8	105.3	106.1	106.4	0.5%
Law courts and prisons	47.7	49.5	49.1	49.7	50.0	0.3%
Home affairs	10.0	10.5	9.1	9.9	10.0	-1.7%
Community development	**197.0**	**208.2**	**221.1**	**232.2**	**236.4**	**4.3%**
Economic development	**196.7**	**211.3**	**224.7**	**236.3**	**242.0**	**4.6%**
Industrialisation and exports	37.2	38.6	41.5	41.5	42.3	3.1%
Agriculture and rural development	28.8	29.1	28.2	28.7	28.9	-0.2%
Job creation and labour affairs	21.4	23.1	24.3	25.3	25.6	3.4%
Economic regulation and infrastructure	92.8	103.9	113.7	123.3	127.3	7.0%
Innovation, science and technology	16.5	16.6	17.0	17.5	17.8	2.4%
General public services	**66.2**	**69.8**	**71.0**	**70.4**	**71.2**	**0.6%**
Executive and legislative organs	15.2	15.2	14.6	14.9	15.0	-0.3%
Public administration and fiscal affairs	43.5	46.6	48.4	47.2	47.8	0.9%
External affairs	7.5	8.1	8.0	8.2	8.3	0.9%
Social development	**298.7**	**315.4**	**312.2**	**329.9**	**335.7**	**2.1%**
Social protection	221.7	227.3	228.4	241.0	242.8	2.2%
Social security funds	77.0	88.0	83.7	88.9	92.9	1.8%
Payments for financial assets	**66.0**	**86.5**	**42.9**	**26.2**	**23.7**	–
Allocated by function	**1 644.0**	**1 732.6**	**1 716.7**	**1 757.0**	**1 781.0**	**0.9%**
Debt-service costs	204.8	225.9	271.8	317.6	353.1	16.1%
Contingency reserve	–	–	5.0	5.0	5.0	–
Consolidated expenditure	**1 848.8**	**1 958.4**	**1 993.5**	**2 079.6**	**2 139.2**	**3.0%**

Source: National Treasury

1) Consisting of national and provincial departments, social security funds and public entities
2) 2020/21 excludes June 2020 budget estimates

Consolidated government expenditure by economic classification[1]

R billion	2019/20 Outcome	2020/21 Revised[2]	2021/22 Medium-term estimates	2022/223	2023/24	Average annual growth 2020/21 – 2023/24
Current payments	**1 087.7**	**1 138.3**	**1 196.2**	**1 256.1**	**1 302.0**	**4.6%**
Compensation of employees	626.1	639.3	639.1	646.5	655.0	0.8%
Goods and services	246.9	262.9	275.3	281.5	283.3	2.5%
Interest and rent on land	214.8	236.1	281.8	328.0	363.8	15.5%
of which: debt-service costs	*204.8*	*225.9*	*271.8*	*317.6*	*353.1*	*16.1%*
Transfers and subsidies	**616.4**	**644.7**	**648.6**	**683.2**	**696.9**	**2.6%**
Provinces and municipalities	136.6	149.3	151.5	159.9	162.9	3.0%
Departmental agencies and accounts	27.7	26.3	24.7	25.4	25.7	-0.7%
Higher education institutions	46.6	47.4	48.0	49.0	49.8	1.6%
Foreign governments and international organisations	2.5	2.9	2.7	2.9	2.9	0.1%
Public corporations and private enterprises	35.1	34.8	37.3	40.2	43.9	8.0%
Non-profit institutions	38.1	40.7	41.8	43.7	44.3	2.9%
Households	329.8	343.4	342.5	362.0	367.4	2.3%
Payments for capital assets	**78.6**	**88.9**	**100.8**	**109.2**	**111.5**	**7.8%**
Buildings and other capital assets	60.3	70.3	79.6	86.6	88.5	7.9%
Machinery and equipment	18.3	18.5	21.2	22.6	23.0	7.5%
Payments for financial assets	**66.0**	**86.5**	**42.9**	**26.2**	**23.7**	–
Total	**1 848.8**	**1 958.4**	**1 988.5**	**2 074.6**	**2 134.2**	**2.9%**
Contingency reserve	–	–	5.0	5.0	5.0	–
Consolidated expenditure	**1 848.8**	**1 958.4**	**1 993.5**	**2 079.6**	**2 139.2**	**3.0%**
Consolidated expenditure including June 2020 budget adjustments	**1 848.8**	**2 037.8**	**1 993.5**	**2 079.6**	**2 139.2**	**1.6%**

Source: National Treasury

1) Consisting of national and provincial departments, social security funds and public entities
2) 2020/21 excludes June 2020 budget estimates

Reductions to compensation of employees				
R million	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Function				
Community development	-632	-1,636	-2,294	-1,545
Economic development	-1,676	-4,469	-6,084	-4,112
General public services	-1,268	-4,064	-5,444	-3,765
Health	-8,987	-19,147	-27,388	-17,202
Learning and culture	-14,007	-30,038	-42,948	-27,207
Peace and security	-9,185	-21,644	-28,848	-18,863
Social development	-760	-2,190	-3,065	-2,116
Total	**-36,515**	**-83,187**	**-116,071**	**-74,811**

Source: National Treasury