



Government Finance Update: Budget deficit increases in the first two months of the 2019/20 fiscal year

2nd July 2019

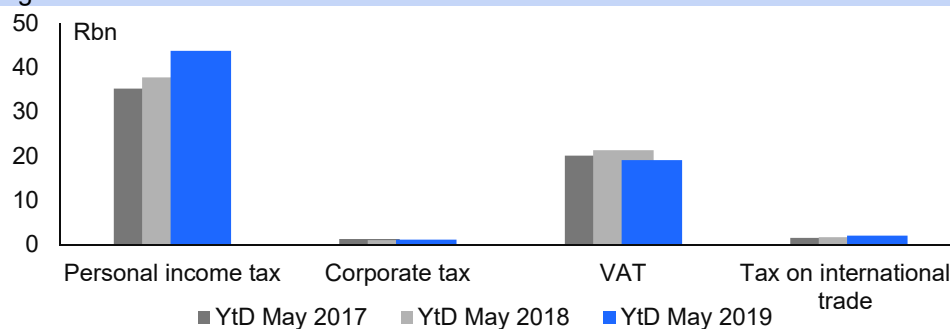
Figure 1: Main budget revenue and expenditure

Rmn	May 2019	Fiscal year to date	2019 Budget	% of target
Revenue:	96 921	170 745	1 285 386	12.2
Expenditure:	114 461	251 816	1 509 858	15.2
Balance:	-17 540	-81 071	-255 243	31.8

Source: National Treasury, Investec

- In May, the main budget balance registered a deficit of R17.5bn following a deficit of R63.5bn in April.
- For cumulative deficit for the first two months (April and May) of the 2019/20 fiscal year totaled R81.1bn versus a deficit of R61.4bn incurred in the corresponding period of the 2018/19 fiscal year.
- Revenue collections in the year to date (April and May of the 2019/20 fiscal year) totaled 170.7bn translating to an increase of 10.0% y/y. This was outpaced by the 16.2% y/y growth in expenditures to R251.8bn.
- On the revenue side, tax collections rose by 6.9% y/y in the year to date to R175.8bn compared to a 10.3% y/y rise in the same period last year. The slowdown in growth can be partly ascribed to VAT collections that declined by 4.6% y/y. This in turn is a function of higher statistical base factors established in 2018 when the VAT rate was increased by 1% to 15%.
- Personal income tax collections increased to R84.9bn in the year to date from R75.2bn in the same period of 2018/19 with the 2019 Budget not adjusting the personal income tax brackets for inflation. Consequently, individuals bear a larger tax burden. In the year ahead, growth in this tax category will likely be restricted by job losses and slower wage growth.
- Corporate tax collections rose only slightly to R2.4bn in the year to date from R2.0bn in the prior year. Weak corporate tax collections are reflective of the effects on profitability of higher operating costs and the broader muted economic growth environment.
- On the expenditure front, cumulative debt service costs totaled R7.8bn in the year to date, translating to a 24.3% y/y increase. The 2019 Budget projected debt service costs to rise 11.7% y/y to R202.2bn for the full 2019/20 fiscal year. Over the medium term (2019/20 – 2021/22) debt service costs are forecast to grow 10.7%, comprising 4.0% of GDP. Debt service-costs will remain the fastest growing spending category, reflecting the increase in government debt levels (see figure 4).
- National Treasury forecasts a consolidated budget deficit of 4.5% of GDP for 2019/20 and a gross debt level of nearly 60% of GDP. These forecasts were premised on nominal GDP growth of 7.0%, whilst in Q1.19 the economy managed to produce growth of just 4.0% y/y and a meaningful and sustained rebound in economic activity in the remainder of the year is not expected.
- This, coupled with further financial support to state-owned enterprises, especially Eskom, are key risks to fiscal consolidation and the stabilisation, and thereafter a reduction, in government debt levels.

Figure 2: Main tax revenue items

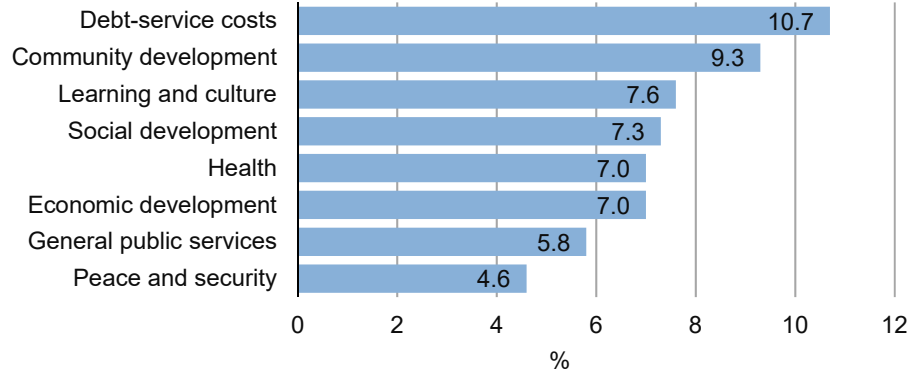




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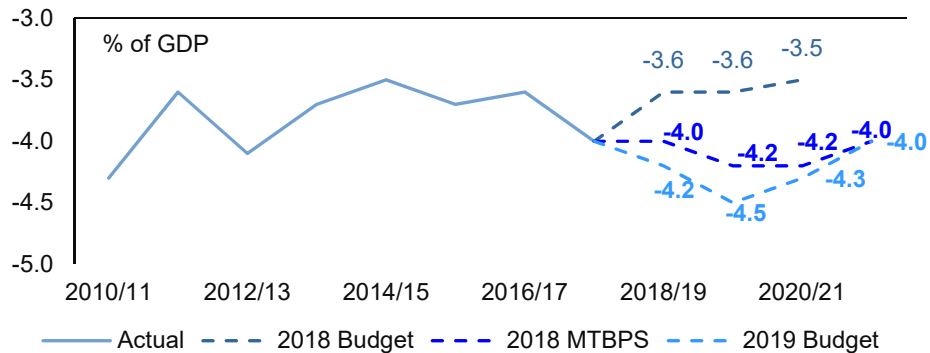
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Figure 3: Average nominal growth in spending



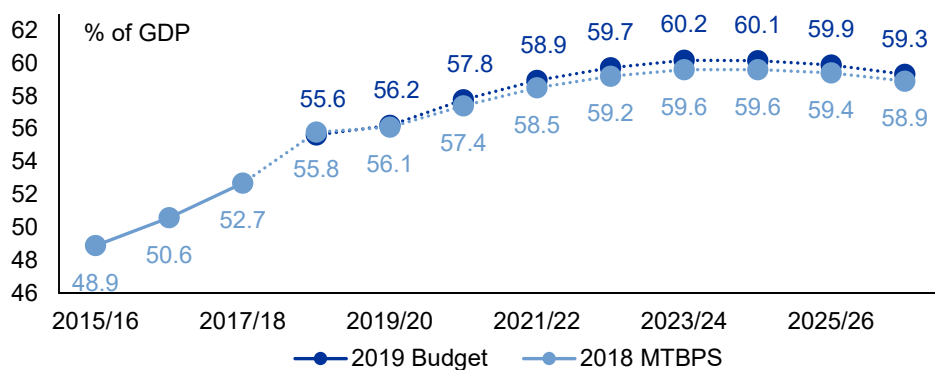
Source: National Treasury

Figure 4: Consolidated government budget balance



Source: National Treasury

Figure 5: Gross debt – to - GDP outlook



Source: National Treasury



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