Box 4 The *2019 Medium Term Budget Policy Statement*[1]

The *2019 Medium Term Budget Policy Statement (2019 MTBPS)*, which was tabled in an environment of challenging global and domestic economic conditions, paves the way to stabilising South Africa's fiscal position.

Since the February 2019 Budget, world economic growth has moderated further and is expected to slow to its lowest level since the 2007/08 global financial crisis in 2019, while weak domestic economic activity has persisted alongside an increasingly constrained fiscal environment. This was reflected by a marked upward revision of the budget deficit and debt levels in the *2019 MTBPS*.

South Africa's economic outlook has deteriorated since the 2019 Budget. Weaker-than-expected economic growth has led to lower-than-projected tax revenue collections. In addition, state-owned companies' (SOCs) need for support from government have also increased.

The *2019 MTBPS* revised the annual growth in real gross domestic product (GDP) for the current year significantly lower from the 1.5% in the 2019 Budget to only 0.5% in an environment of lower expected global economic growth and weak domestic economic activity, together with rising unemployment and constrained growth in household and government consumption as well as investment expenditure. As far as price pressures in the economy are concerned, consumer price inflation is expected to remain within the 3–6% target range, with lower annual average estimates over the full medium-term horizon.

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1 The *2019 Medium Term Budget Policy Statement (2019 MTBPS)* was presented to Parliament by the Minister of Finance on 30 October 2019.

Macroeconomic projections*

Percentage

	2018**			2019		2020		2021		2022
	Budget	*MTBPS*	Outcome	Medium-term estimates***						
				Budget	*MTBPS*	Budget	*MTBPS*	Budget	*MTBPS*	*MTBPS*
Real GDP growth	1.5	0.7	0.8	1.5	0.5	1.7	1.2	2.1	1.6	1.7
CPI	5.3	4.9	4.7	5.2	4.3	5.4	4.9	5.4	4.8	4.8
Current account balance (as a percentage of GDP)	-2.3	-3.2	-3.5	-3.4	-3.4	-3.8	-3.5	-4.0	-3.5	-3.5
GDP at current prices (R billions)	4 941	4 949	4 874	5 323	5 132	5 708	5 449	6 136	5 804	6 187

* Calendar years
** *2018 Budget Review* and *2018 MTBPS*
*** *2019 Budget Review* and *2019 MTBPS*

Source: National Treasury

The revised macroeconomic projections informed the review of the fiscal framework. The framework is at risk from further revenue shortfalls amid persistent slow domestic economic growth and higher expenditure due to demands for financial support from distressed SOCs, especially Eskom. To mitigate the major and immediate risk that Eskom poses to the economy and public finances, the utility received additional assistance from government to ensure its continued operation and to service its debt obligations. Under these circumstances, the budget deficit and debt levels are expected to increase. It is projected that national government's stock of outstanding debt will increase by R1.3 trillion over the medium term. The original and revised fiscal projections are summarised in the accompanying table.

Fiscal framework*

R billions/percentage of GDP

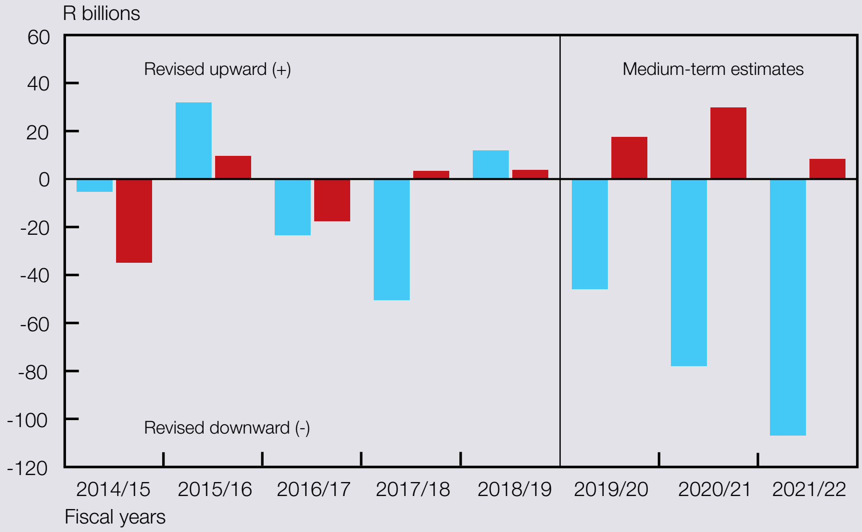
	2018/19**			2019/20		2020/21		2021/22		2022/23
	Budget	*MTBPS*	Outcome	Medium-term estimates***						
				Budget	*MTBPS*	Budget	*MTBPS*	Budget	*MTBPS*	*MTBPS*
Total consolidated revenue	1 455	1 467	1 455	1 584	1 538	1 696	1 619	1 837	1 730	1 841
Total consolidated expenditure	1 665	1 669	1 653	1 827	1 844	1 949	1 979	2 089	2 098	2 215
Of which: debt service cost	180.1	181.1	181.8	202.2	203.7	224.1	232.8	247.4	246.6	299.1
Consolidated budget deficit (fiscal balance).....	-181	-202	-208	-243	-306	-253	-360	-252	-368	-374
Percentage of GDP	*-3.6*	*-4.0*	*-4.2*	*-4.5*	*-5.9*	*-4.3*	*-6.5*	*-4.0*	*-6.2*	*-5.9*
Gross loan debt (national government)	2 771	2 818	2 788	3 043	3 168	3 358	3 591	3 683	4 036	4 478
Percentage of GDP	*55.1*	*55.8*	*56.7*	*56.2*	*60.8*	*57.7*	*64.9*	*58.9*	*68.5*	*71.3*

* Fiscal years
** *2018 Budget Review* and *2018 MTBPS*
*** *2019 Budget Review* and *2019 MTBPS*

Source: National Treasury

The deterioration in the revenue outlook is reflected by the *2019 MTBPS* which revised consolidated government revenue lower by a cumulative R231 billion over the medium term (R46.0 billion for fiscal 2019/20) compared with the 2019 Budget. This reflects both the downward revision in GDP growth as well as inefficiencies and structural weaknesses in revenue collection.

Revisions to consolidated government revenue and expenditure*



* Budget Review to MTBPS

Revenue
Expenditure

Source: National Treasury

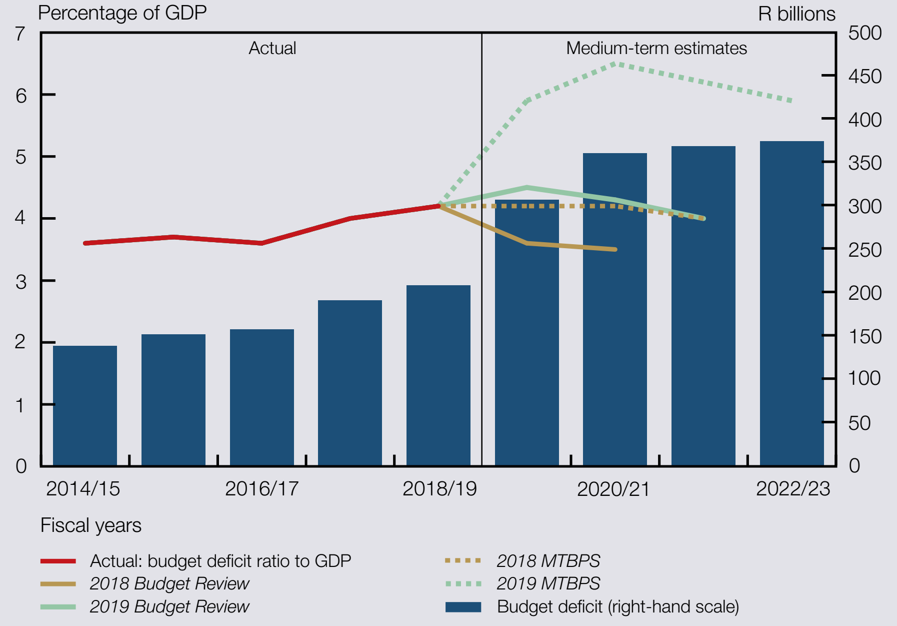
Despite the deterioration in revenue estimates, consolidated government expenditure is expected to grow at an average annual rate of 6.3% over the medium term. The upward adjustments in expenditure of R17.5 billion in fiscal 2019/20 mainly reflect additional support of R26 billion to Eskom and R11 billion to several other SOCs in financial distress, such as Denel, South African Airways, the South African Broadcasting Corporation and South African Express Airways. Eskom was allocated a total amount of R49 billion in the current fiscal year, R56 billion in fiscal 2020/21 and R33 billion in fiscal 2021/22. The higher expenditure is partly offset by using contingency reserves, provisional allocations, projected underspending and declared unspent funds, amounting to R21.4 billion in fiscal 2019/20.

With the compensation of employees accounting for 34.2% of total government expenditure in fiscal 2019/20, growth in compensation should preferably not be above inflation as in the past, when the current three-year wage agreement, which is now in its second year, is renegotiated.

With the much wider budget deficits, the cost of servicing government debt is expected to exceed the 2019 Budget estimates by R1.5 billion in fiscal 2019/20, R8.7 billion in fiscal 2020/21 and R17.2 billion in fiscal 2021/22. An estimated 18.4% of the main budget revenue will be allocated to service debt in fiscal 2022/23 compared with 15.0% in fiscal 2019/20.

The *2019 MTBPS* consolidated government budget deficit of 5.9% of GDP for fiscal 2019/20 represents a significant upward revision from the original 4.5% in the 2019 Budget. The consolidated government budget deficit as a ratio of GDP is expected to increase even further to 6.5% in fiscal 2020/21 before narrowing to 5.9% in fiscal 2022/23. Robust and consistently tight fiscal measures are required to stabilise the budget deficit at a more sustainable level.

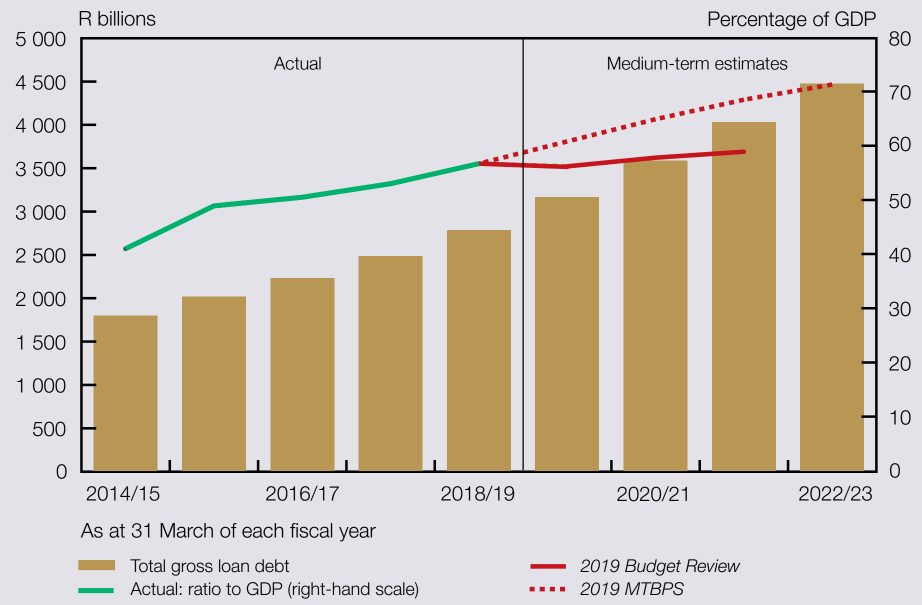
Consolidated government budget deficit



Source: National Treasury

National government's debt-to-GDP trajectory is not expected to stabilise over the medium term, with the *2019 MTBPS* projecting gross loan debt (domestic and foreign currency-denominated) of R3.2 trillion (60.8% of GDP) for fiscal 2019/20. This was a significant upward revision from the R2.8 trillion (56.7% of GDP) estimated in the 2019 Budget. Gross loan debt is expected to increase further to 71.3% of GDP in fiscal 2022/23, and requires a meaningful containment of government expenditure and the implementation of structural reforms.

National government gross loan debt



Source: National Treasury