Box 5 The *2020 Budget Review*

South Africa's public finances continued to deteriorate in fiscal 2019/20, following the impact of weak economic growth on revenue collection together with the financial obligations associated with non-financial state-owned companies (SOCs). The 2020 Budget focused on faster and sustainable economic growth to increase revenue in order to reduce pressure on public finances by narrowing the budget deficit and containing debt. Alleviating the constraint of electricity-supply shortages on the economy was prioritised, along with other structural reforms. In the interest of fiscal consolidation and sustainability, a reduction in government expenditure was proposed, partly through a decrease in the public service wage bill as well as the reform of SOCs. On the revenue side, taxes were not increased as in recent years, due to the weak economic environment and expected low future growth.

Projected real economic growth for 2020 was revised lower to 0.9% from the 1.7% initially expected in the 2019 Budget. Thereafter, it is expected that real gross domestic product (GDP) will accelerate gradually to 1.3% in 2021 and 1.6% in 2022 – lower than the increases of 1.6% and 1.7% respectively that were estimated in the *2019 Medium-Term Budget Policy Statement (2019 MTBPS)*. Consumer price inflation is expected to accelerate to 4.5% in 2020, mainly due to higher meat and electricity prices, and to then average 4.6% over the medium term, which renders an improved inflation outlook when compared with the average of 4.8% estimated in the *2019 MTBPS.*

Macroeconomic projections*

Percentage	2017	2018	2019			2020	2021	2022
	Outcome		2019 Budget	*2019 MTBPS*	2020 Budget	Medium-term estimates**		
Real GDP growth	1.4	0.8	1.5	0.5	0.3	0.9	1.3	1.6
Consumer price inflation	5.3	4.7	5.2	4.3	4.1	4.5	4.6	4.6
Current account balance***	-2.5	-3.5	-3.4	-3.4	-3.4	-3.4	-3.5	-3.7

* Calendar years
** *2020 Budget Review*
*** As a percentage of GDP

Source: National Treasury

The revenue outlook continued to deteriorate along with weaker-than-expected economic growth. The projected revenue for fiscal 2019/20 was revised lower by R63.3 billion relative to the 2019 Budget. This shortfall is also significantly higher than the expected shortfall of R52.5 billion in the *2019 MTBPS*. Weak employment creation, moderate wage growth and sluggish economic activity continued to weigh on both personal and corporate income tax collections. The expected decrease in tax buoyancy[1] to 0.93 primarily reflects anticipated lower personal income tax receipts in the wake of the proposed reduction in the public service wage bill.

No major tax changes were proposed in the 2020 Budget. The main tax proposals were related to personal income tax relief through above-inflation adjustments of all tax brackets, an increase in the fuel and Road Accident Fund (RAF) levies as well as changes to excise duties on alcohol and tobacco products, and environmental taxes, as summarised below:

- Fuel levy: an increase of 25 cents per litre, of which 16 cents per litre is to be allocated for the general fuel levy and 9 cents per litre for the RAF levy.
- Excise duties: an increase of between 4.4% and 7.5% on alcohol and tobacco products respectively, effective from 26 February 2020.
- Plastic bag levy: an increase from 12 cents to 25 cents per bag.
- Carbon tax: an increase in the tax rate of 5.6% to R127 per tonne of carbon dioxide emissions equivalent.

Consolidated fiscal framework indicators*

R billions	2017/18	2018/19	2019/20			2020/21	2021/22	2022/23
	Outcome		2019 Budget	*2019 MTBPS*	2020 Budget	Medium-term estimates**		
Consolidated revenue	1 351	1 445	1 584	1 538	1 517	1 584	1 683	1 791
Percentage of GDP	*28.8*	*29.4*	*29.3*	*29.5*	*29.4*	*29.2*	*29.2*	*29.2*
Consolidated expenditure	1 542	1 643	1 827	1 844	1 844	1 954	2 040	2 141
Percentage of GDP	*32.8*	*33.4*	*33.7*	*35.4*	*35.7*	*36.0*	*35.4*	*34.9*
Consolidated budget deficit	-190.5	-197.4	-242.7	-306.2	-327	-371	-358	-350
Percentage of GDP	*-4.1*	*-4.0*	*-4.5*	*-5.9*	*-6.3*	*-6.8*	*-6.2*	*-5.7*
Gross loan debt***	2 490	2 788	3 043	3 168	3 176	3 562	3 978	4 384
Percentage of GDP	*53.0*	*56.7*	*56.2*	*60.8*	*61.6*	*65.6*	*69.1*	*71.6*
Net loan debt***	2 260	2 545	2 829	2 924	2 938	3 340	3 752	4 153
Percentage of GDP	*48.1*	*51.7*	*52.3*	*56.1*	*57.0*	*61.5*	*65.1*	*67.8*

* Fiscal years. This is the consolidated budget framework of national and provincial government as well as social security funds and selected public entities. Budget data are therefore not strictly comparable with the data published in the SARB's *Quarterly Bulletin*.
** *2020 Budget Review*
*** Refers to national government or main budget

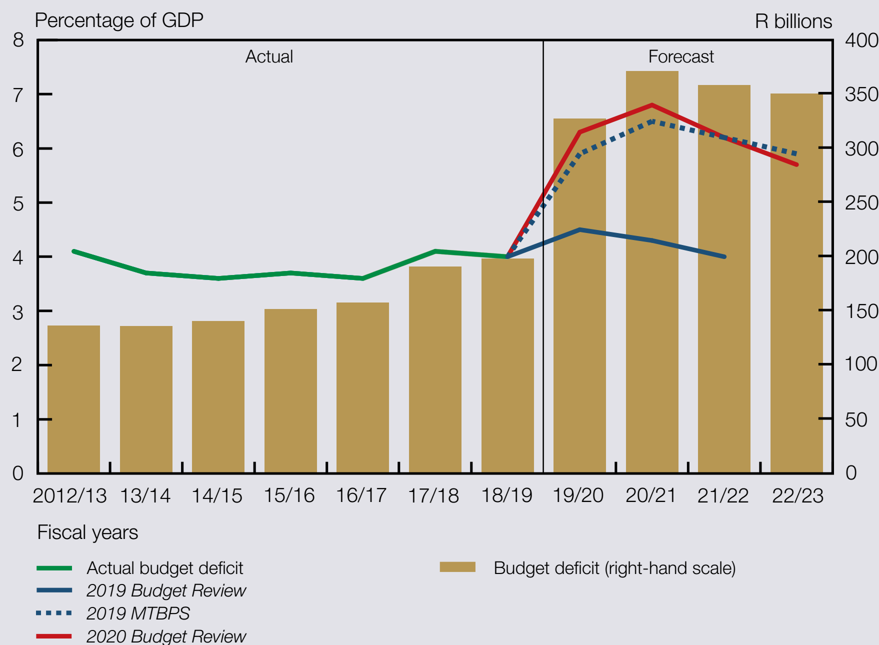
Source: National Treasury

1 Tax buoyancy is calculated as the ratio of tax revenue growth to nominal GDP growth and is a measure of the performance of revenue collections.

Consolidated government expenditure reached a historic high of 35.7% of GDP in fiscal 2019/20. The main budget expenditure baseline was consequently lowered by R156 billion, through both reductions and reallocations, over the next three years relative to the 2019 Budget projections in pursuit of fiscal sustainability. The 2020 Budget proposed total consolidated expenditure of R1 954 billion for fiscal 2020/21, with most of this amount directed towards socio-economic programmes focused on learning and culture (R396 billion), health (R230 billion) and social development (R310 billion). Consolidated expenditure for fiscal 2020/21 is projected to be R24.3 billion less than in the *2019 MTBPS*.

The moderation in the expected growth per annum in non-interest expenditure to 3.8% over the medium term, from 8.4% over the past three years, reflects government's commitment to fiscal sustainability. From a baseline expenditure reduction of R261 billion, the public sector wage bill accounted for R160 billion. This was partially offset by reallocations and additional financial support of R111 billion to SOCs, of which R60.1 billion is earmarked for Eskom and South African Airways (SAA) over the next three years. Over the medium term, R55.6 *million* will be reprioritised to the Department of Health to strengthen its capacity to phase in the National Health Insurance (NHI) scheme.

Debt-service cost was revised higher by R2.8 billion in fiscal 2019/20, R5.2 billion in fiscal 2020/21 and R11.1 billion in fiscal 2021/22 compared with the 2019 Budget estimates. The higher projected debt-service cost is related to expected larger budget deficits and the effect of developments in interest rates, inflation and exchange rates.

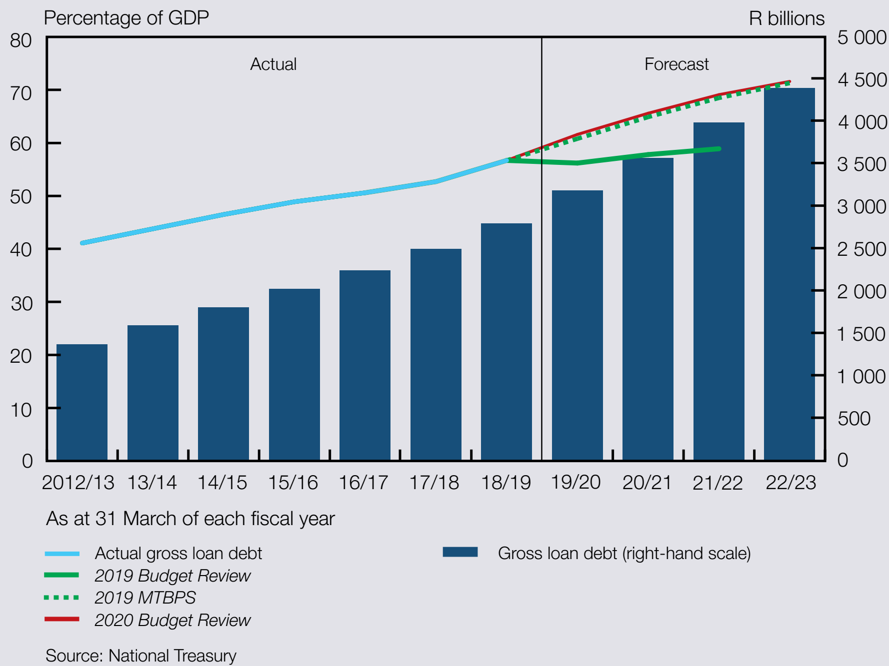


Source: National Treasury

The consolidated budget deficit, which results when expenditure exceeds revenue, is expected to widen from 6.3% of GDP in fiscal 2019/20 to 6.8% in fiscal 2020/21, before narrowing to 5.7% in fiscal 2022/23. The larger fiscal deficit is estimated to contribute to an increase in the borrowing requirement, from R245 billion (5.0% of GDP) in fiscal 2018/19 to R433 billion (8.0% of GDP) in fiscal 2020/21, and to average 7.9% of GDP over the medium term. The borrowing requirement will be financed through short- and long-term borrowing, mostly in the domestic market.

The gross loan debt of national government is estimated to increase from R3.2 *trillion* (61.6% of GDP) in fiscal 2019/20 to R4.4 *trillion* (71.6% of GDP) in fiscal 2022/23, which is a notable upward revision compared with the estimate of 56.2% of GDP for fiscal 2019/20 in the 2019 Budget.

Government's total contingent liabilities (including guarantees to SOCs, independent power producers (IPPs) and public-private partnerships) were projected to increase from R980 billion in fiscal 2019/20 to R1.2 *trillion* by fiscal 2022/23. The RAF is the second largest contingent liability after Eskom, whereas government's exposure to IPPs is comparatively low and is expected to reach R142 billion in 2022/23.



Major risks to the fiscal outlook include uncertainty regarding the outlook for economic growth, contingent liabilities, the financial position of SOCs and public sector wage negotiations which, together with high debt levels, could put the sovereign credit rating at risk.