Box 3 The 2020 *Supplementary Budget Review*

Government's initial fiscal and economic response to the COVID-19 pandemic, as indicated in the special adjustments budget of 24 June 2020, followed an announcement of a R500 billion fiscal economic relief package, in April. The *2020 Supplementary Budget* serves as a bridge to the October *2020 Medium Term Budget Policy Statement* (MTBPS), which will set out proposals to stabilise the overstretched and unsustainable public finances and accelerate economic growth.

COVID-19 has changed the public spending priorities initially proposed in the 2020 Budget and the special adjustments revised spending plans for 2020/21, in line with the April fiscal relief package. This was also necessitated by a significant deterioration in the tax revenue outlook as real economic activity is now expected to contract by 7.2% in 2020 compared with growth of 0.9% projected in the *2020 Budget Review*, due to the restrictions placed on activity to contain the spread of COVID-19. This is expected to be followed by real economic growth of 2.6% in 2021 and 1.5% in both 2022 and 2023. Headline consumer price inflation is now expected to slow to 3.0% in 2020 compared with 4.5% in the February *2020 Budget Review*.

Macroeconomic projections*

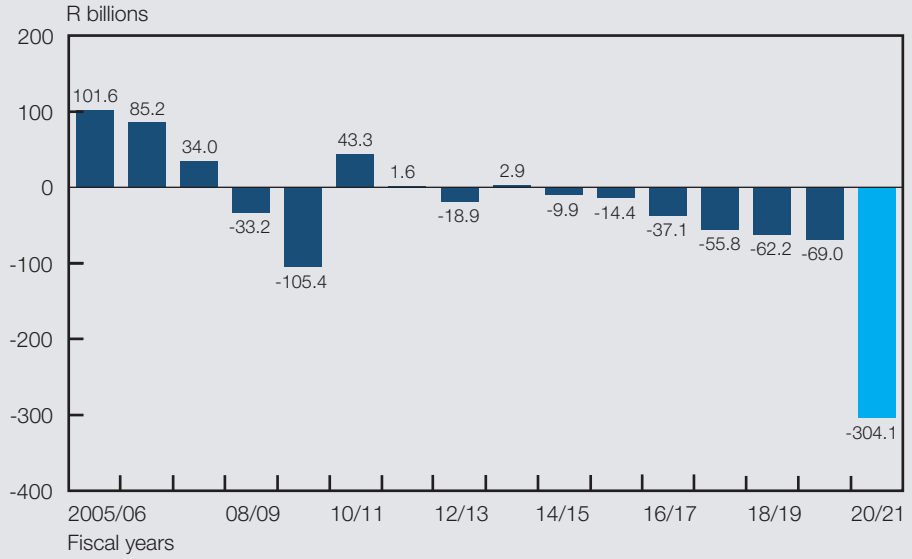
Percentage	2010–2018**	2019	2020	2021	2022	2023
	Outcome		Revised forecast***			
Real GDP growth	1.9	0.2	-7.2	2.6	1.5	1.5
Consumer price inflation.....	5.3	4.1	3.0	3.9	4.3	4.5

* Calendar years
** Average
*** *2020 Supplementary Budget Review*

Source: National Treasury

The *2020 Supplementary Budget* revised national government revenue lower by 21.4% to R1 099 billion, from R1 398 billion in the February 2020 Budget, along with an expected tax revenue underperformance of R304 billion in fiscal 2020/21 compared with the February 2020 Budget estimates. The revenue shortfall includes COVID-19 tax relief measures of R26 billion. Total revenue as a share of nominal gross domestic product (GDP) is also projected to decline from 26.2% in fiscal 2019/20 to 22.6% in fiscal 2020/21.

Actual revenue relative to budget forecasts



Sources: National Treasury and SARS

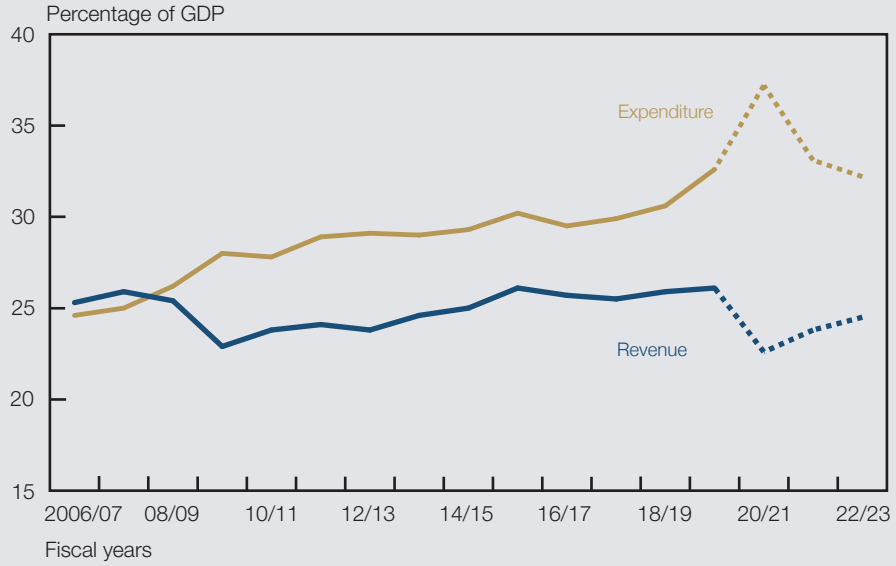
The *2020 Supplementary Budget* revised national government expenditure higher to R1 809 billion for fiscal 2020/21, from R1 766 billion in the February 2020 Budget. Total expenditure as a share of nominal GDP was therefore projected to increase from 32.5% in the February Budget to 37.2% for fiscal 2020/21. This reflected additional support provided to the Landbank, COVID-19-related spending and higher debt-service costs.

Non-interest expenditure was revised to increase by 2.3% to R1 573 billion compared with the estimates in the February 2020 Budget. This reflects the net outcome of reductions of R101 billion and allocations of R145 billion for the fiscal response to the COVID-19 pandemic. By economic classification, most of the national government spending revisions were in the transfers category, with a reduction of R20 billion in transfers to provinces for the repurposing of the provincial equitable share as well as suspensions in provincial and local conditional grants. These resources are mainly allocated to provincial health and education interventions as well as to provide funding for increased social payments to vulnerable households.

National government's interest payments (debt-service cost) for fiscal 2020/21 was revised higher by R7.1 billion to R236 billion. Debt-service costs are now the fourth-largest spending category, equalling the spending on health services. Debt-service cost as a ratio of nominal GDP was revised higher to 4.9% in fiscal 2020/21 compared with 4.2% in the February 2020 Budget. Disconcertingly, the share of debt-service costs, at about 12% of total spending, is more than double that spent on capital assets.

The government's primary balance[1] as a ratio of GDP was projected to widen to a deficit of 9.7% in fiscal 2020/21 compared with a deficit of 2.6% in the February 2020 Budget. The primary deficit is expected to turn into a primary surplus by fiscal 2023/24. A national government budget deficit as a ratio of GDP of 14.6% is now expected in fiscal 2020/21 compared with an expected 6.8% in the February 2020 Budget.

National government revenue and expenditure



Source: National Treasury

International finance institutions are rendering support to developing economies amid the contraction in global economic activity. Accordingly, the South African government intends to borrow US$7.0 billion from multilateral finance institutions for its response to the COVID-19 pandemic. This includes a US$1 billion loan from the New Development Bank. As a member of the International Monetary Fund (IMF), South Africa intends to borrow US$4.2 billion through the IMF's rapid financing instrument, which is a low interest emergency facility.

The *2020 Budget Review,* which was delivered a few weeks prior to the announcement of a national state of disaster by the President, projected an increase in the gross loan debt of national government from 65.6% of GDP in the current fiscal year to 71.6% of GDP by fiscal 2022/23. However, the *2020 Supplementary Budget Review* revised these projections higher to 81.8% and 86.0% respectively.

1 The primary balance (deficit/surplus) is calculated as the difference between revenue and non-interest spending.

Despite the deterioration in the fiscal metrics, government remains committed to stabilise the public finances through reforms that will promote trade, investment and job creation.