

Box 5 The 2020 Medium Term Budget Policy Statement¹

The *2020 Medium Term Budget Policy Statement (2020 MTBPS)* sets out government's strategy for economic recovery and fiscal consolidation amid the impact of the coronavirus disease (COVID-19) pandemic and the related nationwide lockdown on domestic economic activity and public finances. The expected outcomes of the *2020 MTBPS* are accelerated broad-based economic growth and a return to fiscal sustainability through the narrowing of the budget deficit, stabilising debt to gross domestic product (GDP), and realigning the composition of spending from consumption to investment, which will be achieved with the support from structural reforms.

Amid significant uncertainty, the *2020 MTBPS* revised annual growth in real GDP for the current year to an even larger contraction of 7.8% compared to 7.2% projected in the *2020 Supplementary Budget Review*. These expected sharp contractions contrast projected growth of 0.9% in the *2020 Budget Review*, and South Africa is now expected to only return to an expansion in real GDP in 2021. Although consumer price inflation (CPI) is currently close to the lower end of the 3–6% target range, it is expected to fluctuate around the 4.5% midpoint over the medium term, given the moderation of inflation expectations.

The impact of the COVID-19 pandemic and government's response are clearly visible in the macroeconomic projections of both the *2020 Supplementary Budget Review* and the subsequent *2020 MTBPS*.

Macroeconomic projections^{1, 2}

Percentage

	2019 ³	2020			2021			2022			2023	
Outcome	Medium-term estimates ⁴											
	MTBPS	Budget	Supplementary Budget	MTBPS	Budget	Supplementary Budget	MTBPS	Budget	Supplementary Budget	MTBPS	Supplementary Budget	MTBPS
Real GDP growth	0.2	0.9	-7.2	-7.8	1.3	2.6	3.3	1.6	1.5	1.7	1.5	1.5
CPI	4.1	4.5	3.0	3.2	4.6	3.9	4.1	4.6	4.3	4.4	4.5	4.5
Current account balance (as a percentage of GDP)	-3.0	-3.4	...	-0.8	-3.5	...	-1.6	-3.7	...	-2.0	...	-2.7
GDP at current prices (R billions)	5 078	5 359	4 900	4 885	5 676	5 228	5 240	6 035	5 536	5 553	5 873	5 877

1 Projections of the *2020 Budget Review*, *2020 Supplementary Budget Review* and *2020 Medium Term Budget Policy Statement*

2 Calendar years

3 *2020 MTBPS*

4 *2020 Budget Review*, *2020 Supplementary Budget Review* and *2020 MTBPS*

... denotes not available

Source: National Treasury

These revised macroeconomic projections are subject to significant risks given the backdrop of high and rising debt-service costs, much lower public infrastructure investment spending, and the deterioration of the public sector's balance sheet as state-owned companies (SOCs) and municipalities continue to struggle financially. These developments informed the review of the fiscal framework which hinges on a reduction in government's wage bill and the revenue proposals.

1 The *2020 Medium Term Budget Policy Statement (2020 MTBPS)* was presented to Parliament by the Minister of Finance on 28 October 2020.



Fiscal framework*

R billions/percentage of GDP

	2019/20**	2020/21		2021/22		2022/23		2023/24
	Outcome	Medium-term estimates***						
		Budget	MTBPS	Budget	MTBPS	Budget	MTBPS	MTBPS
Total consolidated revenue	1 518	1 584	1 277	1 683	1 458	1 791	1 596	1 706
Total consolidated expenditure	1 849	1 954	2 038	2 040	1 994	2 141	2 080	2 139
Of which: Debt-service cost	204.8	229.3	233.0	258.5	271.8	290.1	317.6	353.1
Primary deficit****	-140.3	-138.7	-474.8	-107.9	-265.7	-69.2	-169.0	-84.4
Percentage of GDP	-2.7	-2.6	-9.8	-1.9	-5.0	-1.1	-3.0	-1.4
Consolidated budget deficit (fiscal balance)	-330.6	-370.5	-761.1	-357.5	-535.9	-349.7	-483.9	-433.4
Percentage of GDP	-6.4	-6.8	-15.7	-6.2	-10.1	-5.7	-8.6	-7.3
Gross loan debt (national government)	3 261	3 562	3 974	3 978	4 552	4 384	5 071	5 536
Percentage of GDP	63.3	65.6	81.8	69.1	85.6	71.6	90.1	92.9

* Fiscal years

** 2020 MTBPS

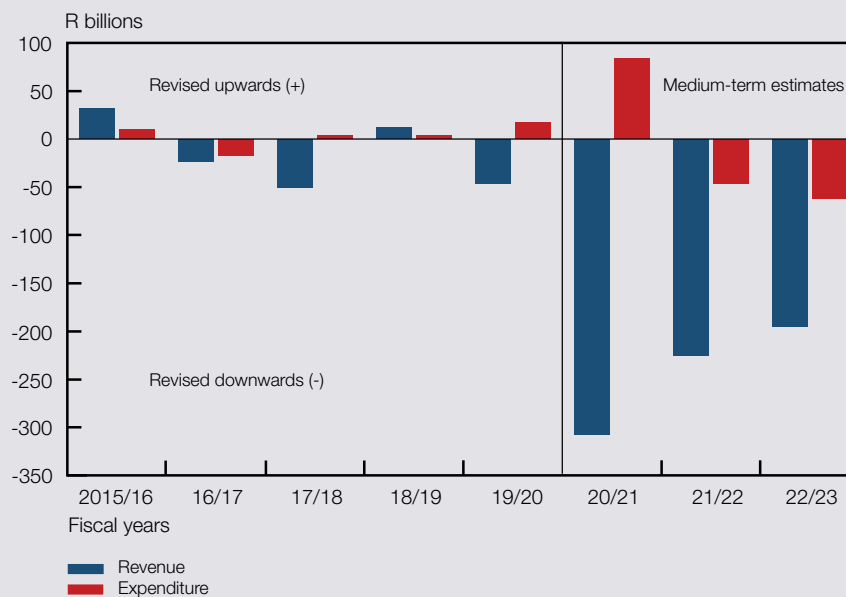
*** 2020 Budget Review and 2020 MTBPS

**** Main Budget

Source: National Treasury

The 2020 MTBPS projected consolidated government revenue to be 19.4% less at R1 277 billion in fiscal 2020/21 compared with the February 2020 Budget. This contraction in revenue reflects the revised economic growth projections and expected underperformance of all major tax categories. The estimated gross tax revenue for fiscal 2020/21 of R1 113 billion is R8.7 billion less than projected in the 2020 Supplementary Budget Review, and R313 billion less than the February 2020 Budget. Revenue proposals, such as tax increases as well as improved tax collection and administration, are vital to deliver the expected revenue of R1 706 billion in fiscal 2023/24, amid the effect of the decline in remuneration on personal income tax and that of lower consumption on value-added tax and import duties.

Revisions to consolidated government revenue and expenditure*



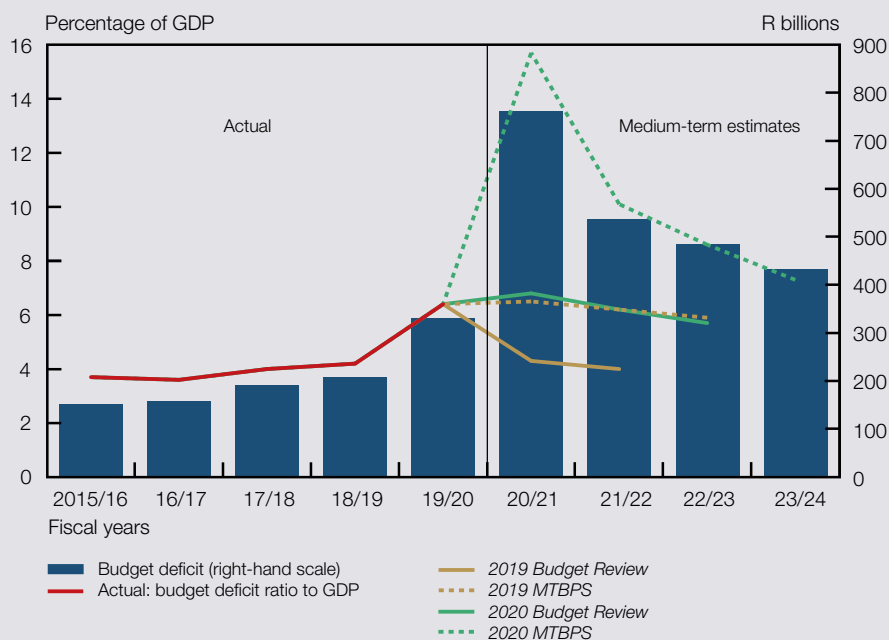
* Budget Review to MTBPS

Source: National Treasury

The projected consolidated government expenditure of R1 954 billion for fiscal 2020/21 in the *2020 Budget Review* was revised higher to R2 038 billion in the *2020 MTBPS*. Expenditure was revised lower in the subsequent two fiscal years, in line with government's commitment to narrowing the fiscal deficit to stabilise debt.

The *2020 MTBPS*' consolidated government budget deficit of 15.7% of GDP for fiscal 2020/21 is significantly higher than the original 6.8% projected in the *2020 Budget Review*, but is expected to decline to 7.3% over the medium term.

Consolidated government budget deficit



Source: National Treasury

Fiscal sustainability requires the *2020 MTBPS* to achieve a primary surplus by fiscal 2025/26. This will necessitate a large reduction in non-interest spending of R300 billion over the next three years, most of which will have to come from the wage bill, with the share of compensation of employees to total spending decreasing from 32.7% as estimated in the *2020 Budget Review* to 31.3% over the medium term. Also, consistent with the aim of shifting spending from consumption to investment, payments for capital assets are expected to grow by more than inflation, increasing from R88.9 billion in fiscal 2020/21 to R112 billion in fiscal 2023/24, at an annual average rate of 7.8%.

Debt-service cost is the fastest growing component of spending, given the increase in national government debt. Interest payments are expected to increase from R233 billion (12.9% of total expenditure) in the current fiscal year to R353 billion (18.3% of expenditure) in fiscal 2023/24, or 5.9% of GDP.

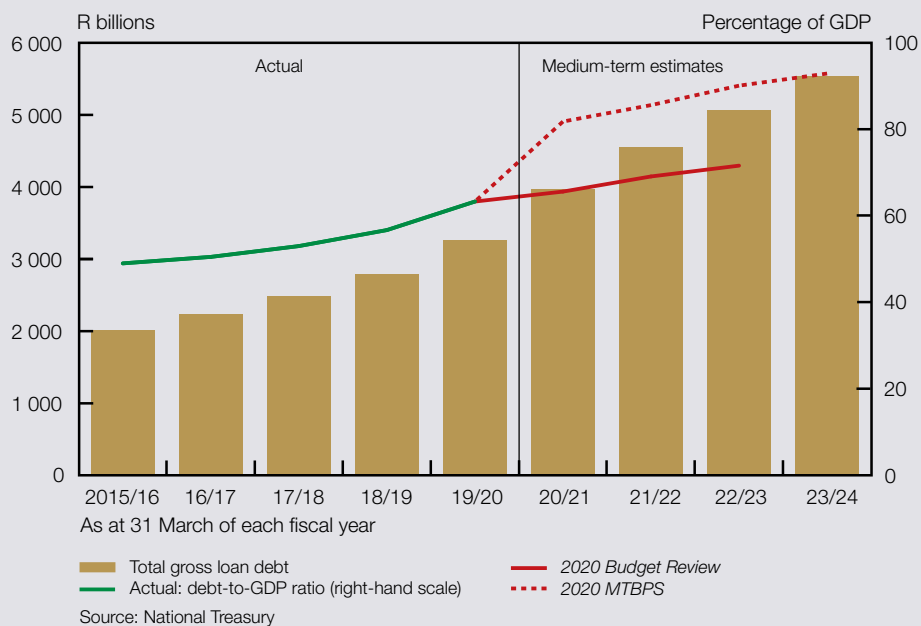
The gross borrowing requirement – the sum of the budget deficit and maturing loans – increased by R342 billion to R775 billion for fiscal 2020/21 compared to the February 2020 Budget. Government revised its financing strategy, as outlined in the *2020 Supplementary Budget Review*, and will now access its sterilisation and foreign currency deposits at the South African Reserve Bank and obtain loans from international finance institutions, while continuing to increase its borrowing in the domestic money and bond markets.

National government's gross loan debt, which was originally projected at R3 562 billion (65.6% of GDP) for fiscal 2020/21 in the *2020 Budget Review*, was revised higher to R3 974 billion (81.8% of GDP) in June, and remained unchanged in the *2020 MTBPS*. However, gross loan debt is expected to increase to R5 536 billion (92.9% of GDP) in fiscal 2023/24, before stabilising at 95.3% of GDP in 2025/26.





National government gross loan debt



The fiscal framework projections remain at risk from contingent liabilities related to SOCs, uncertainty about the domestic economic recovery, a possible second wave of COVID-19 infections as well as the implementation of expenditure reduction measures, in particular the wage bill.