

South Africa's 2020 Supplementary budget:

Presentation to a joint sitting of the Parliamentary Standing and
Select Committees on Finance

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Presentation by the Fiscal Cliff Study Group:

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Overview of Presentation

- Comparison between February 2020 and Supplementary (June 2020) Budget – some highlights
- No budget austerity in past 10 fiscal years
- Government debt
- Nominal GDP
- Civil service remuneration
- Fiscal cliff update
- Conclusions

The people versus government



Comparison: February 2020 versus Supplementary Budget

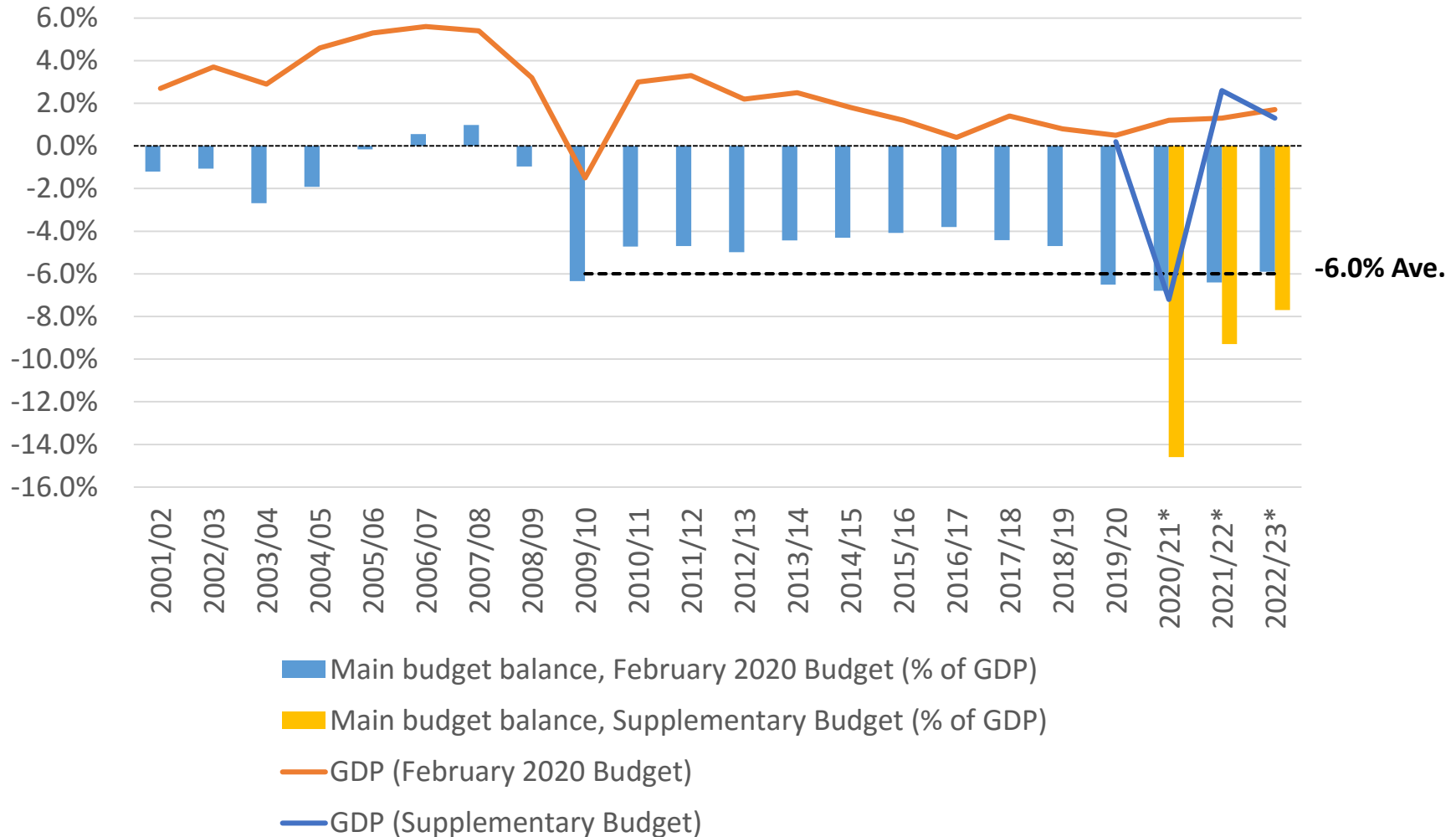
February 2020 (expectations)	Supplementary Budget (changes)
GDP growth of 0.9 % (2020)	GDP contraction of -7.2 % (2020)
Inflation 4.5% (2020)	Inflation 3.0% (2020)
	Revenue under-collection of R300 billion
	Additional social relief package of R41 billion
<u>No further remuneration increase</u> for civil servants	<u>No further remuneration increase</u> for civil servants

Comparison: February 2020 versus Supplementary Budget, continued

February 2020 (expectations)	Supplementary Budget (changes)
Major adjustments to expenditure items	Zero-based budgeting*
Consolidated budget deficit of 6.8% of GDP forecasted for 2020/21	15.7 per cent of GDP in 2020/21...main budget deficit, is projected to be 14.6 per cent of GDP
<u>Government gross debt level</u> budgeted rise to 65.6% of GDP	81.8 per cent of GDP by the end 2020/21
<u>Debt-service costs</u> 2020/21: R229.3 billion 2021/22: R258.5 billion 2022/23: R290.1 billion	<u>Debt-service costs</u> 2020/21: R236.4 billion (R7.1 billion extra) 2021/22: R263.1 billion (R4.6 billion extra) 2022/23: R301.1 billion (R11.0 billion extra)

*Zero-based budgeting, in which departmental expenses must be justified, accompanied by rigorous analysis. Programmes that have little impact on economic performance or service delivery will be phased out (2020 Supplementary Budget Review, Chapter 4:31) 5

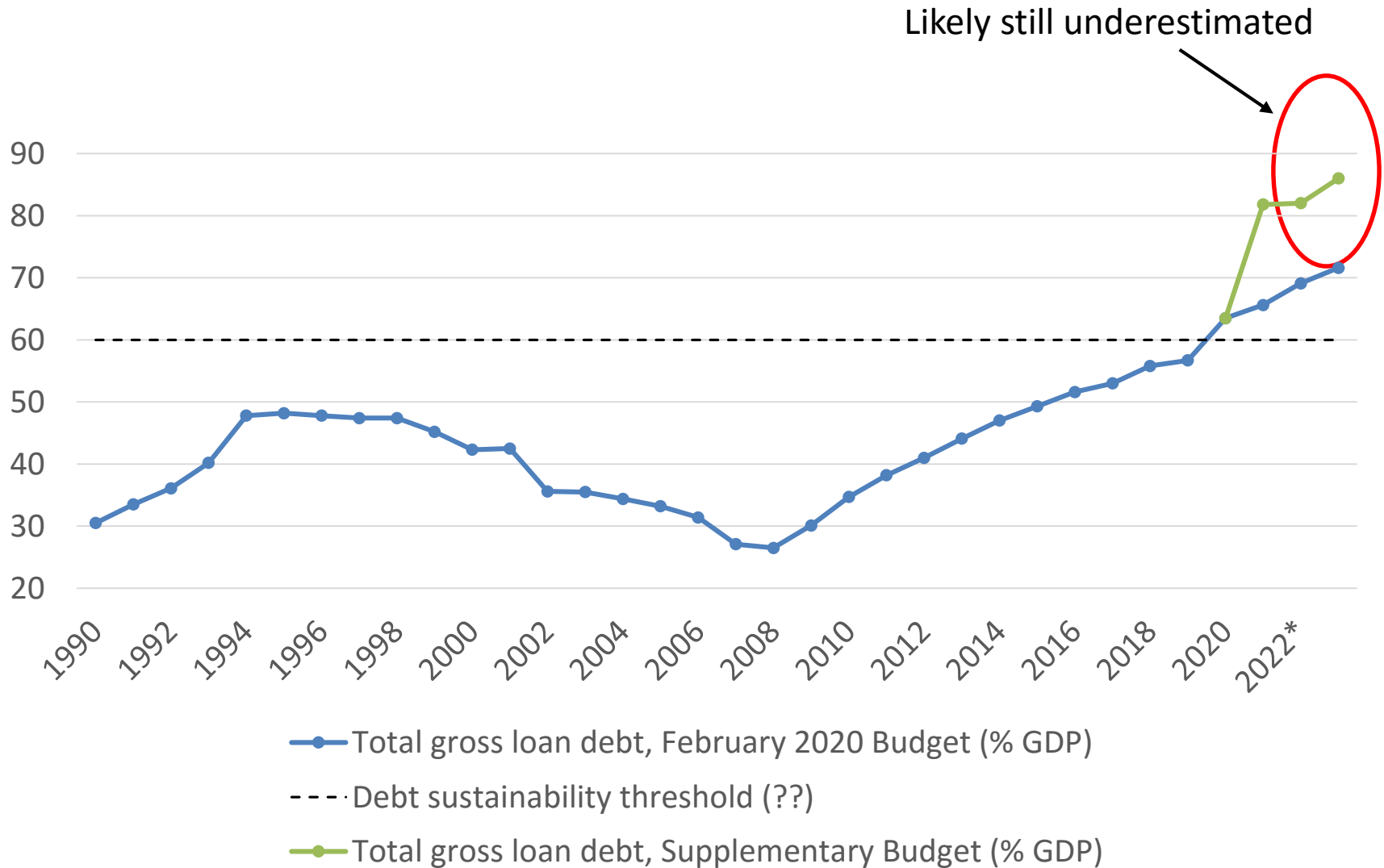
No budget austerity in past 10 fiscal years



*Treasury forecasts (2020 February and Supplementary Budgets)

Source: SARB, Treasury

Government debt



*Treasury forecasts (2020 Budget)

Source: SARB, Treasury

Nominal GDP

	2010-2018 ¹	2019	2020	2021	2022	2023
Percentage change						
Real GDP growth	1.9	0.2	-7.2	2.6	1.5	1.5
GDP inflation	5.7	4.0	4.0	3.9	4.4	4.6
GDP at current prices (R billion)	3 811.9	5 077.6	4 900.2	5 227.9	5 536.1	5 873.4
CPI inflation	5.3	4.1	3.0	3.9	4.3	4.5

1. Average growth rates

- Nominal GDP expected to decline by R170 billion (3.4%)
- Medium term growth projections possibly over-optimistic

Civil service remuneration

	2019/20 (Revised)	2020/21	2021/22	2022/23	Average annual nominal growth
2019 MTBPS	630.7	675.2	717.6	758.5	6.3%
2020 Budget	629.2	638.9	667.8	697.1	3.5%
Difference	-1.5	-36.3	-49.8	-61.4	

Civil service remuneration

- The February 2020 provided for no general increase for civil servants, but also not for any reduction in salaries or in employment numbers
- A general remuneration increase equal to the rate of inflation + 2/1 percentage point(s) (depending on seniority) in 2020/21 will amount to additional spending of some R40 billion on remuneration until March 2021, with a concomitant higher expenditure base in later years
- The 3-year budget for civil service remuneration tabled in February 2020 should be maintained

Fiscal cliff

- The fiscal cliff is the point where civil service remuneration, social assistance payments and debt-service costs will absorb all **government revenue**
- Compensation of employees + social assistance payments + debt-service costs:
 - 55,0% of tax revenue in 2007/08
 - 75,5% of tax revenue in terms of February 2020 budget
 - **> 100,0% of estimated tax revenue in terms of 2020 Supplementary budget***

Fiscal Cliff Barometer

- Fiscal cliff barometer developed by the FCSG
- The fiscal cliff barometer is calculated as follows:

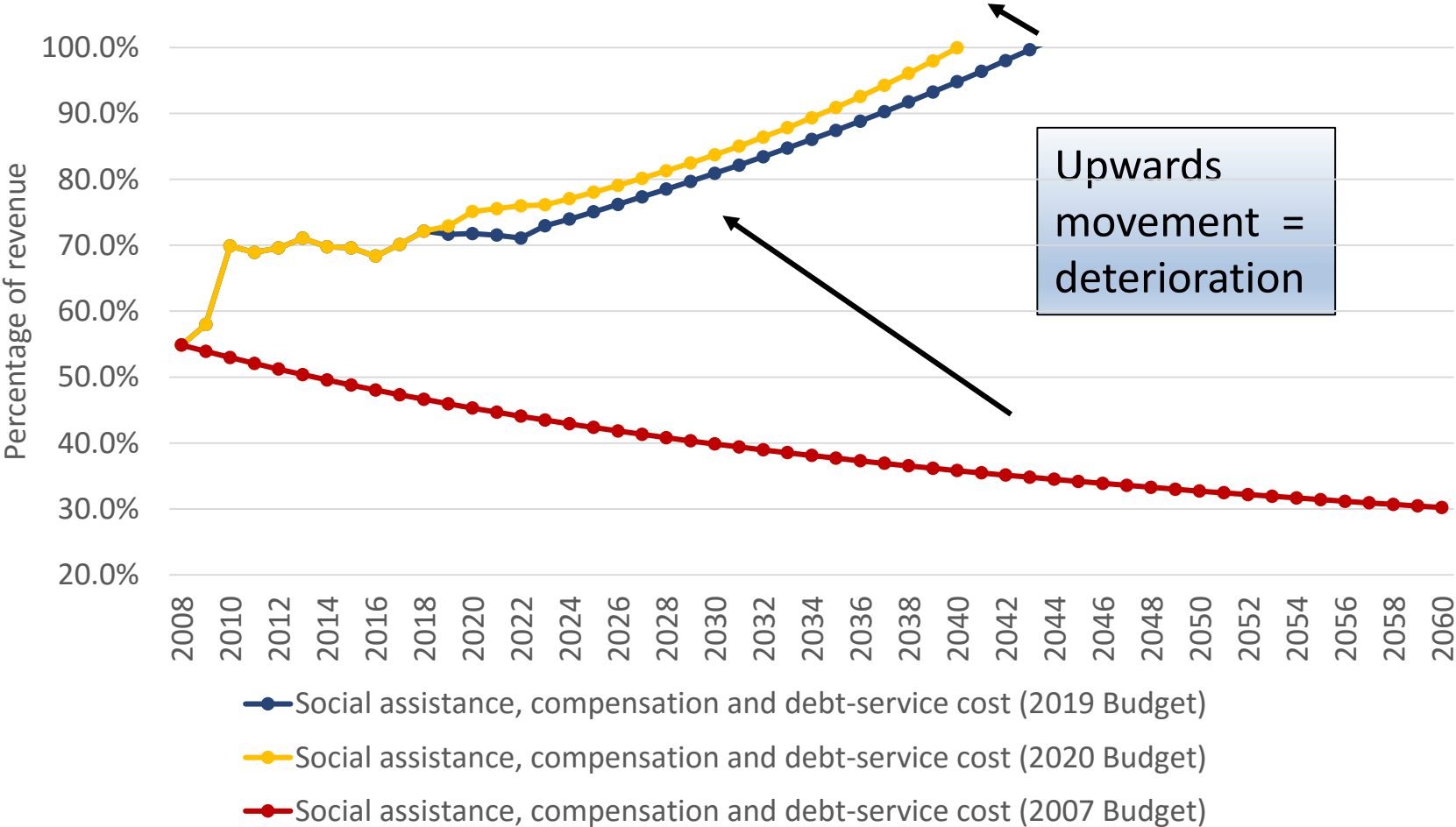
$$\left[1 - \left(\frac{\textit{years to cliff}}{\textit{total years forecasted}} \right) \right]$$

- Values can theoretically range from one to minus infinity
- In practice only values between one and zero need to be taken into account
- A high value (e.g. 0,9) will indicate a high probability of the fiscal cliff being reached, while a low value (e.g. 0,3) will indicate a low probability of the fiscal cliff being reached
- The formula is able to take into account rolling forecast periods, which makes is more dynamic

Fiscal Cliff Barometer (February 2020)

Year	Years to cliff	Total years forecasted	Barometer
2007	n/a	53	0.000
2014	13	46	0.717
2016	27	44	0.386
2018 Budget	37	42	0.119
2018 MTBPS	25	42	0.405
2019 Budget	25	41	0.390
2019 MTBPS	24	41	0.415
2020 Budget	21	40	0.475

Fiscal Cliff Barometer (February 2020)

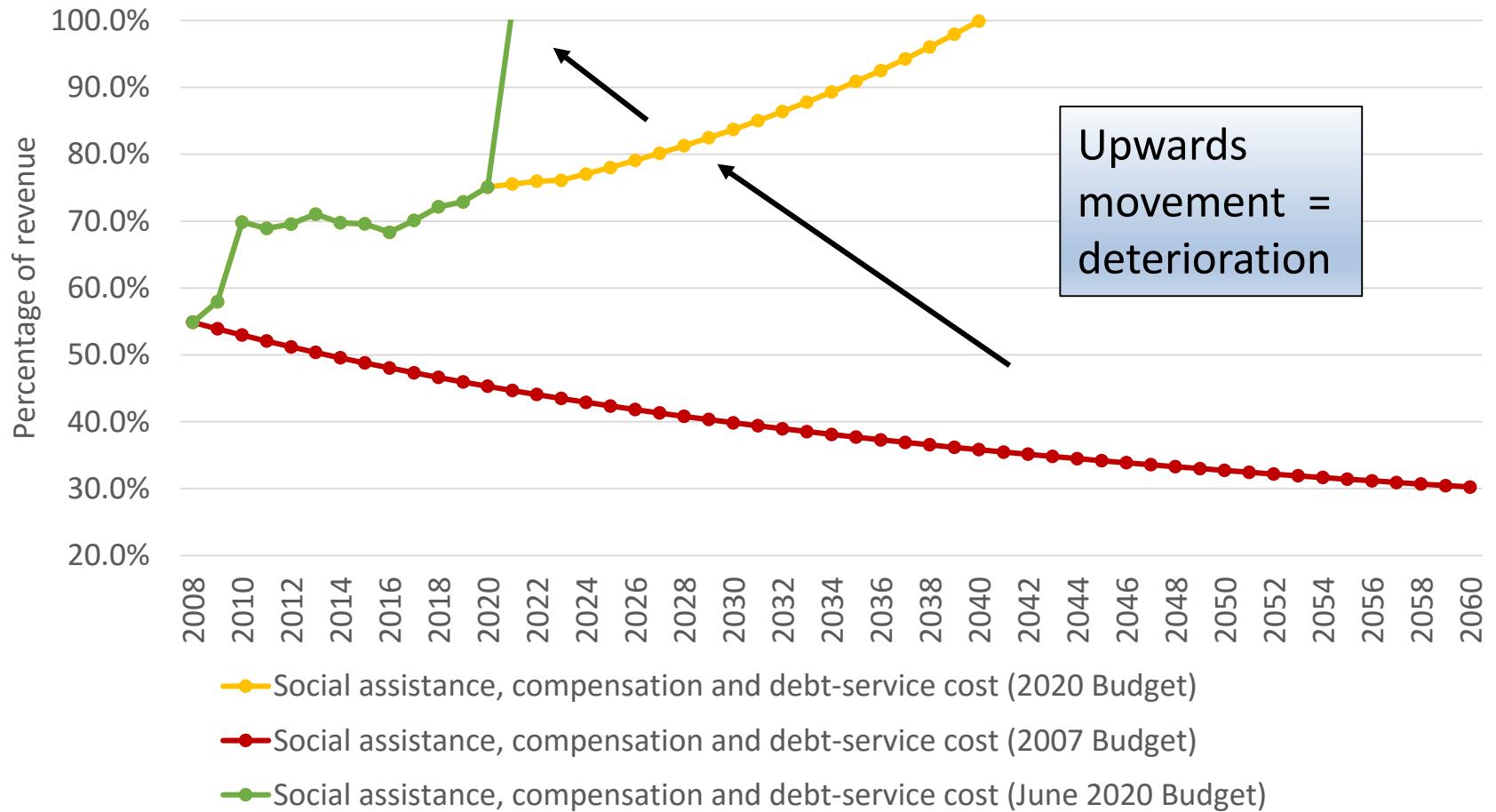


*Graph intentionally limited to 100% of revenue

Fiscal cliff update estimate iro 2020/21: 2020 Supplementary budget

- Assumptions:
 - A revenue reduction of R300 billion;
 - Once-off social grant payment increase of R41 billion (not sustainable)
 - No further remuneration increase for civil servants
 - Additional borrowing requirement of some R412 billion amounts to an increase of 11,5% in government debt to R3 974 billion.
 - A concomitant increase in debt-service costs of R7.1 billion

Fiscal Cliff Barometer (2020 Supplementary Budget)



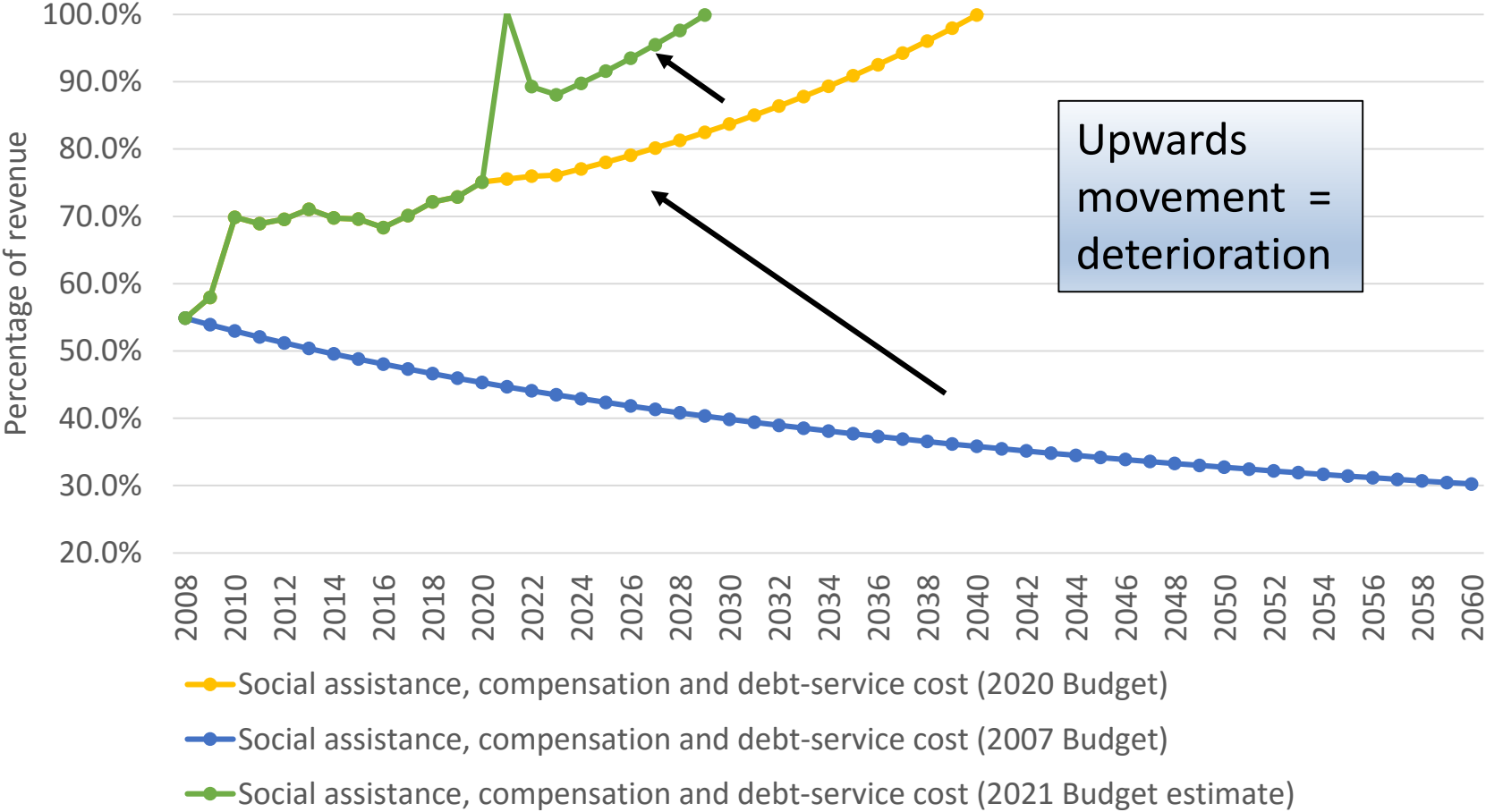
*Graph intentionally limited to 100% of revenue

Fiscal cliff: Projections for 2021/22 and beyond

Assumptions:

- **Revenue** recovery in 2021/22 and 2022/23 as per Supplementary Budget Review. Thereafter growth of 6,5% per annum (average of 2007/08 to 2022/23)
- **Remuneration cost for civil servants is contained** figures as per February 2020 budget. Thereafter average inflation plus 1 percentage point
- **Debt-service costs** figures as per Supplementary Budget Review until 2022/23, thereafter growth of 12,4% per annum (average of 2007/08 to 2022/23)
- **Social assistance payments** to increase by average inflation plus 1 percentage point

Fiscal Cliff Barometer (February 2021)



*Graph intentionally limited to 100% of revenue

Conclusions

- FCSG predicted this fiscal crisis since 2014:
 - The fiscal cliff has now been reached
 - Although some recovery could follow after the 2020/21 expenditure spike; we have seen a structural shift closer to the cliff face
- For the last decade South Africa did not have austerity budgets (an austerity budget is, at the least, a balanced budget), therefore
 - No reserve capacity was created
 - The zero-based budget approach is highly appreciated and necessary
- Protect institutions that still function well, but:
 - Refrain from helping non-essential failed State-owned enterprises (SOEs); e.g., Alexkor, Denel, SA Express, SA Airways (importance of Council on SOEs)
 - Limit the remuneration of executives at SOEs, as was proposed in the February 2020 budget

Conclusions

- Only very rapid economic growth can turn this position around
- South Africa should be the investment conduit into the subcontinent
- The FCSG reserves some scepticism regarding medium term forecasts, as these are based on a strong “V”-shaped recovery
- Lastly we urge members to take note of the Minister’s warning in relation to a looming “sovereign debt crisis”
- Global lenders’ willingness to provide funds; should not be confused with South Africa’s ability to repay it

Questions/Discussion

Selected references:

- 2020 Supplementary Budget and various National *Budget Reviews*.
- Mbeki, M, Rossouw, J, Joubert, F and Breytenbach, A. 2018. Fiscal Cliff Barometer. *New Agenda: South African Journal of Social and Economic Policy*. Volume 70. Third Quarter 2018.
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