South Africa’s 2020 Supplementary budget:
Presentation to a joint sitting of the Parliamentary Standing and Select Committees on Finance

1 July 2020

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

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


Comparison: February 2020 versus Supplementary Budget, continued

<table>
<thead>
<tr>
<th>February 2020 (expectations)</th>
<th>Supplementary Budget (changes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major adjustments to expenditure items</td>
<td>Zero-based budgeting*</td>
</tr>
<tr>
<td>Consolidated budget deficit of 6.8% of GDP forecasted for 2020/21</td>
<td>15.7 per cent of GDP in 2020/21...main budget deficit, is projected to be 14.6 per cent of GDP</td>
</tr>
<tr>
<td><strong>Government gross debt level</strong> budgeted rise to 65.6% of GDP</td>
<td>81.8 per cent of GDP by the end 2020/21</td>
</tr>
</tbody>
</table>
| **Debt-service costs**  
2020/21: R229.3 billion  
2021/22: R258.5 billion  
2022/23: R290.1 billion | **Debt-service costs**  
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)*
No budget austerity in past 10 fiscal years

*Treasury forecasts (2020 February and Supplementary Budgets)

Source: SAR, Treasury
Government debt

Likely still underestimated

*Treasury forecasts (2020 Budget)

Source: SAR, Treasury
Nominal GDP

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

Source: June 2020 Supplementary Budget Review, Chapter 3, 27)
Civil service remuneration

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

Source: 2020 Budget, Own calculations
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*

*Estimate, some recovery could follow after the 2020/21 expenditure spike, as explained below
Fiscal Cliff Barometer

• Fiscal cliff barometer developed by the FCSG

• The fiscal cliff barometer is calculated as follows:

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

• 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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Years to cliff</th>
<th>Total years forecasted</th>
<th>Barometer</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>n/a</td>
<td>53</td>
<td>0.000</td>
</tr>
<tr>
<td>2014</td>
<td>13</td>
<td>46</td>
<td>0.717</td>
</tr>
<tr>
<td>2016</td>
<td>27</td>
<td>44</td>
<td>0.386</td>
</tr>
<tr>
<td>2018 Budget</td>
<td>37</td>
<td>42</td>
<td>0.119</td>
</tr>
<tr>
<td>2018 MTBPS</td>
<td>25</td>
<td>42</td>
<td>0.405</td>
</tr>
<tr>
<td>2019 Budget</td>
<td>25</td>
<td>41</td>
<td>0.390</td>
</tr>
<tr>
<td>2019 MTBPS</td>
<td>24</td>
<td>41</td>
<td>0.415</td>
</tr>
<tr>
<td>2020 Budget</td>
<td>21</td>
<td>40</td>
<td>0.475</td>
</tr>
</tbody>
</table>
Fiscal Cliff Barometer (February 2020)

Percentage of revenue

Social assistance, compensation and debt-service cost (2019 Budget)
Social assistance, compensation and debt-service cost (2020 Budget)
Social assistance, compensation and debt-service cost (2007 Budget)

*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*.