

# 2019 MTBPS

MEDIUM TERM BUDGET  
POLICY STATEMENT

GROWTH, SUSTAINABILITY  
AND RENEWAL



**national treasury**

Department:  
National Treasury  
**REPUBLIC OF SOUTH AFRICA**



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# 1. Overview



# Overview

- Long-term growth estimates have fallen, result in sharply reduced revenue projections. However, spending pressures continue to mount, led by the public service wage bill and state-owned companies in crisis.
- The 2019 MTBPS proposes an approach over the medium term that, effectively implemented, will restore the momentum of economic growth and stabilise the public finances.
- Government has clawed back some of the revenue shortfall through reductions to departmental baselines and slower spending growth in 2022/23. Additional measures, particularly on the wage bill and tax are being considered in order to improve the composition of spending and stabilise the debt outlook .
- In August 2019, the paper released by the National Treasury outlined short- and medium-term reforms that can boost economic growth, many of which do not require significant state resources.
- Interventions to improve the quality of infrastructure planning are beginning to show some results. Further measures to reduce wasteful expenditure, including by limiting claims against the state, will be implemented in the coming year.
- To secure energy supply and to honour the state's contractual obligations, the National Treasury, in partnership with the Department of Public Enterprises will institute a series of measures to bring discipline to Eskom's finances through the support programme. Debt relief will only be considered once operational efficiencies have been achieved.

## 2. Macro economic developments



# A slowing global growth outlook

## Economic growth in selected countries

Region/country	2018	2019	2020	2021	2022-2024
Percentage	Actual	Average GDP (forecast)			
<b>World</b>	<b>3.6</b>	<b>3.0</b>	<b>3.4</b>	<b>3.6</b>	<b>3.6</b>
<b>Advanced economies</b>	<b>2.3</b>	<b>1.7</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>
United States	2.9	2.4	2.1	1.7	1.6
Euro area	1.9	1.2	1.4	1.4	1.3
United Kingdom	1.4	1.2	1.4	1.5	1.5
Japan	0.8	0.9	0.5	0.5	0.5
<b>Developing countries</b>	<b>4.5</b>	<b>3.9</b>	<b>4.6</b>	<b>4.8</b>	<b>4.8</b>
China	6.6	6.1	5.8	5.9	5.6
India	6.8	6.1	7.0	7.4	7.4
Brazil	1.1	0.9	2.0	2.4	2.4
Russia	2.3	1.1	1.9	2.0	1.9
Mexico	2.0	0.4	1.3	1.9	2.3
<b>Sub-Saharan Africa</b>	<b>3.2</b>	<b>3.2</b>	<b>3.6</b>	<b>3.7</b>	<b>4.1</b>
South Africa <sup>1</sup>	0.8	0.5	1.2	1.6	1.7

1. National Treasury forecasts. Note: Final numbers are for 2022

Source: IMF World Economic Outlook, October 2019 and IMF World Economic Outlook database

- Lower growth in both developed and developing economies in response to mounting global risks
- Global economic growth in 2019 projected at 3 per cent, the lowest figure since 2008 financial crisis

# Lower GDP outlook on weaker fundamentals

- 2019 GDP growth revised down from 1.5 per cent at the time of the 2019 Budget, to 0.5 per cent, mainly reflecting weaker total investment, exports and global growth
- The current account deficit is expected to remain at 3.5 per cent of GDP over the next three years, reflecting low import growth due to weaker domestic demand
- CPI inflation projections are lower than the 2019 Budget estimates

## Macroeconomic performance and outlook

Calendar year Percentage change	2017 Actual	2018 Actual	2019 Estimate	2020	2021 Forecast	2022
Final household consumption	2.1	1.8	1.3	1.3	1.5	1.7
Final government consumption	0.2	1.9	1.8	1.8	1.1	0.6
Gross fixed-capital formation	1.0	-1.4	-0.8	0.8	1.3	1.8
Gross domestic expenditure	1.9	1.0	1.4	1.1	1.5	1.7
Exports	-0.7	2.6	-1.7	2.5	2.8	3.1
Imports	1.0	3.3	1.1	1.9	2.6	3.0
<b>Real GDP growth</b>	<b>1.4</b>	<b>0.8</b>	<b>0.5</b>	<b>1.2</b>	<b>1.6</b>	<b>1.7</b>
GDP inflation	5.3	3.9	4.8	4.9	4.9	4.8
<b>GDP at current prices (R billion)</b>	<b>4 654</b>	<b>4 874</b>	<b>5 132</b>	<b>5 449</b>	<b>5 804</b>	<b>6 187</b>
CPI inflation	5.3	4.7	4.3	4.9	4.8	4.8
Current account balance (% of GDP)	-2.5	-3.5	-3.4	-3.5	-3.5	-3.5

Sources: National Treasury, Reserve Bank and Statistics South Africa

# Economic reforms are urgently required to raise GDP growth

- Discussion document titled *Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa* sets out short- and medium-term growth reforms
- Short-term reforms can be implemented immediately, without significant state resources:
- Support tourism by reducing cost of traveling to South Africa, cutting red tape for small business in the tourism sector
- Diversify power generation by granting licences for small-scale power generation projects approved by the Minister of Energy
- Expand telecommunications services by allowing the rapid expansion of fibre infrastructure
- Lowering the cost of doing business by automating registration and filing processes
- Medium-term reforms should begin immediately in transport, water, telecommunications, and industrial and trade policy
- Government continues to work with private sector to strengthen investment
- The Infrastructure Fund's implementation unit has been established, housed within the DBSA
- Review of public-private partnership regulation is under way to streamline approval processes and reduce implementation timeframes



### 3. Fiscal outlook

# Measures to stabilise the public finances

- Government proposes a fiscal target of achieving a main budget primary balance – in other words, revenue equal to non-interest expenditure – by 2022/23. This metric excludes financial support for Eskom, which will be addressed through separate operational and financial reforms
- Achieving the fiscal target requires large additional adjustments exceeding R150 billion in total over the medium term. The following elements will be critical:
  - Growth in the public-service wage bill needs to decline to reduce the pressure on goods and services and infrastructure. The wage bill accounts for 46 per cent of tax revenue in 2019/20, primarily because of above-inflation increases in average remuneration over the past decade
  - Significant tax increases over the past several years leave only moderate scope to boost tax revenue at this time. Given the size of the required adjustment, however, additional tax measures are under consideration
  - To reduce future transfers, a sustainable plan for state-owned companies is required. It should include the disposal of non-core assets and options for private-sector participation
- The final adjustments will be announced in the 2020 Budget. These measures require difficult decisions that will affect the economy and the distribution of public resources.

# In-year main budget non-interest expenditure adjustments

## Revisions to 2019/20 main budget non-interest expenditure

	R million
<b>Non-interest expenditure (2019 Budget Review)</b>	<b>1 456 500</b>
<b>Upward expenditure adjustments</b>	<b>44 527</b>
Budget Facility for Infrastructure projects and project preparation	630
Financial support to state-owned companies:	
Eskom Special Appropriation Bill	26 000
South African Airways	5 500
South African Broadcasting Corporation	3 200
Denel	1 800
South African Express	300
Self-financing <sup>1</sup>	1 655
Provisional downward adjustment not effected on compensation	4 800
Roll-overs	345
National Revenue Fund payments adjustment	224
Revision to members of Parliament remuneration	73
<b>Downward expenditure adjustments</b>	<b>(21 405)</b>
Declared unspent funds and revision to magistrates' salaries	(4 029)
Contingency reserve	(13 000)
Skills development levy	(182)
Provisional allocation not assigned to votes	(1 010)
National government projected underspending	(1 184)
Local government repayment to the National Revenue Fund	(2 000)
<b>Revised non-interest expenditure (2019 MTBPS)</b>	<b>1 479 622</b>
Change in non-interest expenditure from 2019 Budget	23 122
Change in non-interest expenditure excluding Eskom	(2 878)

1. Spending financed from revenue derived from departments' specific activities

Source: National Treasury

- Non-interest spending has increased by R23 billion in the current year, mainly due to a Special Appropriation Bill that allocates R26 billion to Eskom
- Government has accommodated all other expenditure pressures within budget baselines
- In-year adjustments are partially offset by the use of the contingency reserve, provisional allocations, projected underspending and declared unspent funds

# Revenue outlook has deteriorated

- Compared with the 2019 Budget estimates, total revenue shortfall for 2019/20 will amount to R52.5 billion, reflecting:
  - A poor employment outlook, with job losses, lower wage settlements and smaller bonuses reducing personal income tax collection
  - Reduced profitability in a difficult trading environment, resulting in lower-than-expected corporate income tax collections
  - Weak household consumption, which moderates the increase in domestic VAT collection
- Large downward revisions to tax revenue over the medium term

## Revised revenue projections

R billion	2019/20	2020/21	2021/22	2022/23
<b>2019 Budget</b>	<b>1 422.2</b>	<b>1 544.9</b>	<b>1 670.4</b>	
<i>Buoyancy</i>	<i>1.31</i>	<i>1.17</i>	<i>1.08</i>	
<b>Revised estimates</b>	<b>1 369.7</b>	<b>1 460.9</b>	<b>1 555.7</b>	<b>1 658.2</b>
<i>Buoyancy</i>	<i>1.08</i>	<i>1.09</i>	<i>0.99</i>	<i>1.00</i>
<b>Change since 2019 Budget</b>	<b>-52.5</b>	<b>-84.0</b>	<b>-114.7</b>	

Source: National Treasury

# Consolidated fiscal framework

- The consolidated deficit includes national and provincial government, public entities and social security funds
- The consolidated deficit narrows from 6.5 per cent in 2020/21 to 5.9 per cent in 2022/23

## Consolidated government fiscal framework

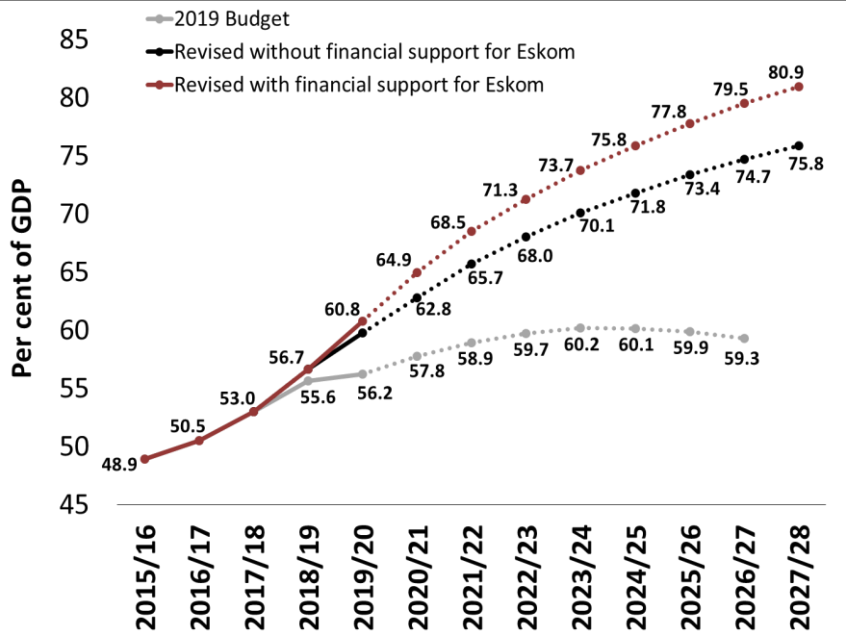
R billion/percentage of GDP	2018/19 Outcome	2019/20 Revised	2020/21	2021/22	2022/23
			Medium-term estimates		
<b>Revenue</b>	<b>1 445.4</b>	<b>1 537.8</b>	<b>1 618.5</b>	<b>1 729.6</b>	<b>1 841.2</b>
	29.4%	29.5%	29.3%	29.4%	29.3%
<b>Expenditure</b>	<b>1 652.8</b>	<b>1 844.1</b>	<b>1 978.7</b>	<b>2 097.5</b>	<b>2 214.9</b>
	33.6%	35.4%	35.8%	35.6%	35.3%
<b>Budget balance</b>	<b>-207.5</b>	<b>-306.2</b>	<b>-360.2</b>	<b>-367.9</b>	<b>-373.7</b>
	-4.2%	-5.9%	-6.5%	-6.2%	-5.9%
<b>Total gross loan debt</b>	<b>2 788.4</b>	<b>3 167.6</b>	<b>3 590.8</b>	<b>4 035.7</b>	<b>4 477.7</b>
	56.7%	60.8%	64.9%	68.5%	71.3%

Source: National Treasury

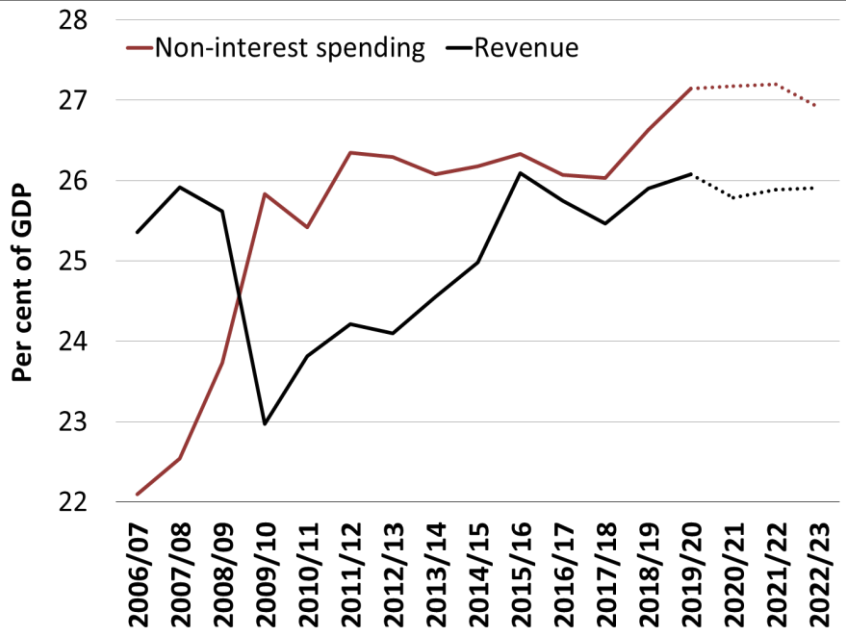
# Main budget primary deficit and debt outlook

- Real main budget non-interest spending grows at 1.2 per cent in 2020/21, 0.1 per cent in 2021/22, and -0.2 per cent in 2022/23
- Main budget primary deficit narrows to 1.4 per cent of GDP in 2022/23
- Debt-to-GDP reaches 71.3 per cent in 2022/23 and, without additional measures, will continue to grow

Gross debt-to-GDP outlook



Main budget primary balance



Source: National Treasury

# Improving spending efficiency and reducing waste

- Through reprioritisation, the National Prosecuting Authority receives an additional R1.3 billion, and the South African Revenue Service receives an additional R1 billion for the period 2019/20 to 2022/23, to bolster efforts to combat corruption and improve revenue collection
- In order to improve efficiency and reduce wasteful expenditure, government will:
  - Standardise the regulation of development charges through the Municipal Fiscal Powers and Functions Amendment Bill, which will be tabled shortly
  - Suspend implementation of new public transport networks in cities that have been in the planning stage for over a decade with no roll-out of services to residents
  - Merge and consolidate entities and regulatory agencies, and dispose of unused land and other assets
  - Initiate work to limit claims against the state, including through a review of medico-legal claims and accelerated implementation of the Road Accident Benefit Scheme
  - Manage benefits received by political office bearers, through reforms to the Ministerial Handbook
  - Review existing procurement regulatory framework, through the Public Procurement Bill, to simplify procurement processes and governance

## 4. Financing of borrowing requirement



# Higher borrowing requirement over the medium-term

## Financing of national government borrowing requirement, 2018/19– 2022/23

End of period	2018/19	2019/20	2020/21	2021/22	2022/23
R billion	Outcome	Revised	Medium-term estimates		
<b>Domestic loans<sup>1</sup></b>	<b>2 497.1</b>	<b>2 849.2</b>	<b>3 229.0</b>	<b>3 624.1</b>	<b>4 026.3</b>
Short-term	324.6	370.6	407.6	457.6	515.6
Long-term	2 172.5	2 478.6	2 821.4	3 166.5	3 510.7
<i>Fixed-rate</i>	1 604.8	1 833.1	2 076.3	2 370.9	2 596.0
<i>Inflation-linked</i>	567.7	645.5	745.1	795.6	914.7
<b>Foreign loans<sup>1</sup></b>	<b>291.3</b>	<b>318.4</b>	<b>361.8</b>	<b>411.6</b>	<b>451.4</b>
<b>Gross loan debt</b>	<b>2 788.4</b>	<b>3 167.6</b>	<b>3 590.8</b>	<b>4 035.7</b>	<b>4 477.7</b>
Less: National Revenue Fund bank balances	-243.1	-243.6	-232.7	-235.4	-234.7
<b>Net loan debt<sup>2</sup></b>	<b>2 545.3</b>	<b>2 924.0</b>	<b>3 358.1</b>	<b>3 800.3</b>	<b>4 243.0</b>
<i>As percentage of GDP:</i>					
<i>Gross loan debt</i>	56.7%	60.8%	64.9%	68.5%	71.3%
<i>Net loan debt</i>	51.7%	56.1%	60.7%	64.5%	67.5%

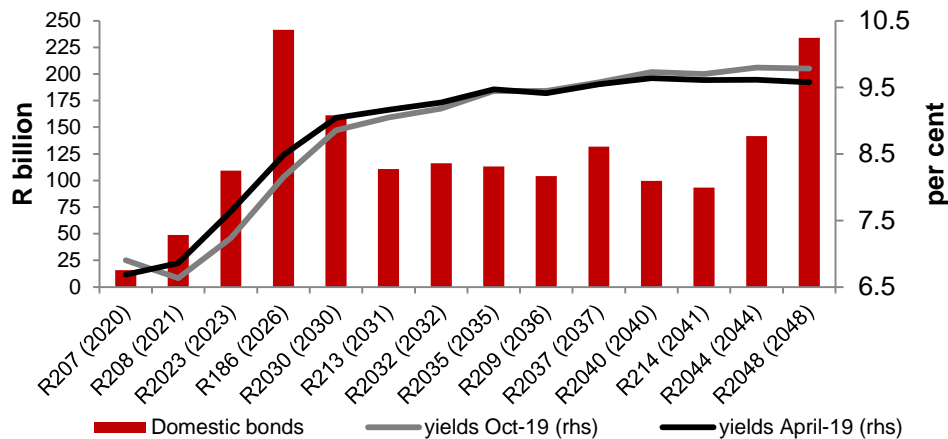
1. Estimates include revaluations based on National Treasury's projections of inflation and exchange rates

2. Net loan debt is gross loan debt minus the bank balances of the National Revenue Fund

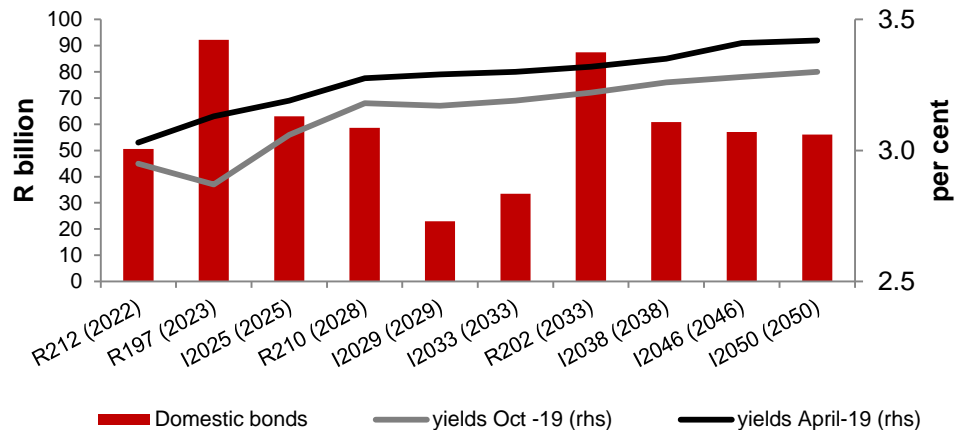
Source: National Treasury

# Relatively unchanged yields

## Fixed-rate bond yield curve movement



## Inflation-linked bond yield curve movement

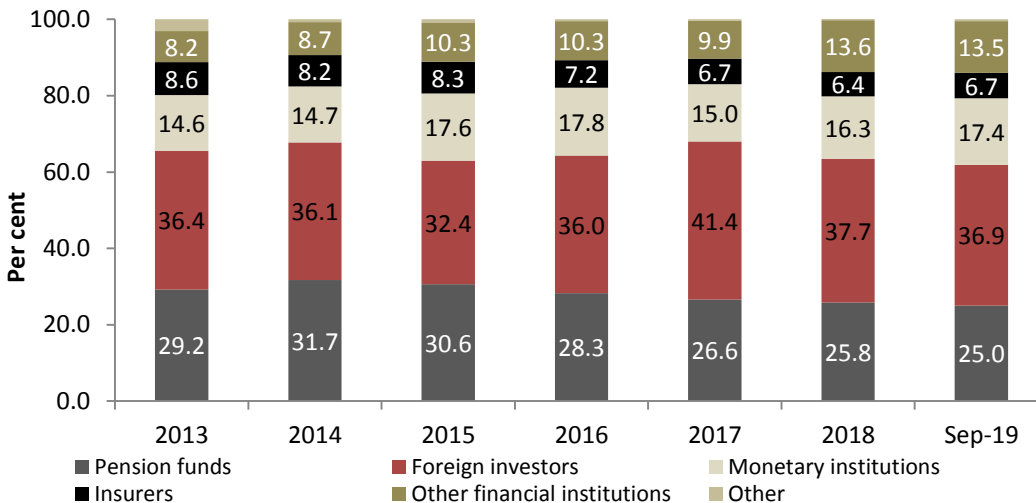


- As at 25 October 2019, government fixed-rate bond yields decreased by an average of 4 basis points since April 2019
- Despite bond yields seeming relatively unchanged, there was significant volatility in bond markets
  - Uncertainty emanating from the ongoing trade wars, geo-political risks, changing global monetary policy outlook and Eskom headline risks have led to volatility in local financial markets
- The Inflation-linked curve weakened by an average of 14 basis points across all maturities

Source: National Treasury

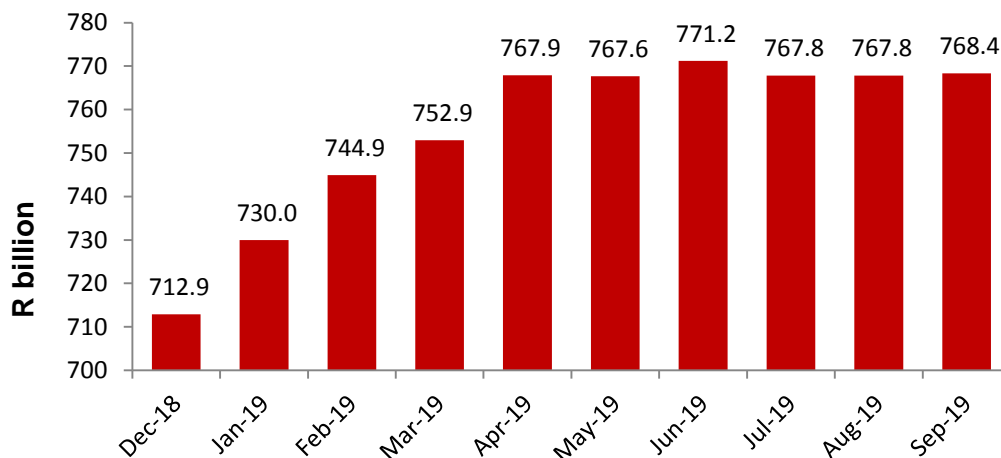
# Foreign investors marginally increase holdings

Holdings of domestic government bonds, 2013 – Sept 2019



- Foreign investor holdings decreased from 37.7 per cent in December 2018 to 36.9 per cent in September 2019 while domestic financial institutions increased their holdings.
  - Nominal holdings are at R768 billion with a net inflow of R16 billion for this fiscal year.
  - Although global monetary conditions are positive for high yielding assets, foreign investors have been cautious about adding local government debt.

Non-residents domestic government bond holdings, Dec 2018 – Sept 2019



Source: Share Transaction Totally Electronic LTD(Strate)



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## 5. State-owned companies and other state institutions

# Several state-owned companies are facing difficulties

- Several large state-owned companies are in crisis as a result of governance failures, poor operational performance and resultant unsustainable debt burdens
- SOCs debts grown alongside government debt
- Government has increased spending to meet its obligations for guaranteed debt, but decisions are required to manage the ongoing impact of these entities on the fiscus
- A programme of reforms is being enacted to strengthen governance and operations at these entities, and to stabilise those in financial distress

# Interventions to stabilise Eskom and other state-owned companies

- Government is committed to the separation of Eskom into three functions (generation, transmission, distribution) in conjunction with necessary organisational reforms to achieve operational efficiency.
- National Treasury and Department of Public Enterprises are working with Eskom to implement the plan, announced in February 2019 State of the Nation Address, to achieve this.
- The immediate priority is to stabilise Eskom's cash-flow management, while undertaking the separation. Government has made provisional support of R49 billion available in 2019/20, R56 billion in 2020/21 and R33 billion in 2021/22.
- Should Eskom be unable to issue debt, government may be called upon to provide further support to enable the company to meet its obligations. Additional reforms to reduce Eskom's debt burden will only be considered once the utility reduces costs and makes progress in the unbundling process.
- Other state-owned companies are also adding to spending pressures on government. Funding for South African Airways (SAA), the South African Broadcasting Corporation, Denel and South African Express amounts to R10.8 billion in the current year.
- SAA unlikely to generate sufficient cash flow to sustain operations in its current configuration. Government will repay SAA's outstanding government guaranteed debt of R9.2 billion over the next three years to honour its contractual obligation. Operational changes at SAA are required urgently

## 6. Conclusion

# Conclusion

- South Africa's growth outlook has been revised down sharply, and revenue shortfalls for 2019/20 — 2021/22 remain significant. The deficit is expected to widen substantially over the next three years relative to 2019 Budget estimates. Debt and debt-service costs will continue to increase
- To stabilise the debt-to-GDP ratio over the coming decade, large additional measures are needed. Government is proposing a fiscal target: a main budget primary balance, excluding financial support for Eskom, by 2022/23. This target is expected to result in debt stabilising by 2025/26, it will require reductions to wage bill growth. Tax measures are also being considered
- To mitigate the immediate risk that Eskom poses to the economy, the utility receives assistance to service its debt obligations. Addressing Eskom's underlying problems requires reinvigorated governance, operational efficiencies and restructuring
- Short- and medium-term reforms are urgently required to improve economic performance over the next several years. The discussion document released by the National Treasury in August 2019 put forward an approach to restore growth momentum.
- Key fiscal risks in the period ahead include weaker economic growth, uncertainty in the revenue outlook and a worsening of Eskom's financial and operational position



End