

# BUDGET CONSIDERATIONS

August, 2021



**national treasury**

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



# KEY POINTS

- Outcomes for 2020/21 show a budget deficit of 11% of GDP or R552 billion.
- High government spending (4% above inflation for a decade) and higher debt (15% above the EM average) failed to lift growth.
- Structural reforms essential for growth momentum rather than higher deficits and further accumulation of debt
- Fiscal consolidation necessary to avoid a debt/fiscal crisis

# PRELIMINARY OUTCOMES FOR 2020/21 ARE WORSE THAN 2020 BUDGET ESTIMATES

## Main budget fiscal framework, 2020/21

R billion	2020 Budget Estimate	2021 Budget Revised estimate	Preliminary Outcome	Variance from 2020 Budget Estimate	Variance from 2021 Budget Revised Estimate
<b>Gross tax revenue</b>	<b>1 425.4</b>	<b>1 212.2</b>	<b>1 249.9</b>	<b>-175.5</b>	<b>37.7</b>
<i>Percentage of GDP</i>	26.3%	24.6%	25.0%		
Plus: Non-tax and other revenue <sup>1</sup>	36.0	52.0	49.6	13.7	-2.3
Less: SACU	-63.4	-63.4	-63.4	–	–
<b>Budget Revenue</b>	<b>1 398.0</b>	<b>1 200.8</b>	<b>1 236.1</b>	<b>-161.9</b>	<b>35.3</b>
<i>Percentage of GDP</i>	25.8%	24.4%	24.7%		
<b>Expenditure</b>	<b>1 766.0</b>	<b>1 804.2</b>	<b>1 788.0</b>	<b>22.0</b>	<b>-16.2</b>
<i>Percentage of GDP</i>	32.5%	36.7%	35.8%		
Interest payments	229.3	232.9	232.6	3.3	-0.3
<i>Percentage of GDP</i>	4.2%	4.7%	4.7%		
Non-interest expenditure	1 536.7	1 571.3	1 555.4	18.7	-15.9
<i>Percentage of GDP</i>	28.3%	31.9%	31.1%		
<b>Budget balance</b>	<b>-368.0</b>	<b>-603.4</b>	<b>-551.9</b>	<b>-183.9</b>	<b>51.5</b>
<i>Percentage of GDP</i>	-6.8%	-12.3%	-11.0%		
<b>Primary balance</b>	<b>-138.7</b>	<b>-370.5</b>	<b>-319.3</b>	<b>-180.5</b>	<b>51.3</b>
<i>Percentage of GDP</i>	-2.6%	-7.5%	-6.4%		
Gross domestic product	5 428.2	4 921.0	4 995.7	-432.5	74.7

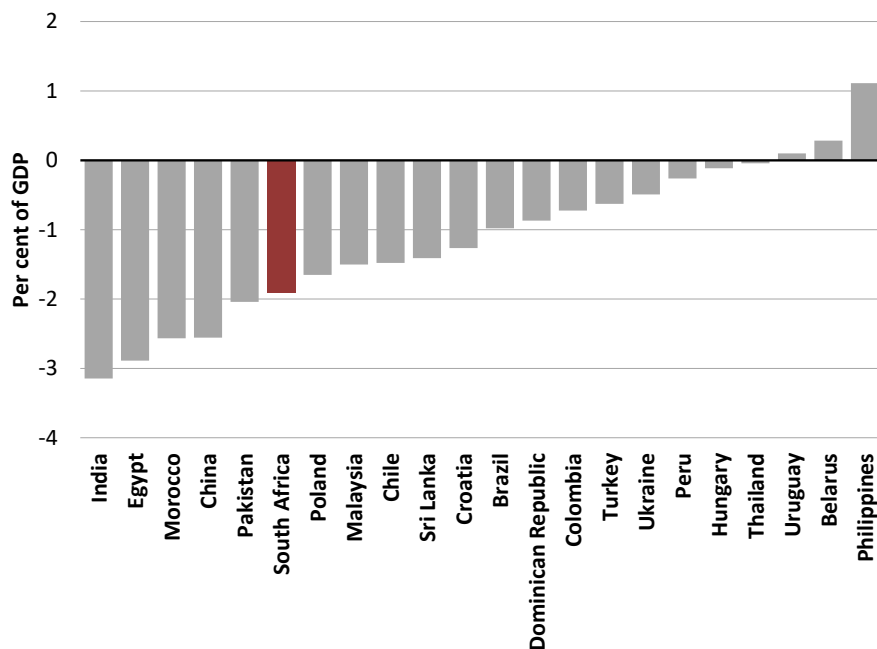
1. Includes departmental revenue and National Revenue fund receipts

Source: National Treasury

- 2020/21 preliminary outcomes show that GDP, the main budget revenue, expenditure and deficit was much worse than the 2020 Budget estimates highlighting the deleterious effect of the CoVID-19 pandemic on the public finances and the economy.
- Nevertheless performance was slightly better than expected at 2021 Budget.
- Compared with 2020 Budget estimates, the main budget deficit was worse than expected by R183.9 billion or 4.2 percentage points of GDP.
- The point of departure for fiscal policy is from this weakened and vulnerable position.

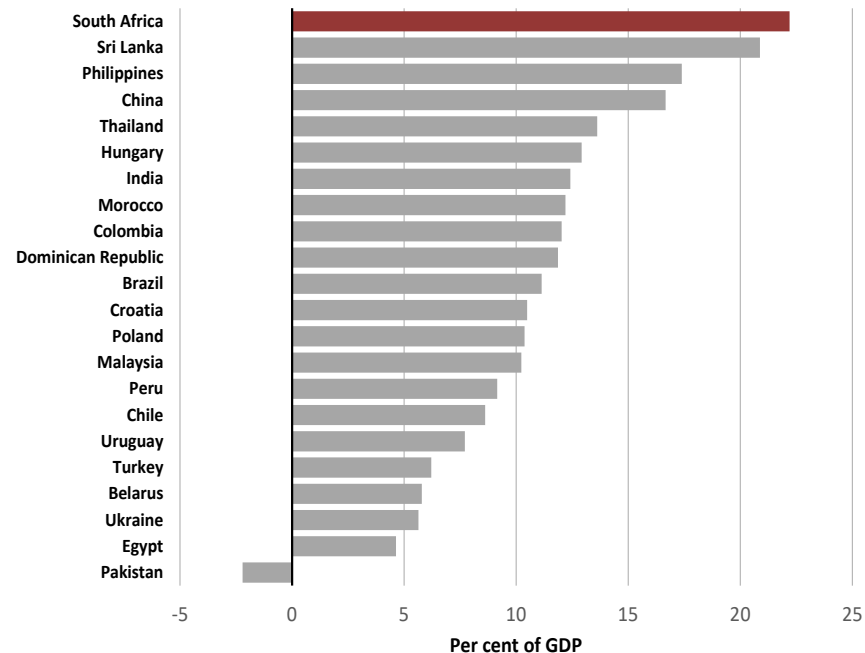
# SOUTH AFRICA'S FISCAL POSITION REMAINS NEGATIVE IN THE GLOBAL CONTEXT

Average primary balance, 2010 – 2020



Source: IMF World Economic Outlook, April 2021

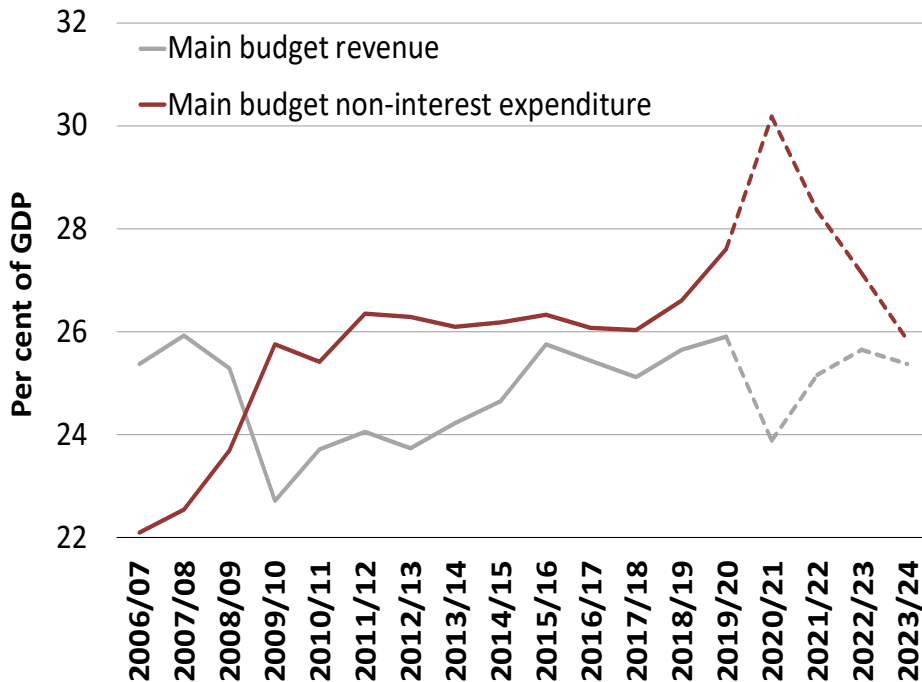
Projected three-year increase in debt



- In comparison with a wide range of other developing countries, South Africa's average primary balance over the last 10 years falls in the middle of the distribution.
- But South Africa's three-year increase in debt to GDP is the among the largest.
- Fiscal distress is mounting in developing countries amid historically high indebtedness. In this environment of rising fiscal pressures, South Africa is losing ground to its peers.

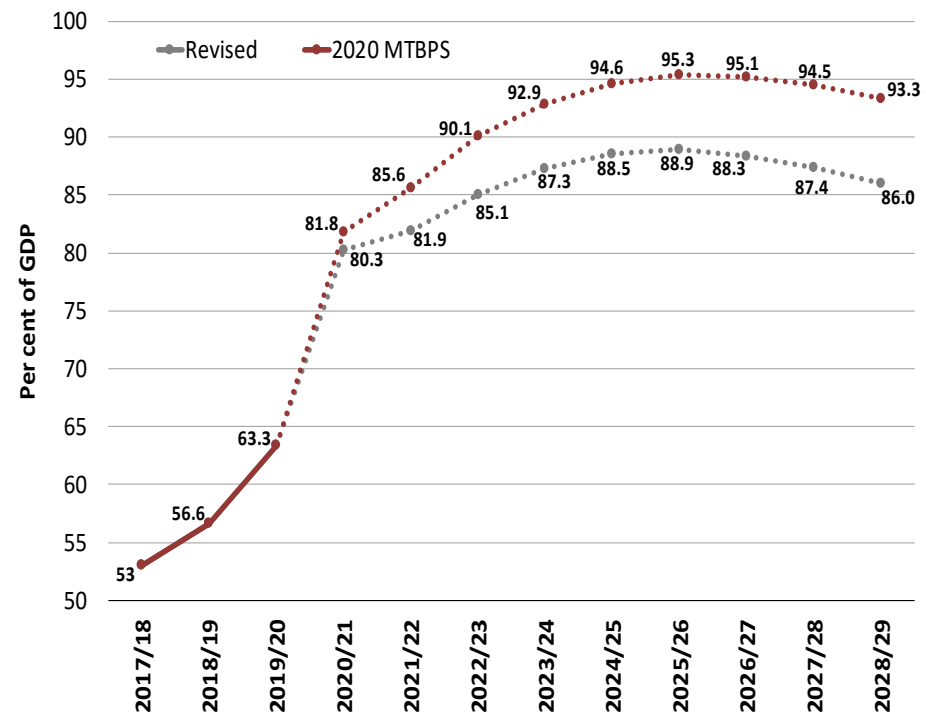
# SPENDING RESTRAINT IS CRITICAL TO FLATTEN THE DEBT CURVE

## Main budget revenue and expenditure\*



\*Excludes Eskom financial support and transactions in financial assets and liabilities

## Gross debt-to-GDP outlook



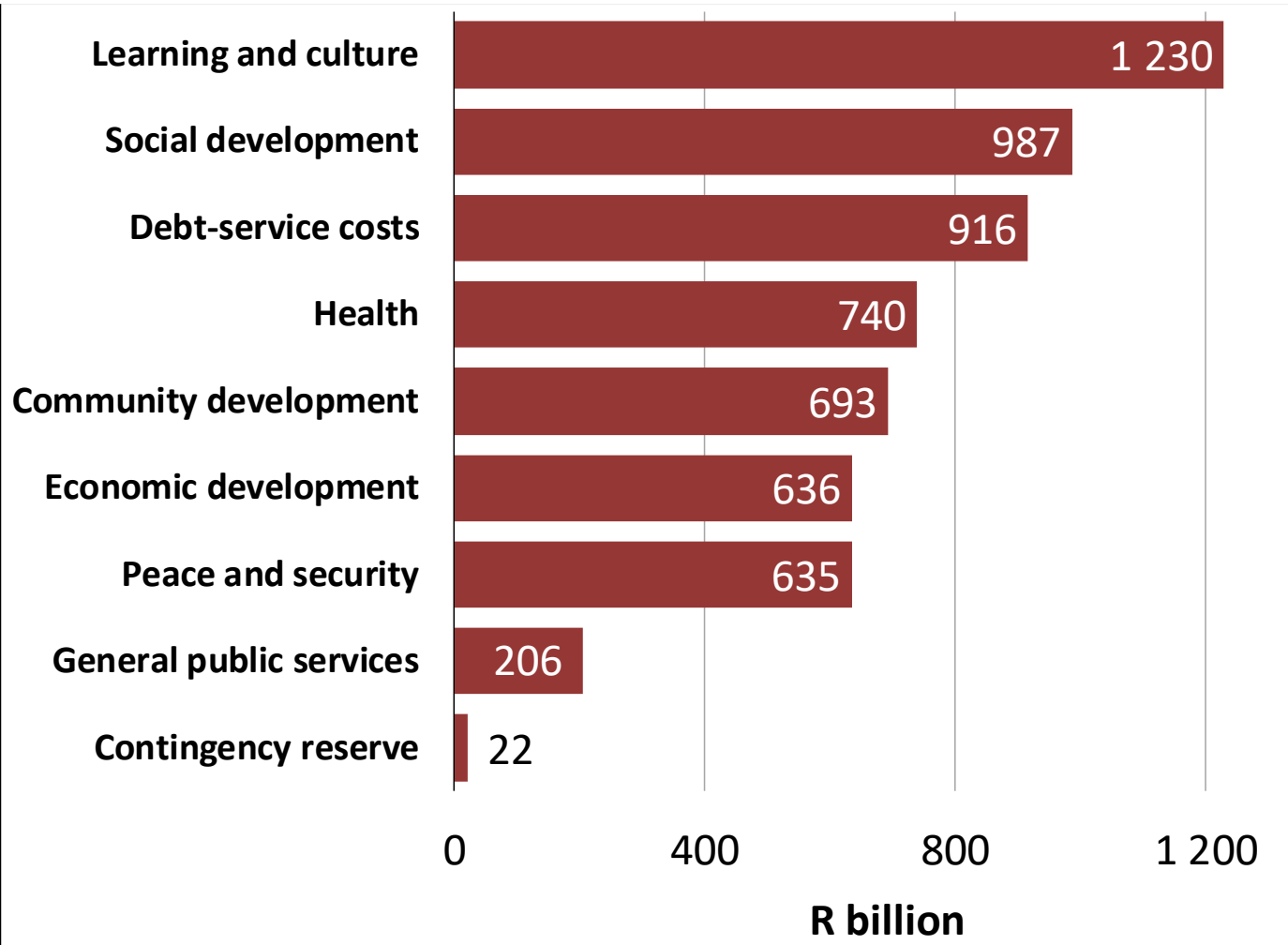
- The main budget primary deficit is projected to narrow over the medium term and gross debt-to-GDP is now projected to stabilise at 88.9 per cent of GDP in 2025/26.

# FISCAL STRATEGY

- South Africa's fiscal challenge is to balance the immediate need for support to the economy during the pandemic with ongoing efforts to close a large, pre-existing budget deficit. In this context, the fiscal strategy aims to:
  - Narrow the deficit and stabilise the debt-to-GDP ratio, primarily by controlling non-interest expenditure growth.
  - Provide continued support to the economy and public health services in the short term, without adding to long-term spending pressures.
  - Improve the composition of spending.
- Significant risks remain. The global outlook is highly uncertain, with the economic recovery largely dependent on responses to COVID-19. Several state-owned companies are requesting additional funding. Finally, wage agreement risks have materialised
- Wage agreement will cost around R20bn. This amount is over and above the COE ceilings tabled in February. As indicated in the 2021 Budget Review this will have an impact. Work is ongoing on how to address the wage agreement within the current constrained environment and options/recommendation will be discussed by the Ministers' Committee on the Budget and Cabinet.

# MEDIUM TERM SPENDING PRIORITIES

**Consolidated government expenditure by function, 2021/22 — 2023/24**



- Over half of allocations go towards learning and culture, health, and social development functions over the medium term.
- Debt-service costs, estimated at R916 billion over the MTEF period, is the third largest spending item by function

# HOW BUDGET 2021 SUPPORTS ECONOMIC GROWTH

- **Fiscal sustainability:** Increasingly unsustainable fiscal outlook acts as drag on economic growth:
  - Budget 2021 presents an improved debt-to-GDP outlook relative to the 2020 MTBPS, which should take pressure off interest rates, reduce crowding out, and improve investor sentiment.
- **Short-term support to the economy:** funding for crucial health and employment interventions support the economic recovery:
  - Three-month extensions of the special COVID-19 social relief of distress grant and the Unemployment Insurance Fund's Temporary Employer/Employee Relief Scheme, and funding for the public employment initiative and for provincial hospitals in 2021/22.
  - Up to R10.3 billion is provided for vaccine rollout for the current year and over the next two years.
  - The contingency reserve increases from R5 billion to R12 billion in 2021/22, given uncertainty around vaccination campaign costs. These interventions do not add to longer-term expenditure.

**Table 5.2 2021 Budget additions**

R million	2021/22	2022/23	2023/24	MTEF total
<b>2021 Budget additions to baseline</b>	<b>22 446</b>	<b>4 602</b>	<b>2 283</b>	<b>29 332</b>
COVID-19: Vaccine rollout	5 200	3 000	–	8 200
COVID-19: Managing second and third wave	8 000	–	–	8 000
Extension of the special COVID-19 social relief of distress grant	2 145	–	–	2 145
Other adjustments <sup>1</sup>	7 101	1 602	2 283	10 987

*1. Includes the New Development Bank, financial support to state-owned companies and public entities, and the rescheduling of some infrastructure reductions introduced in the 2020 MTBPS*



# THE TREASURY CONTRIBUTES TO THE FOLLOWING ELEMENTS OF THE ERRP



1. Strengthen transparency of procurement systems in public sector and implement measures to improve state procurement (e.g. Public Procurement Bill)
2. Improvement of support to firms through the Credit Guarantee Scheme
3. Support to households through the COVID-SRD grant
4. Implementation of employment tax incentive
5. Implement measures to strengthen the PPP Framework
6. Ensure fiscal prudence including the management of wage bill and ensuring value for money
7. Increase support to SMMEs through more appropriate financing products
8. Support for distressed SOEs where appropriate
9. Assess the impact of VAT changes on vulnerable households
10. Facilitate access to domestic savings for greater investment into non-consumptive public expenditure
11. Increase use or sourcing of green climate finance to fund just transition.

# THANK YOU

