

South Africa's 2020 MTBPS:

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 2020 Budget and MTBPS – some highlights
- No austerity during the last decade.
- Civil service remuneration
- Government debt and funding shifts
- Fiscal cliff update
- Recommendations

Comparison: 2020 Budget vs MTBPS

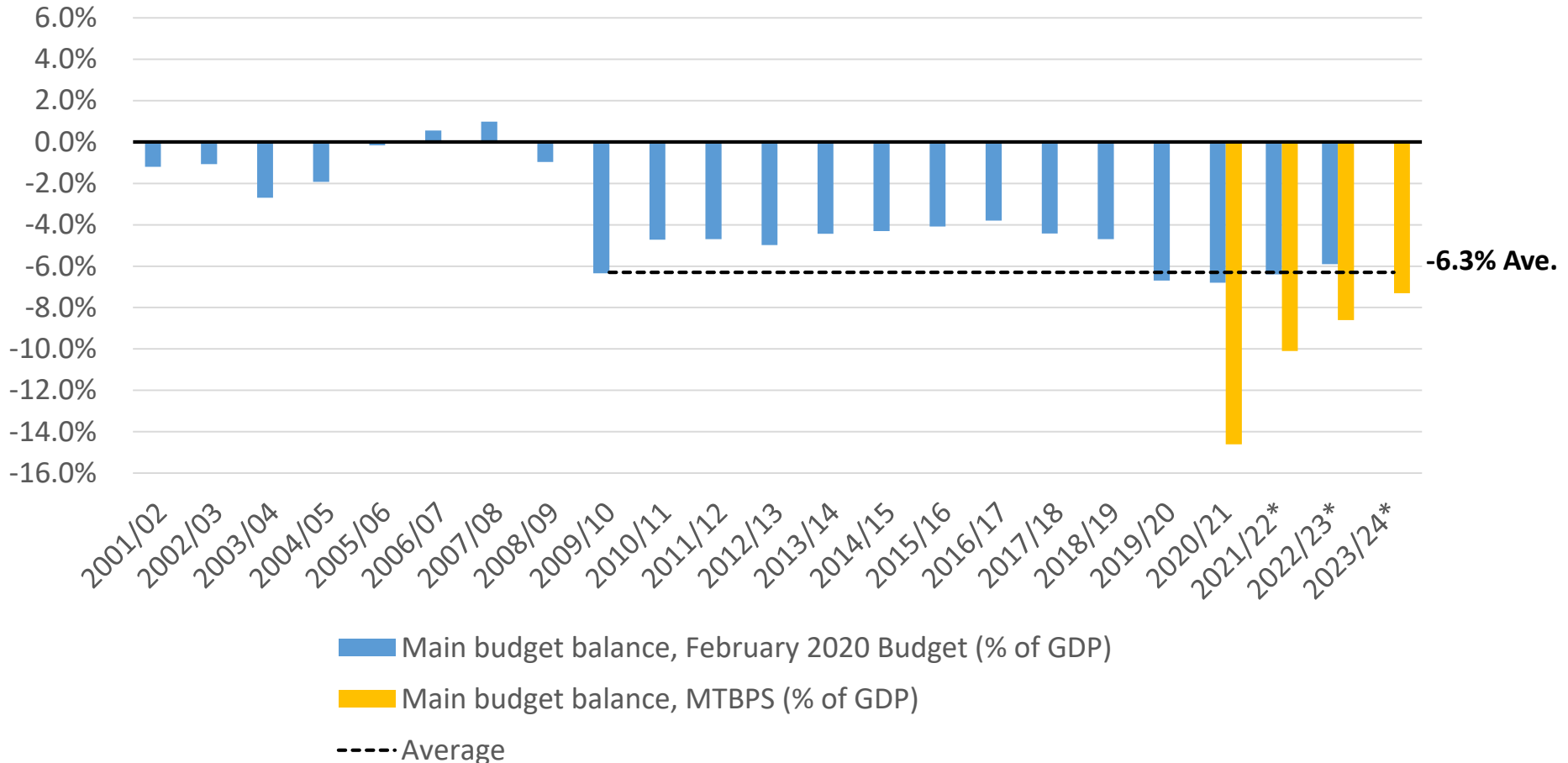
2020 Budget (expectations)	2020 MTBPS (changes)
GDP growth of 0.9 % (2020)	GDP contraction of -7.8 % (2020)
Inflation 4.5% (2020)	Inflation 3.2% (2020)
	Revenue under-collection of R312.8 billion
	Additional social relief package of R41 billion
<u>No further remuneration increase</u> for civil servants	<u>No further remuneration increase</u> for civil servants; 'pay reductions to management-level positions, with SOE executives included'

Comparison: 2020 Budget vs MTBPS

2020 Budget (expectations)	2020 MTBPS (changes)
Major adjustments to expenditure items	Zero-based budgeting* piloted in 2021 (Treasury & DoPE); implemented by 2023?
Consolidated budget deficit of 6.8% of GDP forecasted for 2020/21	15.7% of GDP in 2020/21...main budget deficit, is projected to be 14.6% of GDP
<u>Government gross debt level</u> budgeted rise to 65.6% of GDP	81.8% of GDP by the end 2020/21; to rise to 92.9% (?) in 2023/24
<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: R233.0 billion (R3.7 billion extra) 2021/22: R271.8 billion (R13.3 billion extra) 2022/23: R317.6 billion (R27.5 billion extra) 2023/24: R353.1 billion

*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) ⁴

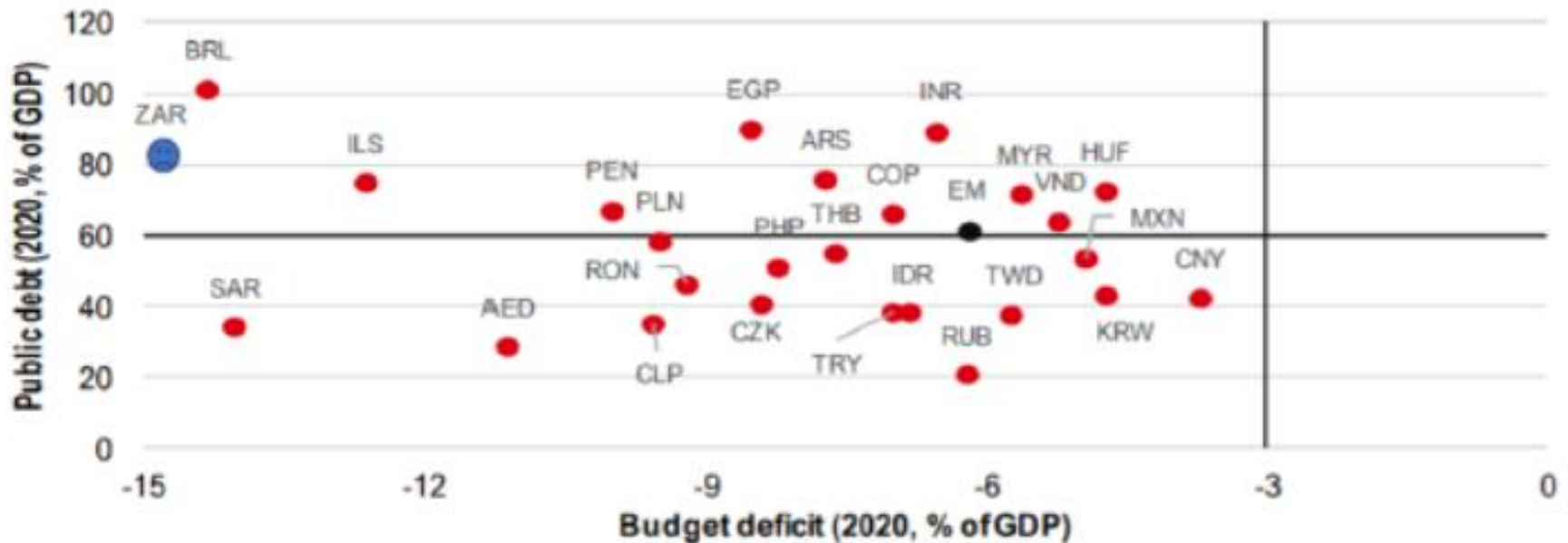
No budget austerity in past 10 fiscal years



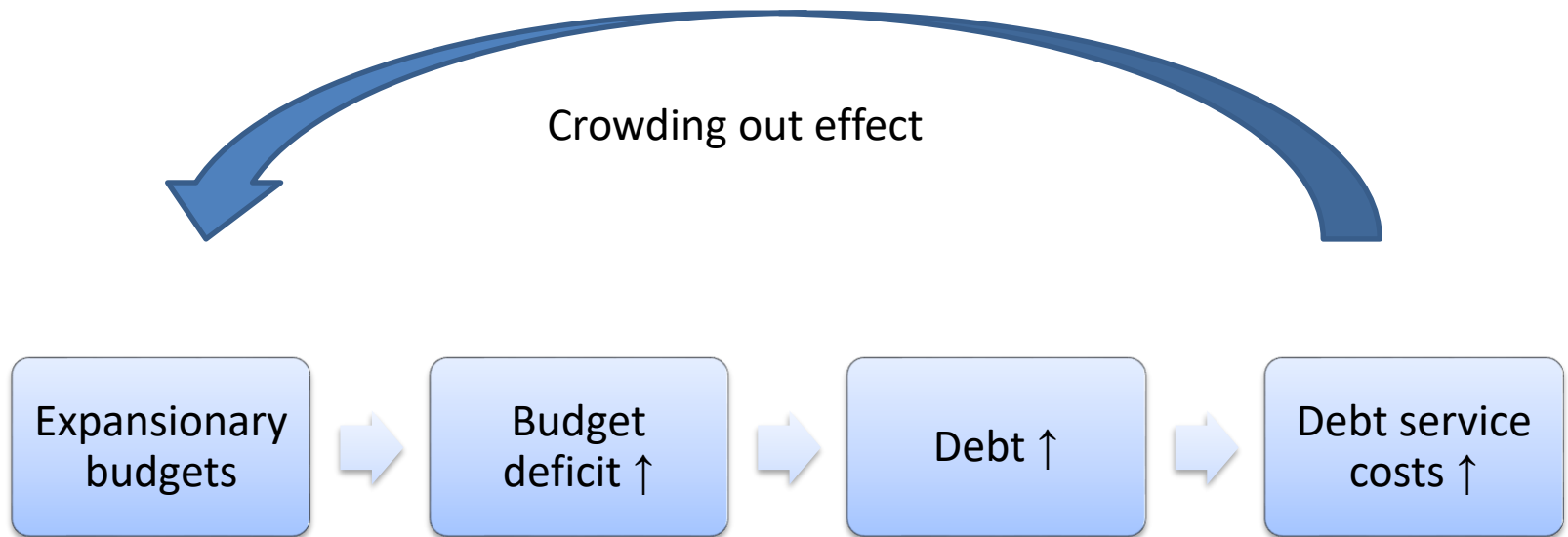
*Treasury forecasts (2020 Budget and MTBPS)

Source: SARB, Treasury

SA budget deficit/public debt: Relative to our peers



No budget austerity in past 10 fiscal years



- Ironically, the same large expenditure items (e.g. civil service remuneration expenditure) which were allowed to rise unsustainably during the last decade, are now being crowded out by increases in debt service costs and attempts to stabilize debt levels

Civil service remuneration

Figure B.1 Compensation and nominal GDP growth

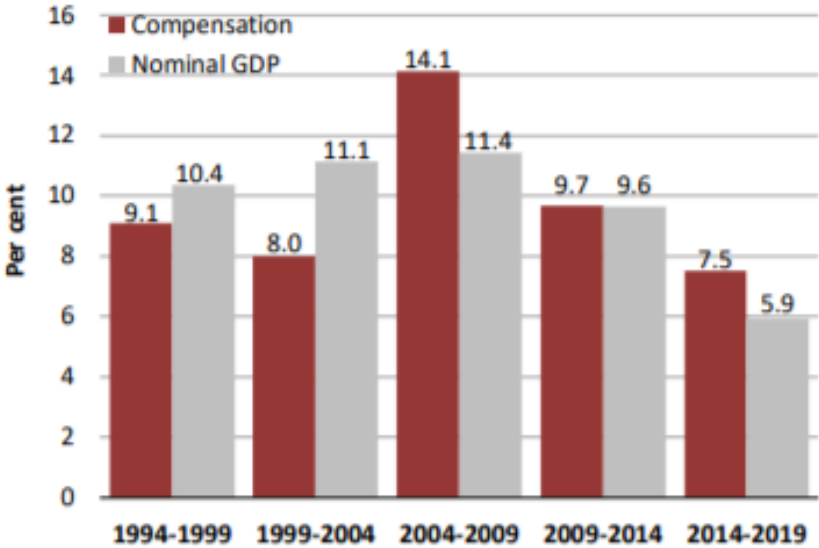
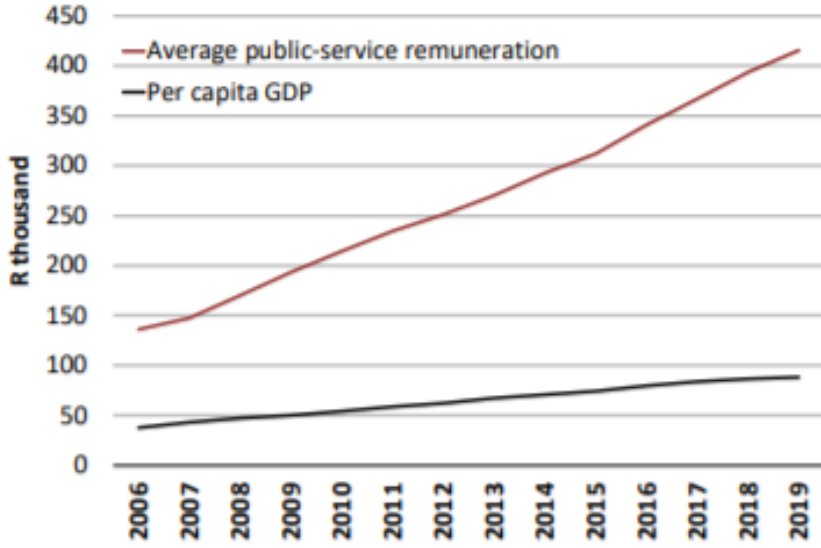


Figure B.2 Public-service remuneration and per capita GDP



Source: 2020MTBPS, Annexure B, 57

Civil service remuneration

- The February 2020 Budget provided for no general increase for civil servants, but also not for any reduction in salaries or in employment numbers
- At that stage an increase equal to the rate of inflation + 1/2 percentage point(s) (depending on seniority) in 2020/21 would have amount to some R40 billion
- The MTBPS announced additional drastic cuts in civil service remuneration over the medium term, including:
 - “Consideration should be given to the proposal for across-the-board compensation pay reductions to management-level positions, across national, provincial and municipal governments, state-owned entities and all other senior public representatives”
- It will be prudent if civil service remuneration could be maintained at the latest budgeted figures, however, various uncertainties remains
- The inclusion of a compensation data annexure (Annexure B), as originally requested by the FCSG, should continue to be included in the budget documents

Civil service remuneration

	2020/21	2021/22	2022/23	2023/24	Average annual nominal growth
2019 MTBPS	675.2	717.6	758.5	n/a	6.3%
2020 Budget	638.9	667.8	697.1	n/a	3.5%
Difference	-36.3	-49.8	-61.4	n/a	
2020 MTBPS	639.3	639.1	646.5	655.0	0.8%
Difference	0.4	-28.7	-50.6		

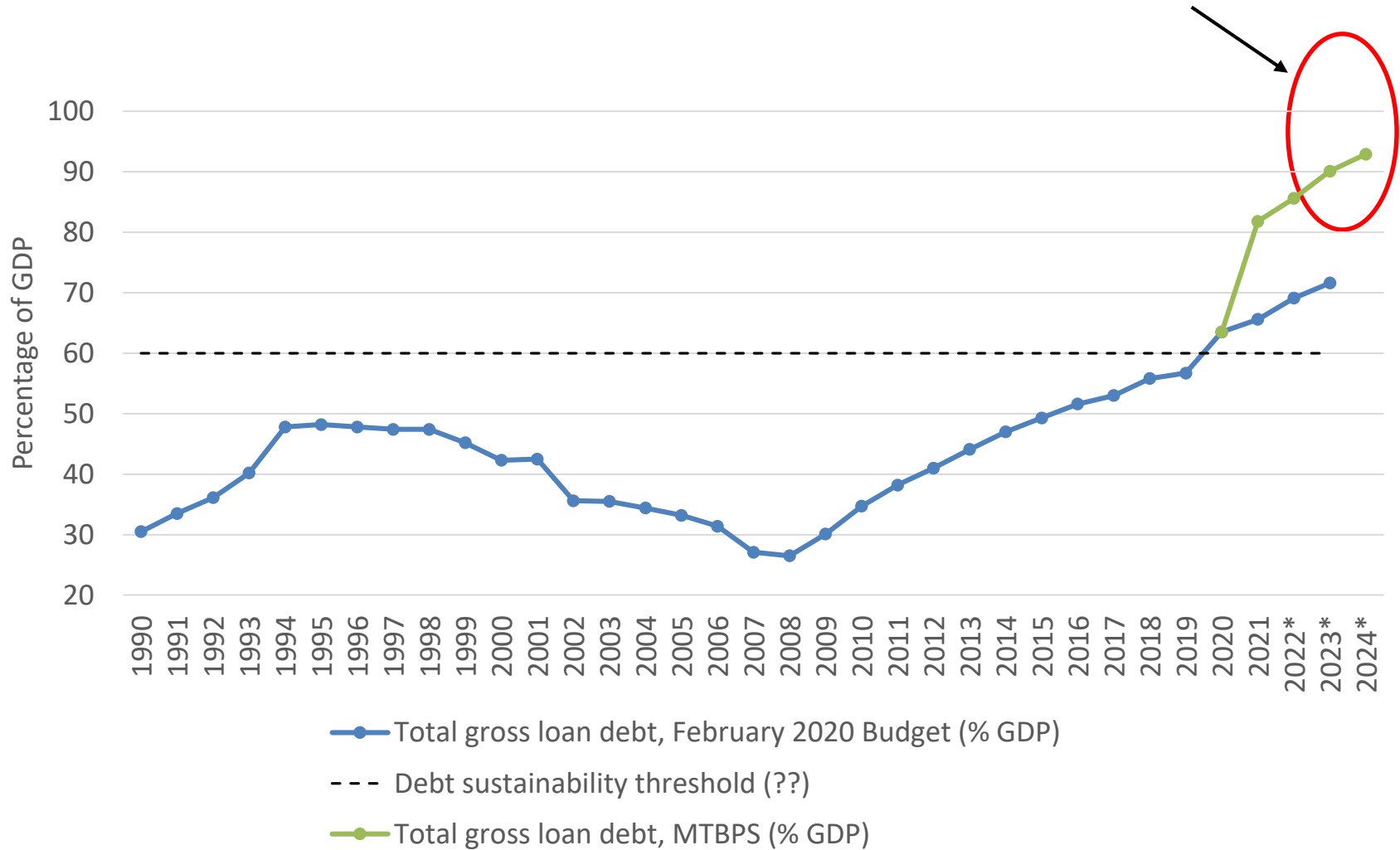
Crowding out in action: reductions in previously-planned multiyear growth in civil service remuneration

Table 4.3 Reductions to compensation of employees

R million	2020/21	2021/22	2022/23	2023/24	Total
Function					
Community development	-632	-1 636	-2 294	-1 545	-6 107
Economic development	-1 676	-4 469	-6 084	-4 112	-16 341
General public services	-1 268	-4 064	-5 444	-3 765	-14 542
Health	-8 987	-19 147	-27 388	-17 202	-72 723
Learning and culture	-14 007	-30 038	-42 948	-27 207	-114 199
Peace and security	-9 185	-21 644	-28 848	-18 863	-78 541
Social development	-760	-2 190	-3 065	-2 116	-8 132
Total	-36 515	-83 187	-116 071	-74 811	-310 585

Government debt

Likely still underestimated



*Treasury forecasts (2020 Budget and MTBPS)

Source: SARB, Treasury

Funding changes...

- Forced move to funding on the short end of the curve
 - liquidity constraints on the long end
 - Increased costs and risks (volatility)
 - Sustainability??
- Shape of the yield curve?

Funding changes: Financing of the main budget deficit

R billion	2019/20 Preliminary	2020/21		2021/22	2022/23
		Budget	Revised	Medium-term estimates	
Gross borrowing					
Main budget balance	-345.3	-368.0	-709.7	-495.6	-430.5
Redemptions	-70.7	-64.7	-67.2	-64.9	-150.0
Domestic long-term loans	-19.4	-52.5	-52.5	-60.5	-134.2
Foreign loans	-51.2	-12.2	-14.7	-4.4	-15.8
Total	-416.0	-432.7	-776.9	-560.5	-580.5
Financing					
Domestic short-term loans (net)	36.1	48.0	146.0	56.0	64.0
Domestic long-term loans	305.4	337.7	462.5	388.4	451.4
Foreign loans	76.1	29.3	125.2	31.9	63.2
Change in cash and other balances ¹	-1.6	17.7	43.2	84.2	1.9
Total	416.0	432.7	776.9	560.5	580.5

1. A positive value indicates that cash is used to finance part of the borrowing requirement

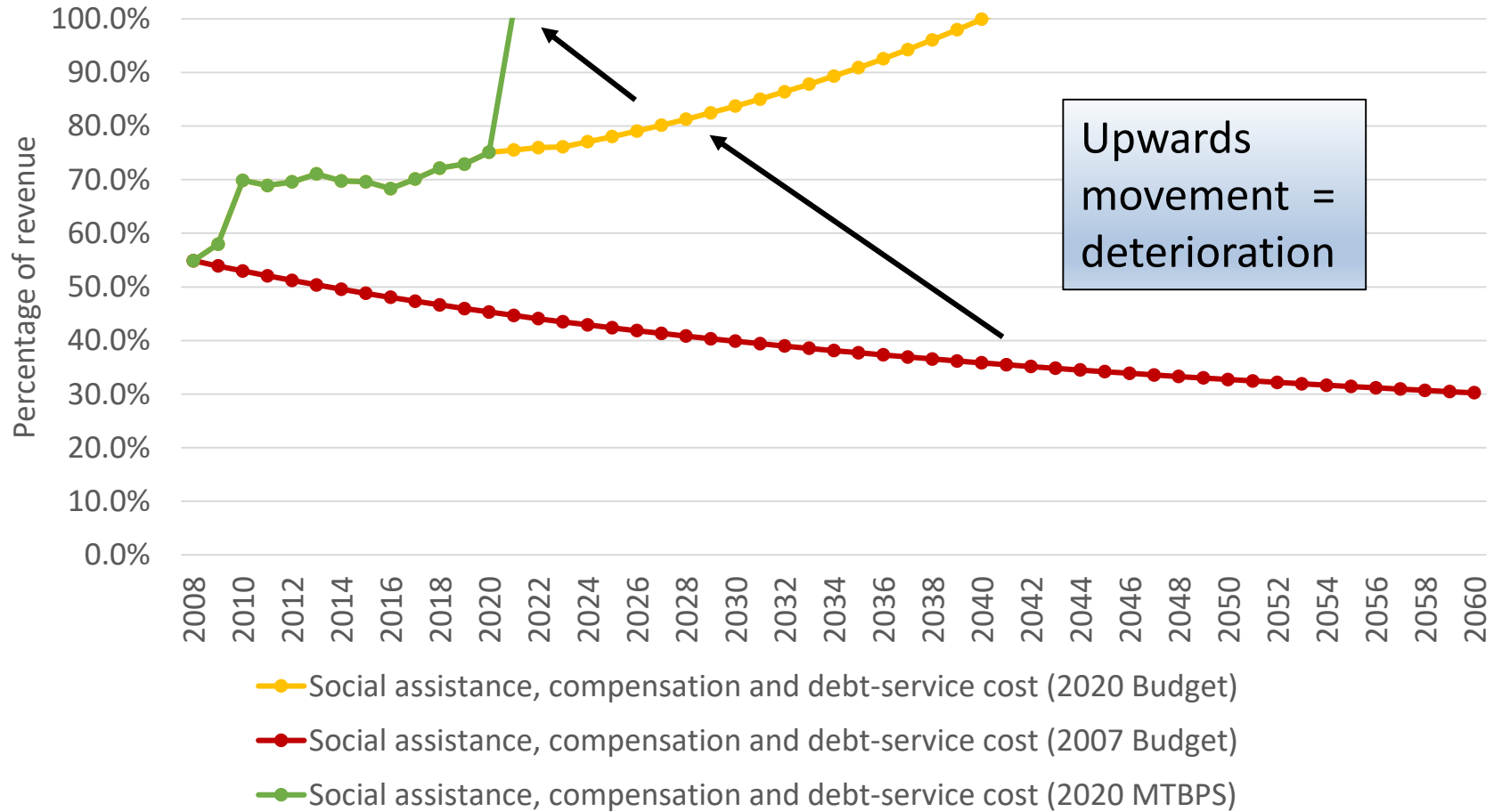
Fiscal cliff

- 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 MTBPS*

Fiscal cliff update estimate iro 2020/21: 2020 MTBPS

- Assumptions:
 - A revenue reduction of R312.8 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 R3.7 billion in 2020/21

Fiscal Cliff Barometer (2020 MTBPS)



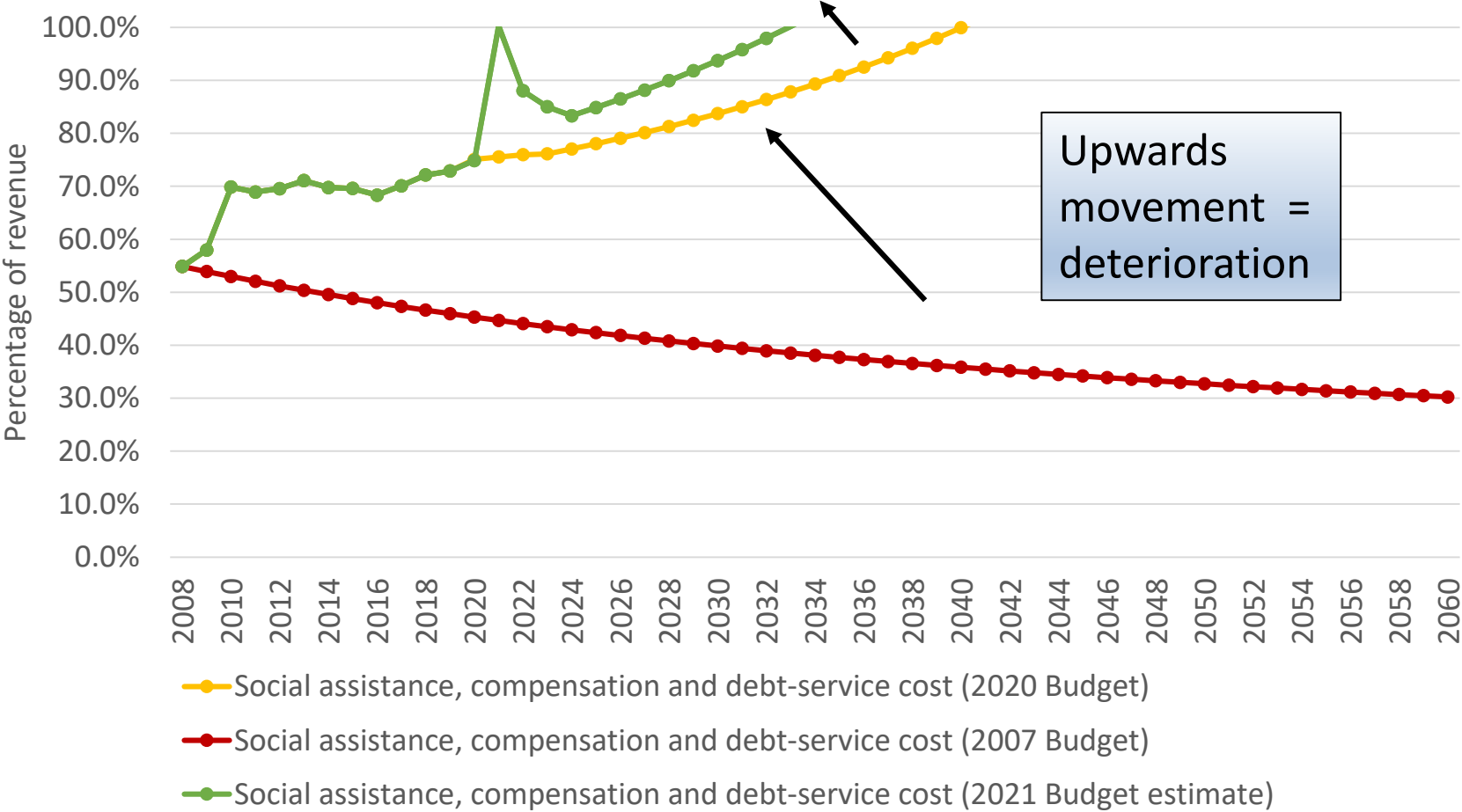
*Graph intentionally limited to 100% of revenue

Fiscal cliff: Projections for 2021/22 and beyond

Assumptions:

- **Revenue** recovery between 2021/22 to 2023/24 as per MTBPS. Thereafter growth of 6,5% per annum (average of 2007/08 to 2022/23)
- **Remuneration cost for civil servants is contained** figures as per MTBPS until 2023/24. Thereafter average inflation plus 1 percentage point
- **Debt-service costs** figures as per MTBPS until 2023/24. 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

Recommendations

- Austerity budgets are inevitable, as South Africa did not have austerity budgets (an austerity budget is, at the least, a balanced budget) for the past decade
- Owing to expansionary budgets of the past decade:
 - No reserve capacity was created
 - The zero-based budget approach is highly appreciated and necessary, however worries over ‘phased-in’ application (2023?)
 - This created (forced?) a crowding out effect, evident in the MTBPS figures
 - Necessitated funding shifts to short-term loans (likely more volatile and costly)

Recommendations

- 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
 - Steps should be taken to avoid a permanent fiscal crisis
 - Disclosure of trends in public-service compensation data (MTBPS, Annexure B) should be continued
- 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/**reduce** the remuneration and bonuses of executives at SOEs

Recommendations

- Only very rapid economic growth can turn this position around
- The FCSG reserves some scepticism regarding medium term forecasts, as these are based on a strong “V”-shaped recovery
- 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.
- As it is evident that Treasury is already finding it harder to acquire sufficient liquidity in local financial markets, budget deficits should be reduced.

Questions/Discussion

Selected references:

- 2020 MTBPS and various National *Budget Reviews*.
- National Treasury: *Financing the budget in the post-corona world*. ERSA Fiscal Futures: Part 2 – presentation by Me T. Moahloli, 12 August 2020. [Online] Available at: <https://www.youtube.com/watch?v=k98LV-DR6oM&feature=share>
- 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.
- Rossouw, J., Joubert, S. J. en Breytenbach, A. 2016. Suid-Afrika se fiskale keuses gemodelleer: Afgrond of plato? *Tydskrif vir Geesteswetenskappe*, 56 (2-2): pp. 534-554.
- Rossouw, J, Joubert, S. J. en Breytenbach, A. 2014. Suid-Afrika se fiskale afgrond: 'n Blik op die aanwending van owerheidshulpbronne. *Tydskrif vir Geesteswetenskappe*, 54 (1): pp. 144-162.