South Africa February Budget Statement

Details:

Statement delivered by Finance Minister Mboweni: 1200GMT/1300CEST/0700ET

MNI Point of View:

While the expectation is for bumper 4Q20 revenue collections to generate a tax windfall of around R100bn more than expected in October at the MTBPS, Markets will be looking for clear signs of commitment to fiscal consolidation and initiation of growth-inducing structural reforms.

- **Taxes: Severe Constraints, Minimal Room to Operate**
  - Given extensive laffer curve constraints, expectations have aligned with minimal new taxation mechanisms outside of the predetermined R5bn taxes outlined in October, bracket-creep, fuel levies, alcohol/tobacco excise duties and possible (but mostly unlikely) wealth taxes to generate revenue.
  - The tax windwall is also expected to be used to fund vaccine purchases (~R24bn needed). Mboweni will also elaborate on this funding roadmap alongside private sector involvement. Additionally, the three-month R350/m social grant extension should be more than absorbed by the potential windfall and reprioritisation.

- **Key Touch Points: Wage Bill & Fiscal Consolidation**
  - The key touchpoint on commitments to expenditure cuts of ~R300bn outlined in October will be the public sector wage bill, which is bringing SA closer to a fiscal cliff (estimated to be reached by March 2021). Markets will be looking closely for concrete details of how Govt plans to trim the wage bill through reprioritisation, restructuring and possible nominal wage freezes (drew extensive criticism from unions previously).
  - Strongly subversive unions remain the single greatest obstacle (alongside rampant corruption) to achieving this fiscal consolidation, but a number of Govt-friendly Labour court rulings (R37bn 2018 wage deal) are starting to show signs of hope that govt will not always back down to union pressure going forward.

- **Deficit & Debt:GDP, less room for fiscal slippage**
  - The consolidated budget deficit is expected to be 13.9% of GDP for 2020/21 fiscal year (vs 15.7% forecast) 9.7% in 2022. Treasury forecasts Debt:GDP peaking at 95.3% in 2026, while credit agencies have estimated 100% by 2022/23. Debt:GDP expected to be ~80% at today's meeting.
  - Debt servicing plans will also be closely monitored, with loan servicing costs becoming the largest expenditure item since 2011. Here, we may see issuance curbs or the sale of short-dated bonds.

- **SOEs: Hopefully, No Easy Handouts Outside of Going Concerns**
  * Eskom, SAA, Denel, SABC, Land Bank & SA Express continue to be a major drag on the fiscus in need of structural reform. We may see more funding allocated to those of immediate concern (Land Bank & Denel) needing ~R6-8bn total to remain liquid. Eskom remains a major concern and measures including prescribed assets (regulation 28) or a joint venture with the PIC stand a chance of being discussed, but this may be a tad premature.

- **Summary: Rosy for Now, But no Sunshine & Rainbows**
  - Overall, a more positive picture at this budget, but markets will react negatively to any signs of complacency or deceleration on expenditure curbs/concerns. Mboweni is unlikely to waver in his hardline approach, which is unfortunately often tempered by poor Govt implementation. Key determinants will be reform credibility, commitment to October fiscal goals, and a balanced approach to taxation.

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