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COMMENTARY

National Budget Analysis

31 OCTOBER 2019

MKI Economics Commentary is a brief note intended to provide MKI's interpretation of key economic events such as the Budget, MTBPS, Monetary Policy (Interest Rates) and Employment data releases.

2019 MTBPS Projects Worsening Debt- to- GDP, Rise in Debt Servicing Costs and a Bigger Risk to Sovereign Debt Rating

Moses Kotane Institute notes the Medium-Term Budget Policy Statement (mini budget) presented by Finance Minister Tito Mboweni on 30 October 2019. In what was expected to be the most anticipated 'mini budget' in recent times, Treasury faced multiple challenges of rising debt, revenue shortfall, next to zero growth and mounting costs of stabilizing Eskom finances. Against this background, all key debt metrics worsened.

MASSIVE INCREASES IN SOVEREIGN DEBT AND DEBT SERVICING COSTS

Debt surpassed R3trn for the first time this fiscal year, rising to R4.5trn over the medium term. Debt service costs as a percentage of total expenditure will reach 15% from the current 13.7%. Debt-to-GDP is expected to reach 71.3% by 2022/23. The deterioration in all the debt metrics effectively diverts expenditure on service delivery to servicing the debt bill. Debt Service costs are projected at R299bn by 2022/23.

RISK TO SOVERIGN DEBT DOWNGRADE TO JUNK INCREASED

Moodys, the last of the major credit ratings agency to place SA at investment grade is likely to change the outlook to negative at best or cut the investment grade to junk status. The continued downward revisions to economic growth and rising costs of financing Eskom will further spook Moodys. MKI notes that should Moodys downgrade SA to junk, the debt servicing costs will rise further.

TAX COLLECTION SHORTFALLS PERSIST AND ADDITIONAL TAX MEASURES UNDER CONSIDERATION

Treasury confirmed that additional tax measures are under consideration. The scope for further tax increases are however limited. Although a 1% in VAT will likely raise an additional R25bn, the move is unlikely in this anaemic economic growth environment. Treasury announced a tax collection shortfall of R57bn in the current fiscal year. The additional R1bn allocated to SARS will, in our view, help improve or result in meeting tax collection targets and is most welcome.

The MTBPS showed major deterioration in all debt metrics watched by credit ratings agencies. Expenditure reductions are insufficient to achieve fiscal consolidation. Stabilizing Eskom remains a top priority. Economic reforms are necessary and urgent. The need to prioritize infrastructure expenditure over consumption expenditure holds key to lifting economic growth thus achieving fiscal consolidation targets.