



*MKI Economics Commentary* is a brief note intended to provide MKI's interpretation of key economic events such as the Budget, MTBPS, Monetary and Fiscal Policy, Employment, data releases and other topical economic events.

#### *FISCAL DEVELOPMENTS*

The Medium-Term Budget Policy Statement (MTBPS) presented by the Minister of Finance on the 28<sup>th</sup> of October 2020 highlights a concerning public sector debt outlook and fiscal weakness in the midst of slow economic growth.

While the 2020 Special Adjustments Budget announced in June was prepared in an uncertain environment and proposed a three-year fiscal consolidation path, the MTBPS tabled a five-year fiscal consolidation path aimed at promoting economic growth and stabilising debt at a 95% debt-to-GDP ratio within the next 5 years. The South African economy is now expected to contract by 7.8% in 2020 with the 2021 outlook being highly uncertain.

#### *ECONOMIC INTERVENTIONS*

The MTBPS speaks directly to the earlier announced Economic Recovery Plan and reaffirms that infrastructure will be at the centre of government's efforts. Energy supply capacitation is being pursued under the re-stitching of ESKOM by way of the unbundling process of which implementation is under way.

The Minister further broke down the much talked about R500 billion relief package announced in April which had been a subject of much debate. Implementation has often been cited as an Achille's Heel in government's programmes and it is interesting to note that the MTBPS highlights the important role that Operation Vulindlela will play as a coordination tool to unlock and fast track implementation of the structural economic reform agenda.

Of provincial interest is that Provincial Equitable Share will be augmented by R7 billion to support jobs at fee-paying public schools and government-subsidized independent schools. This is catered for in the



R12.6 billion allocated this financial year under the President's game-changing employment initiatives.

Of the state enterprises, South African Airways (SAA) will receive R10.5 billion to go towards its rescue plan implementation, in addition to R16.4 billion allocated over the 2020 MTEF in the February Budget for settling guaranteed debt and interest. The Land Bank has been allocated an additional R7 billion over the medium-term, on top of R3 billion received in June, to go towards its restructuring.

#### *COMMENTS AND CONCLUSION*

Risks to a full-blown sovereign debt crisis are looking much higher and fiscal consolidation is now paramount. The country is further incapacitated in adopting a "spend out of the crisis" approach as it has now been observed that every Rand spent by government is now yielding less than a Rand in GDP unlike when we had lower debt. Our fiscal position is further compromised by a low tax buoyancy which leads to lower tax revenue collections.

A number of economic commentators have viewed the SAA bailout in bad light as they feel the money could have gone into other areas deserving priority for now. However, this should be taken wholesome. A longer-term profitable solution, possibly including equity partners, to non-performing state entities should be adopted. As it stands government is not getting value for money from these entities.

The loan guarantee scheme instituted by government in the heat of the Covid-19 pandemic is to be revisited which is a welcome development for the uptake of the funds. Considering several SMMEs have complained about the stringent conditions by some of the banking institutions, better access to funds should save the collapse of some of these small entities and aid survival of the others.