

# Mid Term Budget Policy Statement Highlights



The drastic effects of the Covid-19 pandemic continue across the South African economy, with the government scrambling across the divide for financial resources, to alleviate these rare circumstances caused by the pandemic. This resulted in the South African Treasury deviating from the norm, by postponing the **Mid Term Budget Policy Statement (MTBPS)**. The **MTBPS** comes against a background of poor economic data for the second quarter of 2020, mostly attributed to the hard lockdown reluctantly injected into the economy in response to the pandemic. The **MTBPS** establishes a

policy framework for the main budget speech, aims to update the Treasury's economic projects and adjusts departmental budgets for the remainder of the fiscal year.

In general, the main task before the Finance Minister in this vital policy statement given the sticky economic situation caused by Covid-19, is to steer the economic ship towards sustainable growth enshrined in several national blueprints announced by President Cyril Ramaphosa such as the South African Economic Reconstruction and Recovery plan. The lingering question we all share now and beyond is, will this MTBPS take us to the promise land of economic growth while surrounded by the worst pandemic in modern history?

#### Key takeaways include the following:

- The South African economy is expected to contract by 7.8% in 2020.
- The MTBPS provides a five-year fiscal consolidation trajectory that promotes economic growth while keeping debt in check. Within the five-year period, debt to GDP ratio is expected to stabilise at around 95%.
- Gross debt is expected to rise from approximately R4 trillion this year to R5.5 trillion in 2023/24 fiscal year.
- The mid-term policy framework tightens the main budget primary deficit from an expected R266 billion in 2021/22 to R84 billion in 2023/24 and a surplus by 2025/26.
- The mid-term fiscal strategy proposed a consolidated spending of R6.2 trillion over the 2021 medium term expenditure framework, where R1.2 trillion is allocated to learning and culture. R978 billion apportioned to social development and R724 billion earmarked for the department of health.
- The South African economy is projected to grow by 3.3% in 2021, 1.7% 1.7% in 2022 and 1.5% in 2023.
- Public service wage bill is proposed to grow by 1.8% in 2020 and an average annual growth of 0.8% over the 2021 medium term expenditure. Government targets to reduce the wage bill by R160 billion in three years.
- Tax revenue collections will fall short by R300 billion.
- Additional R6.7 billion was proposed towards the special Covid-19 social relief and distress grant.
- Debt service costs are revised down by R3.4 billion.
- R3 billion was allocated to the Land Bank in June 2020, however the bank requires an additional R7 billion over the medium-term to sustain its restructuring programme.
- R10.5 billion allocated to South African Airways to implement its business rescue plan.
- State Capture Commission of Inquiry was allocated an additional R63 million to finalise investigations and produce the final report.

#### Global & Local's Opinion

In our opinion this policy framework was largely centred on the Economic Reconstruction and Recovery plan, targeting infrastructure development and job creation. Furthermore, no changes were made to the existing tax landscape thus allowing easier financial and investment planning. However, it is our opinion that the main budget speech of 2021 might usher in some structural adjustments and changes.

*Source: Department of National Treasury's Medium-Term Budget Policy Statement October 2020.*