MTBPS to highlight urgent action for South Africa's economic outlook

By Annabel Bishop

1 Nov 2023

The upcoming Medium-term Budget Policy Statement (MTBPS) scheduled for Wednesday, 1 November is anticipated to reveal a decline in fiscal metrics. Finance Minister Godongwana has already emphasised the necessity to reduce expenditures due to underwhelming revenue collections in a period marked by sluggish economic growth and poor export performance.

Source: Pixabay

The deterioration in key SOEs' (Transnet and Eskom) performance has damaged SA's economic activity, and the MTBPS is expected to give an update on government's plans for Eskom's and Transnet's debt, with Eskom in line for the concessioning of its power stations.

Inflation will come out closer to 6.0% y/y for this year versus the 5.3% y/y forecast in February, which would boost nominal GDP somewhat, but both the fiscal debt and deficit outcomes are likely to be higher for the current fiscal year than projected on overspending and revenue underruns.

The budget deficit for 2023/24 was projected at -4.0% of GDP but we now expect -4.5%, with 2024/25 estimated at -3.8% and 2025/26 at -3.2% (likely -4.0% and -3.4% instead respectively).

The gross loan debt for the current fiscal year (2023/24) was projected at 72.2% of GDP in the February Budget Review (BR) 2023, and peaking at 73.6% of GDP in 2025/26, with the ratio declining thereafter towards 65% of GDP by 2030/31. However, substantially higher state spending to date risks placing pressure on the debt ratios in an environment of lower revenue collections.

Consequent urgent action is needed to repair the capacity of both the state logistics and power utilities. Government's collaboration with business on the electricity, freight and crime crises is seeing some traction, but the fiscal debt and deficit ratios will depend on its success in promoting robust growth.

> *With little room to manoeuvre, what direction will the finance minister take in the medium-term budget? Investec economists discuss his options in this special edition of the No Ordinary Wednesday podcast. Listen now. https://t.co/Y070VJ6qwO#InvestecSA #MTBPS pic.twitter.com/TzvE3O5MpC— Investec (@Investec) October 25, 2023*

Climate-change costs will also be of note for the MTBPS, although SA mainly sees focus on bringing in renewable energy. On the electricity front, government recently said that over 12GW of generation capacity will be recovered or added to the system from Eskom and the private sector by the end of 2024.

This has been the shortfall around which the country is seeing demand exceed supply and adding 12 000MW to the grid by the end of next year would largely ease load shedding. However, faster economic growth adds to demand-side pressure, and next year GDP growth is expected to rise to 1.2% y/y.

South Africa's fiscal challenges

On a credit-rating front, Moody's has said "South Africa's longest-ever stretch of power cuts is credit negative". Adding in February, "we currently do not expect a major widening in the fiscal deficit since the government is likely to reduce its spending commensurately." However, South Africa's government has not reduced expenditure commensurately, and instead is at risk of worsening fiscal ratios.

South Africa will need to see a curb on expenditure and higher revenues for the rest of the 2023/24 fiscal year to achieve its fiscal estimates, and markets are wary that in a low growth environment with high, and rising, bond yields this becomes more difficult.

The MTBPS will be scrutinised for cost-saving measures that will allow the fiscal projections to be met. SA's borrowings are already unsustainable, at well above the EM (emerging market) limit of 60% of GDP, and were previously set to rise higher, undermining the rand, and adding to higher borrowing costs.

Read the full report here

ABOUT THE AUTHOR

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