THE SA BUDGET WISHLIST

27th February 2020

No tax hikes, public sector wage bill cuts, positive economic growth and minimal additional SOE support.

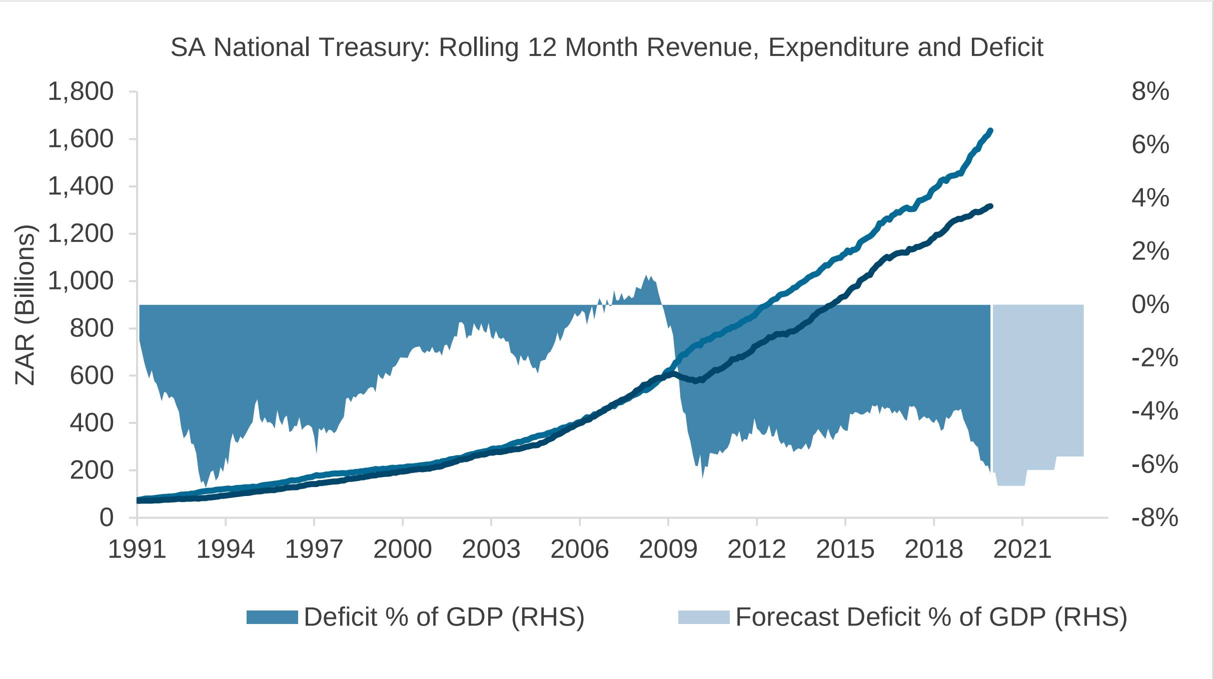
On the face of it all these elements appear in the budget. However, in all cases the assumptions are optimistic and even as the numbers presented in the budget do not fully address the ratings agencies concerns, downside risks to the forecasts are significant.

- The ability to curb public sector wages – can government take on the unions and win?
- Further SOE support – minimal commitment given for any further support
- Global growth forecasts are falling sharply and SA unlikely to escape this
- Still no positive resolution of Eskom debt which is unsustainable

In recent years, government has presented budgets with a fiscal deficit in the order of 3%. In each year, the deficit has turned out to be higher. Now budget deficits of between 6% and 6.5% are projected over the next three years, with all the aggressive assumptions built in. 6% to 7% fiscal deficits are unsustainably high in an economy that is barely growing.

Ratings agencies are looking to government to find ways to stabilise debt, cut spending and introduce efforts to accelerate growth. The budget relies on aggressive public sector wage cuts that are unlikely to materialise and the debt metrics continue to worsen.

The graph below shows the trend in government expenditure, revenue and fiscal deficits over time, together with Treasury's forecast going forward.

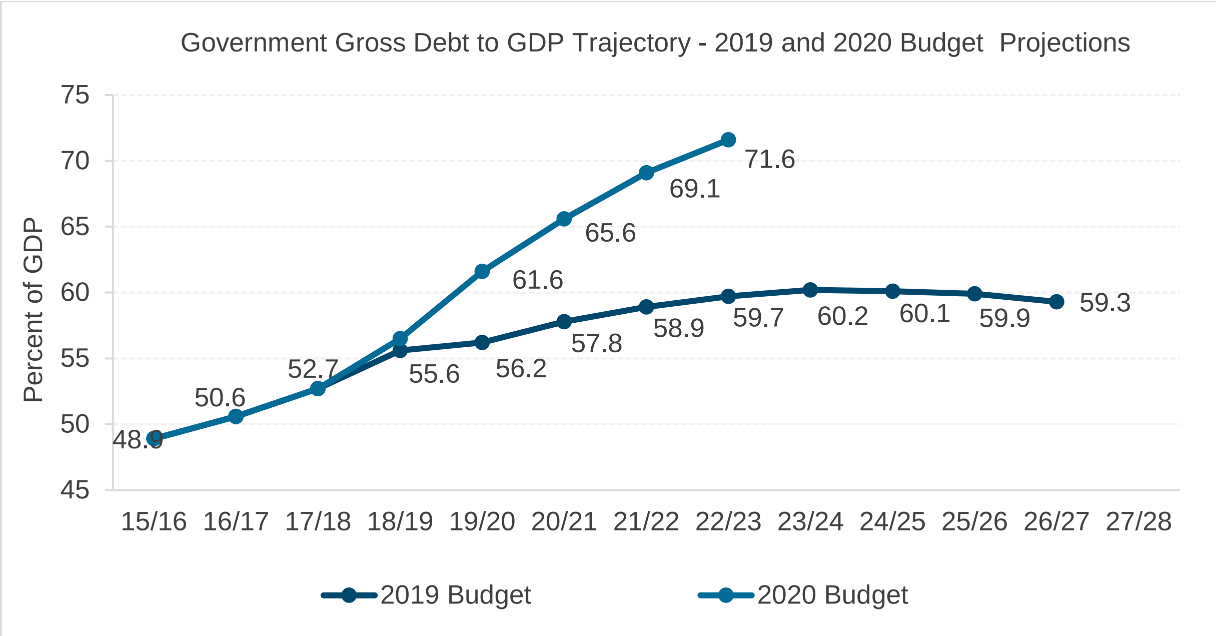


Source: National Treasury statistics

PRESCIENT INVESTMENT MANAGEMENT (PTY) LTD

Block B, Silverwood, Silverwood Lane, Steenberg Office Park, Tokai, 7945
P.O. Box 31142, Tokai 7966 Tel: +27-21-700 3600 Website: www.prescient.co.za
Executive Directors: Cheree Dyers (CEO) Herman Steyn Guy Toms
Non- Executive Directors: Thabo Dloti Varusha Daljee
Reg No. 1998/023640/07 FSP No. 612

The result of this is reflected in the graph below which shows how South Africa's gross government debt has increased sharply since the 2019 budget and how it is expected to continue growing to over 71% by 22/23. Once again, these forecasts are based on highly optimistic assumptions and will be of major concern to the ratings agencies.



Source: National Treasury statistics

> *Budget shows 'severe' slide in public finances, says Fitch*
>
> *Fiscal metrics worsen while efforts to curb spending 'rely on hoped-for moderation in public sector wages, which might not materialise', notes the credit ratings agency.*

Bond markets have rallied on the back of the budget, primarily on hopes of government's ability to cut the public sector wage bill. Once again, we await to see if government can deliver on its promises. This has been a consistent pattern over recent years with subsequent disappointment reflected in ever increasing debt levels. Fitch does not buy into this and we await to see if Moody's will give South Africa another reprieve…again.

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