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INVESTMENT MANAGEMENT

MEDIUM-TERM BUDGET POLICY STATEMENT (MTBPS) SUMMARY

BY: REZA ISMAIL, HEAD OF BONDS AT PRESCIENT INVESTMENT MANAGEMENT

The Medium-Term Budget Policy Statement (MTBPS) was delivered by Finance Minister Enoch Godongwana in Cape Town on Wednesday 1st November 2023.

The minister described the MTBPS as aiming to strike a careful balance between supporting a growth-enhancing agenda and stabilising the public finances, while maintaining support for the most vulnerable.

Real GDP growth of 0.8% is forecast in 2023, compared with 0.9% projected in the 2023 Budget Review. Growth is projected to average 1.4% over 2024 to 2026. Relative to the 2023 Budget, the weaker projection for 2023 mainly reflects lower household consumption expenditure due to higher inflation and interest rates, and lower net exports. Power cuts are expected to continue for the remainder of this year and to gradually ease thereafter. Faster, determined implementation of energy and logistics reforms remain critical to boosting economic growth.

Revenue collections over the first half of 2023/24 were 2.4% higher than the same period last year. Falling corporate tax collections alongside stronger VAT refund payments contribute to a weaker near-term revenue outlook. Compared to the 2023 Budget, the gross tax revenue estimate for 2023/24 is projected to be R56.8 billion lower.

Lower commodity prices, weaker global growth, increased incidence of power cuts and logistical constraints have weighed heavily on mining sector corporate tax collections. VAT refund payments are expected to exceed 2023 Budget estimates due to stronger-than-expected exports, increased investments in embedded generation, and higher costs of doing business.

More sustainable economic growth is required for the tax-to-GDP ratio to increase beyond the 24.7% estimated for 2023/24.

Over the next three years, government will focus on raising GDP growth by improving the provision of electricity and logistics, enhancing the delivery of infrastructure, and restructuring the state to be efficient and fit-for-purpose. Fiscal policy continues to support this approach by stabilising debt and debt-service costs.

Reconfiguration of the state will commence over the medium term. The 2024 Budget will propose measures to reconfigure government programmes based on the outcome of previous spending reviews.

Government's medium-term fiscal policy objective remains unchanged: achieve fiscal sustainability, support economic growth, and reduce fiscal and economic risks.

Fiscal consolidation will be implemented through spending reductions, efficiency measures across government and moderate tax revenue measures.

Key elements of the medium-term fiscal strategy include the following:

- Realising a primary budget surplus in the current year, meaning that revenue will exceed non-interest spending for the first time since 2008/09.
- Stabilising debt to enable government to arrest the trend of rising debt-service costs. Debt will stabilise in 2025/26 as originally intended. Debt-service costs will peak as a proportion of revenue in 2026/27.
- Protecting social protection spending.
- Implementing a reconfiguration of government functions.
- Keeping the composition of spending broadly in line with existing policy.
- Introducing moderate revenue increases to support fiscal consolidation, while limiting the negative effects on the economy.
- Developing new fiscal anchors to ensure sustainable public finances. Work on these is under way, and an update will be provided in the 2024 Budget.

The outlook for the public finances is vulnerable to a range of domestic and external risks. The fiscal strategy helps government to mitigate the risks.

Government continues to finance its borrowing requirement in a prudent and sustainable manner within its strategic risk benchmarks, despite a more challenging environment.

The weaker economic and fiscal outlook has led to a higher budget deficit, resulting in an increase in debt levels. In addition to large redemptions of maturing debt factored into the 2023 Budget, the higher budget deficit puts pressure on the gross borrowing requirement over the medium term.

To manage these redemptions, government will exchange some of the redemptions expected in the current year and over the medium term for longer-dated bonds as part of the ongoing bond switch programme. In 2023/24, government will continue to access concessional funding from international financial institutions to meet its foreign-currency commitments.

Over the next two years, government will draw down on its foreign exchange balances and continue accessing financing from global financial institutions to meet such commitments.

Transnet's declining rail performance threatens the economy - operational failures, theft and vandalism, and deteriorating infrastructure conditions. The cost of rail inefficiencies on the economy has been high. The National Logistics Crisis Committee aims to improve the operational performance of freight rail and ports and implement reforms to create an efficient, competitive and modern freight logistics system.

South Africa urgently needs higher economic growth. The country’s national development fortunes rest largely on lifting energy and logistics constraints and executing reforms that increase investment and reduce vulnerabilities arising from fiscal imbalances.

Over the 2024 medium term, government will focus on increasing infrastructure investment, reconfiguring the operations of the state to ensure greater efficiency, and maintaining a prudent fiscal stance, which will promote economic growth and support the most vulnerable members of society, while stabilising the public finances and reducing fiscal and economic risks.

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