MONTHLY CATCHUP

NATIONAL BUDGET PREVIEW: FOCUSING ON FIVE FISCAL FLAGS

Maintaining sustainable public finances is daunting amid global geopolitical tensions, sluggish economic growth, and local constraints. South Africa's debt ratio, at 67.8% in fiscal year 2021/22, remains below developed market averages but has deteriorated rapidly compared to many emerging economies since the global financial crisis. Fiscal consolidation faces challenges due to economic and political uncertainty, a limited tax base, and increasing demands for government spending. In anticipation of Finance Minister Enoch Godongwana's upcoming national budget on 21 February 2024, we focus on five key fiscal priorities.

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FLAG #1: FISCAL RUN RATE AND FINDING WAYS TO FORTIFY REVENUES:

Gross tax revenues are only running marginally behind schedule based on collections between April and December 2023. We anticipate that any significant opportunities for generating new revenues will likely be constrained by the fact that 2024 is an election year. Consequently, apart from customary excise duties and smaller inflation adjustments to tax brackets, we foresee limited room for significant shifts in tax policy this year.

FLAG #2: FURTHER DEMANDS ON GOVERNMENT'S STRAINED FISCUS:

The local economy faces continued strain, attributable to supply-side limitations within the domain of energy and logistics. Concurrently, government expenditure is growing, driven by a hefty public wage bill and heightened demands for expanded social welfare provisions, while compounded by irregular and wasteful spending.

FLAG #3: FISCAL SUPPORT PRESSURISING THE FISCAL FRAMEWORK:

Given Transnet's significance to economic growth, officials might perceive limited alternatives but to intervene. However, extending financial aid to Transnet at a time when fiscal policy is expected to become less stringent ahead of this year's election will only exacerbate the challenge of establishing SA's public finances on a sustainable path.

FLAG #4: FINANCING OPTIONS TO FILL THE FISCAL GAP:

Government's budget deficit for FY 2024/25-2026/27 may exceed estimates by 1%, with T-bill issuance as key financing. Other options include extending floating rate notes, Sukuk issuance, and external financing. Analysts suggest using GFECRA gains for debt or expenditure, but structural reforms are needed for sustainable growth.

FLAG #5: FISCAL RISKS UNDERMINING THE SOVEREIGN RATING FURTHER OUT:

Government faces risks to fiscal consolidation and debt stabilization from global economic weakness, local growth hurdles, municipal and SOE financial strains, and higher borrowing costs. While near-term budget slippage may not trigger rating downgrades, long-term risks remain elevated.