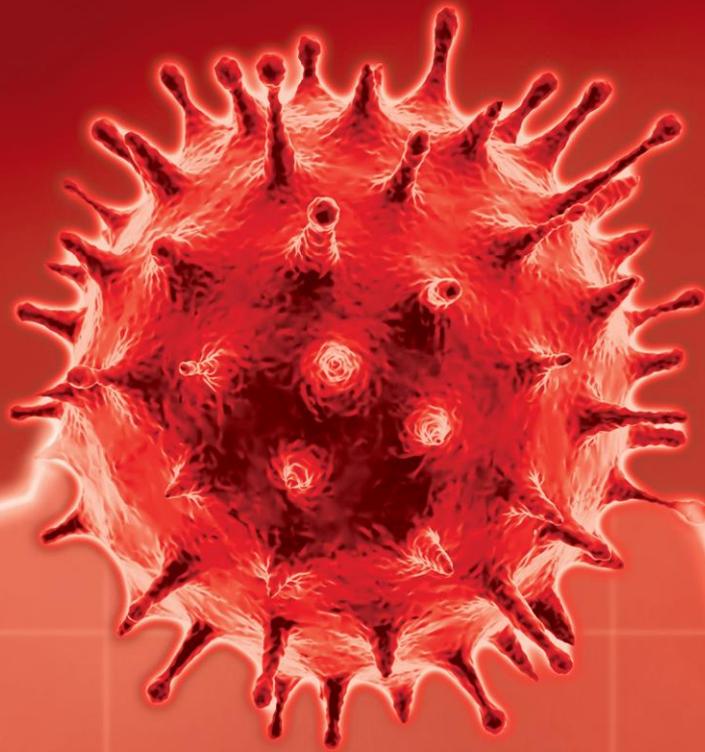


SUPPLEMENTARY BUDGET REVIEW 2020



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

STAY
SAFE
PROTECT SOUTH AFRICA

Supplementary Budget Review

2020

National Treasury

Republic of South Africa

24 June 2020



ISBN: 978-0-621-48537-0
RP: 240/2020

The *Supplementary Budget Review* is compiled using the latest available information from departmental and other sources. Some of this information is unaudited or subject to revision.

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Foreword

This special adjustments budget sets out government's initial economic and fiscal response to COVID-19. It fast-tracks normal processes to provide resources to frontline services, provincial and local government, and firms and households, with a focus on the most vulnerable South Africans. It also underlines our commitment to stabilise the public finances and enact reforms that will promote trade, investment and job creation.

The oft-overused word “unprecedented” is appropriate in this case. The pandemic is expected to lead to the sharpest global economic downturn since the Second World War and the biggest overall decline in countries' per capita incomes in 150 years. In 2020, the output of developing economies is expected to contract for the first time in at least 60 years.

The pandemic has had a profound impact on South Africa. The economy is expected to contract by 7.2 per cent this year. All economic sectors have experienced a sharp downturn and small businesses in particular face extreme pressure. Millions of jobs are at risk – and millions of households are experiencing increased hardship. Tax revenue projections are down sharply. Moreover, the epidemiological path and economic consequences of the pandemic are both highly uncertain and evolving rapidly, necessitating rapid adjustments in policy and forecasts.

Over the past three months, government has prioritised public health to save lives. It also took the difficult step of severely restricting economic activity at a time when GDP growth was already weak. South Africa's R500 billion fiscal relief package is designed to help households and businesses to weather the short-term effects of the crisis.

For several years, the National Treasury has been warning that an absence of fiscal space would leave South Africa vulnerable to external shocks. That risk is now a reality. At the time of the 2020 Budget, economic growth was already low and the fiscal position had deteriorated significantly. South Africa has begun heading into a debt spiral.

Government is spending far more than it collects in revenue. As a result, debt has mushroomed. A failure to halt and reverse this pattern will harm the livelihoods of South Africans for many years to come. Left unchecked, the interest payments on that debt will become one of government's largest expenditure items over the medium term. An ever-increasing share of tax revenue will not go to hospitals, schools or social grants – instead, it will be transferred to bondholders.

Cabinet has resolved to reverse this pattern. The process of preparing the 2021 medium-term expenditure framework kicks off next month. The forthcoming spending framework will include major adjustments to stabilise debt and narrow the budget deficit.

This document is a bridge to the October 2020 *Medium Term Budget Policy Statement*, which will set out Cabinet's proposals to strengthen the public finances and to accelerate economic growth in the context of a changed global economy.

I wish to thank Cabinet, the Minister and Deputy Minister of Finance, the Budget Council, the Technical Committee on Finance and my colleagues across government for their participation in the adjustments budget process. The hardworking staff of the National Treasury has again shown dedication and professionalism under difficult circumstances to formulate this adjustments budget. My sincere thanks to the entire team for continuing to execute their constitutional mandate.



Dondo Mogajane
Director-General: National Treasury

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