Medium Term

Budget Policy Statement

2020

National Treasury

Republic of South Africa

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Foreword

We will not let this crisis go to waste.

The global economic impact of COVID-19 has been severe. In South Africa, real GDP is expected to contract by 7.8 per cent this year. Millions of people have lost their jobs. Many businesses have closed and others are struggling.

We have set sail on a course to see us through the storm. Government has acted decisively in three areas.

We moved swiftly to save lives, with a massive public health response, supported by increased spending for frontline sectors, and relief for households and businesses. The June special adjustments budget increased main budget non-interest spending by R36 billion to enable this response.

We forged a new social compact with our partners in business, labour and civil society, crystallised in the economic recovery plan. This plan includes immediate measures to boost confidence and investment, and longer-term reforms to unlock sustained higher economic growth. In the short term, the plan focuses on infrastructure, electricity generation, digital spectrum allocation, employment and rapid industrialisation. At the same time, government will implement structural reforms such as modernising network industries, reducing barriers to entry, and increasing regional integration and trade. In combination, these reforms can significantly boost the ability of our economy to grow faster and more inclusively in the years ahead.

We are ensuring stable and sustainable public finances. The *Medium Term Budget Policy Statement* (MTBPS) proposes a five-year fiscal consolidation to narrow the budget deficit and stabilise government debt. South Africa's public finances have been deteriorating for some time. Government spending remains too high for the tax base and expenditure is skewed towards compensation, rather than investment, at the expense of future generations. The measures proposed in the MTBPS mark an important shift. While expenditure reductions will be wide and deep, the bulk of the adjustment will be absorbed in compensation costs, while capital investment will increase in some categories.

At the outset of the last major global downturn – the 2008 financial crisis – South Africa had ample fiscal space. Years of robust growth and prudent policy meant we entered 2007/08 with a budget surplus, gross government debt of 29 per cent of GDP and declining debt-service costs. In contrast, we began this year – before COVID-19 – with a budget deficit of 6.4 per cent of GDP, gross government debt of 63.3 per cent of GDP and rising debt-service costs that now consume 21 cents of every rand of main budget revenue.

This fiscal position is one of the central impediments to economic growth, and a failure to reverse present trends would inevitably lead to a debt crisis. Fiscal consolidation means taking difficult decisions today that will affect all parts of society in the interests of building a prosperous future.

No budget process is easy. This one has been particularly challenging for all of government. I would like to thank my Cabinet colleagues for their part in this process. I also acknowledge the unstinting work of Deputy Minister Masondo. And finally, I would like to thank the Director-General and staff of the National Treasury, who work tirelessly to fulfil their constitutional responsibilities.

SIGNATURE

TT Mboweni
Minister of Finance

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