



MTBPS 2020



Sanitation
Energy
Infrastructure
Rising Debt
Municipal Debt

Standing & Select Committees on Finance Public Hearings

04 Nov 2020

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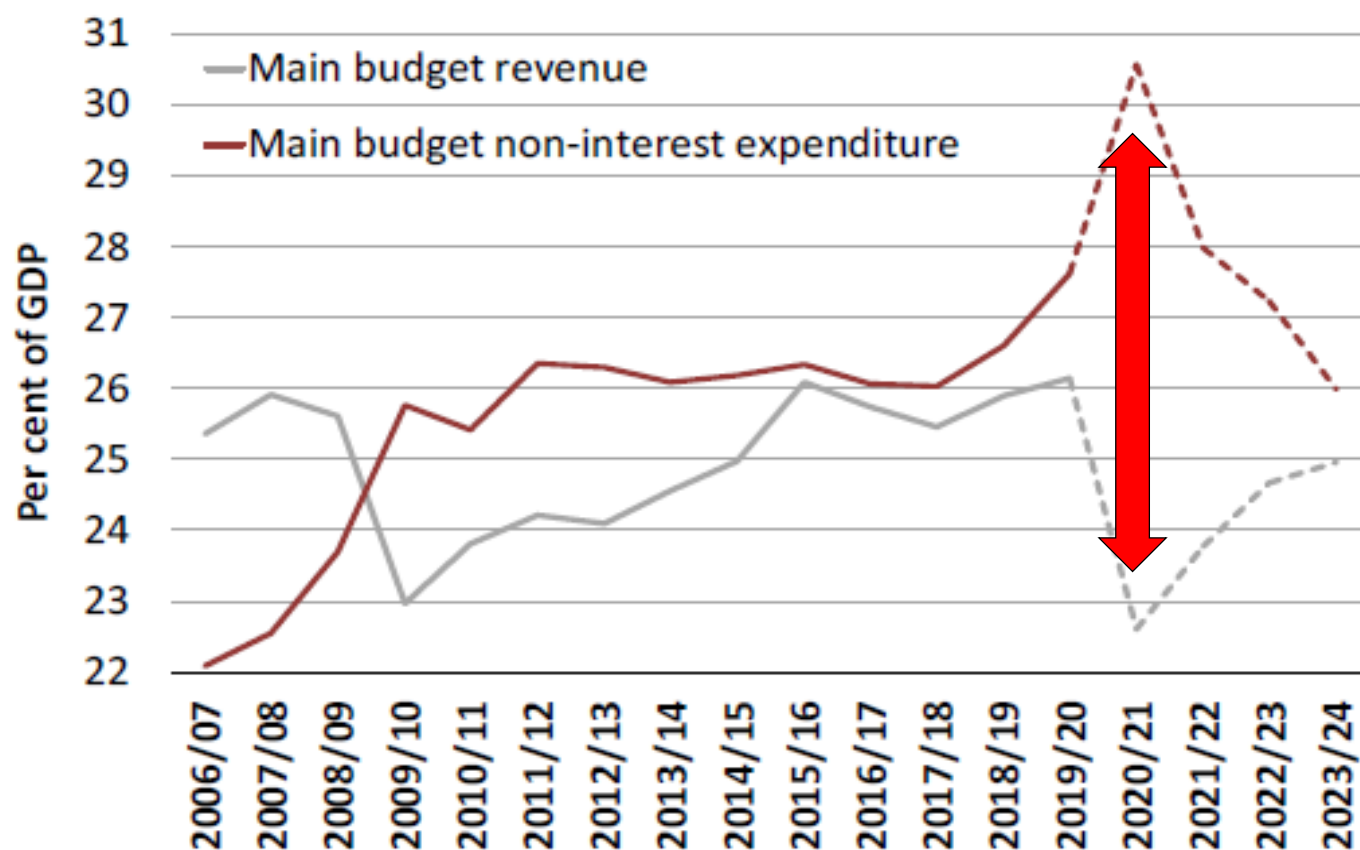


CURRENT SITUATION: OVERVIEW



“Our problem is that we spend more than we earn. It is as simple as that.”
Mboweni (2019 Budget)

Figure 3.3 Main budget primary balance**



DEBT

Figure 3.2 Gross debt-to-GDP outlook*

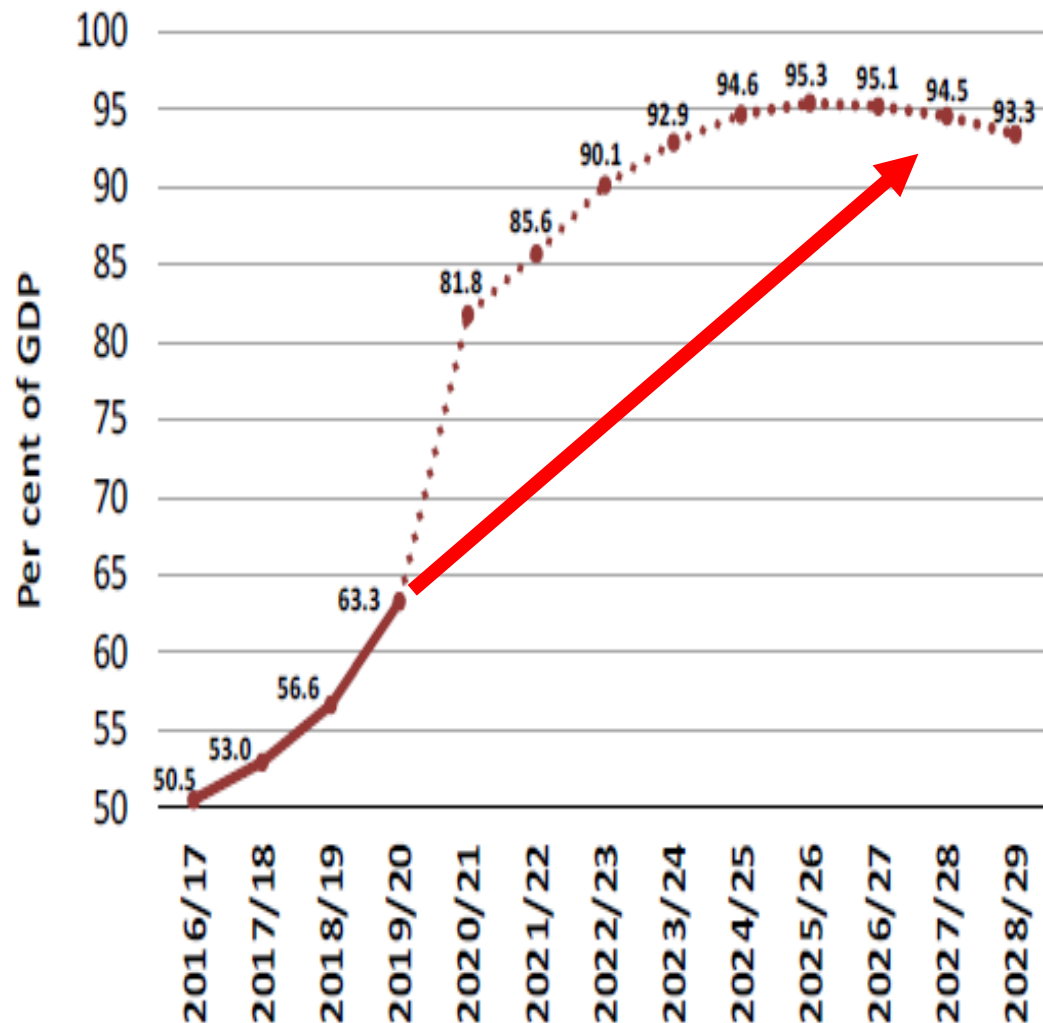


Figure 3.6 Projected three-year increase in debt

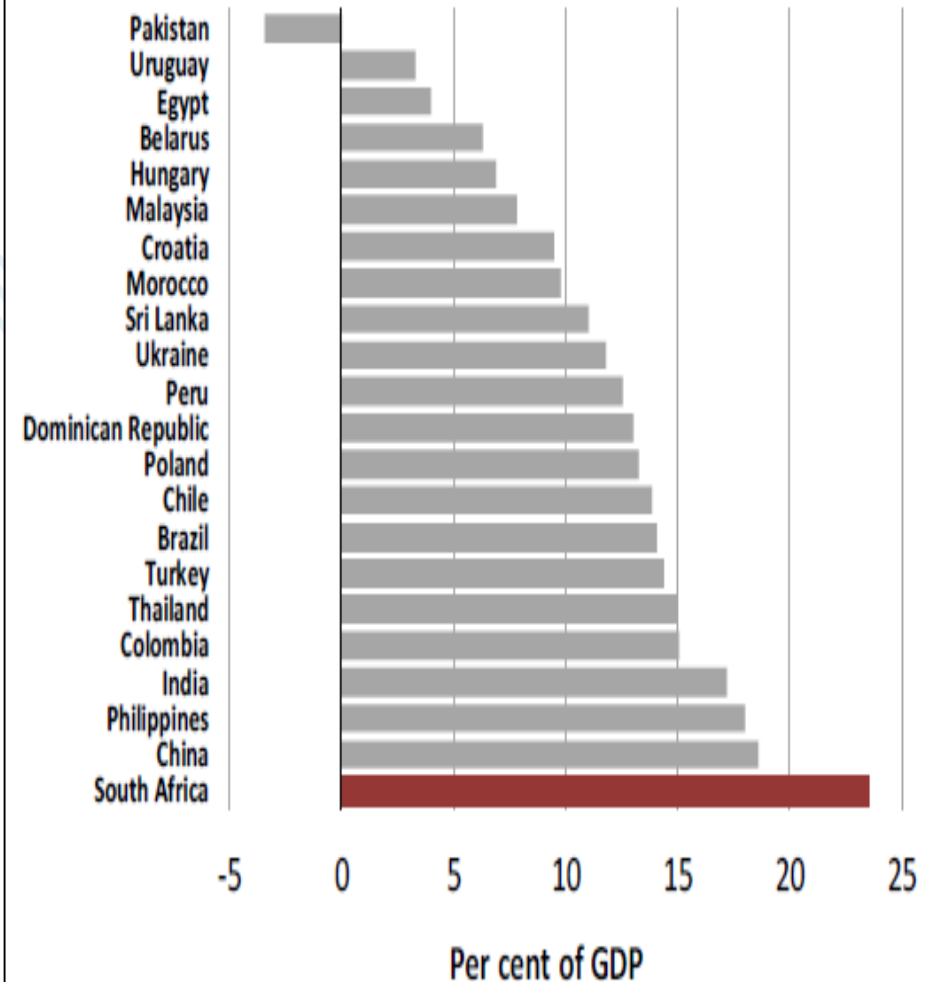
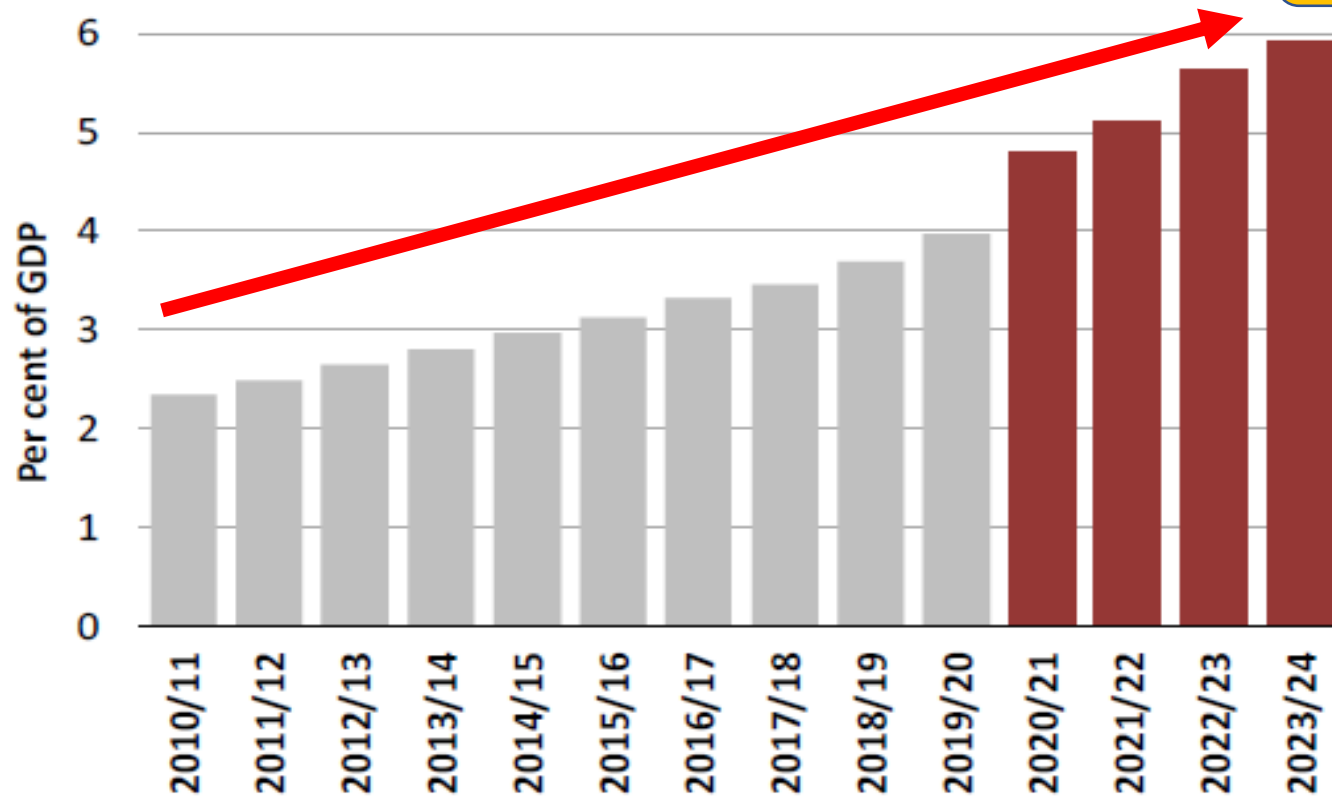
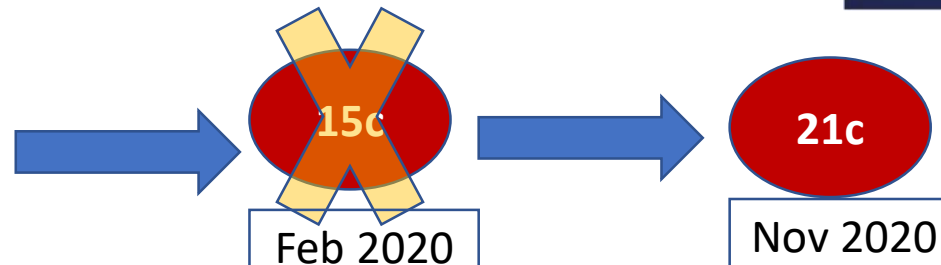


Figure 1.6 Debt-service costs



Source: National Treasury

INTEREST ON DEBT





CRITICAL RISKS: KNOWN

CRITICAL RISKS

LOW GROWTH RATE

EXCESSIVE PUBLIC SECTOR
COMPENSATION

UNSUSTAINABLE SOEs

FAILING MUNICIPALITIES

HIGH DEBT LEVELS

Figure A.5 Real GDP growth

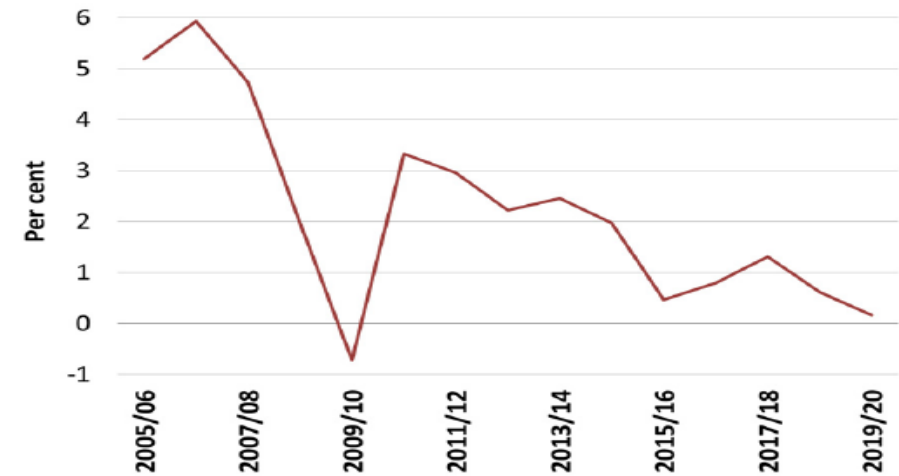
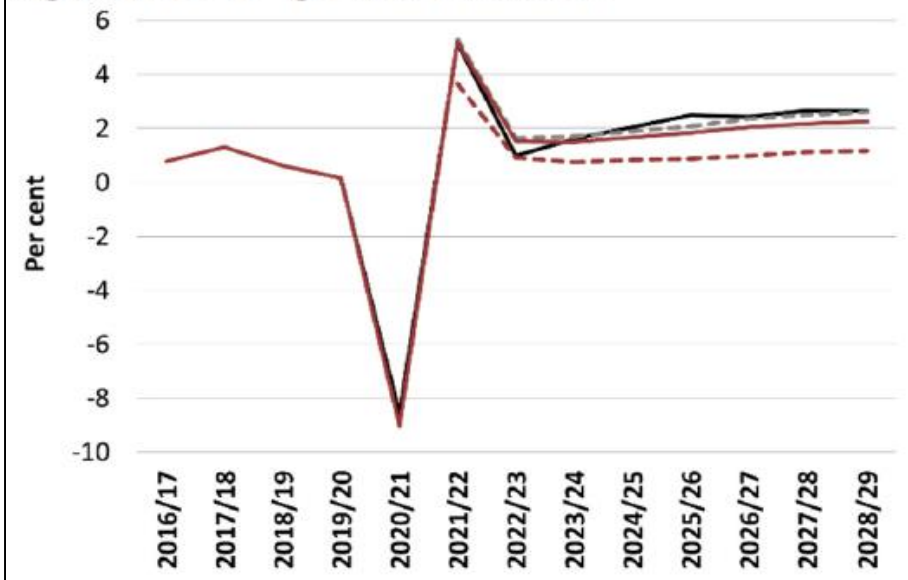


Figure A.6 GDP growth scenarios

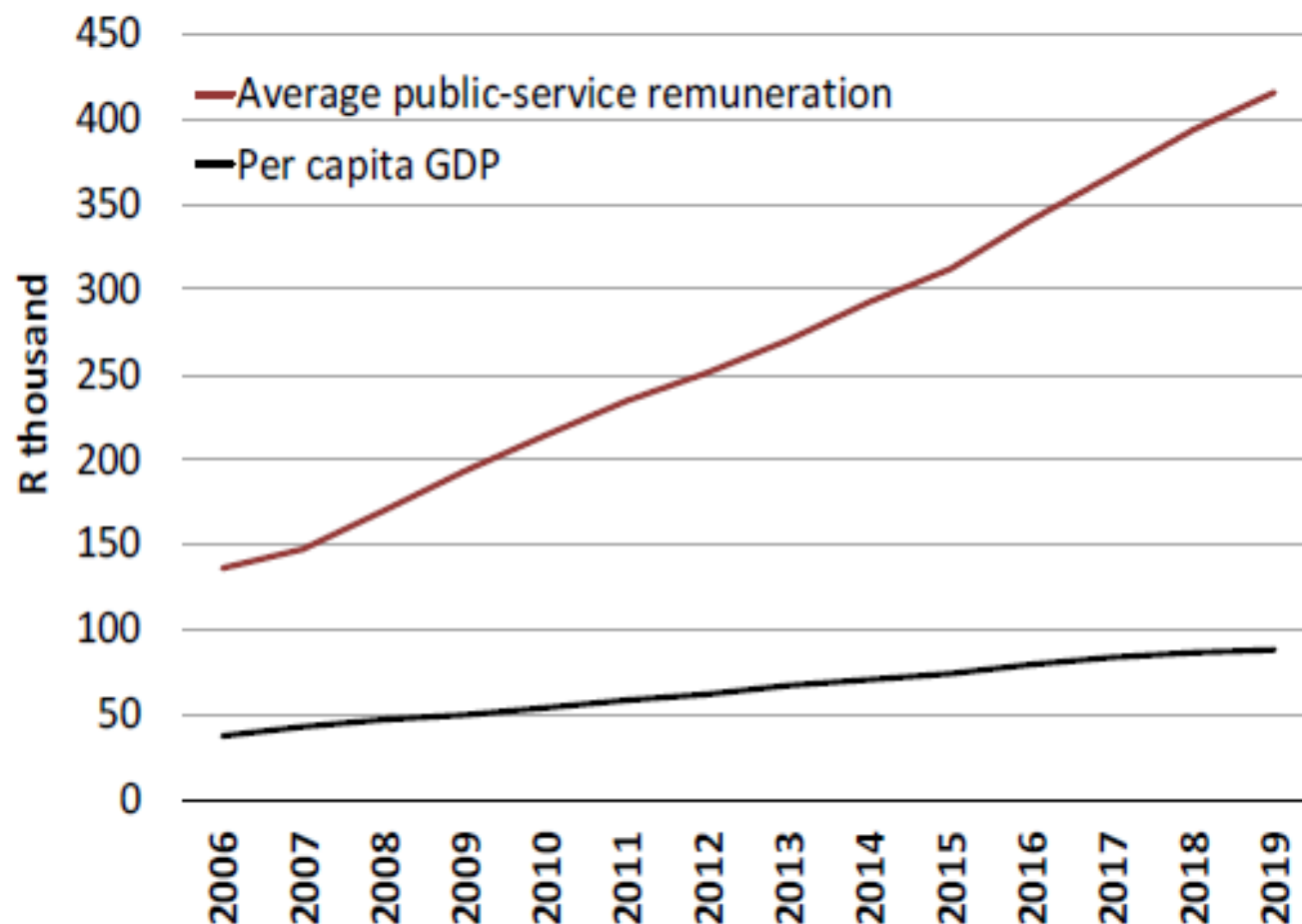


PUBLIC SECTOR EMPLOYEE COMPENSATION

PUBLIC SERVICE EMPLOYEE COMPENSATION



Figure B.2 Public-service remuneration and per capita GDP



Reaching 50.1% of
total revenue
(2020/21)

Real increases over the last
10 years:

- 50% of employees received > 44%
- 25% = > 71%
- Small % > 1000%

Outpaced private
sector growth

GOVERNMENT'S REDUCTION PLAN

Table 4.3 Reductions to compensation of employees

| R million | 2020/21 | 2021/22 | 2022/23 | 2023/24 | Total |
|-------------------------|----------------|----------------|-----------------|----------------|-----------------|
| Function | | | | | |
| Community development | -632 | -1 636 | -2 294 | -1 545 | -6 107 |
| Economic development | -1 676 | -4 469 | -6 084 | -4 112 | -16 341 |
| General public services | -1 268 | -4 064 | -5 444 | -3 765 | -14 542 |
| Health | -8 987 | -19 147 | -27 388 | -17 202 | -72 723 |
| Learning and culture | -14 007 | -30 038 | -42 948 | -27 207 | -114 199 |
| Peace and security | -9 185 | -21 644 | -28 848 | -18 863 | -78 541 |
| Social development | -760 | -2 190 | -3 065 | -2 116 | -8 132 |
| Total | -36 515 | -83 187 | -116 071 | -74 811 | -310 585 |

Source: National Treasury

Table 4.2 Consolidated expenditure by economic classification¹

| R billion | 2019/20 Outcome | 2020/21 Revised ² | 2021/22 Medium-term estimates | 2022/23 Medium-term estimates | 2023/24 Medium-term estimates | Average annual growth 2020/21 – 2023/24 |
|------------------------------|--------------------|---------------------------------|----------------------------------|----------------------------------|----------------------------------|---|
| Current payments | 1 087.7 | 1 138.3 | 1 196.2 | 1 256.1 | 1 302.0 | 4.6% |
| Compensation of employees | 626.1 | 639.3 | 639.1 | 646.5 | 655.0 | 0.8% |
| Goods and services | 246.9 | | | | | 2.5% |
| Interest and rent on land | 214.8 | | | | | 15.5% |
| of which: debt-service costs | 204.8 | | | | | 16.1% |

WAGE FREEZE

Cosatu: 'We're not going to entertain an across-the-board wage freeze'

Plan to slash public-sector wage bill needs to focus on 'overpaid senior executives and politicians'.

By Suren Naidoo 30 Oct 2020 00:01



The [#MTBPS2020](#) has left [@SadtUNational](#) with no joy. It is a slap in the face to hardship working educators and public servants. Treasury is clearly not prepared honour the last of Collective Agreement 1 of 2018. We won't take this lying down.

[@_cosatu](#) [@SABCNews](#) [@SA_Labour_News](#)

— SADTU National. ([@SadtUNational](#)) [October 29, 2020](#)

UNIONS ANGRY OVER MBOWENI'S BID FOR 3-YEAR WAGE FREEZE FOR STATE WORKERS

The trade unions have stopped short of calling Mboweni a liar, saying that his assurances that labour was being consulted about the three-year wage freezes were untrue.

GOVERNMENT'S REDUCTION PLAN



Achieving these targets will require large reductions in non-interest spending over the next three years, amounting to R300 billion relative to projections set out in the 2020 Budget Review. The majority of these reductions will be applied to the wage bill. Government will aim to protect funding for infrastructure investment.

Some municipalities already increased wages by 6,3% from July 2020



PLAN B?



Failed budget?

TRANSPARENT PRODUCTIVITY
ENHANCEMENT PLAN



SOEs



CONCERNS:



Insufficient funds for operational expenses

Insolvent

Guarantees and contingent liabilities

How strategically aligned to policy framework?

BORROWING REQUIREMENT

Table 8.3 Borrowing requirement of selected state-owned companies¹

| R billion | 2017/18 | | 2018/19 | | 2019/20 | 2020/21 | 2021/22 | 2022/23 ² |
|-------------------------------|--------------|--------------|--------------|-------------|-------------|-----------------------|-------------|----------------------|
| | Budget | Outcome | Budget | Outcome | Revised | Medium-term estimates | | |
| Domestic loans (gross) | 70.1 | 54.4 | 61.8 | 46.1 | 46.6 | 51.2 | 32.3 | 27.1 |
| Short-term | 17.9 | 29.4 | 20.1 | 13.9 | 13.2 | 14.2 | 10.6 | 7.0 |
| Long-term | 52.2 | 25.0 | 41.7 | 32.2 | 33.4 | 37.0 | 21.7 | 20.1 |
| Foreign loans (gross) | 65.0 | 48.8 | 52.0 | 39.7 | 37.7 | 37.4 | 38.6 | 39.9 |
| Long-term | 65.0 | 48.8 | 52.0 | 39.7 | 37.7 | 37.4 | 38.6 | 39.9 |
| Total | 135.1 | 103.2 | 113.8 | 85.8 | 84.3 | 88.6 | 70.9 | 67.0 |
| Percentage of total: | | | | | | | | |
| Domestic loans | 51.9% | 52.7% | 54.3% | 53.7% | 55.3% | 57.8% | 45.6% | 40.4% |
| Foreign loans | 48.1% | 47.3% | 45.7% | 46.3% | 44.7% | 42.2% | 54.4% | 59.6% |

1. Airports Company South Africa, Eskom, SANRAL, SAA, Transnet and Trans-Caledon Tunnel Authority

2. ACSA and TCTA not included, as no forecast was provided

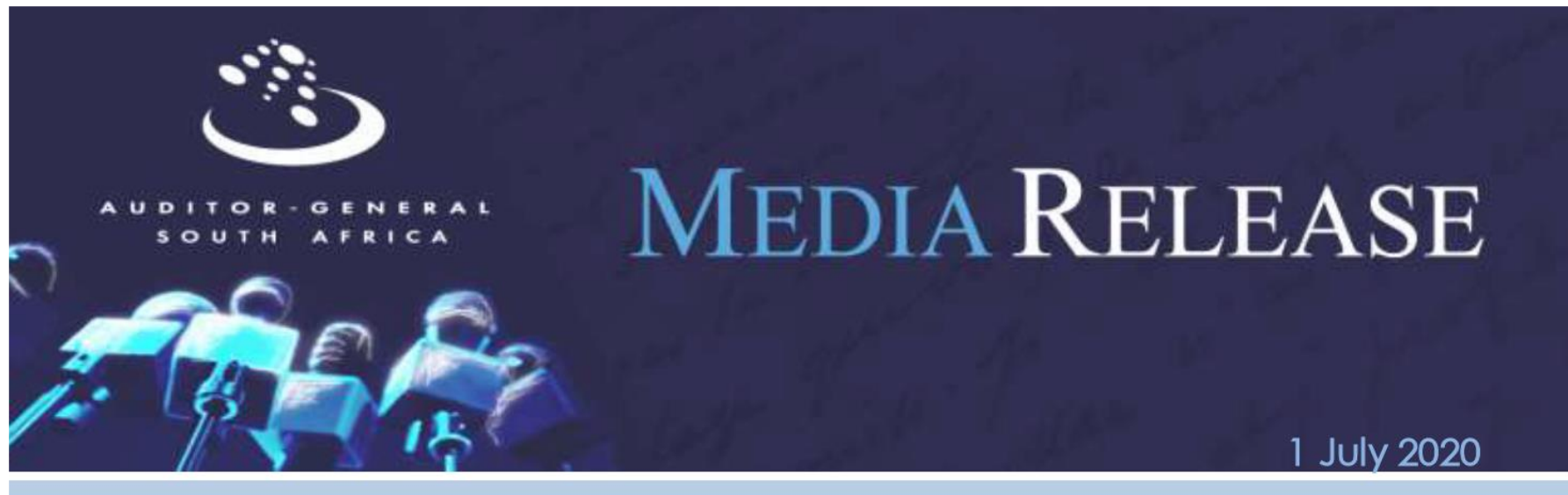
Source: National Treasury



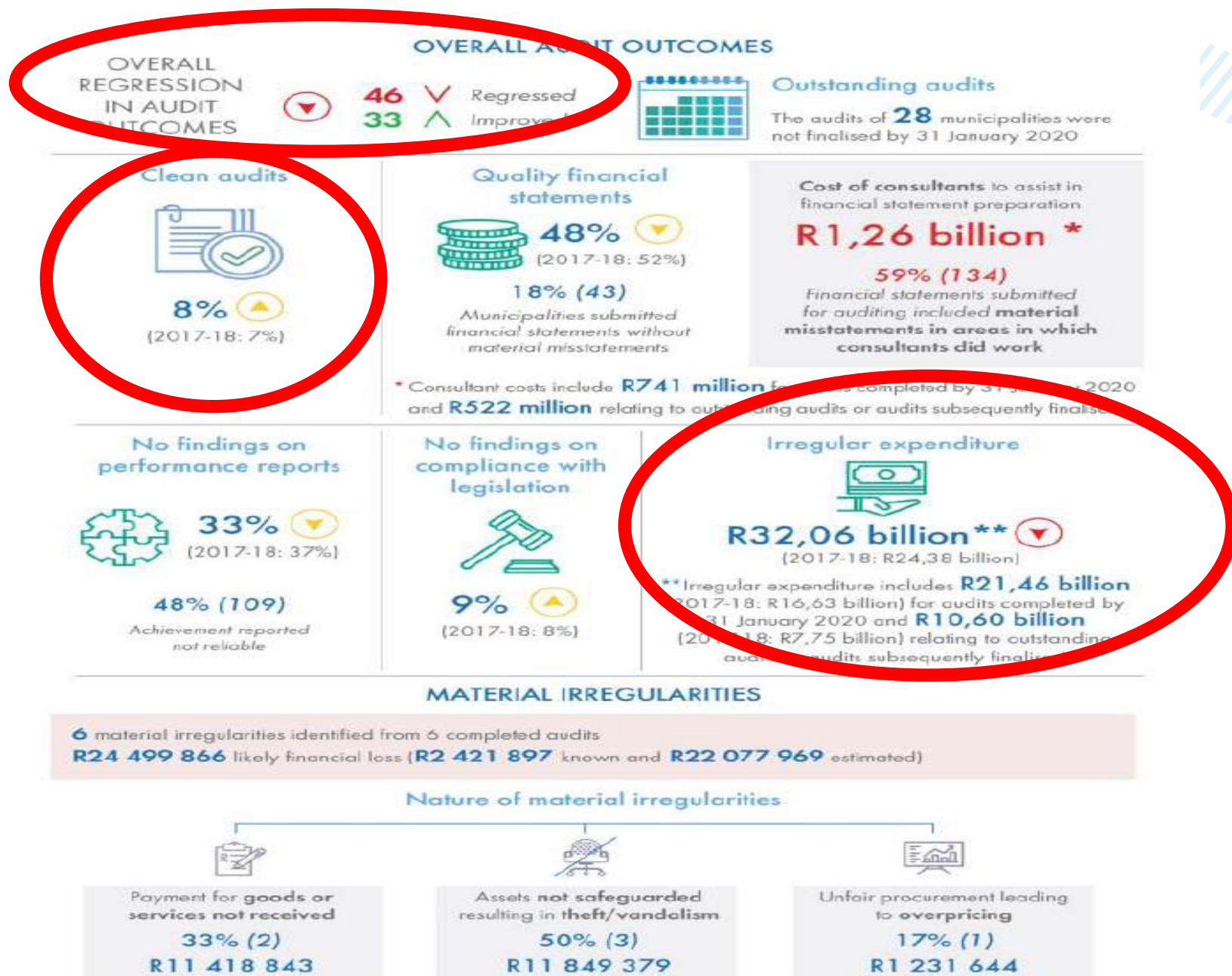
Guarantee portfolio = R694bn



MUNICIPALITIES



Auditor-general releases municipal audit results under the theme
- “not much to go around, yet not the right hands at the till”



CONCERNS:



Deterioration in financial health

34% had a deficit (R6,29bn)

Not managing their finances correctly

**BASIC
SERVICES?**

Fruitless & wasteful expenditure (R4,2 bn
last 3 yrs), Irregular (R32bn)

Non-compliance with key governance laws

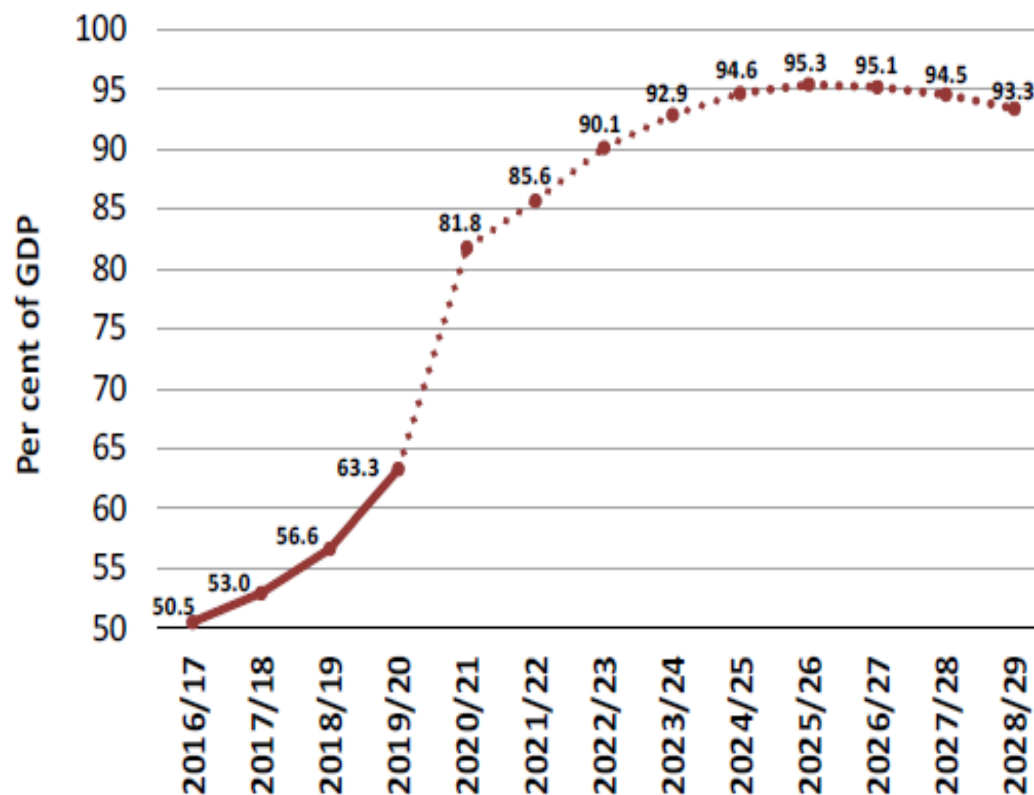
DEBT

CONCERNS:



All the above concerns will only increase debt

Figure 3.2 Gross debt-to-GDP outlook*



Sovereign State?



CRITICAL RISKS: UNKNOWN

CONCERNS:



Contingent liabilities

Total – R1trn, Largest = RAF

Table 8.6 Financial position of social security funds

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|--------------------|---------|---------|---------|----------|-----------------------|---------|---------|
| R billion | Outcome | | | Estimate | Medium-term estimates | | |
| Road Accident Fund | | | | | | | |
| Total assets | 9.2 | 9.8 | 11.2 | 11.5 | 11.7 | 11.8 | 11.9 |
| Total liabilities | 189.2 | 216.1 | 273.3 | 341.1 | 413.1 | 500.4 | 604.9 |
| Net asset value | -180.0 | -206.3 | -262.1 | -329.6 | -401.4 | -488.6 | -593.0 |

Source: National Treasury

GEPF

L/T liabilities underfunded

CONCERNS:



Changes to
Regulation
28

Policy certainty needed

Potable
water

- 37% lost due to dilapidated infrastructure
- 80% of municipal sewage works dysfunctional
- Rivers now part of sewage system
- No action by COGTA

Crime

Changes to legislation are meaningless if
no action is taken if the law is broken!

WHAT IS NEEDED?

Expenditure

- Cuts & monitoring needed
- Performance monitoring

SOEs

- Expedite convictions
- Consider return on investment?

Municipalities

- Budget allocations only if
- Past performance satisfactory



WHAT IS NEEDED?

Municipalities

- COGTA assist Eskom/Water Boards
- Collect revenue from municipalities

Contingent liabilities

- Monitor continuously
- GEPF – updated actuarial valuation

Overall

- Detailed action plan
- Restore credibility



THANK YOU QUESTIONS?



Iceberg – what lies below?



Economic growth & policy certainty needed