



### Initial impressions

- Treasury less committed to fiscal consolidation than in the recent past → fiscal deficit ratio stabilises at a significantly higher level → debt ratio continues to climb over the medium-term expenditure framework (MTEF)
- Expansionary budget → (real) expenditure growth expected to outstrip revenue growth initially
- Budget tilted towards government intervention rather than supporting private sector



### Immediate market effect

Expansionary budget slightly positive for equities → but failure to adhere to more stringent fiscal targets is negative for the bond market

FTSE/ALSI rose 0.5%, buoyed by resource and industrial shares

FTSE/ALSI Financials lost 0.4% as downgrade fears linger

R186 government bond sold off 18 basis points

USD/ZAR sold off 1.6%



### Significant fiscal slippage

- Main budget deficit expectation revised to 4.7% of GDP (previously 3.5%) in FY2017/18 → tracks sideways to 4.6% in FY2020/21
- Slippage is largely related to reduced revenue forecasts in a low growth environment
- Government debt ratios climbing → gross debt expected to increase from 57% of GDP (previously 52.3%) of GDP to 59.7% in FY2020/21



### Tax burden still rising

- SA's tax burden still rising → but little changed from previous budget
- Tax-to-GDP ratio set to climb from 26% currently to 26.9% in FY2020/21
- Low growth environment limits room for more burdensome tax increases



### Tax proposals

- Health Promotion Levy (sugar tax) has a proposed implementation date of 1 April 2018
- Revised Carbon Tax Bill to be published shortly
- Government is considering adjustments to medical tax credits to finance the national health insurance (NHI) plan
- Treasury highlighted that additional tax proposals would have to be carefully considered in light of pressures in the economy



### Risks to revenue collection

- Treasury acknowledges this period of revenue buoyancy appears to have run its course → Treasury employing more realistic nominal GDP forecasts this time around
- Gross tax revenue for the MTEF projected to fall R209 billion short of the 2017 national budget estimates



### Consumer effect

- Number of grant recipients to grow from the current 17.3 million to 23.5 million by FY2030/31
- Grant values to grow in line with headline inflation
- Government hinted that without headcount reductions and a strict adherence to inflation-linked salary increases, compensation trends would exceed expenditure limits → less support for consumption spend



### Wage and interest bill's drag on other spending priorities

- Treasury has provisioned for an average 7.3% nominal increase (1.9% real) in the civil servant wage bill over the MTEF
- A public-sector wage agreement, which fails to take account of fiscal constraints would undercut progress in containing wage costs
- Interest bill still the fastest-growing expenditure item at an average of 11% (increasing to 15% of main budget revenue) over the MTEF



### Ailing state-owned enterprises

- No update on treasury's contingent liabilities, including government guarantees, which stood at R688.8 billion in FY2016/17
- R13.7 billion in additional appropriations for South African Airways (SAA) and the South African Post Office (SAPO) → offset by the contingency reserve and projected underspending
- Permanent CEO to be appointed at SAA by 1 November 2017



### Rating agencies likely to be disappointed

- Extent of fiscal slippage and lack of a firm commitment to stabilise the debt ratio → likely to underwhelm the sovereign rating agencies
- Moreover, persistent political uncertainty, unfavourable economic conditions, absence of bolder reform efforts, troubled SOEs and limited fiscal flexibility leaves a higher-than-even chance of a further downgrade by Standard & Poors and Moody's in their upcoming ratings reviews in November 2017