MTBPS: What themes will dominate?

By Jeff Schultz & Burak Baskurt

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The Medium Term Budget Policy Statement (MTBPS) was to take place just three days after local elections on 1 November, but now it has been moved out to 11 November.

Source: Mondi. Minister of finance, Enoch Godongwana

South Africa's MTBPS will likely show a marked improvement in fiscal metrics from February's projections.

While commodity enhanced revenue collection has provided some breathing room, pressure to increase spending to combat social deprivation is also climbing.

That said, we still expect a well-balanced budget from Enoch Godongwana, the new finance minister, who is likely to advocate faster structural growth reforms rather than be tempted towards unsustainably large, populist spending plans.

We expect the following themes to dominate:

- ## Public sector wages

  With the FY21/22 public wage agreement wrapped up (agreeing on non-pensionable cash gratuities − +0.3% of GDP − as a "compromise" alongside a 1.5% pay progression increase), we expect the NT to continue to pencil in real growth contractions in public servants' base pay over the medium-term framework.

  A "reprioritisation" of existing (not new) spending to allow for this year's gratuities will also be watched closely, we believe.

- ## Grant system

  We expect the finance minister to put more formal clarification on the feasibility of a "basic income grant" in the outer years of the budget.

Stark affordability concerns, an increasing debt service burden and a lack of debt stabilisation mean we expect Godongwana to rather advocate a restructuring of the existing grant framework and perhaps the introduction of a new, more targeted ‘job-seekers’ grant which could look to replace the current special relief of distress grants in FY22/23.

We estimate that this could cost the fiscus R30-35bn (0.5% of GDP per annum) as early as next year and would mean that social protection spending as a percentage of revenues settles 2-3pp above pre-Covid levels.

More generally, though, we expect the NT to continue to call for speedier economic reforms rather than markedly increased levels of social dependence on the state.

- ## State-owned companies

  We do not expect major announcements on large parastatals.

  Further hints on Eskom concessional financing arrangements and guarantee structure in the run-up to COP26 will be watched closely.

  While we don’t expect the state-owned power utility to be granted additional capital support, we pencil in an additional (unbudgeted) R15bn (0.2% of GDP) support for smaller, financially strained SOE such as Denel, Land Bank, Sanral and state insurer, SASRIA, over the next year.

It should be noted though that the MTBPS is prepared and printed well before the outcome of the local elections.

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