CHART OF THE WEEK

8 March 2023

SOUTH AFRICA: THE GOVERNMENT STILL PLANS TO HIT OPTIMISTIC FISCAL CONSOLIDATION TARGETS

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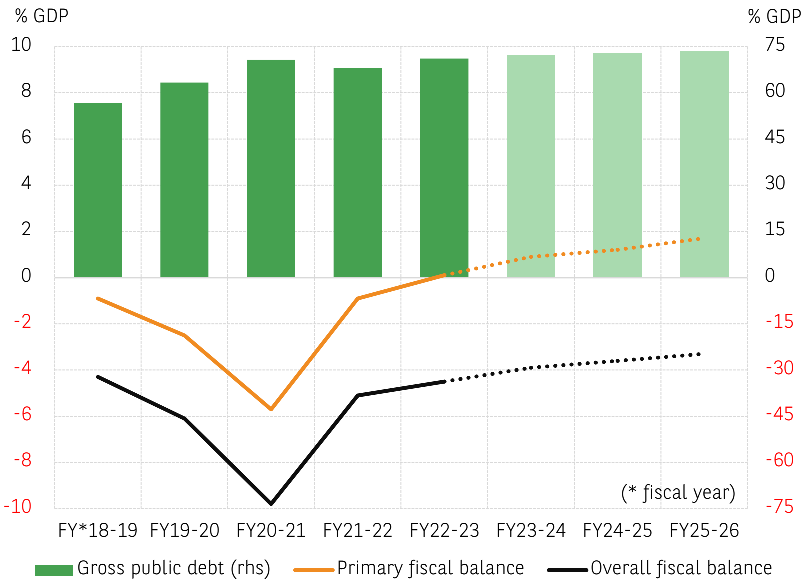

Source: South African National Treasury, BNP Paribas

On 22 February, the South African National Treasury set out its budget plan ahead of the new fiscal year, which will start on 1 April. After slightly revising its fiscal balance upwards since October 2022, the Treasury now expects a primary surplus starting from the current fiscal year. This performance should gradually improve over the next three years, rising to 1.7% of GDP in fiscal year 2025/26. Over the same period, the budget deficit is expected to fall from 4.5% to 3.3%.

However, a number of risks may blow this trajectory off course. 2022 saw widespread load shedding across the country and inflation rocket to 7%. In the public sector, the 10% salary rise demanded for the fiscal year ahead hugely outstrips the government's target (4.7%). With public-sector salaries accounting for approximately 50% of government spending, a negotiated salary increase far above the target could knock the primary fiscal balance's trajectory off course.

In addition, the economic environment, crippled by daily load shedding, could put even further pressure on the government's social spending. The temporary social welfare payment introduced in 2020 in response to the coronavirus pandemic has been extended until March 2024. This payment is increasingly expected to continue beyond this date, in view of the country's deteriorating growth prospects and raising fears of long-term high unemployment. The ANC, which continues to drop in the polls, could be forced to compromise on its budget in the lead-up to the 2024 election.

On the other hand, while presenting its budget, the government made a much-anticipated announcement about the state-owned company Eskom, whose debt amounts to 6% GDP. The government declared that it would take on almost 60% of this debt over the next three years. Before an actual debt transfer, scheduled to occur during fiscal year 2025/2026, the government will provide a zero-interest concessional loan to Eskom so that it can service its debt. As a result, despite the expected fiscal consolidation trend, public debt should continue to rise before stabilising at 73.6% of GDP during fiscal year 2025/26.

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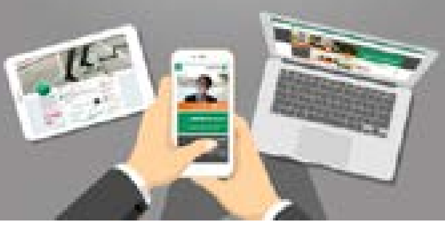

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