South Africa's economic rebound expected to trim budget deficits

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South Africa's consolidated fiscal deficit is expected to narrow this year because of an economic rebound, although the long-term trend of higher debt remains unchanged due to Covid-19 and pre-existing spending, a Reuters poll forecast.

Finance minister Tito Mboweni. Image: Reuters

In a poll taken this week, 2021 economic growth was expected to rebound to 3.5% after an estimated 7.4% contraction last year, probably bolstering revenue collections and narrowing deficits for the next financial year to 9.7% of gross domestic product, to 8.5% for 2022/23 and 7.5% in 2023/24.

As in other countries, Covid-19 spending doubled the South African budget last year. The 2020/21 deficit was estimated at 13.95% of GDP in the poll with only about six weeks left.

In October, the National Treasury's consolidated budget estimated a 15.7% deficit of GDP in the year ending March, 10.1% for next year, and 8.6% and 7.3% for the following years respectively.

Nedbank economists wrote that the 2020/21 budget was expected to be much better than presented in the medium-term budget statement in October from the National Treasury.

"Revenue collections have been better than estimated on the back of a stronger-than-expected economic rebound, while expenditure will be slightly lower than estimated, resulting in a narrower budget deficit," wrote Isaac Matshego at Nedbank.

"The budget deficit, however, will be relatively sticky (in the medium term) as actual expenditure cuts are unlikely to be achieved over the period."

A similar poll in October suggested South Africa's consolidated fiscal deficit would widen further than projected, three months before in an emergency Covid-19 budget, as a third-quarter rebound would not generate enough tax revenues.

Still, economists have noted speculation the National Treasury could raise taxes more aggressively this year in various ways, including a wealth tax or temporary "solidarity" tax to fund things like Covid-19 vaccine procurement, alongside the usual nudges to sin and personal taxes.

However, the "treasury recognises the country's perceived onerous tax burden, not to mention the sharp knock to company profits that has continued to eat into corporate tax receipts in recent years," said Jeffrey Schultz at BNP Paribas.

Consumer inflation was expected to average 3.9% this year and 4.3% next year, still below the midpoint of the Reserve Bank's 3% to 6% comfort level.

"As a result, the main tax measures announced will be in the form of the usual above-CPI increases for excise duties and fuel levies, rather than anything that could risk damaging an already fragile and concentrated tax base," Schultz added.

Gross national debt was projected by the government to stabilise at 95.3% of GDP by 2025/26, more or less in line with the poll's median which expected it at 92.7% in 2023/24.

Growth was expected slow to 2.2% next calendar year and 1.7% the following year. Interest rates were expected to remain unchanged at 3.5% this year, but the Reserve Bank was expected to raise them to 4.0% next year and to 4.75% in 2023.

Source: REUTERS