02 November 2023

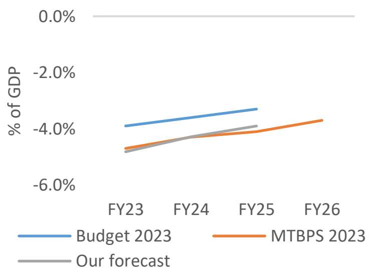
# MTBPS 2023: Initial impressions

## Balancing act delivers unsurprising changes

- **Still aiming to stabilise debt, though yet again at a higher level:** As we expected, government tempered the fiscal impact of lower revenues and wage bill overspending by trimming non-wage spending. Essentially, apart from using declared unspent funds, projected underspending and the contingency reserve, departments are expected to absorb the extra wage cost (via reallocations and managing headcount) except in the labour-intensive sectors (education, healthcare and police, to protect service delivery). Government (unexpectedly) plans (unspecified) tax increases of R15bn in FY24/25 too (this could be achieved via fiscal drag; it is small enough not to materially affect equities). There is clear focus throughout the Budget Review on the crowding out impact of the sharp increase in debt-servicing cost in recent years, which underpins government's intent to achieve a primary surplus to support debt stabilisation. Our initial impression is that the assumptions underpinning the fiscal forecasts are largely credible, except for likely sizeable fiscal support for Transnet in due course that is not yet incorporated; the fiscal risks clearly remain biased to the downside though. The social relief of distress grant is extended for another year (FY24/25, while a comprehensive review of the entire grant system is finalised).

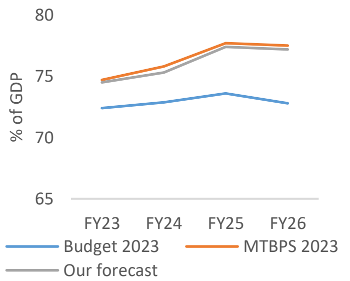
- **Forecast adjustments largely matching our expectations:** The adjustments to the deficit and debt trajectories were largely in line with our forecasts (see Figures 1 and 2). FY23/24 revenues are expected to be around R56.8bn lower than projected in Budget 2023 (vs our forecast for R55bn), mainly owing to the impact of lower commodity prices and the higher cost of doing business (including to overcome the electricity and logistical infrastructure shortcomings). The deficit is now expected to be 0.8% of GDP wider (vs our forecast for 0.9%), while debt is now projected to stabilise at 77.7% of GDP in FY25/26 (vs our forecast for 77.4% - these estimates all exclude further support for Transnet). The forecasts assume economic growth of 0.8% in 2023, 1% in 2024, 1.6% in 2025 and 1.8% in 2026 (which is broadly in line with our forecast trajectory).

Figure 1: Main budget balance



Source: Treasury, Standard Bank Research

Figure 2: Gross government debt



Source: Treasury, Standard Bank Research

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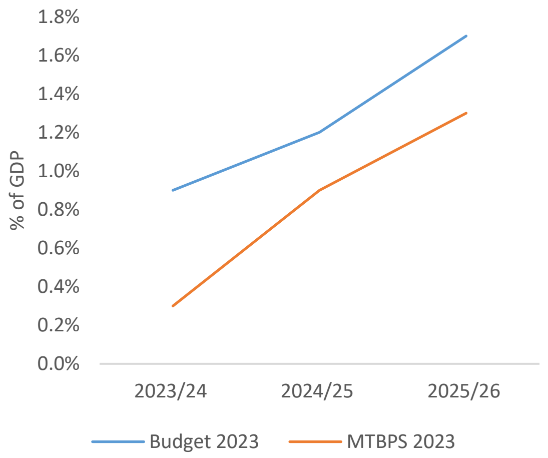
## In a nutshell: Key thoughts and numbers

Figure 3: Primary budget forecasts have slipped, but Treasury still foresees a surplus



Source: Treasury

Figure 4: Treasury's macroeconomic forecasts seem reasonable

| % YoY | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|
| GDP | 0.8 | 1.0 | 1.6 | 1.8 |
| Household consumption expenditure (HCE) | 0.8 | 1.4 | 1.5 | 1.7 |
| Gross fixed capital formation (GFCF) | 6.2 | 3.6 | 4.6 | 3.4 |
| CPI | 6.0 | 4.9 | 4.6 | 4.5 |

Source: Treasury

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