BER ASSAF WEBINAR

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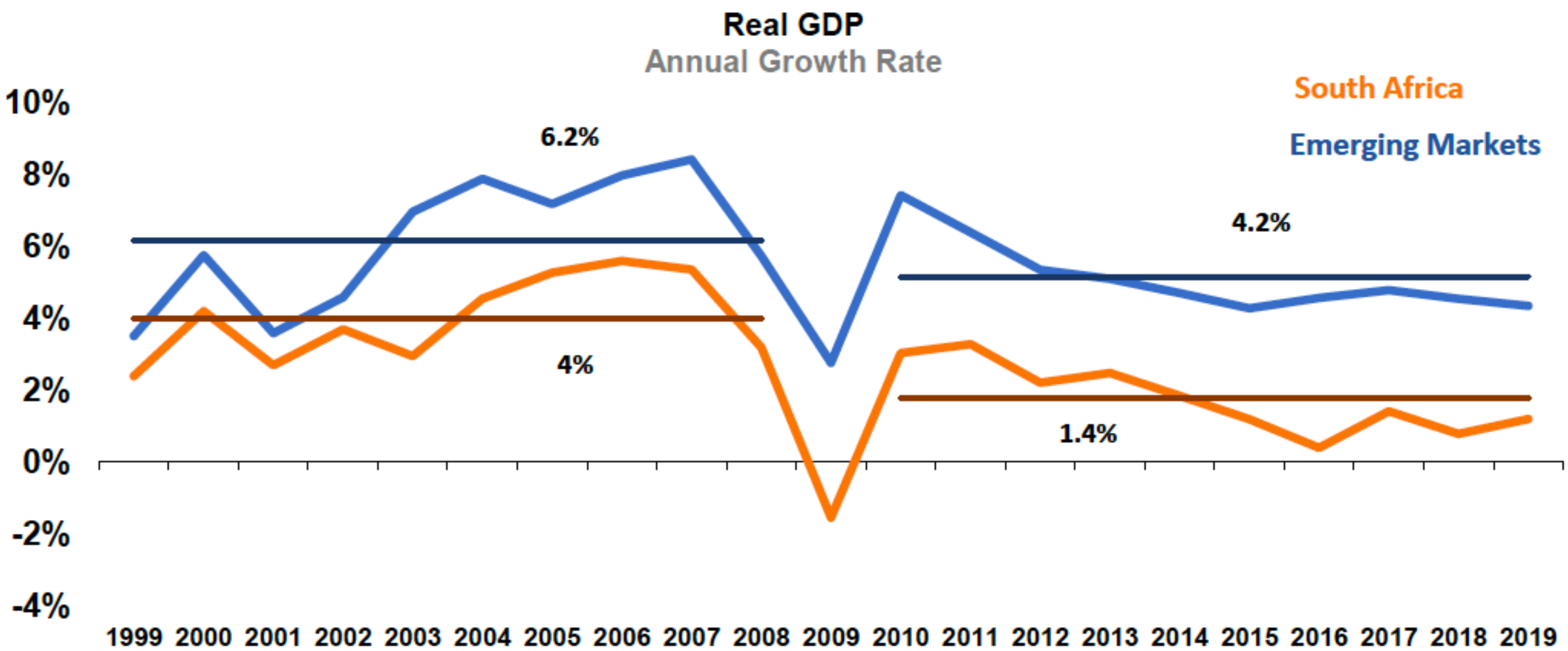
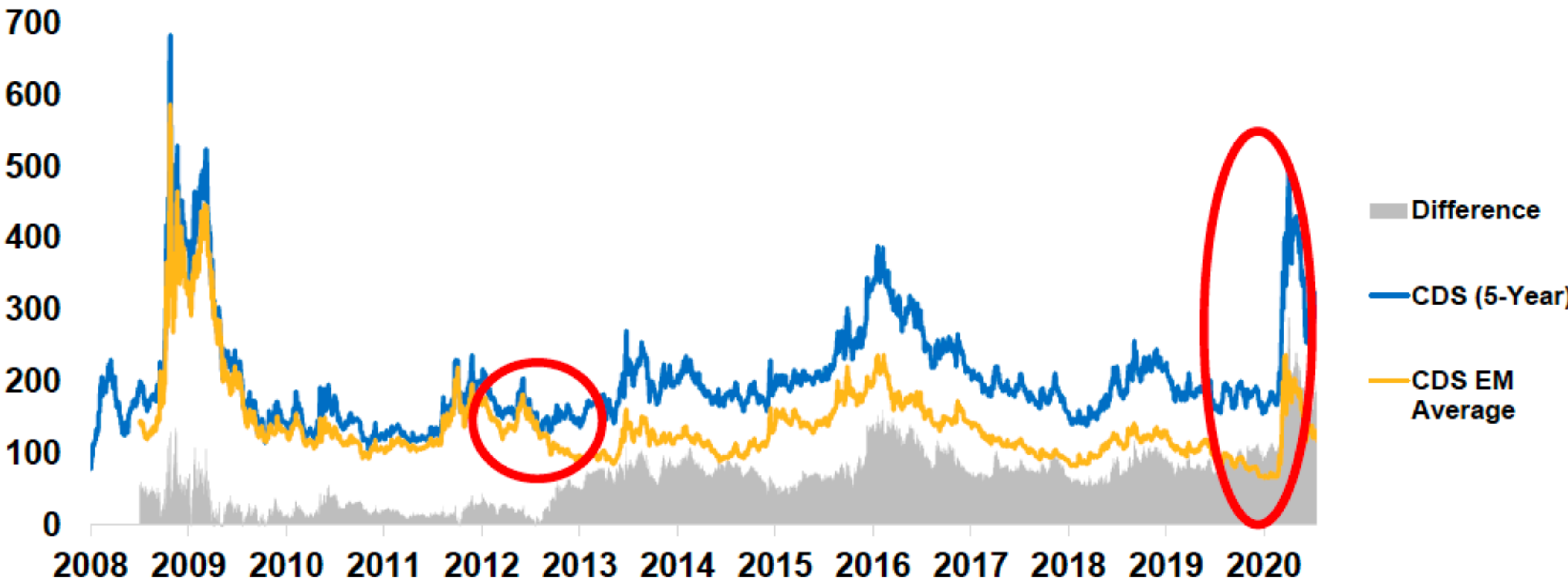
DECELERATION AND DECOUPLING



Source: IMF

- SA was already underperforming its EM peers before the current crisis, and more so in recent years.
- This illustrates long-run structural weaknesses, rather than the need for cyclically-driven demand stimulus

SA VS OTHER EMERGING MARKET – PROBABLY OF DEFAULT



- The CDS spreads are an indicator of the market perception of South Africa's risk of defaulting on its debt
- Sovereign spreads have sustainably decoupled from other EMs since around 2012.
- This means that investors are increasingly differentiating between markets, including in the context of stronger global liquidity

HAS THE CREDIT RISK PROFILE CHANGED?

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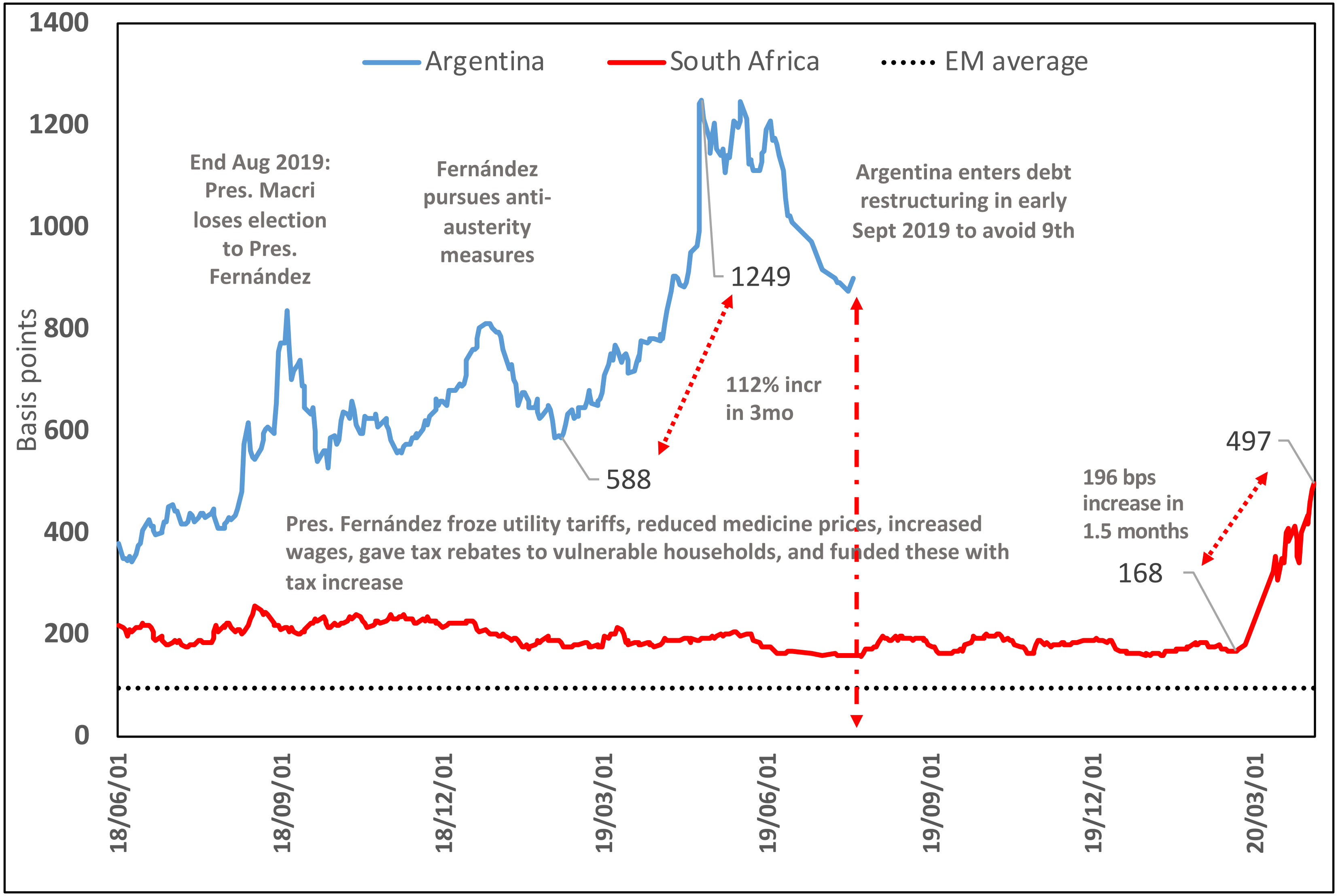
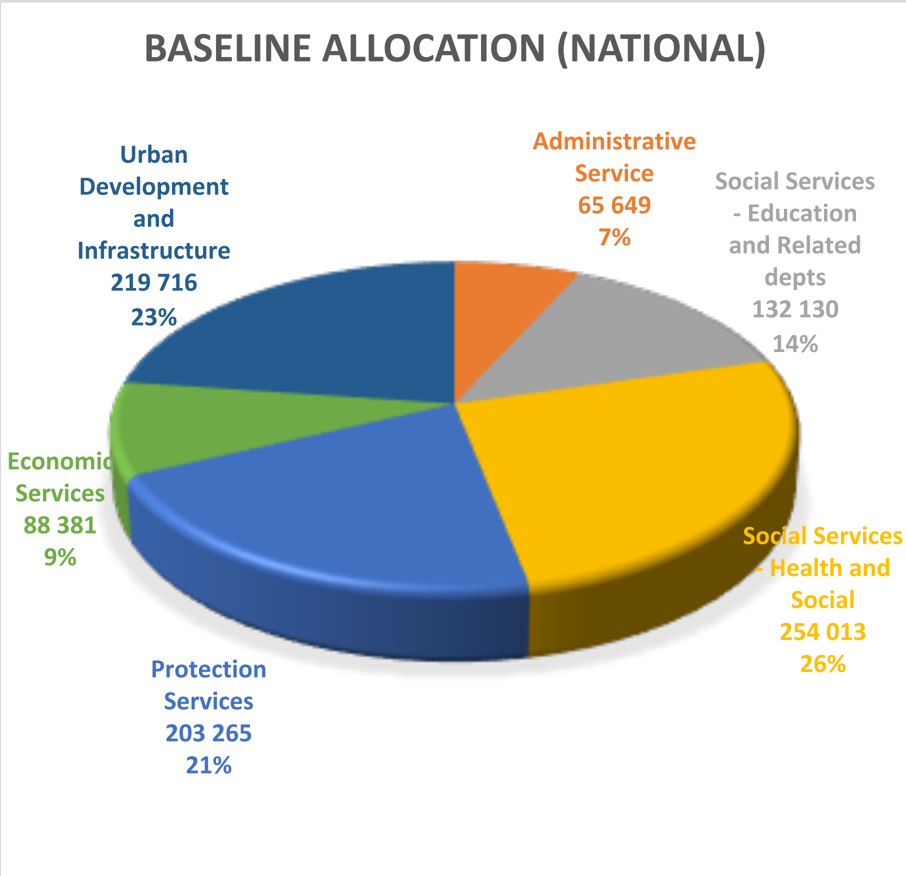


Outline of in-year spending



	Baseline allocation
Discretionary Govt Spending	
Goods & Services	*77 891*
Public Entity Transfers	*141 013*
Other transfers (eg. SDA, TVET Colleges)	*85 410*
Buildings and other fixed structures	*10 681*
Machinery and equipment	*4 262*
Provincial Conditional grants	110 785
Local government conditional grants	43 819
Non-discretionary Spending	
Debt service cost	229 430
Compensation of employees	177 034
Provincial and local equitable shares	603 801
Transfers to households incl. social grants	201 476
Payments for financial assets incl. SOE contributions	72 054
Other	3 337
	1 760 994

AUSTERITY???

- Primary fiscal deficit since 2009 until 2024
- Higher Govt spending growth than Economic growth
- "The Tyranny of Incrementalism"
- What happens to the money already in the baseline (R2 trillion)
  - AG report identifies R4billion in financial loss in national and provinces, and most of this waste is in the social services.
  - Poor state management capacity, especially in SOCs has correlated with an immense increase of fiscal risks
- Contingent liabilities are projected to rise to R1 trillion or 20% of GDP in 2024

South Africa in global context

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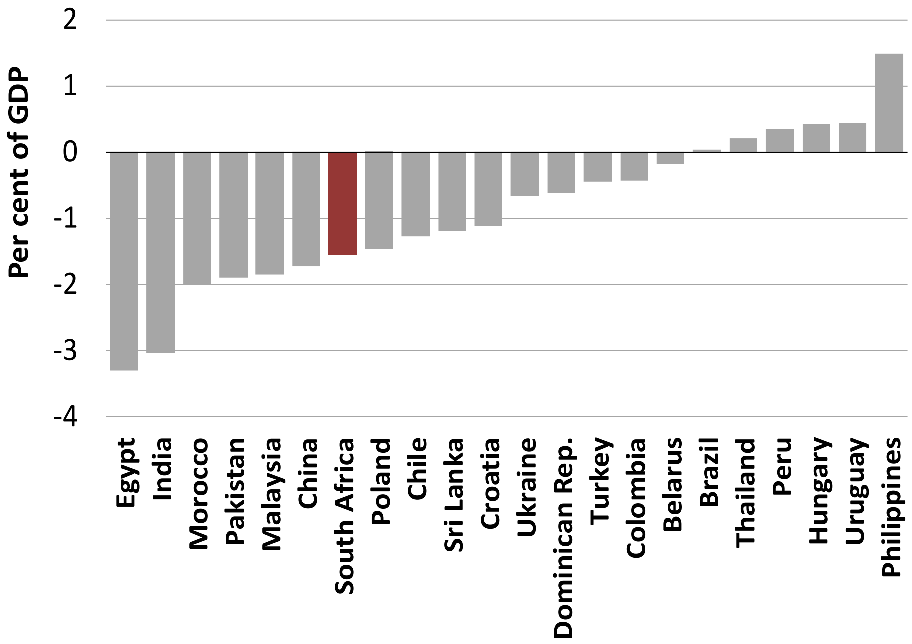
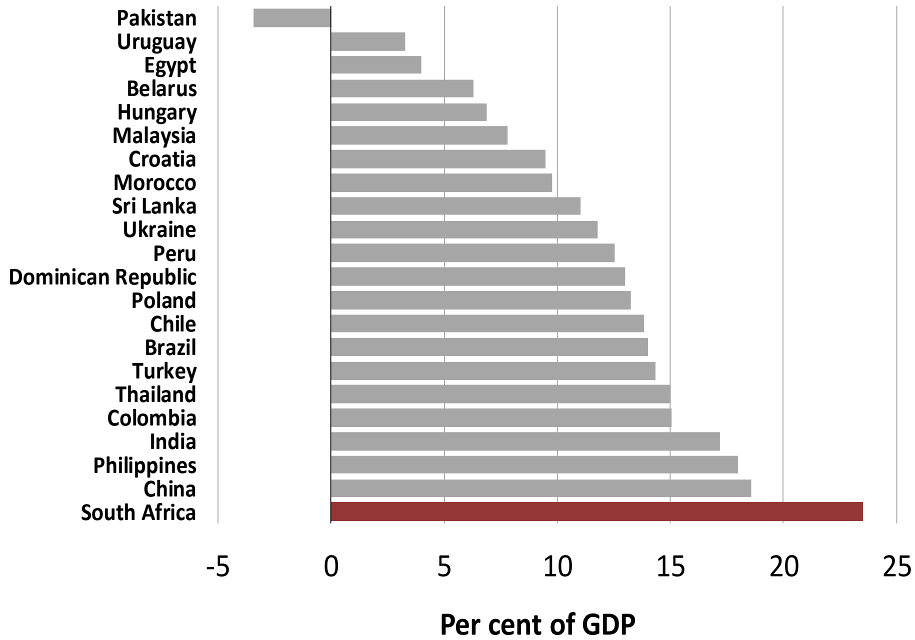
Average primary balance, 2009 – 2019



Projected three-year increase in debt



Source: IMF Fiscal Monitor, October 2020

- In comparison with a wide range of other developing countries, South Africa's average primary balance over the last 10 years falls in the middle of the distribution.
- But South Africa's three-year increase in debt to GDP is the among the largest.
- Fiscal distress is mounting in developing countries amid historically high indebtedness. In this environment of rising fiscal pressures, South Africa is losing ground to its peers.

THE DEFICIT HAS BECOME STRUCTURAL

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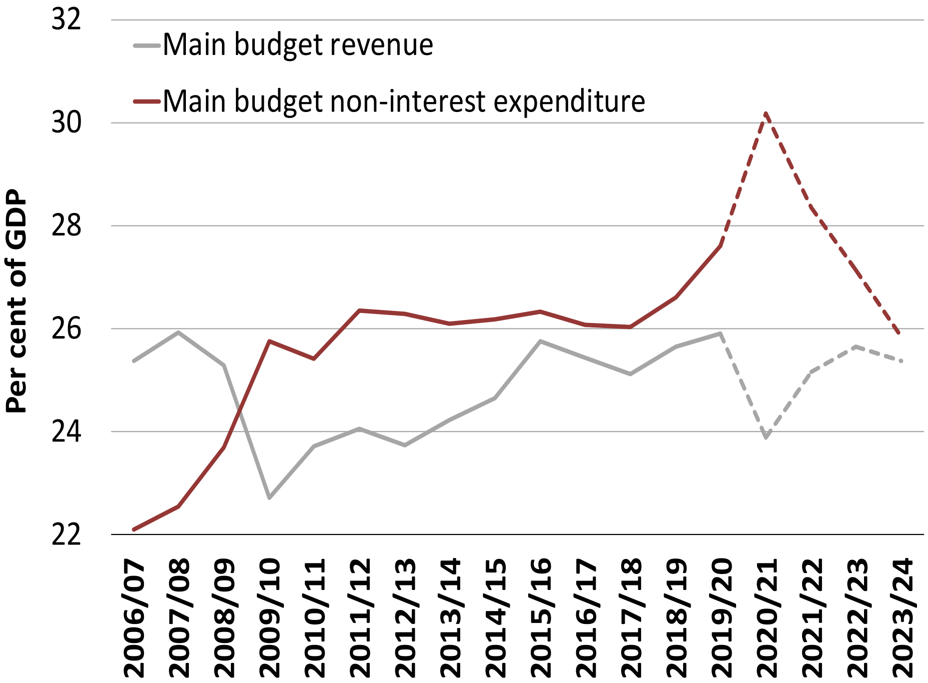
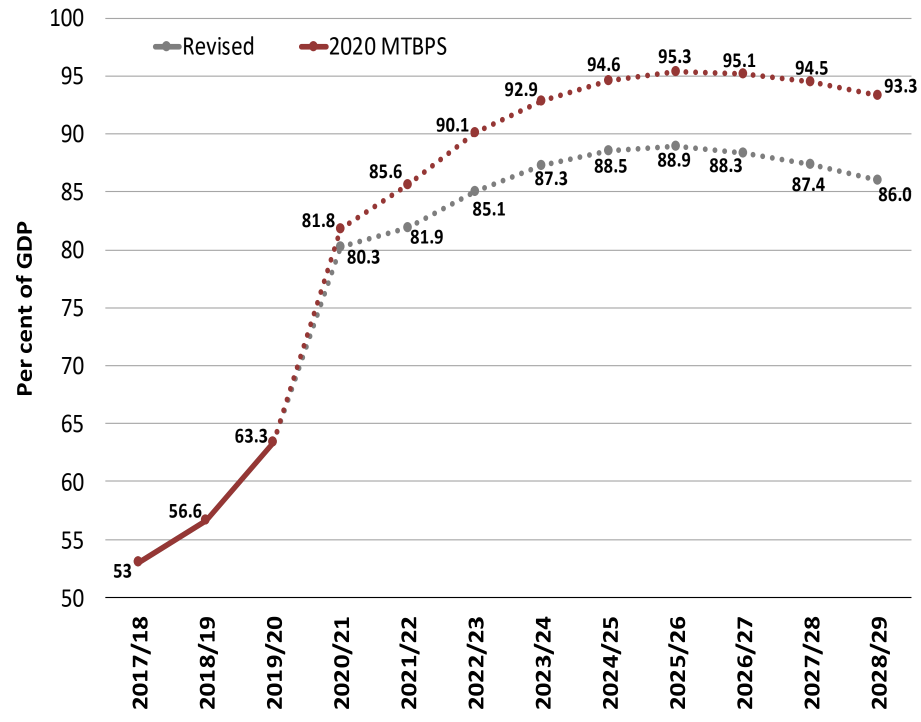
Main budget revenue and expenditure*



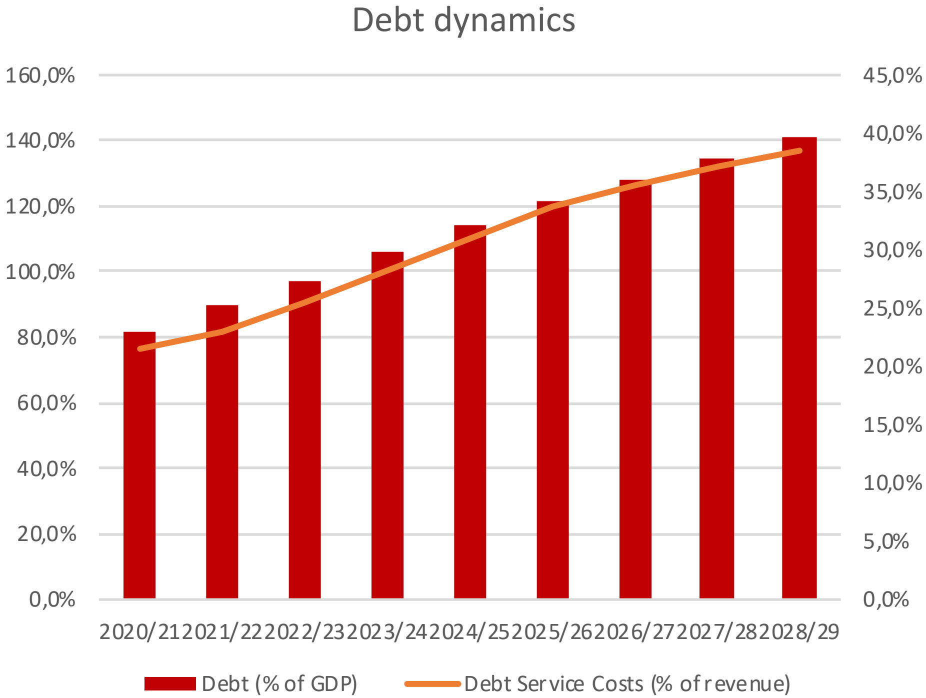
*Excludes Eskom financial support and transactions in financial assets and liabilities

Gross debt-to-GDP outlook



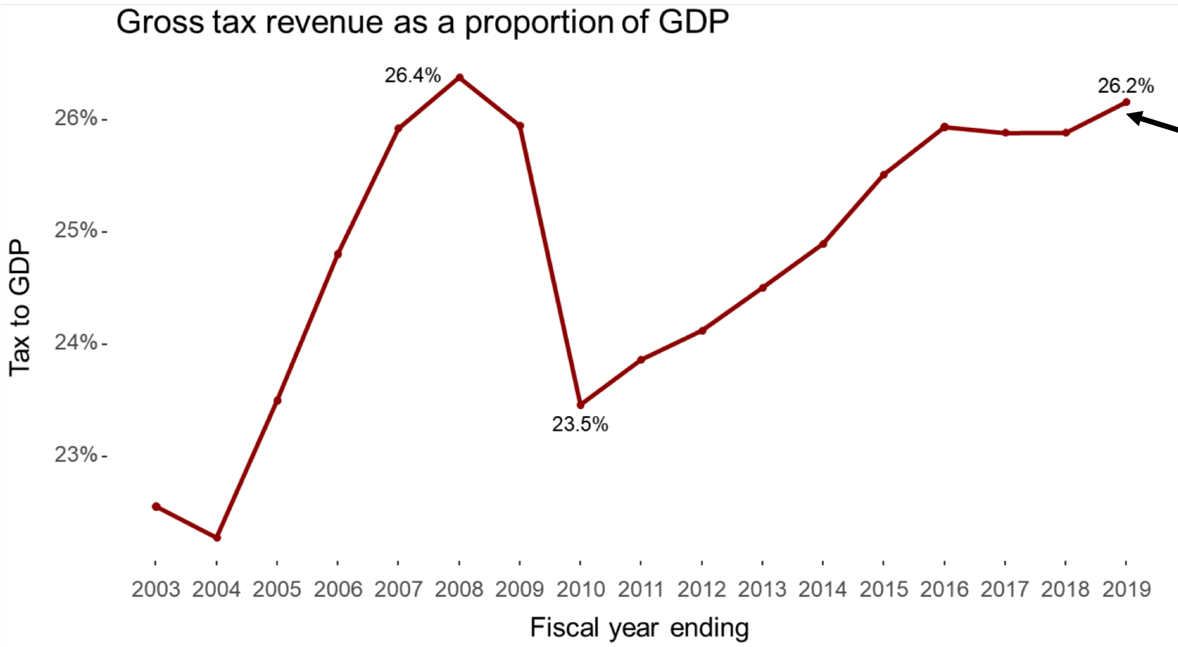
- The main budget primary deficit is projected to narrow over the medium term and gross debt-to-GDP is now projected to stabilise at 88.9 per cent of GDP in 2025/26.

A FISCAL CRISIS CAN HAVE LONG RUN & PROFOUND IMPLICATIONS



- Failure to arrest the debt trajectory will see debt service costs consume around 27% of tax revenue by 2024/25
- The stock of debt crosses the 100% mark in 2023/24, reaching 140% in 2028/29
- Deficits remain elevated at around 12% of GDP for a long-time, severely constraining domestic saving and investment
- A fiscal crisis could deduct more than R2 trillion from nominal GDP over the next decade

SOUTH AFRICA IS NOT A LOW TAX COUNTRY



Tax-to-GDP actually stayed flat over the two years with large increases in tax rates (2016/17 and 2017/18)

THANK YOU

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