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Completed: 30-Apr-19 16:43 GMT
Released: 30-Apr-19 16:52 GMT

South Africa

FY18/19 main budget deficit wider than expected in 2019 Budget

The National Treasury published its March main budget data this afternoon, showing a deficit of ZAR20.3bn, substantially wider than the provisional financing data had suggested. This outcome takes the FY18/19 main budget deficit to ZAR238.5bn, which is ZAR14.0bn wider than what the Treasury expected at the time of the 2019 Budget. As we argued in *South Africa Q2 19 Quarterly Perspectives,* fiscal policy remains a key weakness, as disappointing economic growth weighs on tax revenue and upside expenditure risks remain.

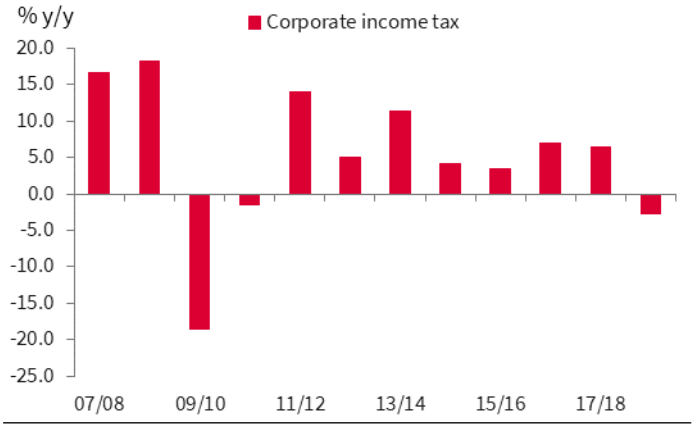
Main budget data for full FY18/19 show some slippage against National Treasury's revised targets. The National Treasury published its monthly main budget data for March this afternoon, reflecting a deficit of ZAR20.3bn. This is a lot wider than the –ZAR6.6bn that the provisional financing data had suggested. With March being the final month of the fiscal year, the data provide a clearer picture of South Africa's fiscal accounts for FY18/19. The total main budget deficit for the fiscal year came in at ZAR238.5bn, which is ZAR14.0bn (about 0.3% of GDP) wider than the National Treasury projected at the time of the 2019 Budget just two months ago. The marginal deficit overshoot was mainly due to revenue underperformance, which overshadowed marginally smaller-than-budgeted expenditure.

Figure 1: Additional tax underperformance mainly from PIT and CIT

FY 2018/19 (ZARbn)	Budget '18	Budget ' 19	Actual	Deviation from Budget '19 estimate
Total revenue	1321.1	1285.4	1272.2	-13.2
Gross tax revenue	1345.0	1302.2	1287.7	-14.5
PIT	505.8	497.5	491.9	-5.5
CIT	231.2	218.4	211.7	-6.8
Dividend withholding tax	30.8	30.3	29.8	-0.5
Value-added tax	348.1	325.9	324.8	-1.2
Domestic VAT	378.6	379.9	378.7	-1.2
Import VAT	169.6	174.0	175.2	1.2
VAT refunds	-200.0	-228.0	-229.2	-1.2
General fuel levy	77.5	75.4	75.4	0.0
Customs duties	54.1	56.7	55.7	-1.0
Total expenditure	1512.2	1509.9	1505.1	-4.8

Source: National Treasury, Absa Research

Figure 2: Corporate income tax receipts fell in FY18/19



Source: National Treasury, Absa Research

Weak tax revenue collections more than offset expenditure discipline. Gross tax revenues increased 5.9% y/y in FY18/19, coming in about ZAR14.5bn lower than what the Treasury expected in the 2019 budget. (The Treasury had already signaled, earlier this month, that revenues in the final two months of the fiscal year had disappointed.) Relative to the estimates tabled in the 2019 budget, the two main areas of underperformance were personal income tax and corporate income tax, which were ZAR5.5bn and ZAR6.8bn lower, respectively, than estimated in February. However, non-tax revenue came in a little better than expected, bringing the total revenue shortfall to ZAR13.2bn. Meanwhile, the expenditure side was somewhat positive. Total expenditure for the fiscal year reflected growth of 7.1% y/y, meaning that despite the emergency support for Eskom of ZAR5.0bn in late March, total main budget expenditure was lower than the 2019 Budget estimate by ZAR4.8bn, which suggests that the government continued to make some expenditure savings elsewhere.

Disappointing economic growth remains a big challenge to fiscal consolidation. While the fiscal slippage for FY18/19 is marginal, South Africa's consolidation challenge remains significant. For one, the outlook for real economic activity has deteriorated in recent months, due in part to electricity supply constraints and signs of flagging global economic growth. At the same time, inflation seems likely to be more benign than the Treasury expected. Absent any major efficiency gains from efforts to rehabilitate the tax collecting agency SARS (under the new leadership of Edward Kieswetter, effective tomorrow), tax revenue seems likely to underperform again in FY19/20. At the same time, as the Eskom issue in late March showed, SOCs remain a major upside expenditure risk to the fiscus.

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