South Africa 2019 Budget

Little room to tighten much further

- **South Africa's fiscal position is constrained, with budget deficits that are too big to stabilise the growing public debt. Finance Minister Mboweni's reputation has encouraged some hopes that he will deliver a big fiscal tightening in the 2019 Budget on 20 February, but we think he has very little room to manoeuver, especially with elections due in a few months.**
- **On the revenue side of the budget, we think there is little economic and/or political room to hike the three main tax levers: personal income tax, corporate income tax and VAT – which together are 80% of total receipts. We think there is evidence that South Africa may have hit an inflection point on the Laffer Curve with respect to PIT.**
- **Sin taxes, environmental taxes, ad valorem luxury good taxes and the general fuel levy will likely be lifted, and the carbon tax will be introduced in June but the aggregate revenue impact is likely to be small. It is not clear if the government will try to raise additional revenues by increasing the capital gains tax inclusion rate or dividend withholding taxes, or by tweaking medical aid tax credits.**
- **We expect the National Treasury to maintain its expenditure ceilings for now. However, despite weaker-than-expected spending in the current fiscal year, the government's scope to lower overall expenditure markedly in 2019/20 is quite limited. Investors should pay close attention to see if the National Treasury proposes a viable policy instrument to lower compensation costs.**
- **The National Treasury's stand on troubled state-owned companies, especially Eskom, will feature prominently in the 2019/20 Budget. We expect that it will need to provide around ZAR15bn in funding to Eskom. It is not clear if it will be able to do this in a deficit neutral way, in line with its previously stated policy.**
- **Overall, we think the deficit trajectory outlined in the Medium Term Budget Policy Statement (MTBPS) could be improved, but only modestly. For example, we could expect to see the main budget deficit target for 2019/20 lowered by about ZAR16bn from 4.4% of GDP in the MTBPS to 4.1%. However, without big tax hikes or expenditure cuts, it will be difficult to credibly put forth a deficit target with a three handle on it.**
- **We think the National Treasury is unlikely to increase the pace of SAGB issuance yet again at the Budget. We estimate that net T-bill issuance will increase by only ZAR0.4bn during the current fiscal year, which is ZAR3.7bn less than the ZAR4.1 net issuance figure that was originally budgeted. We believe that the ZAR3.7bn T-bill issuance shortfall will be more than offset by a ZAR6.1bn surplus of SAGB funding.**

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE **9**

This note presents our expectations for the 2019 Budget to be presented on 20 February

On 20 February, Finance Minister Mboweni will present the Budget for 2019/20. This research note examines the intense fiscal constraints faced by the government and, in an attempt to help investors position themselves ahead of the event, gives our expectations for the Budget, with some comments about various potential tax policy changes, some analysis of the expenditure side of the fiscal equation and some comments on the feature role that South Africa's troubled state-owned companies (SOCs), especially Eskom, will play in the 2019 Budget.

2019 Budget comes against a parlous fiscal backdrop

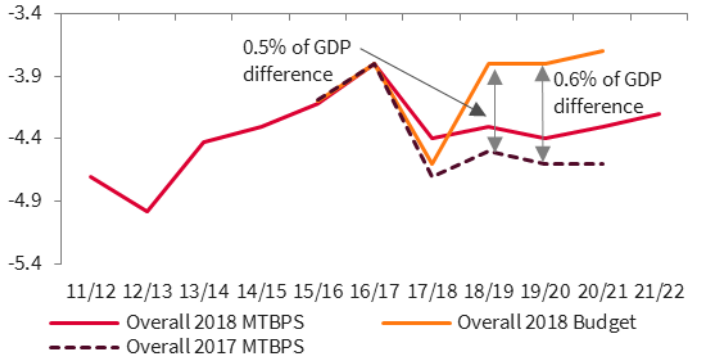
Projected budget deficits were widened out materially in the October MTBPS

South Africa's fiscus has suffered a number of adverse developments in recent years, including revenue shortfalls due to weak growth and maladministration at SARS under the previous leadership, increased demand for bailouts from unprofitable SOCs and relentless upward pressure on public sector employee compensation. The 2018 MTBPS last October delivered a sharp widening of the main budget deficit targets over the three-year fiscal horizon, for example, by 0.5% of GDP in the current fiscal year to 4.3% of GDP (Figure 1), and sharply worsened debt trajectory, with debt to GDP now projected by the Treasury to peak at just below 60% in 2023/24 (Figure 2).

The major part of the revision to the deficit target for the current fiscal year reflected increased VAT refunds

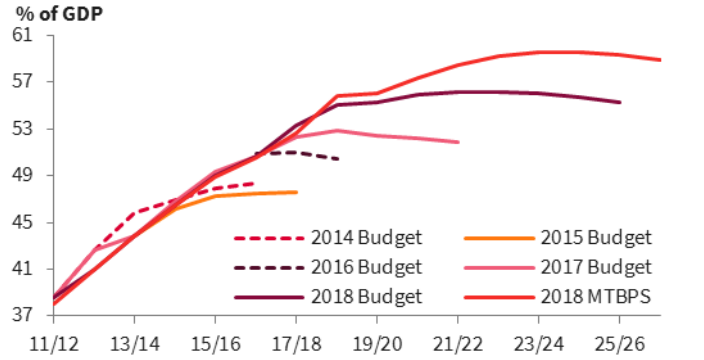
The MTBPS last October initially sparked quite a negative reaction from the market, but investors calmed a little after they came to appreciate that the major portion of the widening in the deficit target for 2018/19 reflected an entirely defensible attempt by the National Treasury to regularise the VAT refund book, after the previous SARS leadership both understated the quantum of refunds owed and delayed paying refunds in order to flatter its apparent tax collecting performance. Thus, in the MTBPS, the National Treasury upped its projected deficit by ZAR27.4bn, of which ZAR20.0bn represented increased VAT refunds. However, this explanation of a catch-up in VAT refunds does not really explain the wider deficit trajectory for the future fiscal years. However, interestingly, the National Treasury lifted its estimate of buoyancy slightly in 2019/20 from 1.13 to 1.17 (but after sharply reducing its buoyancy projection for the current fiscal year from 1.51 to 1.21). The Treasury then trimmed its buoyancy assumption for 2020/21 from 1.13 to 1.07.

Figure 1: Main budget deficits targets increased in MTBPS



Source: National Treasury, Absa Research

Figure 2: Debt now projected to peak higher and later



Source: National Treasury, Absa Research

Expenditures could undershoot their MTBPS target this year

Weak expenditure growth hints that the budget deficit might come in smaller than the MTBPS target for FY 2018/19

We think there is a strong possibility that the main budget deficit for the current fiscal year might come in below the 4.3% of GDP projected in the MTBPS, mainly due to weaker-than-budgeted expenditure. In the current fiscal year, nine months are 'booked', with the data for the January to March 2019 period still to be published. Notably, for the nine months so far this fiscal year, expenditure growth was just 4.6% y/y versus the MTBPS' target growth rate of 7.7%. If this pace of expenditure undershoot is maintained in the January to March period, it implies an aggregate undershoot on spending of ZAR43.5bn, almost 0.9% of GDP. The detailed expenditure data show that the biggest portion of underspending is coming via the transport vote, along with other underspending departments, including water, treasury, communications and public enterprises (Figure 3). Of course, transport spending could suddenly substantially 'catch up' in the final quarter in the usual burst of road building and repair, but the risk seems tilted in the direction of at least some underspending overall.

Figure 3: Big underspending on capital projects particularly in the Department of Transport

	MTBPS target ZARbn	% of total appropriation by vote	% change on 17-18	April-Dec 2018 % y/y	Projected variance* ZARbn
Transport	59.8	7.2	9.5	-26.8	-19.9
Public Enterprises	6.5	0.8	2504.9	-7.3	-6.3
Treasury	29.7	3.6	-25.3	-33.7	-3.3
GCIS	4.0	0.5	-18.2	-84.9	-3.3
Water	16.9	2.0	11.6	-8.5	-3.0
Environment	7.4	0.9	12.6	-21.2	-2.2
COGTA	85.0	10.2	11.3	8.7	-2.0
Health	47.5	5.7	12.1	7.8	-1.7
Police	91.7	11.0	5.8	4.4	-1.2
Higher Education	73.1	8.8	39.8	43.7	2.0
Human Settlements	32.5	3.9	-2.8	4.1	2.3
Total appropriation by vote	831.6	100.0	8.2	2.5	-43.6

**Undershoot relative to MTBPS target assuming y/y growth rate from Apr-Dec 2018 is sustained into Jan-Mar 2019. Source: National Treasury, Absa Research*

For the first nine months of the current fiscal year, tax collections are running behind the MTBPS target, due mainly to very disappointing corporate income tax collections in December

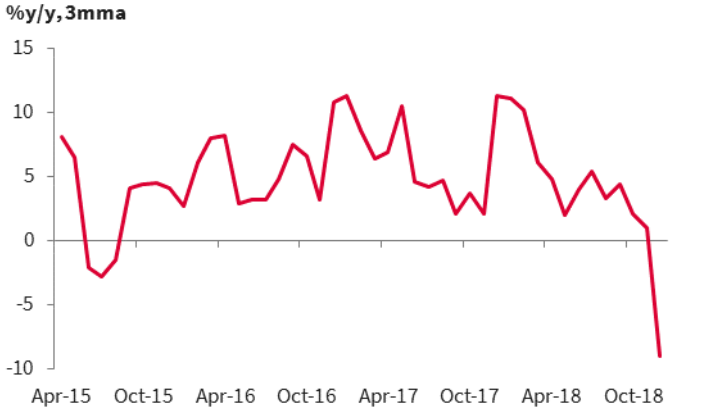
Unfortunately, revenues also seem potentially set to undershoot even the downwardly revised MTBPS targets by a little, due in part to an especially disappointing performance of corporate income tax (CIT) receipts in December, which is a key month for collections (Figures 4 and 5). For example, in the previous two fiscal years, CIT receipts in December amounted to an average of 27.7% of total CIT collections for the entire year. Worryingly, in December 2018, CIT receipts were down by a staggering 6.6% y/y, such that for the entire first nine months of the current fiscal year (April-December), CIT receipts were down 1.1% y/y versus the MTBPS projection of 3.6% growth. Projecting this 'run rate' for the remainder of the 18/19 fiscal year suggests an under-collection of CIT receipts (relative to the MTBPS targets) of ZAR10.3bn. Now, there is conceivably some scope for a bit of a catch up since February and March are also seasonally important for CIT collections, but there is no strong reason to anticipate a recovery here, as the narrative around corporate earnings recently has been one of generalised weakness. Additionally, personal income tax receipts (PIT receipts) look to be tracking below the MTBPS' targeted growth rate (Figure 4), with a growth rate in April-December of just 7.6% y/y compared with an MTBPS target of 9.4%, which would generate a revenue shortfall of ZAR8.4bn if sustained for the remainder of the fiscal year (Figure 4).

Figure 4: Corporate and personal income taxes are running below target but VAT is above target

	MTBPS target, % y/y	April-Dec % y/y	Projected variance, ZARbn
Gross tax revenue	8.3	7.6	-8.4
Personal income tax	9.4	7.6	-8.4
Corporate income tax	3.6	-1.1	-10.3
Dividend withholding tax	5.7	13.0	2.0
Value-added tax	10.1	12.4	7.1
Domestic VAT	12.3	13.0	2.6
Import VAT	11.7	15.0	5.1
VAT refunds	15.1	15.5	-0.6
General fuel levy	9.1	6.5	-1.8
Customs duties	8.2	13.6	2.7

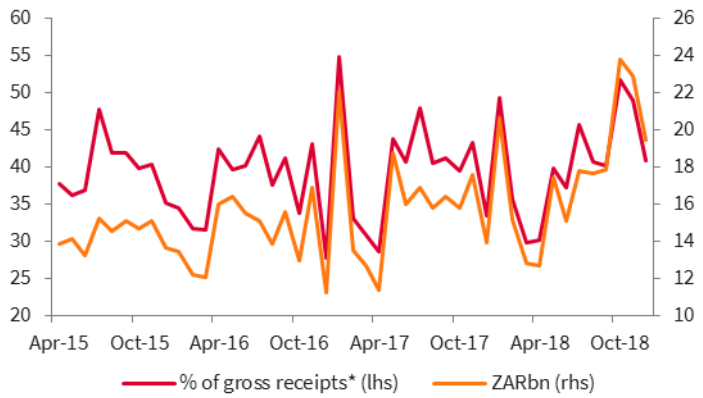
Source: National Treasury, Absa Research

Figure 5: Corporate income tax collections slumped towards end-2018



Source: National Treasury, Absa Research

Figure 6: Treasury caught up on VAT refunds in October and November



** average of previous two months gross VAT receipts*
Source: National Treasury, Absa Research

VAT collections are holding up well despite accelerated refunds

Fortunately, the National Treasury looks set to outperform on VAT collections with much higher-than-expected import VAT, despite an increase in VAT refunds. Indeed, VAT refunds accelerated dramatically in October and November to an average of ZAR23.3bn from an average of ZAR16.4bn in the previous six months, although they ebbed somewhat in December (Figure 6). Relatedly, along with higher-than-expected import VAT, the National Treasury might enjoy higher-than-expected customs duties, which together would offset some of the potential undershoot on CIT and PIT collections.

On balance, the main budget deficit for FY 2018/19 might be estimated in the upcoming Budget to be two to three tenths of a percentage point lower

Overall, despite the weakness of revenues in general, we think there is a reasonable prospect that the 2019/20 Budget could end up lowering the deficit projection for the current fiscal year by several tenths of a percentage point, given the likely undershoot on expenditures discussed above. It is important not to get too bullish here, however, especially given weakness of revenues. With the main budget deficit target in the MTBPS of 4.3% of GDP, the Budget could lower this to 4.0% or 4.1% of GDP, although, of course, conclusive evidence will not really be publicly available until end-April. The 2019/20 Budget will have a revised and updated set of revenue, expenditure and deficit estimates for the current fiscal year, but it will be based only on 10 months' worth of fiscal data. Previous years have seen some big surprises come through in March, such that the outcome is often materially different from the 'estimates' produced in the Budget.

Big revenue grabs are unlikely

We think Mboweni has little room to manoeuver and that markets could be disappointed if they are expecting a materially tighter stance relative to the MTBPS

Of course, the reality is that FY 2018/19 is largely already in the bag, and while the market has some interest in the exact outcome, it is probably far more concerned with the projections and fiscal policy settings for the *upcoming* budget year and the broad targets for future years in the planning horizon. At the time of the MTBPS, there was perhaps a view prevailing that Minister Mboweni, who was appointed just two weeks before the MTBPS speech, had no time to stamp his mark on the fiscal programming behind the MTBPS, and that by the time February rolled around, he would have had time to sell a tighter fiscal stance to the rest of the government and within the ANC. However, we now think that Mboweni probably has very little room to either lift revenues or to cut overall spending materially. Indeed, the MTBPS itself said that 'Following years of slow spending growth and tax increases, there is little room for large fiscal adjustments' and then said that over the medium-term expenditure framework period, the government will 'avoid increases in the major tax instruments unless the economic environment requires it'. Consequently, we think that the market might end up being disappointed if the expectation is that Mboweni will pull the fiscal equivalent of a white rabbit out of a hat and deliver a big fiscal tightening. Our reading of the recent press coverage suggests, however, that the consensus expectation is for fiscal policy to be left largely 'on hold'.

Probably, scant scope to increase PIT tax rates or PIT stealth taxes via bracket creep without damaging the tax base of high income tax payers

On the revenue side of the budget, we think there is little scope overall for further big increases in the main tax rates (personal income tax, corporate income tax and VAT), which together accounts for over four fifths of gross tax receipts. Recent weak performance of PIT collections only reinforces our concerns about the risk that South Africa may have reached an inflection point on the Laffer

Curve, under which further increases in PIT rates for high income earners in South Africa fail to increase revenues because they merely serve to drive people to the golf course or to the airport. We note that in the 2017/18 Budget, the National Treasury failed to fully adjust tax brackets to offset inflation and intruded a new top marginal rate of income tax, with the intent of raising an additional ZAR16.5bn in PIT receipts above the baseline increase of ZAR41.7bn, taking the total planned increase in PIT collections up by ZAR57.6bn (compared to 2016/17). In the end, however, total PIT collections were just ZAR460.8bn or in other words only ZAR36.3bn up from 2016/17 – a shortfall of ZAR21.3bn relative to the original budget target for 2017/18. Of course, it is difficult to disentangle just how much of this is due to weaker-than-expected growth (which translates to less job creation and a decelerating growth of average earnings) as opposed to the degradation of the tax base and increased tax avoidance that are usually associated with Laffer Curve effects. For the current fiscal year, the National Treasury aimed to raise an additional ZAR7.5bn in the 2018 Budget through a fiscal drag, but as already discussed, PIT receipts have been underperforming. For the same reasons, we think the government will avoid tampering with the capital gains tax exclusion rates and thresholds.

Corporate income tax rate likely to be left unchanged but some efforts to tighten the corporate tax collections might be announced

Furthermore, against the backdrop of South Africa's drive to increase foreign and domestic corporate fixed investment spending, an increase in the corporate income tax rate of 28% currently seems out of the question. In the 2018 Budget, the National Treasury argued that of all OECD countries, only corporates in Chile contribute a greater share of general tax receipts and that the global trend has been to reduce corporate tax rates.

No political room for another VAT hike…

The 1pp VAT increase last year provoked a significant political and social backlash, and we think there is no likelihood of any further increase to the VAT rate this year, especially given that the electorate goes to the polls in a couple of months on 8 May. Additionally, the National Treasury will likely announce that it is putting in place a very limited expansion of the list of zero-rated VAT items (white flour, cake flour and sanitary pads) at a cost to the fiscus of around ZAR1bn, as recommended by the Woolard panel.

…but sin taxes will be lifted, and environmental taxes might also be lifted as they were in the 2018 Budget

However, we do think that there is some scope for increases in other indirect consumer taxes, particularly the so-called sin taxes on alcohol and tobacco. In the 2018 Budget, the above-inflation increases in tobacco and alcohol excise taxes were aimed to generate ZAR1.2bn and others to generate an additional ZAR1.0bn. We think similar above-inflation increases to generate ZAR2-3bn might be forthcoming here. Environmental taxes might be lifted further with a ZAR1bn revenue goal.

General Fuel Levy will likely be raised

However, the biggest scope for an indirect tax increase probably sits, once again, with the general fuel levy. So close to elections, however, with the consumer evidencing a fair bit of strain, we think the government will be reluctant to appropriate all the relief the consumer has enjoyed since November from falling oil prices, after a year of punishing fuel price increases in 2018. An increase of ZAR35c/l to raise about ZAR2bn is probably the most the government could hope to get away with politically.

Initial impact of carbon tax will likely be quite small

The health promotion levy, or sugar tax, might offer a little relief at the margins with stronger-than-originally-anticipated collections. The 2018 Budget forecasts receipts at ZAR1.9bn, but in the April-December period, some ZAR2.3bn had been collected. The rate of tax here could be increased, but on balance, we think this is unlikely. One fresh tax is certain – the carbon tax – which takes effect from 1 June 2019. However, at introduction, most emissions are exempted, and although modelling is tricky, we would not expect it to raise more than a couple of a billion rands at the most. Otherwise, it is conceivable that the government could again resort to lifting property transfer duties, estate taxes and dividend withholding tax, but the revenue impact of these measures would likely be small.

The National Treasury might announce some measures aimed at improving corporate tax compliance

With little scope to lift revenues by hiking tax rates sharply, we hope that the National Treasury (now that it has the cooperation of the new SARS leadership rather than the obstructionism of the previous leadership) might announce various measures to improve tax compliance and hence lift tax elasticity. For example, the National Treasury recently took the unusual step of posting up on its website two research papers from the SA-TIED initiative looking at corporate tax behaviour in South Africa. One paper estimated that the tax loss due to profit shifting to low tax jurisdictions

(particularly Switzerland) amounted to ZAR7bn per year, and nearly all of it was due to the largest corporations. Another paper found a ZAR1bn tax loss from transfer mispricing on imported goods and suggested ways to flag firms for auditing. These two papers suggest that despite the institutional challenges at SARS, efforts to tighten tax enforcement for corporates might feature in the 2019 Budget, especially with the decision of the acting head of SARS to reestablish the Large Business Centre, which had been disbanded by his predecessor.

Tax elasticity is critical

Indeed, with little scope to boost tax rates per se, measures to improve tax collection efficiency, especially after the maladministration of the previous leadership, are essential. As a start, the awaited appointment of a new permanent head of SARS seems key, and perhaps an announcement might be made around the time of the Budget for there is no reason to delay. Tax elasticity is defined as the percentage change in gross tax receipts divided by the percentage change in nominal GDP, keeping tax policies constant (in contrast to the easier-to-calculate-in-real-life measure of tax buoyancy, which allows for changes in tax rates). Taking the MTBPS forecast of tax receipts in the current fiscal year of ZAR1,318bn as a base, then an elasticity outcome (just slightly better) of 1.30 would lead to an outperformance of tax receipts (relative to the MTBPS targets for 2019/20) of ZAR12.5bn or about 0.2% of GDP (Figure 7). This is a similar order of magnitude to what might be raised in aggregate through the various minor tax increases we outlined above.

Figure 7: Variance of tax collections with respect to MTBPS projections under different nominal GDP and buoyancy assumptions

ZARbn		Nominal GDP growth, %				
		6.5	7.0	7.3*	8.0	8.5
Tax buoyancy scenarios	1.00	-26.9	-20.3	-16.3	-7.1	-0.5
	1.10	-18.3	-11.0	-6.7	3.4	10.7
	1.17*	-12.3	-4.6	0.0	10.8	18.5
	1.30	-1.2	7.4	12.5	24.5	33.1
	1.40	7.4	16.6	22.2	35.1	44.3
	1.50	16.0	25.8	31.8	45.6	55.5

Source: National Treasury, Absa Research

Macroeconomic assumptions are also key, with the upcoming Budget possibly having to trim the MTBPS assumption of nominal GDP growth in 2019/20

Similarly, the macroeconomic assumptions will be key for the venue projection. In the MTBPS, the National Treasury forecast nominal GDP growth of 7.3% y/y in FY 2019/20, which comprised real GDP growth of 1.9% and GDP inflation of 5.3%. A rough back-of-the-envelope calculation suggests, however, that if nominal GDP growth were 8.0% instead (with an unchanged buoyancy assumption) then tax revenues would come in nearly ZAR11bn higher than the baseline (Figure 7). Of course, in reality, it would make some difference whether the higher nominal GDP growth was driven more by real economic activity or inflation, with the former generally being better for tax collections through higher employment, corporate profits and consumer spending. However, we think instead, it may work the other way, with the Treasury having to trim its nominal GDP forecast due to weaker-than-anticipated inflation. The National Treasury's real GDP forecast of 1.9% in FY 2019/20 is identical to ours. However, we forecast CPI inflation of just 4.8% versus the Treasury's projection of 5.4% y/y. To the extent we are correct and to the extent that the GDP deflator undershoots the MTBPS projection by a similar magnitude, then, with unchanged buoyancy, tax revenues would come in about ZAR7.7bn lower (and of course the nominal GDP denominator in the deficit ratio would also be smaller).

Big expenditure cuts seem unlikely

Effective expenditure reduction will require steps to cut headcount but this seems challenging to deliver with elections so close

If South Africa's fiscal imbalances cannot be rectified by the revenue side of the budget then it is at least theoretically possible that the deficit could be narrowed by cutting expenditure. However, we think the chances of this happening in a major pre-announced way are fairly slim ahead of elections. For one thing, the public sector pay uplift is fixed this year at CPI +1% even before the automatic notch progression, and so far, the government does not have a suitable policy tool to aggressively manage down headcount. Indeed, in the Jobs Summit last year, it appeared to commit to a moratorium on retrenchments. The MTBPS disclosed, however, that turnover in the public service is high, amounting to 6% per year, which does put off the prospect of cutting

headcount over time through a programme of attrition. Investors should examine the 2019 Budget documentation carefully to see if the National Treasury's laments in the last two MTBPS meetings about the growing burden of public compensation have finally translated into active remedial measures. But, of course, the problem for the National Treasury is that such policies are out of its purview, but instead they fall under the Department of Public Service and Administration. Moreover, the approach of the government so far as regards the need to cut staff at public enterprises like Eskom and South African Broadcasting Corporation does not offer much hope that it will put its neck on the line right now.

We expect the National Treasury to allocate about ZAR15bn to Eskom from within the existing expenditure envelope

And yet, the government is going to have to cut spending somewhere to free up some funding for Eskom. Eskom has asked for ZAR100bn of its ZAR419bn debt to be transferred to the government as part of a turnaround strategy that also involves cost containment efforts and revenue security measures; this has not been fully elaborated and ventilated. As various parts of the turnaround strategy have not been finalised, we do not believe that the National Treasury will fully accede to Eskom's proposal at this stage, having already given Eskom ZAR83bn in the past to little avail. However, some support in FY 2019/20 is probably essential, given that Eskom's adverse debt dynamics are escalating (Eskom is borrowing to pay interest charges) and the utility projects a ZAR20bn loss in the current fiscal year. Finance Minister Mboweni last year said that he was against the debt transfer idea, but over the holiday season, the thinking in the National Treasury seemed to evolve in from the 'the state cannot afford to bail out Eskom' to 'the state cannot afford to let Eskom collapse'. For this Budget, however, until the revenue security and cost reduction parts of the turnaround strategy are finalised, we think that the National Treasury will allocate just enough to keep Eskom ticking over. An amount of around ZAR15bn might just suffice, but it could in fact need to be a bit higher. Possibly, this can be partly financed by the sale of the government's Telkom stake (worth a little over ZAR13bn currently) or from the broadband spectrum, though the latter is now unlikely until H2 19. Ultimately, however, more money will be needed and it will be very difficult for the National Treasury to stick to its policy then that bailouts of struggling SOCs can only be done in a deficit neutral manner (i.e. generally this means they must be funded by the sale of state assets).

No need for further increase in the pace of SAGB issuance

For the current fiscal year there is a surplus of SAGB funding.

As already noted above, the main budget deficit is likely to undershoot the MTBPS target due to underspending. At the MTBPS, the Treasury increased its projected 2018/19 domestic short-term loans by ZAR10bn to ZAR24bn, but did not specify whether the increase would be the result of greater T-bill issuance, more public deposit collections or a combination thereof. Either way, we estimate that net T-bill issuance will increase by only ZAR0.4bn during the current fiscal year, which is ZAR3.7bn less than the ZAR4.1 net issuance figure that was projected at the February-2018 budget (Figure 9). We believe that the ZAR3.7bn T-bill issuance shortfall will be more than offset by a ZAR6.1bn surplus of SAGB funding. Given that the yield curve has steepened significantly in recent quarters on the back of more dovish policy rate expectations and lingering fiscal slippage concerns, any reduction in the borrowing requirement should be supportive of a flatter yield curve.

Switch auctions will also help reduce the need for gross issuance

At the MTBPS, Treasury increased the size of the weekly nominal and ILB issuance by R450mn and R50mn, respectively. If the Treasury continues to issue ZAR2,850mn worth of nominal bonds and R650mn worth of linkers each week, then it should raise ZAR140bn in the nominal and ZAR32bn in the linker auctions during 2019/20, assuming that there are 49 auctions in the fiscal year. We have also assumed that Treasury will raise R28bn (i.e., 20% of the main auction) through the non-competitive auction. Even though banks continue to absorb the bulk of primary issuance (Figure 8), the fact that the take-up at non-competitive auctions has been improving implies that our non-competitive allocations assumption could prove to be too conservative. Nonetheless, our base case view is that Treasury will only achieve ZAR199bn worth of gross issuance during the 2019/20 fiscal year, versus Treasury's MTBPS estimate of R212bn (Figure 9). However, we believe that this ZAR13bn shortfall will be comfortably plugged by further switch auctions. We expect Treasury to conduct between ZAR20-35bn worth of switches during the next fiscal year, which in turn will help reduce its redemption and gross issuance requirements.

Figure 8: Estimated net T-bill issuance for 2018/19 fiscal year

ZARbn	Allotment	Redemption	Net
91-day	102.4	110.8	-8.4
182-day	113.3	114.1	-0.8
273-day	122.2	117.4	4.7
364-day	124.7	119.9	4.9
Total	462.6	462.2	0.4

Source: National Treasury, Absa Research

Figure 9: Gross SAGB issuance estimates

ZARbn	2018/19	2019/20
Nominal	**124.9**	**139.7**
y-t-d	*99.3*	
Non-comp	**30.8**	**27.9**
y-t-d	*25.5*	
Linker	**25.9**	**31.9**
y-t-d	*20.1*	
Absa projection	**181.6**	**199.4**
National Treasury projection	175.5	212.5
Excess/shortfall	**6.1**	**-13.1**

Source: National Treasury, Absa Research

In summation

We do not expect bold measures in the 2019 Budget

All in all, we do not expect Finance Minister Mboweni and National Treasury to deliver bold consolidation measures in the 2019 Budget, though a few minor tweaks to indirect taxes are possible. Important decisions on how to cut expenditure are likely to be deferred until after the elections, when they can be dealt with as part of the reconfiguration of the state, which President Ramaphosa promised in his State of the Nation Address last night. And of course big questions remain about Eskom, with Ramaphosa having revealed last night that the government would provide balance sheet support to Eskom, with details to be disclosed in the upcoming Budget.

ANALYST (S) CERTIFICATIONS (S):
I / We, Miyelani Maluleke, Peter Worthington hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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