Review: Medium Term Budget Policy Statement

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There is always a heightened sense of anticipation prior to any address by the Finance Minister, Tito Mboweni, and this time was no different. In fact, the anticipation might have been more intense than usual, given that the Budget Speech had been postponed by a week. But as we have now become accustomed to, the Finance Minister delivered a reasonably balanced Budget under the circumstances, without any major surprises or glaring own-goals. Drawing a parallel to where the economy found itself back in 1994 in terms of emerging from adversity, with great potential ahead, the Minister argued we now find ourselves in a similar position.

Indeed, growth has collapsed, in part through no fault of our own, given the pandemic. But although National Treasury is expecting a sharp rebound in growth in the last quarter of 2020, the economy is still expected to contract by 7.8% (worse than its June estimate), and the 3.3% rebound next year will be half that of emerging market growth, decelerating thereafter. These unexciting prospects mean that the difficulty posed by the dual objective of fiscal austerity while trying to engineer faster growth will remain an ongoing challenge.

In the context of South Africa's public finances, the big question remains the ballooning debt burden. The minister was emphatic in stating that National Treasury seeks to implement active measures to avoid a sovereign debt crisis, and time will tell whether the five-year fiscal consolidation pathway proves to be effective in this regard. South Africa's debt-to-GDP ratio is now expected to peak at 95.3% in 2025/6, compared previously to 87.4% in 2023/4, which is in keeping with the progressive shifting of these goalposts over the years. Other important issues such as the public sector wage bill and state owned enterprises were addressed in passing, however a fair amount of emphasis was placed on the fiscal measures being implemented to realign the composition of spending from consumption towards investment.

Mboweni confirmed that bondholders are being rewarded with a high return from holding South African debt, and we continue to have a meaningful position in this asset class across our portfolios. The Minister also stressed efforts to reform Regulation 28 to make it easier to invest in infrastructure. Savers will be relieved to hear that prescribed assets remain unlikely to be used to fill a funding gap. Instead, as anticipated, National Treasury is focused on trying to reduce debt servicing costs, which at current yields is crowding out most investments, and making it hard for government to prioritize anything else.

Despite this, government has managed to find another R10.5bn for SAA and is still only talking about the public sector wage bill where it seems efforts to reduce it have about as much chance of success as prosecutions of politicians accused of state capture. One thing is clear, however; for whatever reason the budget was delayed by a week, it has shifted incrementally away from its famously touted active scenario. The debt path is now expected to stabilize two years later in 2025/6, and at a higher level than previously hoped for.

Looking ahead, we remain committed to our disciplined and diversified multi-managed process, applied by our skilled and experienced team of investment professionals. We expect the environment going forward to be no less challenging than before, but take comfort that maintaining the integrity of the process and balancing the respective return objectives with appropriate levels of risk should continue to place our members and clients in good stead.