MEDIUM TERM BUDGET SPEECH – Highlights of the 2018 Medium Term Budget speech delivered by newly elected Finance Minister Tito Mboweni on the 24th of October 2018

"A combination of policy certainty, growth-enabling economic reforms, improved governance, and partnerships with business and labour will be key to restoring confidence and investment"

THE ECONOMY

- Economic growth revised downwards from 1.5% to 0.7% for 2018.
- Consolidated budget deficit for 2018/19 revised to 4% of GDP (from 3.6%). After rising to 4.2% of GDP in 2019/20, it is expected to stabilise at 4% in later years.
- Gross debt to stabilise at 59.6% of GDP in 2023/24 (Feb Budget projection was 56.2% of GDP in 2021/22).
- Tax revenue for 2018/19 projected to fall R27.4 billion short of February estimate due to VAT refund backlog, underestimation of refunds and slower corporate income tax collections.
- Expenditure ceiling to be maintained and set to grow at 1.5% in 2021/22.
- Ramaphosa's economic stimulus package and recovery plan is one of the three policies government will prioritise in the medium term – together with reforms at state-owned companies and improving state financial management.

TAX, VAT AND DEBT COSTS

- The need to repay VAT refund backlogs has left a 20bn hole in budget revenue projections, while another R7.4bn shortfall is projected - stemming from slower corporate income tax collections due to the weak economy.
- In total, the state is facing a R27.4bn revenue shortfall for 2018, and a R85bn shortfall in revenue over the next three years.

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- There were no changes to VAT or the tax rate, but the state did announce that three items – white bread flour, cake flour and sanitary pads – would be zero rated from next year.
- Public service wage agreement exceeds budgeted baselines by R30.2 billion over the medium term. No additional money allocated, national and provincial departments to absorb costs within compensation baselines.
- Around 85% of the increase in the wage bill is due to higher wages, rather than higher head count.
- SAA to receive R5 billion through a special appropriation bill to settle debt redeeming between now and March 2019.
- SA Post Office receives R2.9 billion to reduce debt levels.
- Sanral receives R5.8 billion to compensate for non-payment of e-tolls, of which R3 billion is an additional allocation.
- Reprioritisation of R350 million has been allocated to recruit more than 2 000 health professionals into public health facilities

COMMENTS FROM THE MINSTER

- Reconfiguration of SOEs required - parties should be open-minded and consider an equity partner or closure of certain business activities in SAA stable.
- New way of thinking is required regarding public sector wage bill.
- If President Cyril Ramaphosa gave him the power to decide, the size of Cabinet would be reduced dramatically to 25 or ideally 20 individuals.
- It is beneficial to involve private partners in the health sector.
- Stabilisation of gross debt to GDP ratio close to 60% is not a good development, the goal is below 50%.
- He asked that South Africans should end "regular attacks on the mandate and independence of the South African Reserve Bank" saying this was a distraction to the bank's governor Lesetja Kganyago.

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