10 things to look out for in Mboweni's 2020 Budget address

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10 things to look out for in Mboweni's 2020 Budget address 20 minutes ago - Fin24 team Finance Minister Tito Mboweni (Jeffrey Abrahams, Gallo) ~ Gallo Images Finance Minister Tito Mboweni will deliver his 2020 Budget address on Wednesday afternoon as the country battles record-high unemployment, depressed economic growth, the likelihood of tax revenue shortfalls, and grim warnings that South Africa is marching towards a downgrade by Moody's, the last major ratings agency to still assess SA's sovereign debt at investment grade. From the prospect of a renewed drive to cut the wage bill of state employees, to a hike in VAT and the establishment of a deposit-taking state bank, here's what to look out for when the minister starts his speech at 2 p.m. State bank In his State of the Nation Address earlier in the month, President Cyril Ramaphosa announced that Mboweni would provide details on the creation of a new state bank in his Budget. Ramaphosa said the bank would "extend access to financial services to all South Africans," without providing additional details. Mboweni, meanwhile, tweeted last week that the bank would be a "deposit-taking institution". Sovereign wealth fund While plans for a sovereign wealth fund have been floated before, Ramaphosa's announcement in his SONA that the government would be creating such a fund as a "means to preserve and grow the national endowment of our nation" surprised many analysts. Ramaphosa said Mboweni would provide further details. Dr. Malan Rietveld, an expert in sovereign wealth funds, wrote in an opinion piece at the time that "practically every question that matters in this process remains unanswered". Key questions, which Mboweni may answer on Wednesday, include the type of fund proposed and the source of its funding. Public sector wage bill National Treasury has said that growth in the public sector wage bill "needs to be addressed" to cut SA's growing debt burden. Yet an overhaul of public sector wages has proven elusive. While Treasury has promised ratings agencies that government is serious about lowering the bill, unions say that - at 35% of public spending - the bill is not excessive, and bigger savings could be achieved elsewhere. On Tuesday evening both the Public Servants Association and labour union federation Cosatu slammed a proposal to review the current public service wage agreement, with Cosatu's Central Executive Committee saying reducing wages to cut costs would "never be accepted". Taxes The gap between tax revenues collections envisaged in the 2019 Budget and what was actually collected will be closely scrutinised, as the shortfall will determine the extent to which Mboweni may have to raise taxes this year. It may also play a role in whether the rate of VAT will be hiked to 16% as some analysts have predicted. Mboweni already revealed in his medium-term budget statement in October that SA’s gross tax revenue for 2019/2020 was expected to fall short of estimates by some R52.5 billion. However, number-crunchers in various tax consulting firms in the country, including PwC and Mazars, estimate that the tax revenue gap has widened even further in the interim. NHI Mboweni may give an update on state funding for National Health Insurance. This comes as country-wide hearings on NHI – which seeks to provide universal healthcare access to all South Africans by 2025 – are wrapping up. NHI was initially estimated to cost around R256 billion per year, but in October's mini-budget, Treasury warned that the state might not be able to afford previous cost estimates. A revised costing model developed by Treasury and the Department of Health showed that rolling out NHI would require an additional R33 billion annually from 2025/26. President Ramaphosa, meanwhile, devoted his most recent weekly newsletter to outlining the case for NHI – saying it is "one of the greatest travesties of our time" that access to quality healthcare is determined by income level. South African Airways In Treasury's medium-term budget policy statement in October, government committed to clear SAA's R9.2 billion legacy debt over a period of three years. READ | Govt secures SAA's flight plan, will pay off its R9bn guaranteed debt burden over three years At the time, Treasury said the airline was in discussion with potential equity partners.

But troubles at the airline continued to grow, and it was placed in business rescue in December, with creditors and government each committing R2 billion in aid. But by January, government still had not been able to source the finance to keep its end of the deal. By the end of the month, the Development Bank of Southern Africa stepped in and agreed to extend a R3.5 billion government-guaranteed loan to keep the airline from being liquidated. Public Enterprises Minister Pravin Gordhan has warned that this latest cash injection might not last – and that it could run out as soon as March. Eskom During the tabling of the medium-term budget policy statement, Mboweni said that government would not be providing the power utility with any debt relief until its management could show that it was making progress on reforms. Eskom does not make enough money from selling electricity at current prices and volumes to pay the cost of interest on its R450bn debt. Since the mid-term budget, Eskom has been forced to take the unprecedented step of instituting stage 6 load shedding due to plant breakdowns. Its former chairperson Jabu Mabuza also resigned. A permanent CEO, meanwhile, was appointed, with Andre de Ruyter taking the helm in January. On Wednesday Mboweni may provide an update on the steps the state will take to ease Eskom's debt burden, including a proposal by Cosatu to use funds from the Public Investment Corporation and other state institutions to cut the utility's debt. Debt In his mid-term budget policy statement in October, Mboweni said the annual cost to service SA's growing sovereign debt had reached R204 billion. And debt servicing costs were growing at 13.7% per year, the fastest-growing part of budget. Mboweni will provide an update on the SA's debt position on Wednesday, as well as projections for SA's debt-to-GDP ratio, which was at 61% last year but is projected to reach 71.3% of GDP in 2022/3. In his State of the Nation Address earlier in the month, meanwhile, Ramaphosa said that SA's debt is heading towards "unsustainable levels". He said Mboweni would "outline a series of measures to reduce spending and improve its composition." SA's economy SA's economy is battling low economic growth, dressed business confidence and the impact of power cuts. In January, Reserve Bank Governor Lesetja Kganyago announced that the bank only expects SA's economy to grow by 0.4% in 2019, less than a tenth of the 5% annual growth called for in the National Development Plan. Projections for 2020 have been downscaled to just 1.2%. On Wednesday Mboweni, who has in the past brought hardy aloe plants to the Budget to underscore SA's fiscal constraints, may give a rather gloomy summation of the health of SA's economy. Moody's Moody's Investor Service is the sole major global ratings agency that has not yet downgraded SA's sovereign credit rating to junk. In a recent Bloomberg survey, of 19 surveyed economists surveyed, 14 expected Moody’s to downgrade the country to junk this year. Nine of those said it would happen in the first half in 2020. If Moody’s joints S&P and Fitch in downgrading SA to junk, the country's bonds will be forced out of the large Citigroup World Government Bond Index, leading to an outflow of billions of rands. * Written by Lameez Omarjee, Jan Cronje, Londiwe Buthelezi, Sibongile Khumalo and Marelise van der Merwe.