

Budget digest - is the aloe alive?

Thursday, 25 February 2021

intellidexⁱ



Peter Attard Montalto



Matthew Simmonds



Dr Stuart Theobald



Antony Altbeker



Pandora's box has been crushed But what will the counter-reaction be?

25 February 2021

Peter Attard Montalto

Director, Head of Capital Markets Research

peter@intellidex.co.uk

intellidex 

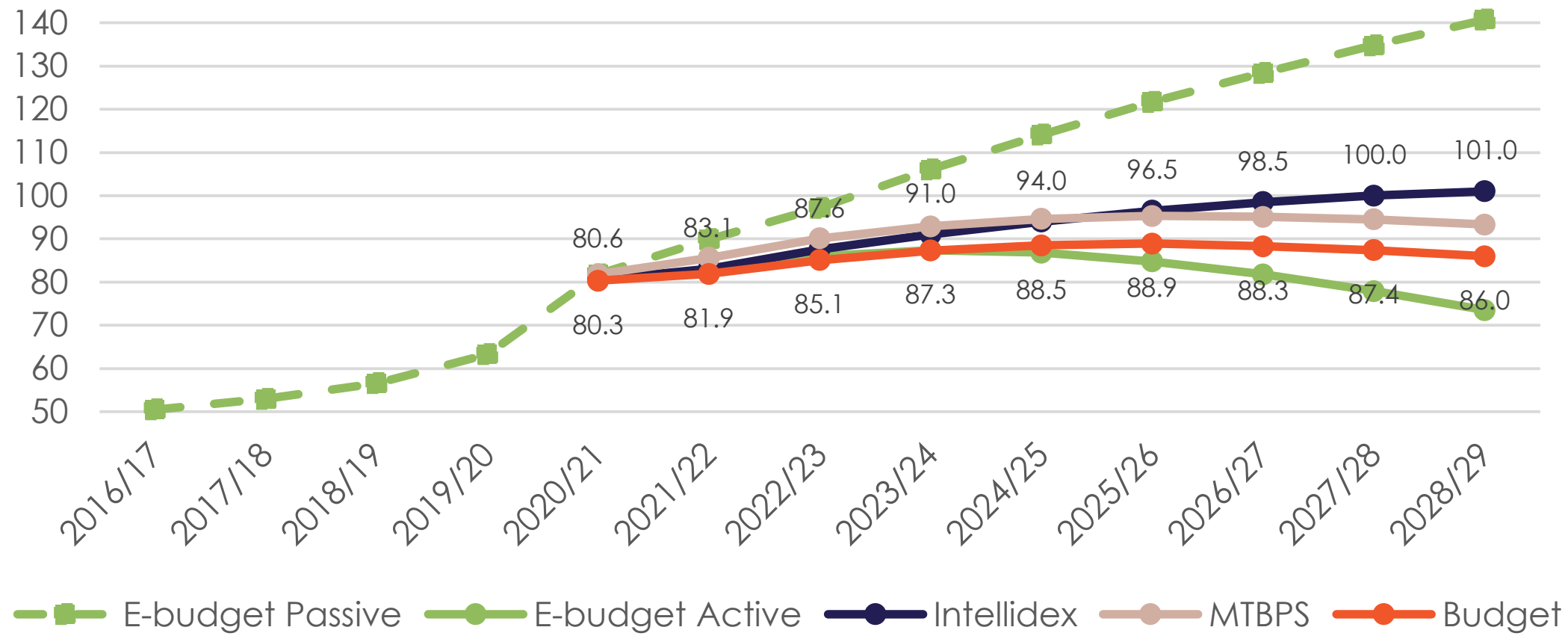
Researching Capital Markets and Financial Services



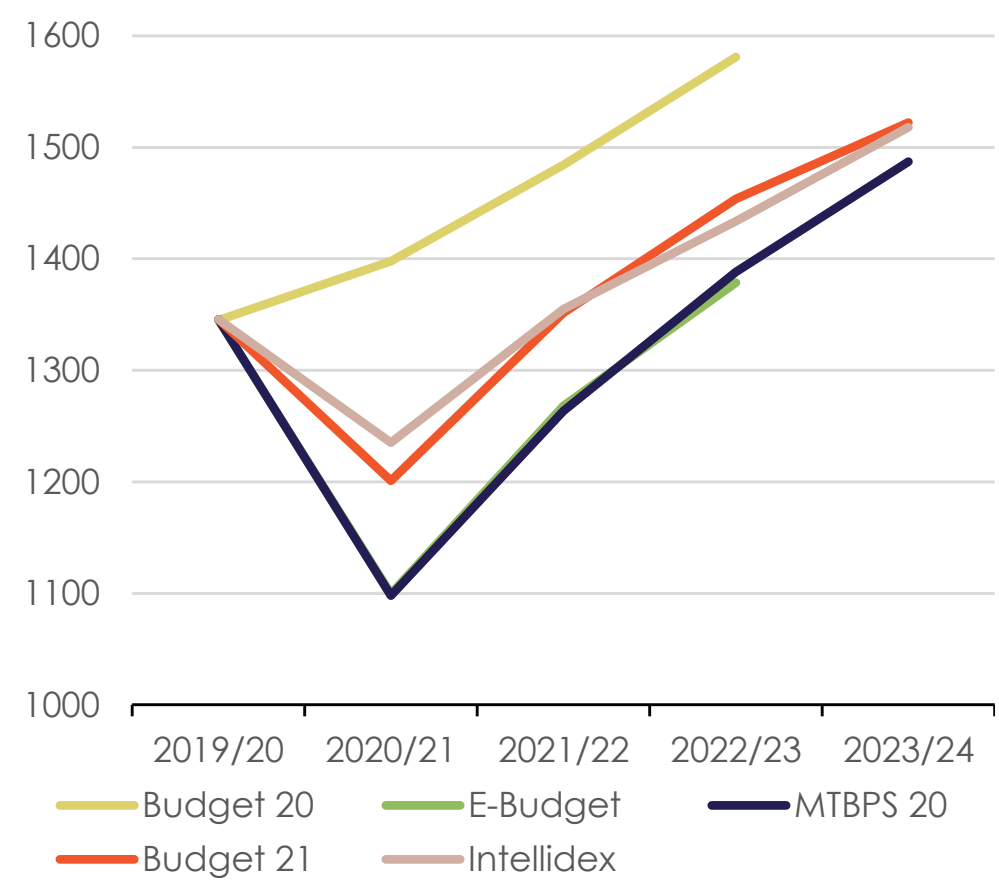
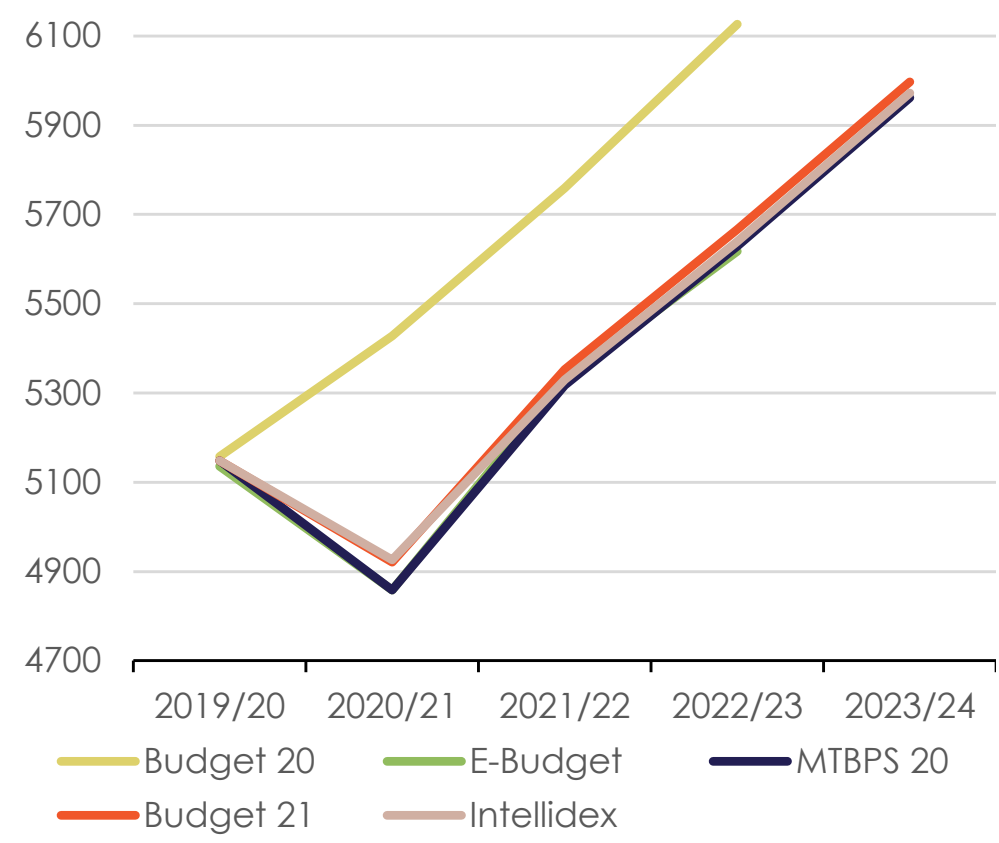
“Together with the best in the world, we too are prone to pettiness, petulance, selfishness and short-sightedness. But it seems to have happened that we looked at ourselves and said the time had come that we make a super-human effort to be other than human, to respond to the call to create for ourselves a glorious future, to remind ourselves of the Latin saying: Gloria est consequenda - **Glory must be sought after!**”



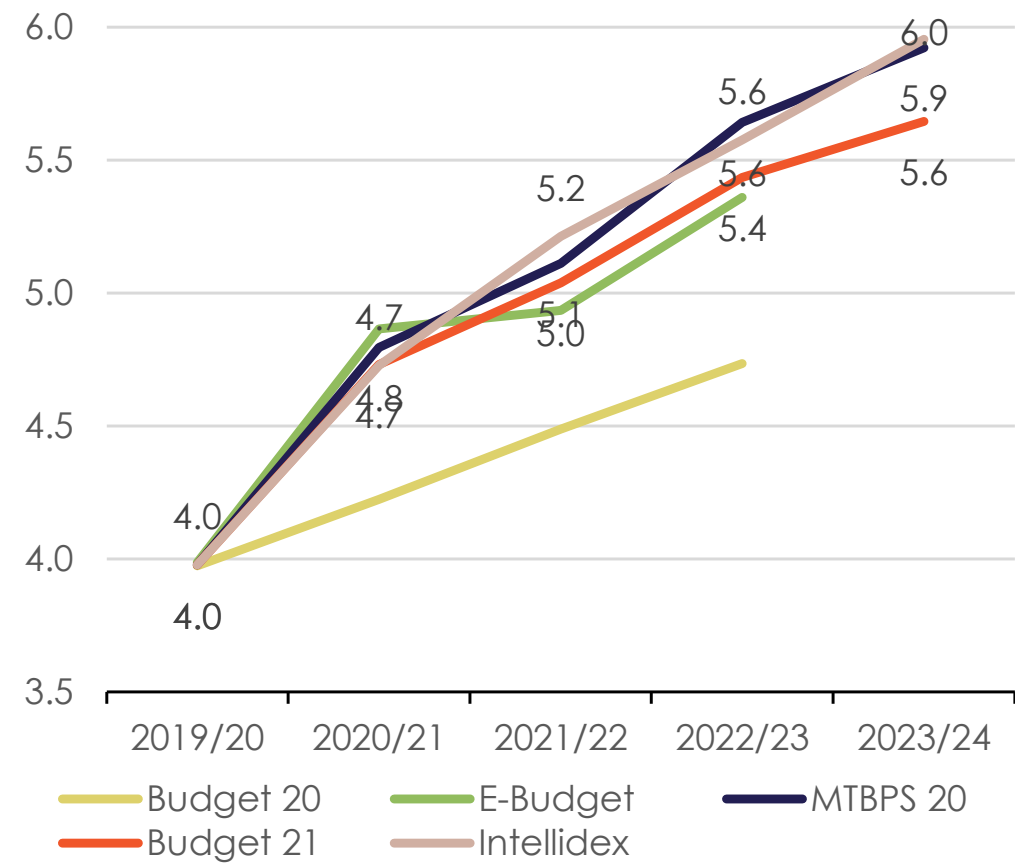
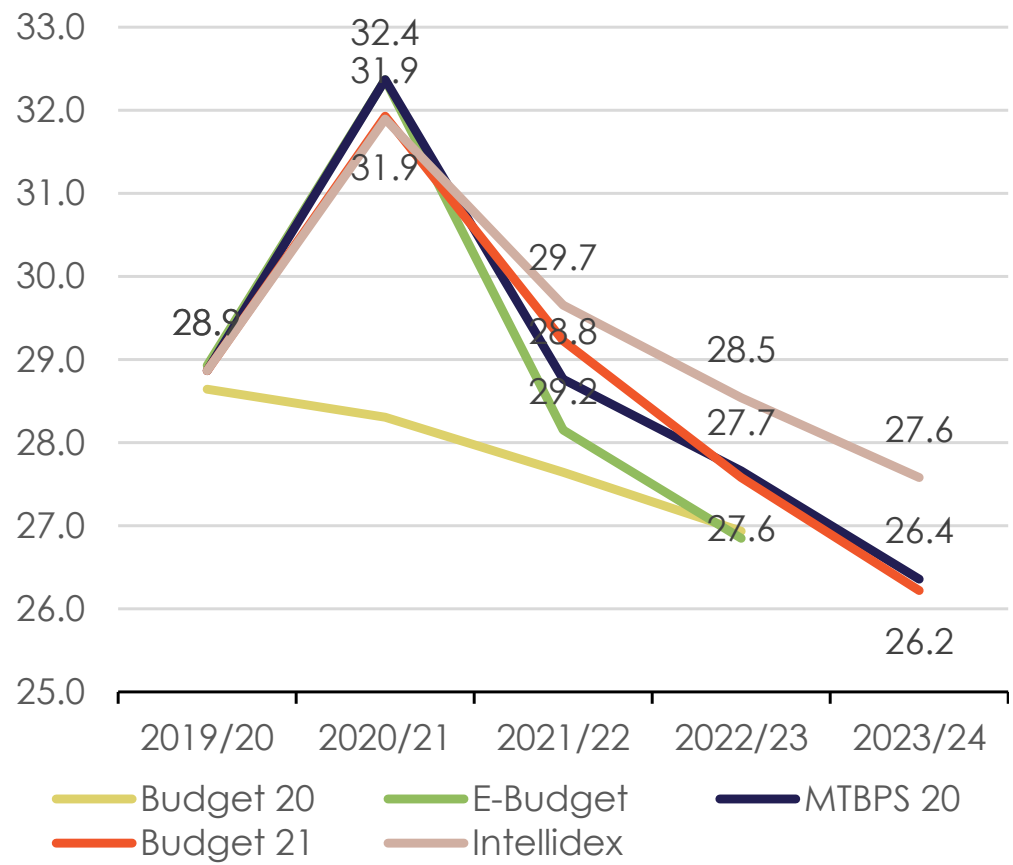
Long term gross debt profile (%GDP)



Nominal GDP / Revenue (ZARbn)



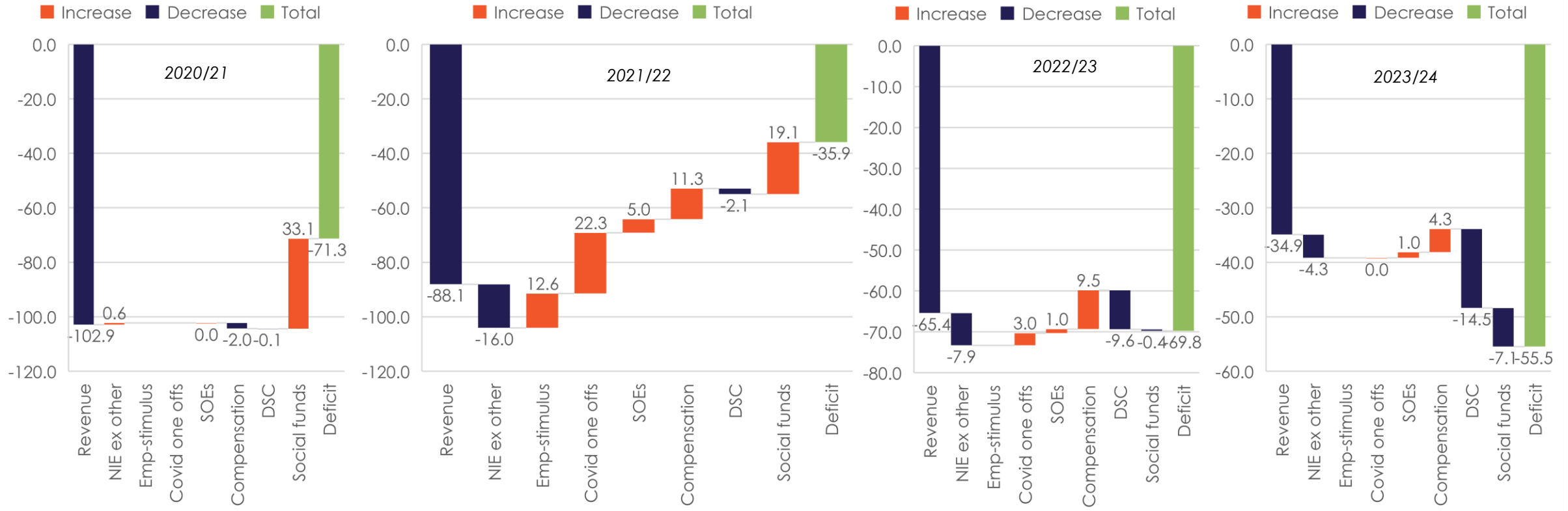
Non-interest Expenditure / Debt service costs (%GDP)



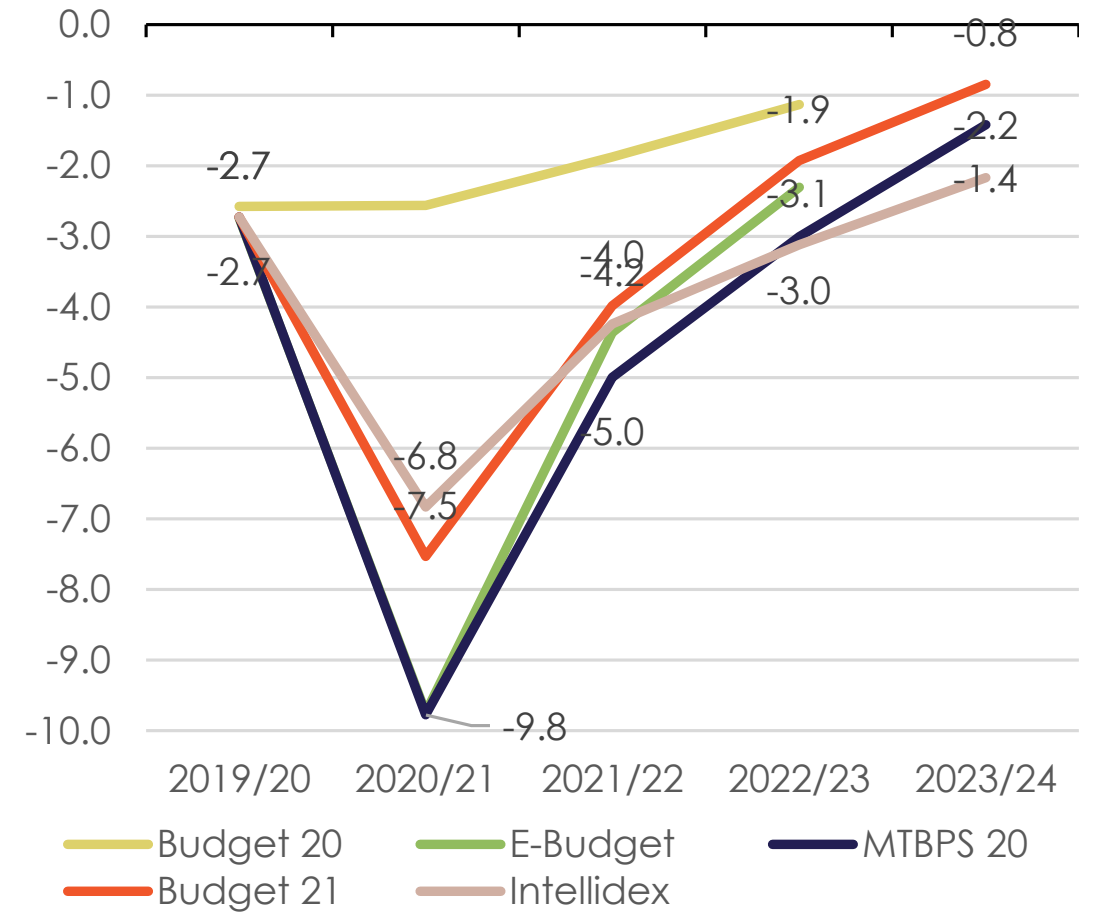
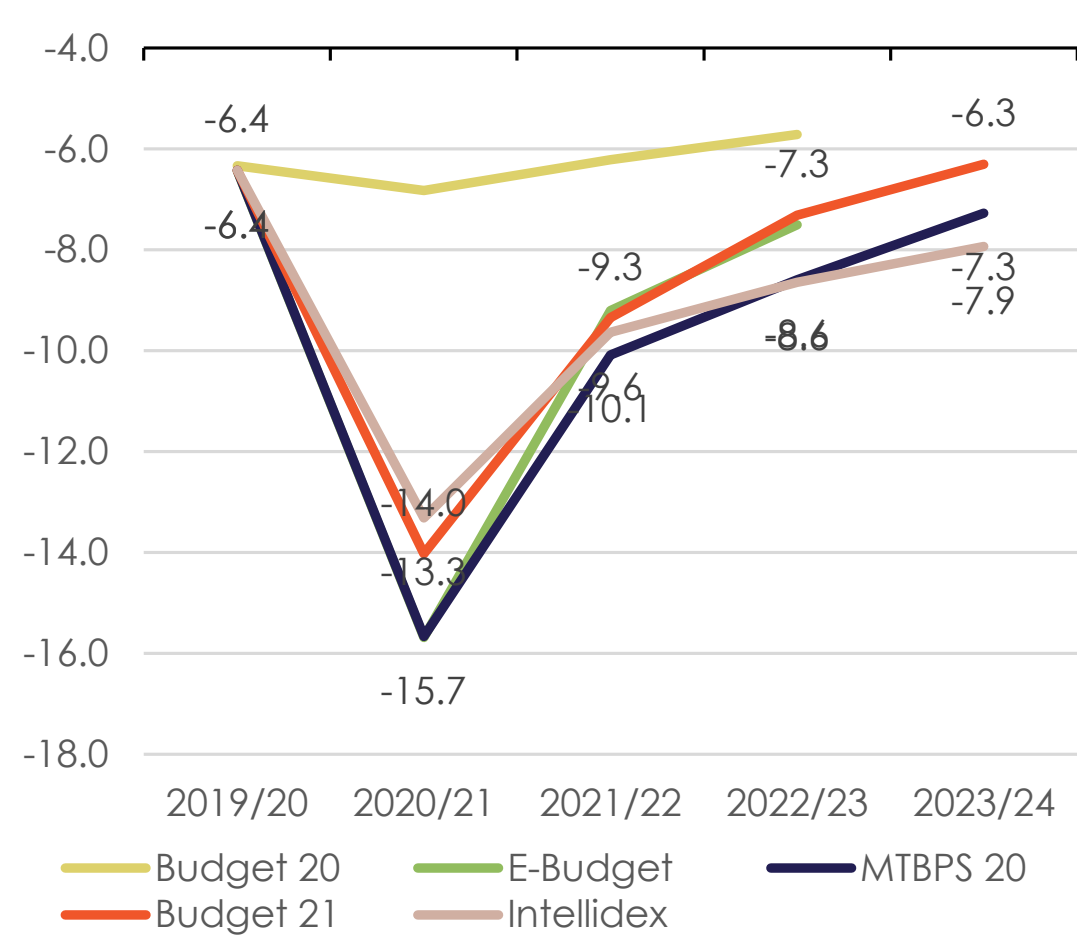
Compensation shifts (ZARbn)

		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	MTEF Total
Baselines	MTBPS19	585	631	675	718	759	793	2269
	Budget 20	584	629	639	668	697	727	2092
	MTBPS20	584	626	639	639	647	655	1941
	Budget 21	584	626	637	650	656	659	1966
	Intellidex 1	584	626	637	669	699	730	2097
	Intellidex 2	584	626	637	713	744	778	2234
Savings to MTBPS19	Budget 20	-1	-2	-36	-50	-62	-65	-177
	MTBPS20	-1	-5	-36	-79	-112	-138	-328
	Budget 21	-1	-5	-38	-67	-102	-133	-303
	Intellidex 1	-1	-5	-38	-49	-60	-63	-172
	Intellidex 2	-1	-5	-38	-5	-14	-15	-34
Savings to Budget 20	MTBPS20	0	-3	0	-29	-51	-72	-152
	Budget 21	0	-3	-2	-17	-41	-68	-127
	Intellidex 1	0	-3	-2	1	2	3	5
	Intellidex 2	0	-3	-2	45	47	50	142
Deviations from MTBPS20	Budget 21	0	0	-2	11	10	4	25
	Intellidex 1	0	0	-2	29	52	75	157
	Intellidex 2	0	0	-2	74	98	123	294
Deviations from Budget 21	Intellidex 1	0	0	0	18	43	71	131
	Intellidex 2	0	0	0	62	88	118	269
Growth	Budget 20		7.7	1.5	4.5	4.4	4.4	
	MTBPS20		7.2	2.1	0.0	1.2	1.3	
	Budget 21		7.2	1.8	2.1	0.9	0.5	
	Intellidex 1		7.2	1.8	5.0	4.5	4.5	
	Intellidex 2		7.2	1.8	11.9	4.4	4.5	

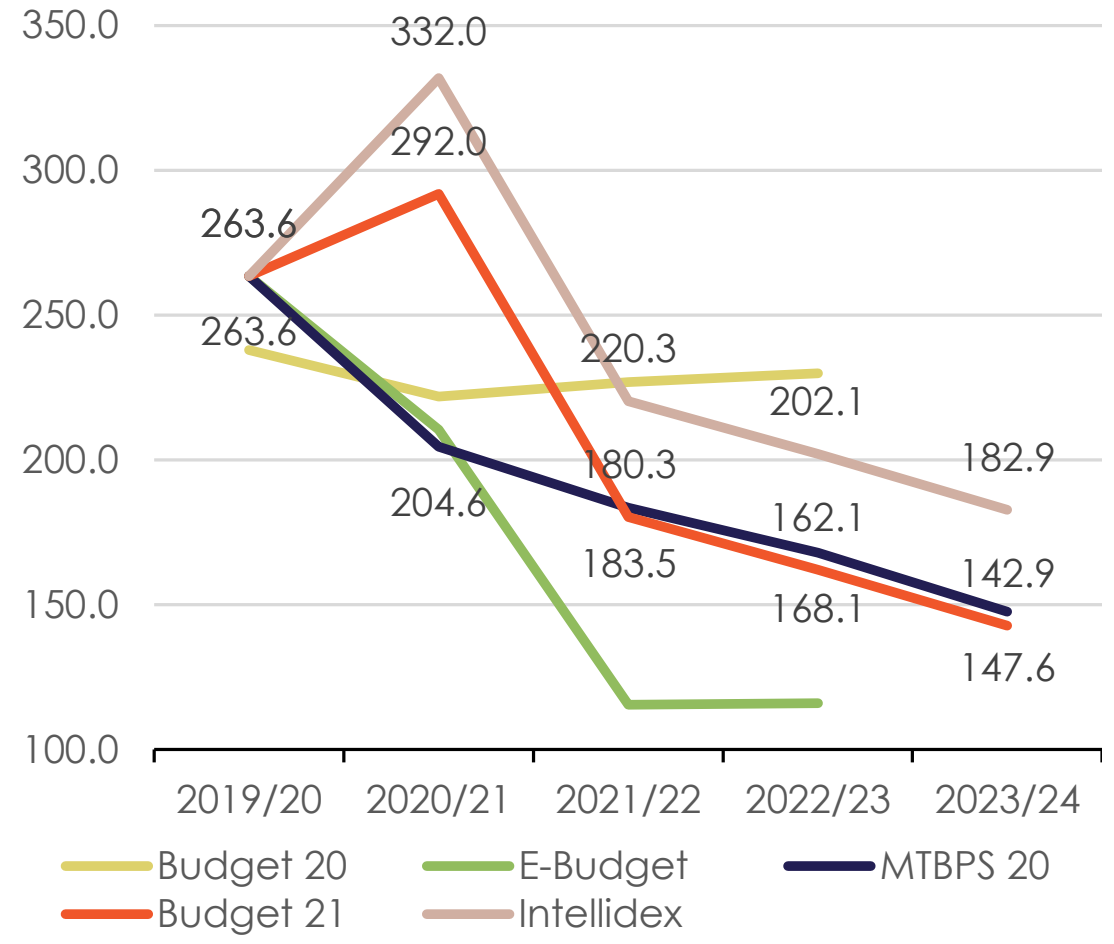
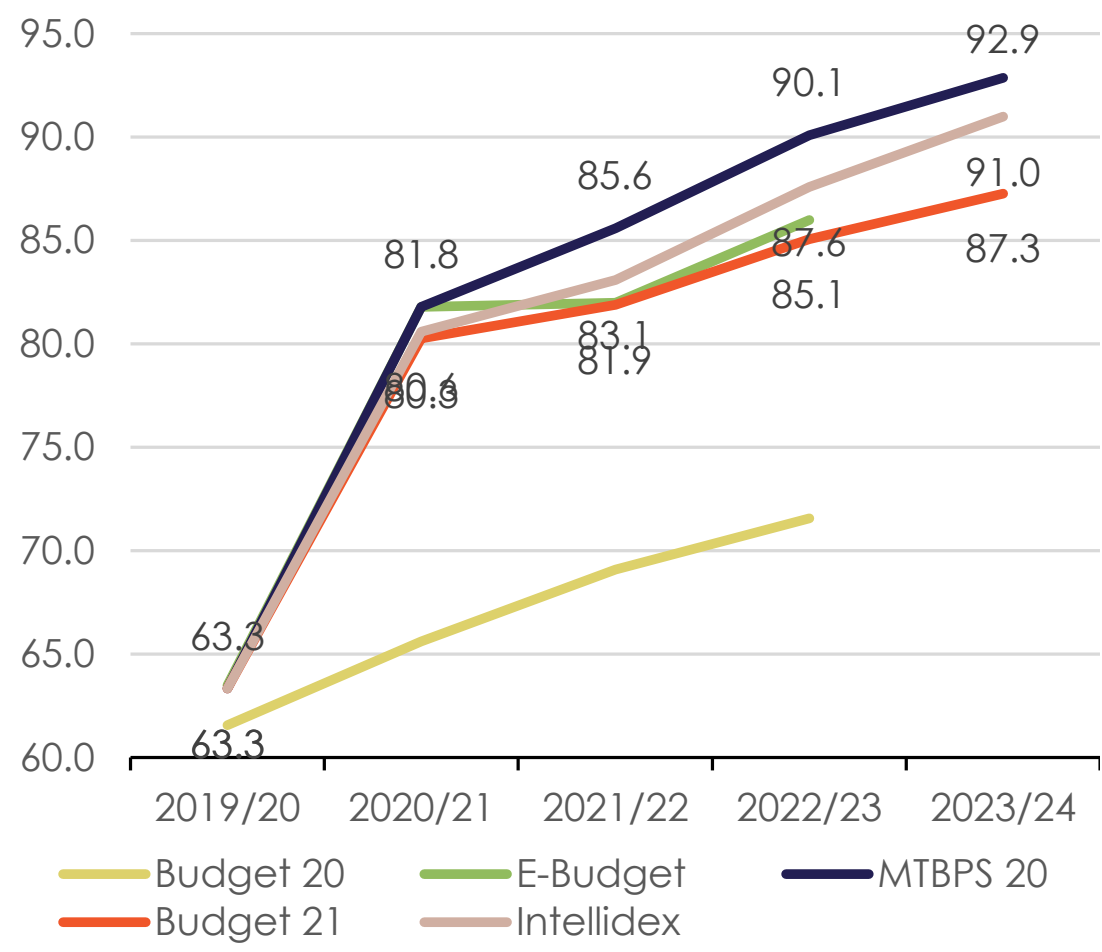
Shifts under the hood – MTBPS to Budget (ZARbn)



Consolidated / Primary balances (%GDP)



Gross debt (%GDP) / Cash (ZARbn)



Potential issuance framework

			ZARbn	2019/20	2020/21	2021/22	2022/23	2023/24	
Main budget balance			Budget 21	-345.1	-603.4	-482.5	-417.1	-389.0	
Redemptions	ZAR		Budget 21	-19.4	-52.5	-60.8	-129.4	-112.4	
	FX		Budget 21	-51.2	-14.4	-4.5	-15.4	-40.2	
Gross funding requirement			Budget 21	-415.7	-670.3	-547.8	-561.9	-541.7	
			<i>MTBPS</i>	-415.8	-774.7	-602.9	-637.2	-593.3	
Financing	ZAR short	T-bill net	Budget 21	36.1	97.2	9.0	52.0	56.0	
	ZAR long	SAGB	Budget 21	229.1	442.1	300.0	355.8	316.9	
		ILB	Budget 21	76.4	87.6	65.0	70.0	65.0	
		S'uk/FRN	Budget 21	0.0	0.0	15.0	15.0	15.0	
		Total	Budget 21	305.4	518.5	380.0	440.8	396.9	
				<i>MTBPS</i>	305.4	462.5	472.2	500.8	436.8
	FX	IFI		Budget 21	0.0	107.1			
		SOAF		Budget 21	76.1		46.3	46.3	62.6
	Cash			Budget 21	-1.9	-52.4	112.6	22.8	26.2
	Total financing			Budget 21	415.7	670.3	547.9	562.0	541.7
Implied SAGB/week			Budget 21		6.6	5.3	6.5	5.8	
			<i>MTBPS</i>		6.6	6.7	7.1	6.2	

Budget in brief

Positives	Negatives
<ul style="list-style-type: none">• Cutting underspend• Holding the line on SOEs• No tax hikes• More credible path even if we are more pessimistic• Buffers (12bn contingency reserve, overestimates on social funds balances)• Investment into SARS• Issuance cut on conservative non-comp	<ul style="list-style-type: none">• Deep allocational inefficiencies – no ZBB• Tax cuts vs social grants cuts• NT isolation?• Sustainability of NT going it alone?• Land Bank money without land bank reform?• NT not adult in room on Eskom debt• Last minute changes

What next?

- Public sector wage bill
 - Concourt case to be heard at all? Baseline govt win.
 - Start year (April) zero nominal – anchoring point
 - Bargaining council on 2021/22 wage, only resolves late in year? Backpay? Zero real?
 - ZAR135bn risk we see
- Third wave/vaccine pressures – should be fine within contingency reserves
- Grants real cut blowback
 - Attempts to amend bills – likely fail
 - Contagion to MTEF negotiation round into MTBPS
- SOEs risk
 - Denel hit wall, SAA gap (ZAR3bn)
 - RAF – ZAR425bn growing
 - Where is NT on Eskom debt?

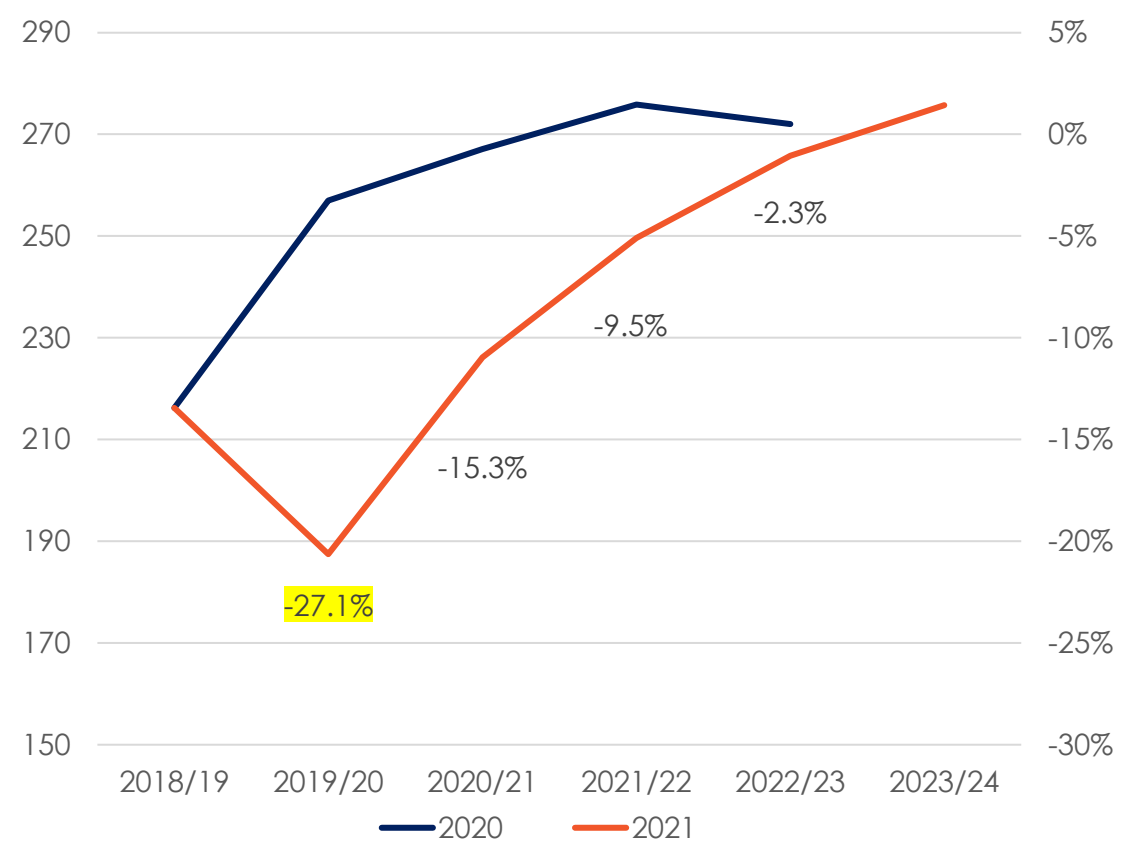
Infrastructure



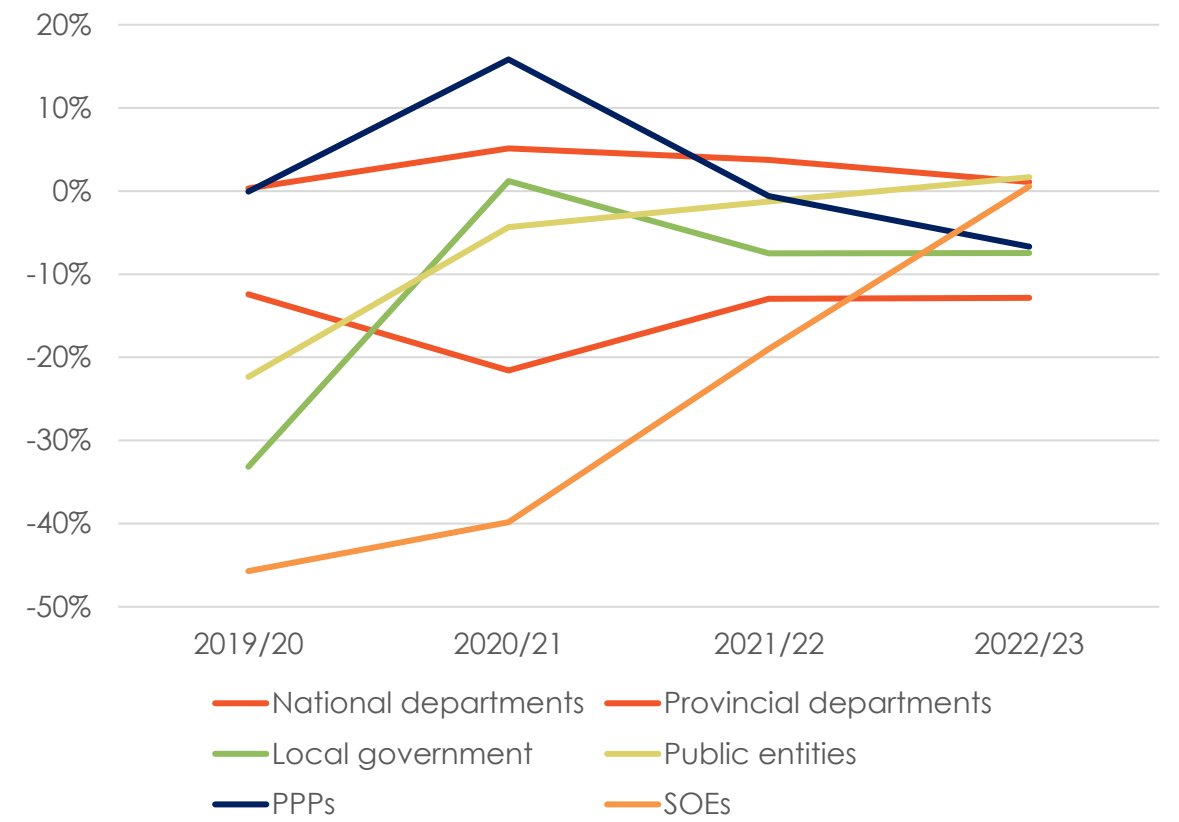
Expenditure outcome was woeful



Total public sector infrastructure expenditure estimates, 2020 vs 2021 budgets (Rbn)

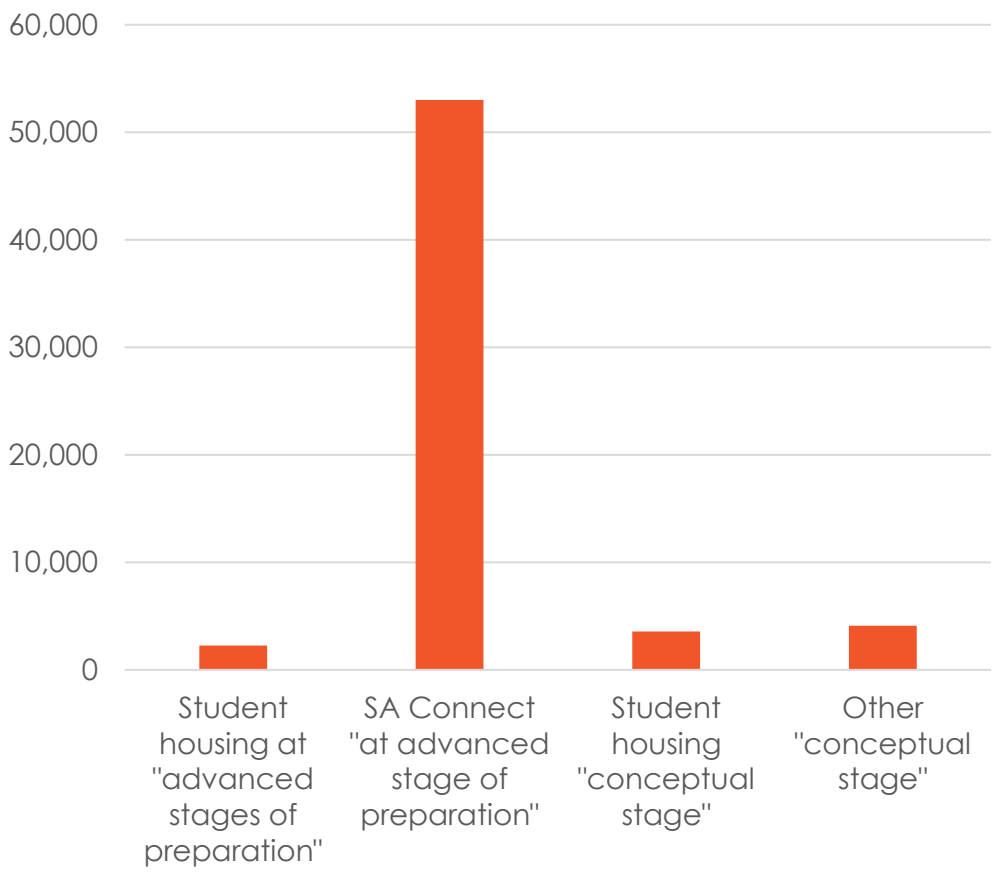


Downward revisions in expenditure estimates over the MTEF 2020 to 2021, by public sector type

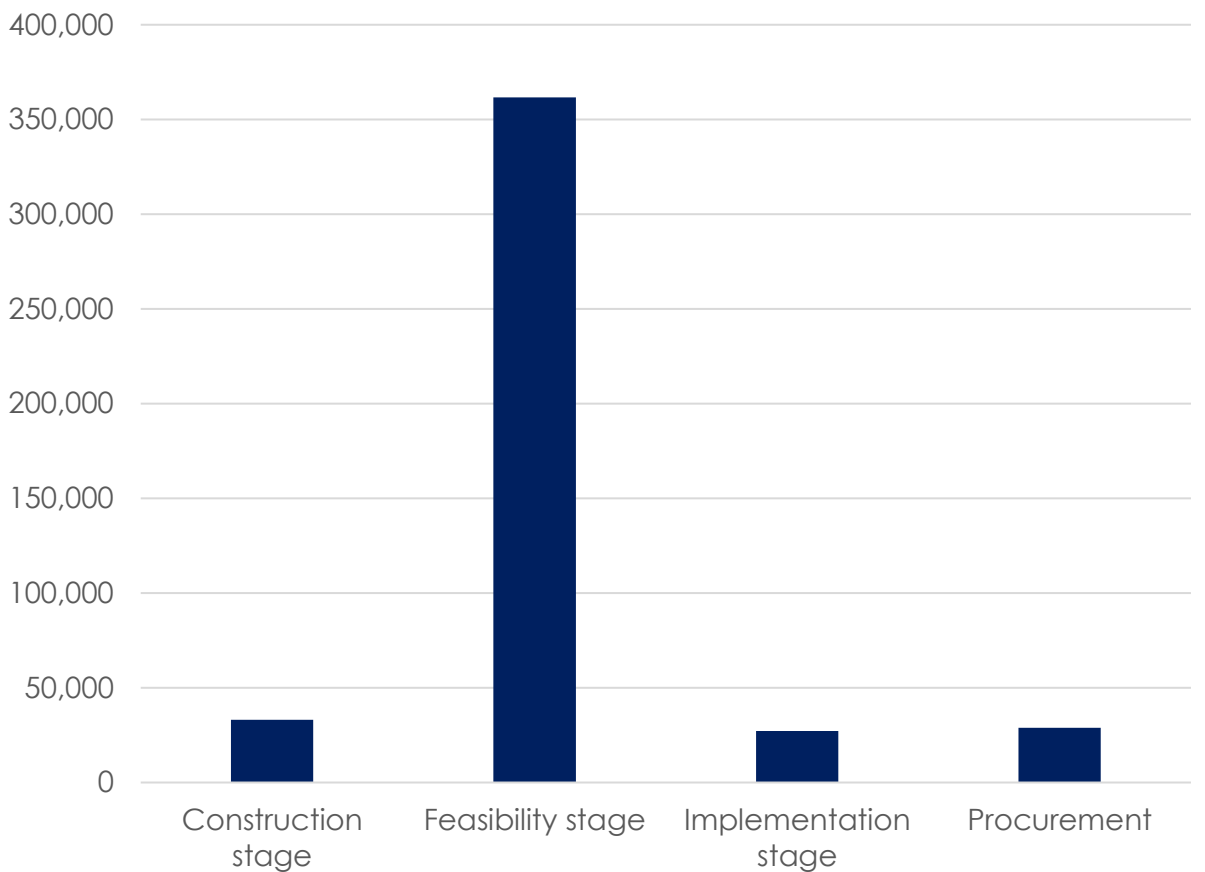


Infrastructure Fund pipeline is a dribble

Infrastructure Fund projects (Rbn)



Other public sector projects (Rbn)



Biggest positive: right reforms promised

- PPPs
 - Finally “coming out” about PPP framework reforms
 - World Bank study has made good recommendations to reduce complexity, especially for smaller projects, and speed up approvals
 - Casually mentions expects Infrastructure Fund projects to mostly be PPPs
- Infrastructure Fund lined up to face Public Facility for Infrastructure
 - Asserts NT's authority over the Infrastructure Fund pipeline
 - IF will, working through DBSA's project origination, line up projects for PFI. The R100bn is a target for value of projects that should be approved over the MTEF
 - Makes clear that no IF projects have been approved yet

Financial sector

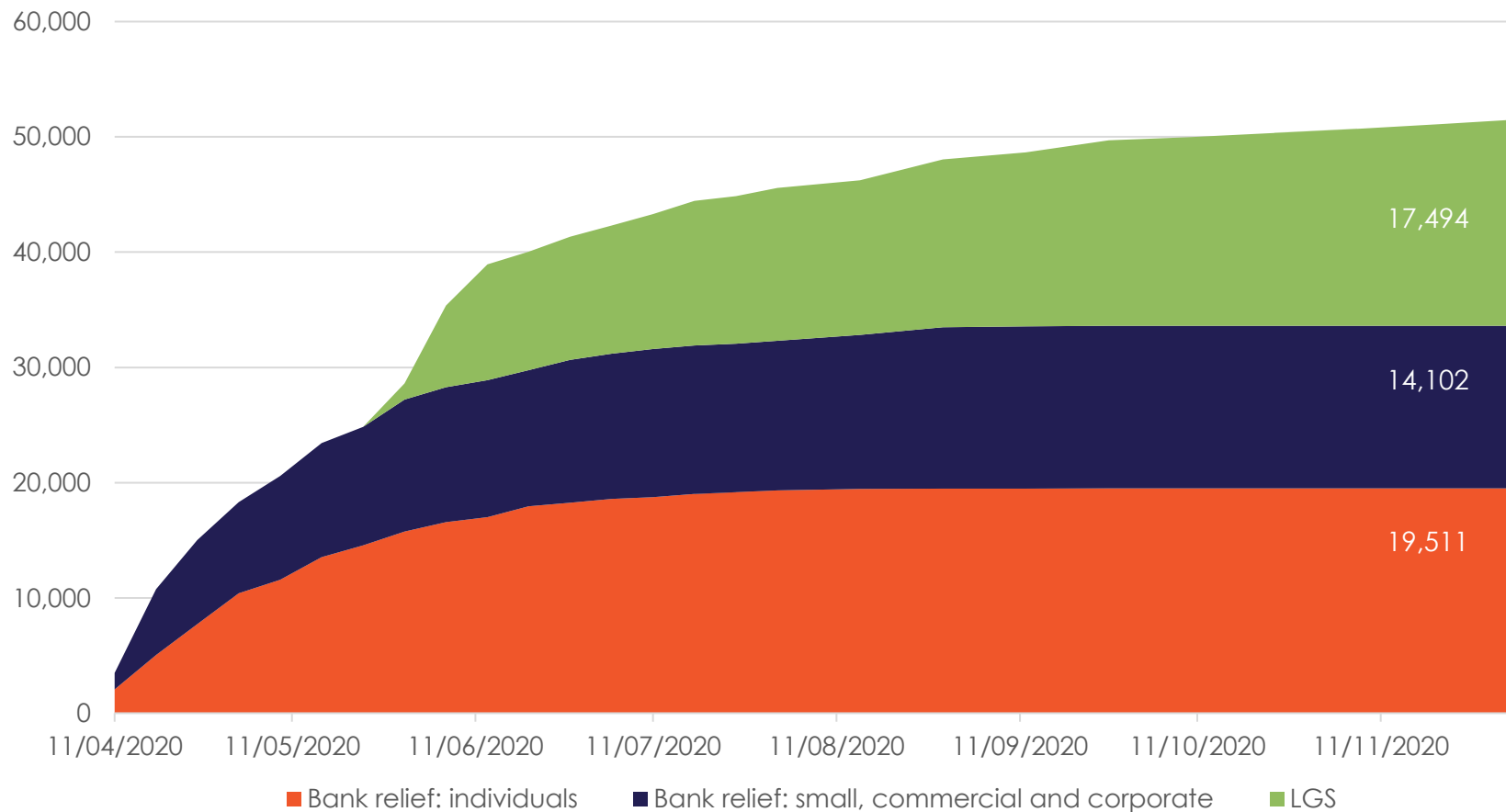


Disappointing – little delivery on MTBPS

- Circular 15/2020 on inward listed securities
 - Published after MTBPs, then withdrawn for consultation by December 15
 - Guidance to expect new version around budget time, but no mention of it
- Non-ZAR collateral for derivatives
 - MTBPS guidance was that it would be finalised for Budget, but no mention of it
- Non-ZAR JSE listings
 - MTBPS guidance but no mention of it
- Foreign asset funds
 - MTBPS announced “to be investigated” but no mention of it
- Capital flows management framework still “in progress”
- Simple holding statement: "During 2021, government will continue working to implement reforms promoting South Africa as a financial hub for the continent in light of the African Continental Free Trade Agreement."
- We expect all focus to now be on MTBPS for material progress
- Regulation 28 changes – infrastructure allocation and separate private equity allocation

Guaranteed Loan Scheme

Cash flow relief provided (Rm)



“The arrangement is being expanded through non-bank financial institutions to reach a greater number of distressed firms, but the final outlay is expected to remain well below the guaranteed amount.”

- Possible extension of the scheme with wholesale funding from banks to non-bank lenders

Disclaimer

This research report was issued by Intellidex UK Ltd.

Intellidex aims to deliver impartial and objective assessments of securities, companies or other subjects. This document is issued for information purposes only and is not an offer to purchase or sell investments or related financial instruments. Individuals should undertake their own analysis and/or seek professional advice based on their specific needs before purchasing or selling investments. Intellidex does not provide instrument specific trading advice, trade ideas, trade recommendations or investment strategy in this report.

The information contained in this report is based on sources that Intellidex believes to be reliable, but Intellidex makes no representations or warranties regarding the completeness, accuracy or reliability of any information, facts, estimates, forecasts or opinions contained in this document. The information and opinions could change at any time without prior notice. Intellidex is under no obligation to inform any recipient of this document of any such changes.

No part of this report should be considered as a credit rating or ratings product, nor as ratings advice. Intellidex does not provide ratings on any sovereign or corporate entity for any client.

Intellidex, its directors, officers, staff, agents or associates shall have no liability for any loss or damage of any nature arising from the use of this document.

Disclosure

The opinions or recommendations contained in this report represent the true views of the analyst(s) responsible for preparing the report. The analyst's remuneration is not affected by the opinions or recommendations contained in this report, although his/her remuneration may be affected by the overall quality of their research, feedback from clients and the financial performance of Intellidex (Pty) Ltd or Intellidex UK Ltd or other Intellidex entities.

Intellidex staff may hold positions in financial instruments or derivatives thereof which are discussed in this document. Trades by staff are subject to Intellidex's code of conduct which can be obtained by emailing mail@intellidex.co.za.

Intellidex may have, or be seeking to have, a consulting or other professional relationship with the companies, parastatals, sovereigns or individuals mentioned in this report. A copy of Intellidex's conflicts of interest policy is available on request by emailing mail@intellidex.co.za. Relevant conflicts of interest will be listed here if they exist.

- Intellidex is providing independent advice and independent research to a wide range of investors and financial institutions on Eskom and SAA. Intellidex's interactions with all clients on Eskom and SAA may include business confidential information but does not include MNPI and so does not provide a conflict. Intellidex does not 'act' or 'advocate' for or 'represent' any of these clients. Intellidex has regular interactions with government, Eskom, SAA and other related entities connected with the SOE situation but does not provide paid consulting services or paid advice to any of these entities. These interactions are governed by Intellidex's own conflicts of interest policy as well as secrecy rules of the respective institutions or state owned companies.
- Intellidex provides a range of services into 'organised business' groupings in South Africa which includes independent bespoke research and advice. Intellidex is compensated for these services. Intellidex does not 'act for' or 'advocate' for or 'represent' any of these clients.

Copyright

© 2021. All rights reserved. This document is copyrighted to Intellidex UK Ltd.

It is only intended for the direct recipient of this report from an Intellidex group company employee and may not be distributed in any form without prior permission. Prior written permission must be obtained before using the content of this report in other forms including for media, commercial or non-commercial benefit.

Any questions?

www.intellidex.co.za
peter@intellidex.co.uk

Intellidex (Pty) Ltd
1st Floor, Building 3
Inanda Greens Office Park
54 Wierda Road West
Sandton
2194
South Africa
Tel: +27 10 072 0472
Email: mail@intellidex.co.za

Intellidex UK Limited
84 Eccleston Square
London
SW1V 1PX
United Kingdom
Tel: +44 20 3286 0774
Email: mail@intellidex.co.uk

Intellidex USA Inc
15th Floor
50 Milk Street
Boston, MA
02109
United States of America
Tel: +1 617 817 5304
Email: mail@intellidexinc.com

