

A report compiled by Citadel Investment Strategists

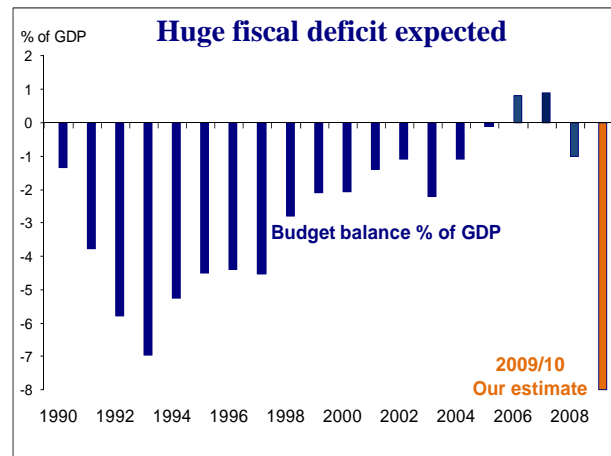
Government finances under pressure

South Africa's government finances did not deteriorate further in December and the fiscal deficit for the year as a whole is still expected to be around 8% of GDP. Revenue continued to run lower than the revised budget while expenditure remained ahead of budget. After two thirds of the 2009/10 fiscal year the deficit reached R146bn, compared to the budgeted amount of R184bn for the whole fiscal year.

Government revenue remained under pressure as the local economy struggles to recover from the recession. Up till December personal income tax revenues were only 2.1% higher than a year ago. This is an indication of falling real incomes and high unemployment. Company taxes are taking strain and were more than 18% down on the comparable period last year. VAT collections has improved gradually but were still 5% down on the comparable period in 2008. The MTBPS in October estimated 2009/10 revenue to decline by 5%, compared to a 5% increase in the February budget.

Spending continues to run ahead of budget and is currently almost 20% up on the same period in 2008. Spending for the 2009/10 fiscal year is budgeted to increase 17.6%, according to the MTBPS. An increase of 15.7% was originally budgeted for the whole fiscal year.

Against this background it is clear that tough decisions will have to be taken in the 2010/11 budget to be tabled next week. On the revenue side no relief can be expected for personal tax payers (not even compensation for fiscal drag) and tax increases will not be unexpected. There is ongoing pressure on spending from widening the social grant net and interest payments will also increase with the jump in government debt. Under these circumstances the growth in the government wage bill (\pm 40% of spending) will have to be curtailed to less than the inflation rate.



- Eight months into the 2009/10 fiscal year, government finances show a deficit of R146bn.
- Revenue fell 7.3% compared to the same period in the previous fiscal year.
- Expenditure growth after eight months in the fiscal year reached 19.7%.

	Actual 2008/09*	MTBPS 2009/10*	% fiscal ytd Apr – Dec*
Personal tax	15.6%	2.0%	2.1%
Company tax	18.0%	-14.2%	-18.7%
VAT	2.3%	-10.9%	-5.2%
Revenue	8.7%	-5.0%	-7.3%
Expenditure	17.4%	17.6%	19.7%
Surplus/(Deficit)	(R23.4bn)	(R183.8bn)	(R146.0bn)

*Figures indicate year-on-year % change and are not seasonally adjusted. Source: SARS

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