3

Fiscal policy

In brief

- The public finances have deteriorated since the 2019 Budget mainly due to lower growth and tax revenue, as well as increased support to state-owned companies. The consolidated deficit averages 6.2 per cent over the next three years, with debt projected to reach 71.3 per cent of GDP by 2022/23.
- Relative to the 2019 Budget, the MTBPS shows an increase in main budget non-interest spending of R23 billion in 2020/21 and a reduction of R8.2 billion in 2021/22. These net changes incorporate increased financial support to Eskom, the reversal of anticipated savings on compensation and reductions in other spending.
- To stabilise the debt-to-GDP ratio over the coming decade, large additional measures are needed. Government is proposing a fiscal target: a main budget primary balance, excluding financial support for Eskom, by 2022/23. This will require reductions to wage bill growth. Tax measures are also being considered.
- Eskom remains the major risk to the economy and public finances. To ensure its continued operation, Eskom receives R49 billion in the current year, and an expected R112 billion over the medium-term expenditure framework (MTEF) period. Additional support may be required, depending on progress in cost savings and institutional reform.

Introduction

South Africa's public finances have deteriorated since the 2019 Budget. Lower economic growth has resulted in sharp reductions in revenue projections, while fiscal pressures to stabilise Eskom and other state-owned companies in financial crisis have mounted.

The 2019 *Medium Term Budget Policy Statement* proposes a number of measures to respond to these shocks. Spending reductions amounting to R49.5 billion over the next two years have been identified, and non-interest expenditure growth is limited to CPI inflation in the outer year. Nevertheless, total spending increases in the current year and in 2020/21, mainly due to financial support for Eskom. The consolidated budget deficit averages 6.2 per cent of GDP over the next three years, while the debt-to-GDP ratio continues to rise.

To return the public finances to a sustainable position over the longer term requires large additional adjustments. Government proposes a fiscal target: achieve a main budget primary balance, excluding Eskom funding provisions, by 2022/23. This target is expected to result in debt stabilising by 2025/26.

There is no status quo option: difficult decisions must be taken

Stabilisation involves difficult decisions that imply short-term costs for the economy and the fiscus. Growth in government's compensation bill will need to be reduced and additional revenue measures may be needed. The final shape of the adjustment will be announced at the time of the 2020 Budget.

The consequences of not taking action, however, would be profound for South Africa. Over time, the country would likely face mounting debt-service costs and escalating interest rates that raise the cost of borrowing and squeeze out government's ability to provide services. Flagging confidence would translate into lower investment and still-weaker economic growth, worsening the employment crisis, reducing tax revenue and causing government debt to balloon.

Figure 3.1 Main budget balance

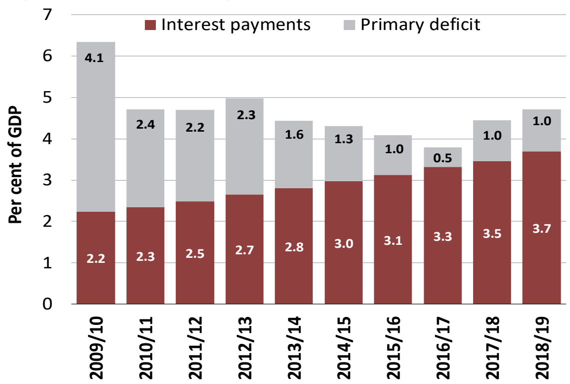


Figure 3.2 Gross debt-to-GDP outlook**

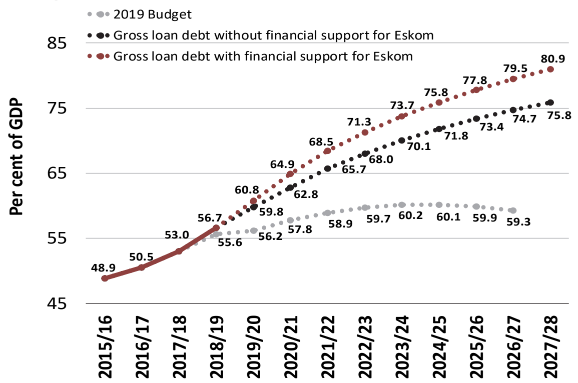


Figure 3.3 Main budget primary balance*

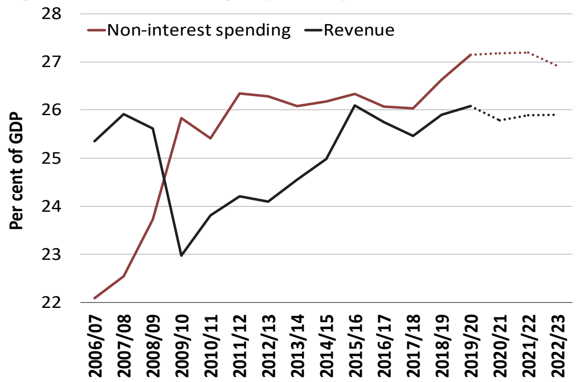
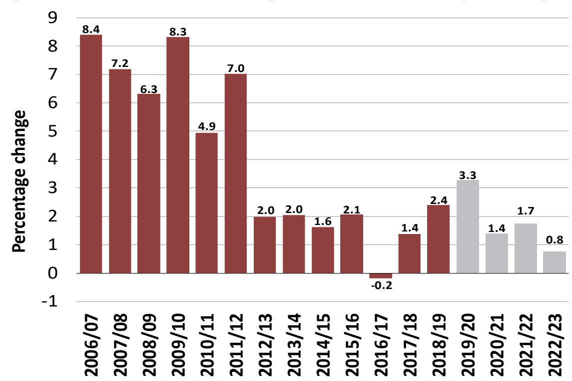


Figure 3.4 Real main budget non-interest spending*



**Excluding Eskom financial support and transactions in financial assets and liabilities*
***The assumptions underlying the long-term projections appear in Annexure D*
Source: National Treasury

Options to stabilise the public finances

Deficit spending has failed to accelerate economic growth

Despite large fiscal deficits over the past decade, in which South Africa's debt-to-GDP ratio has risen sharply, economic growth has not rebounded. These deficits, which had provided some short-term support to the economy, are increasingly harmful to economic growth, leading to rising interest rates and uncertainty. As debt has mounted, a growing share of limited public resources has been absorbed by interest payments, which increasingly crowd out spending on social and economic investment.

Economic reform agenda can be implemented immediately

Options to stabilise the fiscus are becoming increasingly limited. Government's economic reform agenda will boost confidence and investment. However, these reforms are only expected to begin yielding results over the next several years, implying continued weakness in revenue collection over the period ahead.

Moreover, following several years of tax increases, revenue options are constrained. The tax-to-GDP ratio is close to its 2007/08 peak of 26.4 per cent. The 2019 Budget included R10 billion in tax increases for 2020/21. The tax policy measures to raise this amount will be announced in the 2020 Budget.

Past reductions to spending growth have fallen primarily on goods and services – a category that includes things like school books, and medical and food supplies – and capital budgets, which finance the construction of roads, dams, hospitals and water treatment plants. The space to reduce these budgets further is shrinking.

Figure 3.5 Breakdown of every R1 000 spent by economic classification, 2019/20*

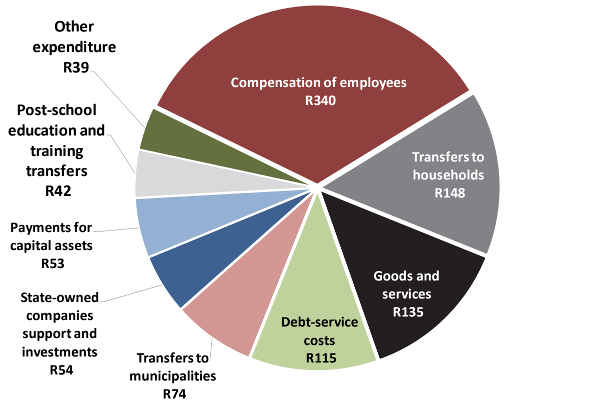
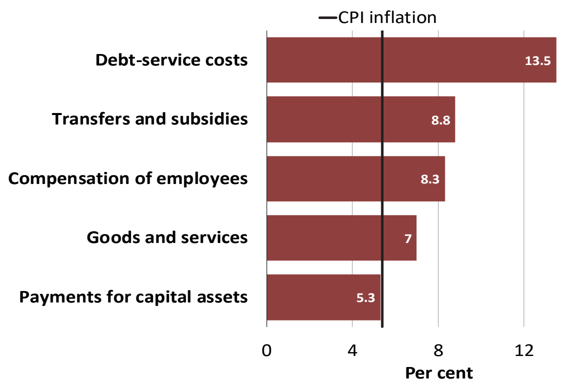


Figure 3.6 Average nominal growth in consolidated spending, 2011/12 — 2018/19



**Spending at consolidated national and provincial government level*
Source: National Treasury

Relative to the 2019 Budget, main budget non-interest spending increases by R23 billion in 2020/21 and decreases by R8.2 billion in 2021/22. Spending additions include financial support for Eskom and the reversal of estimated savings from compensation measures and the reorganisation of government, which were announced in the 2019 Budget. In addition to the amounts allocated through the Special Appropriation Bill, R10 billion is provisionally allocated to Eskom in 2021/22. The main reductions made have been to goods and services and transfers, while wage growth is revised down marginally due to lower projected CPI inflation.

To improve spending composition and achieve reductions, lower growth in wage bill required

Narrowing the deficit and improving the composition of spending requires reductions in the growth of the wage bill, which accounts for 35 per cent of the consolidated budget. Salaries for civil servants have grown by about 40 per cent in real terms over the past decade. Options to be considered include pegging cost-of-living adjustments at or below CPI inflation, halting automatic pay progression and reviewing occupation-specific dispensations for wages. Government has to discuss these matters with labour, and progress will be announced in the 2020 Budget.

Expenditure performance and outlook

In-year spending adjustments

Non-interest spending has increased by R23 billion in the current year, mainly due to a Special Appropriation Bill that allocates R26 billion to Eskom. Government has accommodated all other expenditure pressures within budget baselines.

Largest in-year spending adjustments are for Eskom, South African Airways and SABC

As shown in Table 3.1, additions to spending are offset by the use of the contingency reserve, provisional allocations, projected underspending and declared unspent funds. Additional funds include support to South African Airways (R5.5 billion) and the South African Broadcasting Corporation (SABC, R3.2 billion). Denel and South African Express receive funding amounting to R1.8 billion and R300 million, respectively.

Table 3.1 Revisions to non-interest expenditure for 2019/20

	R million
Non-interest expenditure (2019 Budget Review)	**1 456 500**
Upward expenditure adjustments	**44 527**
Budget Facility for Infrastructure projects and project preparation	630
Financial support to state-owned companies:	
Eskom Special Appropriation Bill	26 000
South African Airways	5 500
South African Broadcasting Corporation	3 200
Denel	1 800
South African Express	300
Self-financing[1]	1 655
Provisional downward adjustment not effected on compensation	4 800
Roll-overs	345
National Revenue Fund payments adjustment	224
Revision to members of Parliament remuneration	73
Downward expenditure adjustments	**(21 405)**
Declared unspent funds and revision to magistrates' salaries	(4 029)
Contingency reserve	(13 000)
Skills development levy	(182)
Provisional allocation not assigned to votes	(1 010)
National government projected underspending	(1 184)
Local government repayment to the National Revenue Fund	(2 000)
Revised non-interest expenditure (2019 MTBPS)	**1 479 622**
Change in non-interest expenditure from 2019 Budget	23 122
Change in non-interest expenditure excluding Eskom	(2 878)

1. Spending financed from revenue derived from departments' specific activities
Source: National Treasury

Medium-term expenditure outlook

Government proposes adjustments to main budget spending plans over the next two years. Relative to the 2019 Budget, total main budget non-interest expenditure increases by R23 billion in 2020/21, and decreases by R8.2 billion in 2021/22. These net changes include:

- Increases in non-interest spending of R45 billion and R22 billion over the next two years, mainly as a result of additional support to Eskom.
- Reductions of R21 billion in 2020/21 and R28.5 billion in 2021/22, mostly falling on goods and services, and current and capital transfers. Compensation is revised down marginally in line with lower CPI projections.

The expected savings on compensation announced in the 2019 Budget have been reversed. Compensation measures, which include early retirement without penalties, were anticipated to generate savings of R12 billion per year in 2020/21 and 2021/22. These measures will be included in a broader discussion between government and labour on future adjustments to wage bill growth.

Real non-interest spending grows by 1.2 per cent in 2020/21 and 0.1 per cent in 2021/22

In total, real main budget non-interest spending grows at 1.2 per cent in 2020/21, and 0.1 per cent in 2021/22. Government is constraining non-interest expenditure in the outer year to grow largely in line with CPI inflation. As a share of GDP, non-interest expenditure moderates from 28.4 per cent in 2020/21 to 27.4 per cent by 2022/23. This includes a contingency reserve amounting to R6 billion per year over the medium term.

Debt-service costs increase to 18.4 per cent of main budget revenue in 2022/23

Due to a wider deficit, weaker currency and higher interest rates, the cost of servicing government debt is expected to exceed 2019 Budget estimates by R1.5 billion in 2019/20, R8.7 billion in 2020/21 and R17.2 billion in 2021/22. An estimated 18.4 per cent of main budget revenue will be used to service debt in 2022/23 compared with 15 per cent in 2019/20.

Expenditure ceiling

Expenditure ceiling, which excludes Eskom, revised lower in medium term

The main budget expenditure ceiling provides an upper limit within which departments prepare their medium-term budgets. The ceiling has anchored fiscal policy since the 2012 Budget. In 2018/19, the expenditure ceiling was maintained. Compared with the 2019 Budget, the ceiling is lower by R2.9 billion in 2019/20, R9 billion in 2020/21 and R16.5 billion in 2021/22.

Eskom financial support in-year and over the MTEF period is classified as payments for financial assets and is excluded from the expenditure ceiling. Funding for other state-owned companies is included. Annexure D explains the technical adjustments in calculating the difference between non-interest spending and the expenditure ceiling.

Table 3.2 Main budget expenditure ceiling[1]

R million	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
2017 MTBPS	1 141 978	1 233 722	1 316 553	1 420 408	1 524 222		
2018 Budget Review		1 232 678	1 315 002	1 416 597	1 523 762		
2018 MTBPS		1 225 455	1 314 865	1 416 597	1 523 762	1 630 026	
2019 Budget Review			1 310 156	1 407 595	1 502 052	1 607 758	
2019 MTBPS			**1 307 235**	**1 404 675**	**1 493 029**	**1 591 287**	**1 673 601**

1. The expenditure ceiling differs from main budget non-interest expenditure
The precise definition and calculation of the expenditure ceiling is contained in Annexure D
Source: National Treasury

Revenue performance and outlook

Higher economic growth and improved performance by SARS are needed to improve revenue outcomes

Revenue estimates have been revised down steadily since 2014/15 as economic growth was lower than expected and inefficiencies and structural weaknesses at SARS affected collections. Measures to increase tax revenue have offset some of this decline, but the expected increase in collections has disappointed. Sustained higher economic growth, and a revitalised and effective SARS, are key to improved revenue outcomes over the medium term.

Table 3.3 Gross tax revenue

	2018/19			2019/20		
R billion	**Budget[1]**	**Outcome**	**Deviations**	**Budget[1]**	**Revised**	**Deviations**
Persons and individuals	497.5	492.1	-5.4	552.9	527.6	-25.3
Companies	218.4	212.0	-6.4	229.6	219.0	-10.6
Value-added tax	325.9	324.8	-1.2	360.5	348.4	-12.1
Dividend withholding tax[2]	30.3	29.9	-0.4	31.9	32.0	0.1
Specific excise duties	40.3	40.8	0.6	42.4	46.5	4.2
Fuel levy	75.4	75.4	-0.0	83.0	78.4	-4.6
Customs duties	55.6	55.0	-0.7	60.0	58.4	-1.7
Ad-valorem excise duties	4.2	4.2	0.0	4.5	4.3	-0.1
Other	54.6	53.5	-1.1	57.6	55.1	-2.4
Gross tax revenue	**1 302.2**	**1 287.7**	**-14.5**	**1 422.2**	**1 369.7**	**-52.5**

1. 2019 Budget figures
2. Includes secondary tax on companies
Source: National Treasury

Factors contributing to poor revenue performance

In 2018/19, government collected R57.3 billion less than projected in the 2018 Budget, and R14.5 billion less than set out in the 2019 Budget. This was the largest undercollection since 2009/10, following the global financial crisis. It was partly driven by large and unexpected once-off payments of VAT refunds in line with commitments in the 2018 MTBPS. The bulk of the 2018/19 shortfall resulted from weaker-than-expected economic growth in 2019.

Revenue shortfalls have a knock-on effect, widening gap between forecasts and outcomes in later years

Large shortfalls in a single year have a knock-on effect, widening the gap between forecasts and outcomes in subsequent years. Gross tax revenue needed to grow at 10.4 per cent this year to reach the 2019 Budget estimate. Due to the weak economy and base effects from unusually low VAT refund payments in the first half of 2018/19, revenue growth has been 3.7 per cent in the first half of 2019/20. The National Treasury expects revenue growth to accelerate to 6.4 per cent for the fiscal year.

Along with weaker economic growth, high and consistent VAT refund payments will result in a downward revision to the in-year revenue projection, which is now estimated at R52.5 billion lower than the 2019 Budget estimate. Revenue growth is weaker for a number of reasons, including:

- A poor employment outlook, with job losses, lower wage settlements and smaller bonuses reducing personal income tax collection.
- Reduced profitability in a difficult trading environment, resulting in lower-than-expected corporate income tax collections.

- Weak household consumption, which moderates the increase in domestic VAT collection.

New SARS Commissioner appointed and turnaround strategy expected to yield results over medium term

The Nugent Commission of Inquiry into SARS highlighted significant governance failures, the dismantling of critical organisational arrangements and the loss of experienced staff, which contributed to poor revenue collection in recent years. Under the new SARS Commissioner, the revenue authority is revitalising its operations, and performance is expected to improve significantly over the medium term. The SARS Large Business Centre, which focuses on major firms and high net-worth individuals, was officially reopened in October. The National Treasury will release a discussion document that reviews and proposes options to improve tax administration oversight by the 2020 Budget.

Medium-term revenue outlook

Tax revenue shortfall of R52.5 billion in current year

The 2018/19 revenue outcomes, persistently weak economic growth and downward revisions to expected growth in major tax bases all contribute to lower projected revenue growth over the medium term. As Table 3.4 shows, these assumptions produce gross tax revenue projections that fall short of the 2019 Budget estimates by R52.5 billion in 2019/20, R84 billion in 2020/21 and R114.7 billion in 2021/22.

Table 3.4 Revised revenue projections

R billion	2019/20	2020/21	2021/22	2022/23
2019 Budget	**1 422.2**	**1 544.9**	**1 670.4**	
Buoyancy	*1.31*	*1.17*	*1.08*	
Revised estimates	**1 369.7**	**1 460.9**	**1 555.7**	**1 658.2**
Buoyancy	*1.08*	*1.09*	*0.99*	*1.00*
Change since 2019 Budget	**-52.5**	**-84.0**	**-114.7**	

Source: National Treasury

Details on tax revenue and tax bases are in Table D.4 of Annexure D. No changes have been made to the anticipated buoyancies – which relate growth in tax revenue to growth in the underlying tax bases – for the major tax instruments.

Table 3.5 Medium-term revenue framework

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
R billion		**Outcome**		**Revised**		**Medium-term estimates**	
Gross tax revenue	**1 144.1**	**1 216.5**	**1 287.7**	**1 369.7**	**1 460.9**	**1 555.7**	**1 658.2**
Gross tax revenue growth	6.9%	6.3%	5.9%	6.4%	6.7%	6.5%	6.6%
Nominal GDP growth	7.1%	6.3%	4.7%	5.9%	6.1%	6.6%	6.6%
Buoyancy	*0.97*	*1.00*	*1.23*	*1.08*	*1.09*	*0.99*	*1.00*
Non-tax revenue	19.0	19.3	23.3	29.8	23.8	25.0	26.7
Southern African Customs Union[1]	-39.4	-56.0	-48.3	-50.3	-63.4	-62.2	-64.6
National Revenue Fund receipts[2]	14.2	16.6	12.0	9.9	4.7	7.0	7.6
Main budget revenue	**1 137.9**	**1 196.4**	**1 274.7**	**1 359.1**	**1 425.9**	**1 525.6**	**1 627.9**

1. Amount made up of payments and other adjustments
2. Mainly revaluation profits on foreign-currency transactions and premiums on loan transactions
Source: National Treasury

Payments to SACU partners revised down by R5.6 billion over next two years

The Southern African Customs Union (SACU) common revenue pool forms part of the National Revenue Fund and main budget calculations. Payments to SACU partners have been revised down by R2.4 billion in 2020/21 and R3.2 billion in 2021/22 compared with the 2019 Budget estimates. Details appear in Annexure D.

The 2019 Budget included R7 billion from the sale of non-core assets in 2019/20. There is a risk these sales will not be completed by the end of the financial year.

Fiscal framework

Main budget framework

Main budget revenue projected around 26 per cent of GDP over MTEF period

The main budget framework summarises spending financed from the National Revenue Fund. Main budget revenue is projected to remain around 26 per cent of GDP in the current year and over the MTEF period. Main budget expenditure is estimated to moderate to 32.1 per cent of GDP by 2022/23.

Table 3.6 Main budget framework

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
R billion/percentage of GDP		**Outcome**		**Revised**		**Medium-term estimates**	
Main budget revenue	**1 137.9**	**1 196.4**	**1 274.7**	**1 359.1**	**1 425.9**	**1 525.6**	**1 627.9**
	25.7%	*25.5%*	*25.9%*	*26.1%*	*25.8%*	*25.9%*	*25.9%*
Main budget expenditure	**1 305.5**	**1 405.0**	**1 506.7**	**1 683.4**	**1 801.2**	**1 909.5**	**2 017.7**
	29.5%	*29.9%*	*30.6%*	*32.3%*	*32.6%*	*32.4%*	*32.1%*
Non-interest expenditure	1 159.0	1 242.3	1 324.9	1 479.6	1 568.5	1 644.9	1 718.6
	26.2%	*26.4%*	*26.9%*	*28.4%*	*28.4%*	*27.9%*	*27.4%*
Debt-service costs	146.5	162.6	181.8	203.7	232.8	264.6	299.1
	3.3%	*3.5%*	*3.7%*	*3.9%*	*4.2%*	*4.5%*	*4.8%*
Main budget balance	**-167.6**	**-208.6**	**-232.0**	**-324.3**	**-375.3**	**-383.9**	**-389.8**
	-3.8%	*-4.4%*	*-4.7%*	*-6.2%*	*-6.8%*	*-6.5%*	*-6.2%*
Primary balance	**-21.1**	**-46.0**	**-50.1**	**-120.5**	**-142.5**	**-119.3**	**-90.7**
	-0.5%	*-1.0%*	*-1.0%*	*-2.3%*	*-2.6%*	*-2.0%*	*-1.4%*

Source: National Treasury

In 2019/20, the main budget deficit is estimated to widen to 6.2 per cent of GDP compared with the 2019 Budget estimate of 4.7 per cent, mainly due to lower nominal GDP, tax revenue shortfalls and financial support for Eskom. Over the next two years, lower revenue, additional financial support for Eskom and higher debt-service costs widen the main budget deficit by an average of 2.2 percentage points. The primary balance narrows over time, reaching 1.4 per cent of GDP in 2022/23.

Provision for Eskom support in the current year and over the MTEF period amounts to R161 billion

Provision for financial support for Eskom in the current year and over the medium term amounts to R161 billion. Excluding these provisions for Eskom, the main budget primary deficit improves by 0.9 percentage points to 1.4 per cent of GDP in 2019/20, and narrows to 1.1 per cent of GDP in 2022/23.

Table 3.7 Main budget balances excluding financial support for Eskom

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
R billion/percentage of GDP		Outcome		Revised		Medium-term estimates	
Main budget balance	**-167.6**	**-208.6**	**-232.0**	**-274.0**	**-313.0**	**-340.3**	**-353.0**
	-3.8%	*-4.4%*	*-4.7%*	*-5.3%*	*-5.7%*	*-5.8%*	*-5.6%*
Primary balance	**-21.1**	**-46.0**	**-50.1**	**-71.5**	**-86.5**	**-86.3**	**-67.7**
	-0.5%	*-1.0%*	*-1.0%*	*-1.4%*	*-1.6%*	*-1.5%*	*-1.1%*

Source: National Treasury

Consolidated budget framework

The consolidated budget includes the main budget and spending financed from revenues raised by provinces, social security funds and public entities.

Table 3.8 Consolidated budget balance

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
R billion		Outcome		Revised		Medium-term estimates	
Main budget	-167.6	-208.6	-232.0	-324.3	-375.3	-383.9	-389.8
Social security funds	8.2	9.3	5.8	8.7	5.3	5.4	5.6
Public entities	6.4	11.5	17.1	9.8	8.0	8.4	8.4
Provinces	-2.5	0.8	1.9	–	1.9	2.3	2.0
RDP Fund	-0.2	-0.3	-0.2	-0.4	-0.1	-0.1	–
Consolidated budget balance	**-155.7**	**-187.3**	**-207.5**	**-306.2**	**-360.2**	**-367.9**	**-373.7**
Percentage of GDP	*-3.5%*	*-4.0%*	*-4.2%*	*-5.9%*	*-6.5%*	*-6.2%*	*-5.9%*

Source: National Treasury

Estimates for social security funds for the period 2019/20 to 2021/22 will be updated in the 2020 Budget. Data for provinces has been revised in line with tabled provincial budgets and annual financial statements. Estimates for public entities have been updated compared to the 2019 Budget.

Public entities, social security funds and provinces are projected to have a combined cash surplus in the current year and over the medium term, partially offsetting the main budget deficit. The in-year estimate for the consolidated budget deficit is now at 5.9 per cent of GDP compared with 4.5 per cent of GDP in the 2019 Budget. Over the next two years, the consolidated budget deficit is projected to be 2.2 percentage points wider than the 2019 Budget estimates.

Financing and debt management strategy

Weak economic growth and the deteriorating fiscal position have affected government's borrowing strategy. South Africa's sovereign credit rating has also come under pressure. Interest rate changes and exchange rate depreciation have increased borrowing costs.

Borrowing costs have increased, but debt portfolio remains within strategic benchmarks

Government's debt portfolio is structured to accommodate changes in the fiscal stance, and minimise debt-service costs and refinancing risk. Debt management is informed by strategic portfolio risk benchmarks for interest, inflation, currency and refinancing. Despite rising debt, government remains within all its strategic portfolio risk benchmarks.

Table 3.9 Total national government debt

End of period R billion	2018/19 Outcome	2019/20 Revised	2020/21	2021/22 Medium-term estimates	2022/23
Domestic loans[1]	**2 497.1**	**2 849.2**	**3 229.0**	**3 624.1**	**4 026.3**
Short-term	324.6	370.6	407.6	457.6	515.6
Long-term	2 172.5	2 478.6	2 821.4	3 166.5	3 510.7
Fixed-rate	*1 604.8*	*1 833.1*	*2 076.3*	*2 370.9*	*2 596.0*
Inflation-linked	*567.7*	*645.5*	*745.1*	*795.6*	*914.7*
Foreign loans[1]	**291.3**	**318.4**	**361.8**	**411.6**	**451.4**
Gross loan debt	**2 788.4**	**3 167.6**	**3 590.8**	**4 035.7**	**4 477.7**
Less: National Revenue Fund bank balances	-243.1	-243.6	-232.7	-235.4	-234.7
Net loan debt[2]	**2 545.3**	**2 924.0**	**3 358.1**	**3 800.3**	**4 243.0**
As percentage of GDP:					
Gross loan debt	*56.7%*	*60.8%*	*64.9%*	*68.5%*	*71.3%*
Net loan debt	*51.7%*	*56.1%*	*60.7%*	*64.5%*	*67.5%*

1. Estimates include revaluations based on National Treasury's projections of inflation and exchange rates
2. Net loan debt is gross loan debt minus the bank balances of the National Revenue Fund
Source: National Treasury

Gross loan debt to increase from 60.8 per cent of GDP in 2019/20 to 71.3 per cent in 2022/23

Gross loan debt is expected to increase from R3.2 trillion or 60.8 per cent of GDP in 2019/20 to R4.5 trillion or 71.3 per cent of GDP in 2022/23, mainly to finance the budget deficit. The key drivers of this increase remain the budget balance and fluctuations in the interest, inflation and exchange rates.

Table 3.10 National government gross borrowing requirement and financing

R billion	2018/19 Outcome	2019/20 Revised	2020/21	2021/22 Medium-term estimates	2022/23
Gross borrowing					
Main budget balance	**-232.0**	**-324.3**	**-375.3**	**-383.9**	**-389.8**
Redemptions	**-15.5**	**-69.9**	**-65.2**	**-64.1**	**-128.2**
Domestic long-term loans	-13.5	-19.5	-52.5	-59.7	-112.7
Foreign loans	-2.0	-50.4	-12.7	-4.4	-15.5
Total	**-247.5**	**-394.2**	**-440.5**	**-448.0**	**-518.0**
Financing					
Domestic short-term loans (net)	**14.1**	**46.0**	**37.0**	**50.0**	**58.0**
Domestic long-term loans	**183.0**	**284.1**	**343.0**	**353.9**	**407.4**
Foreign loans	**25.3**	**76.1**	**45.5**	**46.4**	**54.2**
Change in cash and other balances	**25.1**	**-12.0**	**15.0**	**-2.3**	**-1.6**
Total	**247.5**	**394.2**	**440.5**	**448.0**	**518.0**

Source: National Treasury

Government's gross borrowing requirement — consisting of the budget deficit and maturing debt — is expected to increase from 7.6 per cent of GDP in 2019/20 to 8.2 per cent of GDP in 2022/23. It will be financed by raising funds in both the domestic and international capital markets. Domestic debt issuances will remain the major source of financing.

During 2019, government increased auction levels and borrowing from the Corporation for Public Deposits to cover cash flow pressures, provide financial support for Eskom – as announced in the 2019 Budget and in the Special Appropriation Bill – and provide for anticipated revenue shortfalls.

As a result, no further adjustments to domestic bond auction levels were needed to provide for the higher MTBPS gross borrowing requirements.

Risks to the fiscal outlook

There are three main risks to the fiscal outlook:

Economic growth, failure to achieve spending reductions and contingent liabilities are main risks

- A continued deterioration in the economic outlook would have negative consequences for revenue collection, putting pressure on fiscal plans.
- A failure to achieve the required spending reductions and revenue increases from measures announced in the 2019 Budget would widen the budget deficit and lead to still-higher levels of government debt.
- A worsening of Eskom's financial and operational position. Annexure C discusses the restructuring of the utility. Government is working to stabilise the finances of financially distressed state-owned companies, improve their operations and eliminate continuous calls for additional public resources.

Annexure A contains the fiscal risk statement, which examines factors that could cause deviations from the baseline fiscal forecast, as well as the sustainability of longer-term commitments.

Conclusion

Government remains committed to fiscal sustainability, but there has been significant fiscal deterioration since the tabling of the 2019 Budget. This requires substantial spending reductions to stabilise debt. Measures to manage and reduce public-sector pressures and risks will be implemented over the medium term. Fiscal policy and the debt management strategy will work to mitigate risks to the outlook.

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