Medium Term

Budget Policy Statement

2020

National Treasury

Republic of South Africa

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Foreword

We will not let this crisis go to waste.

The global economic impact of COVID-19 has been severe. In South Africa, real GDP is expected to contract by 7.8 per cent this year. Millions of people have lost their jobs. Many businesses have closed and others are struggling.

We have set sail on a course to see us through the storm. Government has acted decisively in three areas.

We moved swiftly to save lives, with a massive public health response, supported by increased spending for frontline sectors, and relief for households and businesses. The June special adjustments budget increased main budget non-interest spending by R36 billion to enable this response.

We forged a new social compact with our partners in business, labour and civil society, crystallised in the economic recovery plan. This plan includes immediate measures to boost confidence and investment, and longer-term reforms to unlock sustained higher economic growth. In the short term, the plan focuses on infrastructure, electricity generation, digital spectrum allocation, employment and rapid industrialisation. At the same time, government will implement structural reforms such as modernising network industries, reducing barriers to entry, and increasing regional integration and trade. In combination, these reforms can significantly boost the ability of our economy to grow faster and more inclusively in the years ahead.

We are ensuring stable and sustainable public finances. The *Medium Term Budget Policy Statement* (MTBPS) proposes a five-year fiscal consolidation to narrow the budget deficit and stabilise government debt. South Africa's public finances have been deteriorating for some time. Government spending remains too high for the tax base and expenditure is skewed towards compensation, rather than investment, at the expense of future generations. The measures proposed in the MTBPS mark an important shift. While expenditure reductions will be wide and deep, the bulk of the adjustment will be absorbed in compensation costs, while capital investment will increase in some categories.

At the outset of the last major global downturn – the 2008 financial crisis – South Africa had ample fiscal space. Years of robust growth and prudent policy meant we entered 2007/08 with a budget surplus, gross government debt of 29 per cent of GDP and declining debt-service costs. In contrast, we began this year – before COVID-19 – with a budget deficit of 6.4 per cent of GDP, gross government debt of 63.3 per cent of GDP and rising debt-service costs that now consume 21 cents of every rand of main budget revenue.

This fiscal position is one of the central impediments to economic growth, and a failure to reverse present trends would inevitably lead to a debt crisis. Fiscal consolidation means taking difficult decisions today that will affect all parts of society in the interests of building a prosperous future.

No budget process is easy. This one has been particularly challenging for all of government. I would like to thank my Cabinet colleagues for their part in this process. I also acknowledge the unstinting work of Deputy Minister Masondo. And finally, I would like to thank the Director-General and staff of the National Treasury, who work tirelessly to fulfil their constitutional responsibilities.

TT Mboweni
Minister of Finance

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Securing economic recovery beyond COVID-19

In brief

- Government's medium-term policy priorities are economic recovery and fiscal consolidation.
- Recovery from the global recession triggered by the coronavirus pandemic is expected to be highly uneven, and interrupted by new waves of infection.
- In South Africa, the pandemic led to a steep economic decline and accelerated the deterioration of the public finances. The economy is expected to contract by 7.8 per cent in 2020, returning to real GDP growth of 3.3 per cent in 2021. Economic growth is expected to average 2.1 per cent over the three-year forecast period.
- Tax revenues for 2020/21 are forecast to be R312.8 billion lower than projected in the 2020 *Budget Review*.
- The consolidated deficit has risen from 6.4 per cent of GDP in 2019/20 to 15.7 per cent this year. Gross national debt has risen from 63.3 per cent of GDP in 2019/20 to 81.8 per cent of GDP in the current year. Interest payments on the debt have reached 4.8 per cent of GDP.
- The social compact agreed to between government, business, labour and civil society prioritises short-term measures to support the economy, alongside crucial structural economic reforms. Fiscal measures will narrow the budget deficit and stabilise debt over the next five years to return the public finances to a sustainable position.

Introduction

The 2020 *Medium Term Budget Policy Statement* (MTBPS) charts a course that will enable South Africa to begin the difficult task of economic recovery. Government's central policy goals over the next three years are to position the economy for faster, broad-based economic growth, and to return the public finances to a sustainable position. Achieving these objectives will require determined action.

Working with its social partners in business, labour and civil society, government has begun implementing an economic recovery plan, with immediate measures to boost confidence and investment, and longer-term reforms to promote sustained higher economic growth.

In the short term, the economic recovery plan will focus on building infrastructure, expanding electricity generation, allocating digital spectrum, and supporting rapid industrialisation and employment. At the same time, government will roll out structural reforms such as modernising network industries, reducing barriers to entry, and increasing regional integration and trade. The National Treasury estimates that, in combination, these reforms can raise growth to over 3 per cent over the next 10 years and create more than 1 million jobs.

To support economic recovery, it is critical that fiscal imbalances do not act as a drag on growth or continue to widen. With mounting debt and interest payments that now consume 21 cents of every rand of main budget revenue, the public finances face the risk of a debt spiral. Stabilising debt to avoid such a crisis will involve significant expenditure reductions across government.

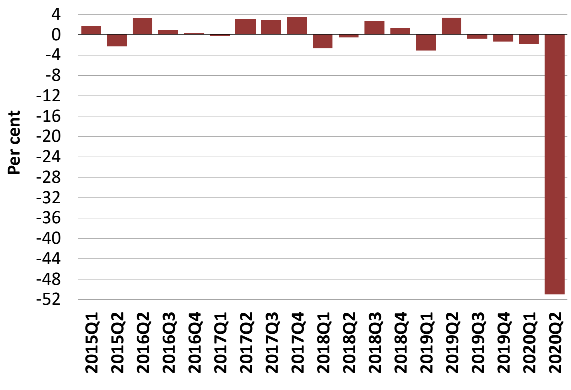
The June 2020 special adjustments budget was prepared in an environment of extreme uncertainty. At that time, real GDP was expected to contract by 7.2 per cent this year, with a strong recovery in 2021. Given this outlook, and with a large increase in public-sector borrowing to fund consumption expenditure, government proposed a three-year fiscal consolidation.

Since June, more data has become available. The economy is expected to contract by 7.8 per cent in real terms this year, and the 2021 outlook is more uncertain. Job losses have been particularly severe. Government therefore proposes a five-year fiscal consolidation that enables continued support for the economy and job creation. The fiscal measures outlined in this MTBPS will bring the state's debt burden under control, realign the composition of spending from consumption towards investment, and improve investment conditions by lowering the cost of capital.

Rebuilding the economy

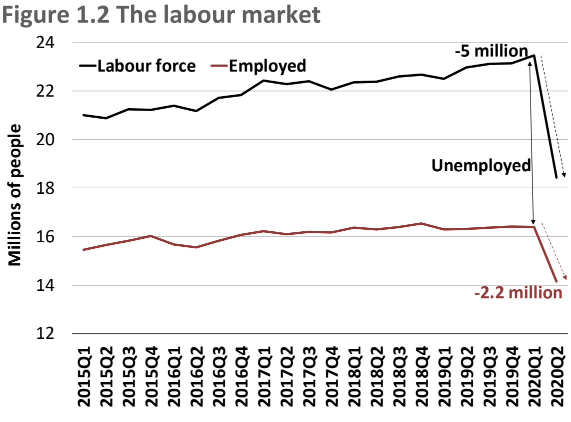
The coronavirus pandemic and measures to protect public health have had a far-reaching impact on the economy. Real GDP contracted by 51 per cent in the second quarter on a quarter-on-quarter, seasonally adjusted and annualised basis.

Figure 1.1 Real economic growth



Source: Statistics South Africa

Figure 1.2 The labour market



Source: Reserve Bank and Statistics South Africa

Plummeting household and business income, alongside severe restrictions on movement, led to a spike in job losses, large-scale business closures and a near-complete halt in international goods trade. By June 2020, the number of people in employment had fallen by 2.2 million, leaving South Africa with only 14.1 million workers employed.

The June 2020 special adjustments budget significantly reordered public expenditure priorities and increased spending to provide emergency resources to frontline services, provincial and local government, and firms and households, with a focus on the most vulnerable South Africans.

The budget made additional allocations to critical frontline services, and raised the state's contingent liabilities through a R200 billion credit guarantee scheme for firms. In addition, it made provision for additional tax relief of R70 billion and temporary unemployment relief of R40 billion. By the end of September, R47.4 billion had been paid to 10.6 million beneficiaries from over 931 000 employers through the temporary employer/employee relief scheme. The Reserve Bank has also provided support to households and firms by lowering the main interest rate (the repurchase rate) by 2.75 percentage points since March 2020.

To enable this critical support to the economy, government breached the spending ceiling, allowed a temporary increase in the fiscal deficit and significantly expanded its borrowing.

Implementing the economic recovery plan

Chapter 2 reviews government's plans for economic recovery, developed in conjunction with its social partners in business, labour and civil society.

The Infrastructure Fund will complement the plan's focus on capital investments. Government has committed R100 billion over 10 years (of which R18 billion is over the medium term) to this blended finance fund, which is designed to crowd in private-sector finance and expertise to support infrastructure delivery. To improve infrastructure planning and fast-track a project pipeline, an Investment and Infrastructure Office has been created in the Presidency.

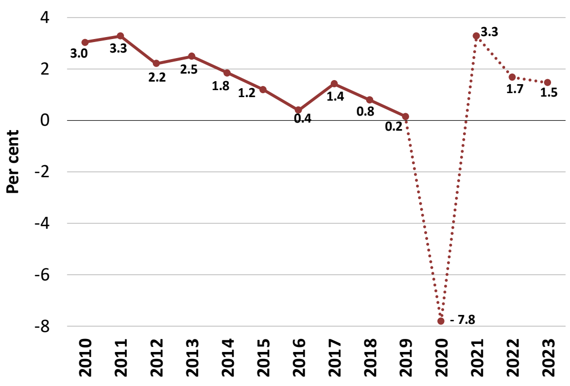
Major structural reforms will also be pursued, backed by timelines, to raise long-term potential growth. Operation Vulindlela (open the way) – a joint initiative of the Presidency and the National Treasury – will speed up implementation of priority reforms determined by the President.

Economic growth and the public finances

COVID-19 accelerated an economic and fiscal deterioration that was already under way.

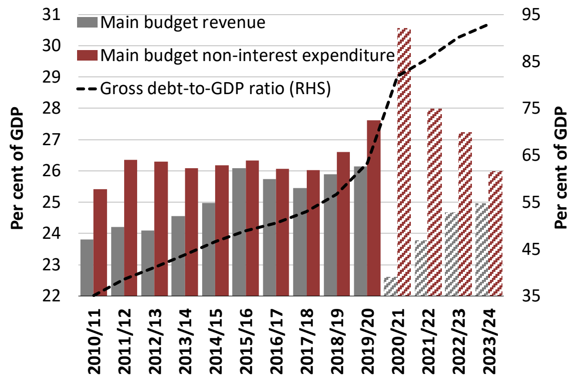
For many years, South Africa's macroeconomic policy has been designed to support stable and sustainable growth. Nevertheless, structural weaknesses in the real economy have contributed to persistently poor economic outcomes and reduced long-term potential growth. These weaknesses include declining productivity, falling investment levels, an unreliable and unstable electricity supply, and deteriorating global competitiveness.

Figure 1.3 Real GDP growth and projections



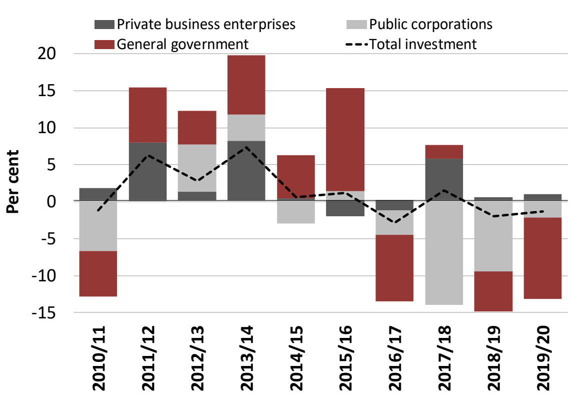
Source: Statistics South Africa and National Treasury

Figure 1.4 Main budget revenue and spending*



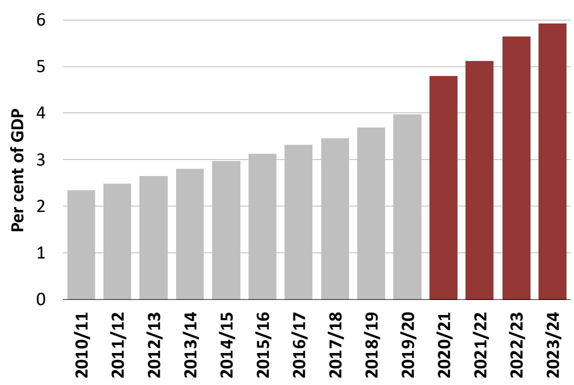
**Excludes Eskom financial support and transactions in financial assets and liabilities*
Source: National Treasury

Figure 1.5 Real growth in investment



Source: Reserve Bank

Figure 1.6 Debt-service costs



Source: National Treasury

Public spending and GDP growth: diminishing returns

Over the past decade, increased government spending has failed to promote growth. Since 2008, real spending growth has averaged 4.1 per cent annually, well above annual real GDP growth of 1.5 per cent. Yet despite high levels of expenditure, supported by increased debt accumulation, growth has not recovered to pre-2008 levels.

This year, the consolidated fiscal deficit is projected at 15.7 per cent of GDP, up from 6.4 per cent of GDP in 2019/20. The debt stock is expected to reach nearly R4 trillion, or 81.8 per cent of GDP, in 2020/21. Over the medium term, debt-service costs are the fastest-growing item of spending. Failure to address the deterioration in the fiscal position could lead to a sovereign debt default, which would result in a reversal of many gains of the democratic era.

Recent work by the Reserve Bank on fiscal multipliers – which measure the impact of government spending on GDP – shows that the economic benefits of higher public spending have decreased over the past decade, and may have been exhausted. South Africa's fiscal multiplier is currently low, or possibly negative. This decline is likely for several reasons, including spending patterns that have historically skewed towards consumption rather than investment, regulations that impede innovation and productivity, and a high debt burden, with interest payments crowding out investments in the economy. Fiscal consolidation, alongside structural reforms outlined in the economic recovery plan, could markedly improve the effect of public spending on GDP. Chapter 3 discusses the research on fiscal multipliers in more detail.

Stabilising debt and controlling the rise in borrowing costs will directly improve South Africa's attractiveness as an investment destination. If investors believe that fiscal deficits will remain elevated, with the accompanying expectation of higher interest rates, they will view the cost of capital as too high to justify medium- to long-term investment. This is the "crowding out" effect of government spending.

Concerns over weak growth and rising fiscal deficits have already led to credit rating downgrades. As a developing country, South Africa cannot sustain debt at current levels without incurring extremely high costs. South Africa's sovereign risk premium – the additional amount it has to pay investors to compensate for perceived risk – has risen markedly in recent months as non-residents have sold off government bonds, further exposing the domestic banking sector to rising fiscal risks. As a result, real borrowing costs are increasing for both government and the broader economy. This negatively affects the investment needed to raise potential growth and create jobs, and results in rising debt-service costs.

These considerations inform the proposed fiscal stance.

Improving the efficiency and composition of spending

The 2021 medium-term expenditure framework (MTEF) proposes fiscal adjustments amounting to 1.2 per cent of GDP in 2021/22 and 1.9 per cent of GDP in 2022/23. Compared with the 2020 Budget, main budget non-interest expenditure excluding technical adjustments is reduced by R60 billion in 2021/22, R90 billion in 2022/23 and R150 billion in 2023/24. Revenue proposals to be announced in the 2021 Budget will amount to R5 billion in 2021/22, R10 billion in 2022/23 and R10 billion in 2023/24. Government debt is forecast to stabilise at 95.3 per cent of GDP in 2025/26.

Consolidated government spending accounted for 35.9 per cent of GDP in 2019/20 compared with 29.6 per cent of GDP in 2008/09. The proposed consolidation focuses on improving the composition of spending. Excluding COVID-19 fiscal support, real compensation expenditure will decline by an average of 3.5 per cent per year over the medium term, compared with real growth of 3.2 per cent in payments for capital assets. These changes will support higher long-term growth.

Since 2008, the real cost of the public-service wage bill has risen by 51 per cent. As discussed in Annexure B, the main reason for this growth is an increase in unit costs, rather than headcount. The contributions of hard-working public servants are essential for national development, and government is committed to providing fair and sustainable compensation. But with much state borrowing funding consumption, the wage-setting process has become divorced from economic reality. Government's proposed adjustments to the wage bill are discussed in Chapter 3.

Over the medium term, government will phase in the principles of zero-based budgeting – supported by comprehensive expenditure reviews that are under way – to analyse and justify departmental spending. These initiatives will help to streamline bureaucracy, eliminate programmes that no longer add value and reform those in need of improvement.

Government is committed to finalising the Public Procurement Bill during 2021/22 following the end of the public comments phase, and reviewing the full range of national, provincial and municipal provisions. Significant procurement reforms will be supported by greater use of automation and technology. This will include the provision of real-time information regarding tax compliance, and the profile and historical performance of prospective service providers. Concurrent reviews of regulations governing public-private partnerships will promote greater efficiency and encourage private-sector participation.

Transparency in COVID-19 procurement

Four days after the President announced a national state of disaster on 15 March 2020, the National Treasury issued the first of three instruction notes to regulate emergency procurement of critical health supplies. The last of these notes allowed for increased flexibility with suppliers to speed up delivery in response to the public health emergency.

Acting on reports of malfeasance, the National Treasury withdrew the emergency regulations and required all state bodies to revert to an open-tender system. It has published the details of all COVID-19-related procurement, including the names of companies awarded contracts, and law-enforcement agencies are investigating cases of criminal behaviour. In addition, the National Treasury has collaborated with the Auditor-General to publish Preventative Control Guidelines, which provide a toolkit to identify fraud, corruption and misappropriation of funds.

Overview of the 2020 MTBPS

Economic outlook

Chapter 2 reviews the medium-term economic outlook. Real GDP growth is forecast at -7.8 per cent in 2020, revised down from -7.2 per cent projected in the 2020 special adjustments budget.

The economy is expected to recover to a real GDP growth rate of 3.3 per cent in 2021, with growth averaging 2.1 per cent over the medium term. The outlook is subject to significant downside risks. Conversely, swift implementation of structural reforms can provide additional support for growth.

Table 1.1 Macroeconomic projections

Calendar year	2019 Actual	2020 Estimate	2021	2022 Forecast	2023
Percentage change unless otherwise indicated					
Household consumption	1.0	-7.9	4.7	2.2	1.9
Gross fixed-capital formation	-0.9	-19.6	-1.4	3.9	3.9
Real GDP growth	**0.2**	**-7.8**	**3.3**	**1.7**	**1.5**
GDP at current prices (R billion)	**5 078**	**4 885**	**5 240**	**5 553**	**5 877**
CPI inflation	4.1	3.2	4.1	4.4	4.5
Current account balance (% of GDP)	-3.0	-0.8	-1.6	-2.0	-2.7

Source: Reserve Bank and National Treasury

Fiscal policy

Chapter 3 outlines the medium-term fiscal policy stance, which focuses on stabilising the public finances through revenue measures and large reductions to the public-service wage bill. The consolidated budget deficit will narrow from 15.7 per cent of GDP in 2020/21 to 10.1 per cent in 2021/22 and 7.3 per cent by the outer year. The composition of expenditure will shift away from consumption towards capital investment.

Table 1.2 Consolidated government fiscal framework

	2019/20	2020/21	2021/22	2022/23	2023/24
R billion/percentage of GDP	**Outcome**	**Revised**	**Medium-term estimates**		
Revenue	**1 518.1**	**1 276.7**	**1 457.6**	**1 595.8**	**1 705.7**
	29.5%	*26.3%*	*27.4%*	*28.3%*	*28.6%*
Expenditure	**1 848.7**	**2 037.8**	**1 993.5**	**2 079.6**	**2 139.2**
	35.9%	*41.9%*	*37.5%*	*36.9%*	*35.9%*
Budget balance	**-330.6**	**-761.1**	**-535.9**	**-483.9**	**-433.4**
	-6.4%	*-15.7%*	*-10.1%*	*-8.6%*	*-7.3%*
Total gross loan debt	**3 261.3**	**3 974.1**	**4 551.8**	**5 071.3**	**5 536.2**
	63.3%	*81.8%*	*85.6%*	*90.1%*	*92.9%*

Source: National Treasury

Expenditure priorities

Chapter 4 sets out proposed medium-term functional allocations, including adjustments in the current fiscal year. The budget will prioritise capital spending and continue to support vulnerable groups.

Table 1.3 Consolidated government expenditure

	2020/21	2021/22	2022/23	2023/24	Average annual growth
R billion	**Revised[1]**	**Medium-term estimates**			**2021/22 – 2023/24**
Learning and culture	398.3	399.0	406.7	411.3	1.1%
Health	226.2	235.3	242.0	246.3	2.9%
Social development	315.4	312.2	329.9	335.7	2.1%
Community development	208.2	221.1	232.2	236.4	4.3%
Economic development	211.3	224.7	236.3	242.0	4.6%
Peace and security	216.8	210.7	213.3	214.5	-0.4%
General public services	69.8	71.0	70.4	71.2	0.6%
Payments for financial assets	86.5	42.9	26.2	23.7	–
Total expenditure by function	**1 732.6**	**1 716.7**	**1 757.0**	**1 781.0**	**0.9%**
Debt-service costs	225.9	271.8	317.6	353.1	16.1%
Contingency reserve	–	5.0	5.0	5.0	–
Total expenditure	**1 958.4**	**1 993.5**	**2 079.6**	**2 139.2**	**3.0%**
Consolidated expenditure including June 2020 budget adjustments	**2 037.8**	**1 993.5**	**2 079.6**	**2 139.2**	**1.6%**

1. 2020/21 excludes June 2020 budget adjustments
Source: National Treasury

Additional information

The 2020 MTBPS includes the following annexures:

- Annexure A contains the fiscal risk statement, which outlines medium- and longer-term risks that could affect baseline projections for economic growth and the public finances.
- Annexure B presents data on the compensation of public-service employees.
- Annexure C provides technical information and data.
- Annexure D is the glossary.

The Public Finance Management Act (1999), read together with the Money Bills and Related Matters Act (2009), empowers the Minister of Finance to table an adjustments budget in the National Assembly when necessary. Alongside the MTBPS, government is tabling the 2020 *Adjusted Estimates of National Expenditure*, which is the second adjustments budget of 2020/21, following the June special adjustments budget.

Conclusion

The 2020 MTBPS is prepared in the context of the deepest global contraction since the 1930s. Budget preparation has had to adapt to emergency circumstances, despite an already weak fiscal position prior to the current crisis. Ensuring the return to sustainable public finances, and more rapid, employment-rich economic growth, requires hard choices and determined implementation of economic reforms.

2

Economic outlook

In brief

- The coronavirus pandemic has led to a global recession, and the recovery is expected to be long and uneven.
- As the domestic economy recovers, real GDP growth is expected to average 2.1 per cent over the medium term. Although growth rates are likely to improve quickly, off a low base, output is only expected to return to pre-pandemic levels in 2024. There is significant uncertainty associated with the forecast, particularly if a second wave of the pandemic forces a return to a stricter lockdown.
- The fiscal position is a risk to the outlook: higher long-term borrowing costs and risk premiums have started to affect the broader economy. Steps to narrow the budget deficit and stabilise debt will support long-term growth.
- The economic recovery plan agreed in partnership between government, business, labour and civil society targets short-term measures to boost energy production, infrastructure investment and public employment, alongside crucial structural reforms that will raise long-term growth. Operation Vulindlela, a joint initiative of the Presidency and the National Treasury, is tasked with speeding up implementation of priority reforms.

Introduction

South Africa's economy is expected to contract by 7.8 per cent this year in real terms. COVID-19 and measures taken to protect public health resulted in steep declines in consumption, investment and exports. GDP growth is expected to rebound to 3.3 per cent in 2021, and to average 2.1 per cent over the medium term. Based on this projection, the economy will only recover to 2019 levels in 2024.

The sharp downturn in the domestic economy follows a decade of economic stagnation, complicating South Africa's recovery. Over the past 10 years, real GDP growth averaged 1.4 per cent, while the population grew by 1.6 per cent per year.

In this context, there is a need to forge a national consensus through a social compact that addresses both short- and long-term structural growth challenges. In recent months, government, business, labour and civil society have developed an economic recovery plan. Recognising that many plans fail to translate into action, the Presidency and the National Treasury have established Operation Vulindlela, an initiative to accelerate effective implementation of structural reforms to boost the rate of sustainable economic growth.

A social partnership to boost confidence, restart the economy and conduct urgent reforms

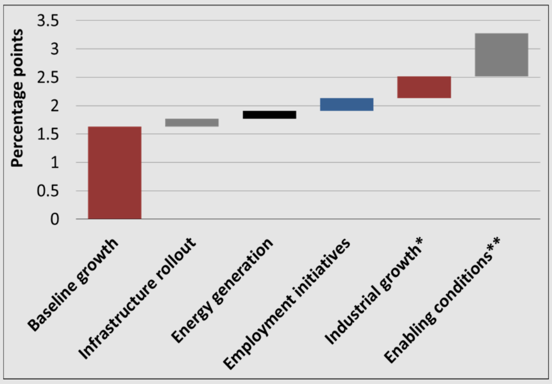
The economic recovery plan was developed through extensive consultations between government, business, labour and civil society. It has two broad components.

A range of immediate and short-term measures will be taken to rebuild confidence, kick-start the economy and continue to mitigate the effects of the pandemic. And structural reforms will promote faster, more inclusive growth and employment over the medium to long term. Many of these reforms are drawn from government's long-term structural reform agenda as outlined in the discussion paper that the National Treasury released in 2019 – *Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa*. Parliament approved the plan on 15 October 2020.

In the short term, the plan will focus on rolling out infrastructure, expanding energy generation capacity, creating mass public employment and supporting rapid industrialisation. At the same time, government will implement structural reforms such as modernising network industries, reducing barriers to entry, and increasing regional integration and trade. The National Treasury estimates that reforms in these areas can raise growth to over 3 per cent over the next 10 years and create more than 1 million jobs.

The plan is accompanied by a detailed implementation schedule that will be overseen by a council chaired by the President. It will be supported by a leadership team that coordinates reporting and identifies areas where more effective partnerships are required.

Figure 2.1 Economic recovery plan effects on growth by 2030



**Agriculture and industrial initiatives*
***Reducing barriers to entry, easing the skills constraint and implementing tourism initiatives*
Source: National Treasury projections.

Operation Vulindlela: implementing structural reforms

Many of the proposed reforms in the economic recovery plan and their potential benefits have been detailed in recent editions of the *Budget Review* and *Medium Term Budget Policy Statement.* Yet implementation has been delayed by a lack of agreement over proposed reforms, a failure to prioritise and sequence reforms that have been agreed on, and lack of capacity in government.

Operation Vulindlela will support the implementation of the economic recovery plan by accelerating priority structural reforms. It is based on similar "delivery unit" initiatives in countries such as the United Kingdom and Malaysia, as well as lessons learnt in South Africa. The initiative will be staffed by a full-time technical team that draws on additional expertise and capacity in the public and private sectors. The team will assist the economic cluster, Cabinet and the President to coordinate and accelerate the implementation of a limited number of priority reforms.

Global outlook

The International Monetary Fund (IMF) expects global output to contract by 4.4 per cent in 2020, rebounding from a low base to 5.2 per cent growth in 2021. While GDP growth in many countries recovered more quickly than expected in the third quarter of 2020, resurgent coronavirus infections and additional lockdowns are serious risks to the outlook. Large economies such as the United States, Brazil and India continue to battle high infection rates, and subsequent waves of infection have required the return to partial lockdowns in continental Europe and the United Kingdom.

Table 2.1 Economic growth in selected countries

Region/country	2018	2019	2020	2021	2020	2021
Percentage	Actual		Projections		Difference from June 2020 projections	
World	**3.5**	**2.8**	**-4.4**	**5.2**	**0.8**	**-0.2**
Advanced economies	**2.2**	**1.7**	**-5.8**	**3.9**	**2.3**	**-0.9**
United States	3.0	2.2	-4.3	3.1	3.7	-1.4
Euro area	1.8	1.3	-8.3	5.2	1.9	-0.8
United Kingdom	1.3	1.5	-9.8	5.9	0.4	-0.4
Japan	0.3	0.7	-5.3	2.3	0.5	-0.1
Emerging and developing countries	**4.5**	**3.7**	**-3.3**	**6.0**	**-0.2**	**0.2**
China	6.7	6.1	1.9	8.2	0.9	–
India	6.1	4.2	-10.3	8.8	-5.8	2.8
Brazil	1.3	1.1	-5.8	2.8	3.3	-0.8
Russia	2.5	1.3	-4.1	2.8	2.5	-1.3
Sub-Saharan Africa	**3.3**	**3.2**	**-3.0**	**3.1**	**0.2**	**-0.3**
Nigeria	1.9	2.2	-4.3	1.7	1.1	-0.9
South Africa[1]	0.8	0.2	-7.8	3.3	-0.6	0.4
World trade volumes	**3.9**	**1.0**	**-10.4**	**8.3**	**1.5**	**0.3**

1. National Treasury forecasts
Source: IMF World Economic Outlook, October 2020

Containment of COVID-19 is expected to support an improving growth outlook in advanced economies in 2021. Developing countries are set to grow faster than their developed counterparts next year, but their economic prospects remain precarious given the weight of highly exposed sectors such as tourism, and a disproportionate reliance on external finance and remittances.

After posting record declines in March in response to the pandemic, global equity markets have since broadly regained (and in some cases exceeded) their levels from the start of the year. Markets have been buoyed by a massive injection of liquidity from central banks. This liquidity and high investor demand for lower-risk assets fuelled a large increase in purchases of developed economies' government bonds, leading to notable declines in their bond yields.

The bond yields of many developing countries have declined more moderately, reflecting comparatively lower demand. Brazil, Turkey and South Africa, however, were exceptions: the increase in their government borrowing costs reflects higher risk perceptions due to deteriorating economic and fiscal metrics (Figures 2.2 and 2.3).

Figure 2.2 Change in gross public debt to GDP*

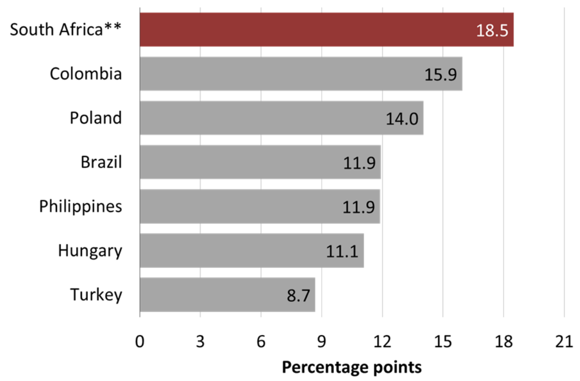
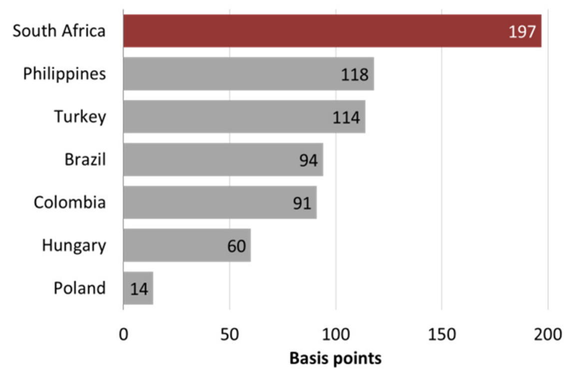


Figure 2.3 Change in sovereign risk spread vs 2019***



**Change between 2019 outcome and 2020 forecast*
***National Treasury estimates, financial years*
****As at 14 September 2020*
Source: Bloomberg, IMF and National Treasury

Precious metal prices have risen amid demand for safe-haven investments, and following production interruptions associated with lockdowns. Global interest rate cuts and central bank liquidity injections helped push gold prices to record highs of over US$2 000 per ounce in August.

As oil demand collapsed, the Brent crude oil price fell to lows of about US$20 per barrel in April. It is now forecast to increase gradually in line with a measured recovery in demand.

After depreciating against the US dollar in the first four months of this year, as the extent of the COVID-19 pandemic became apparent, developing-country currencies have recovered some ground. A broad index of these currencies weakened by 1.9 per cent against the dollar in the first nine months of 2020, while the rand is down 16.4 per cent on concerns about fiscal sustainability and economic prospects.

Declining appetite for risk led to a significant fall in capital inflows to developing economies, many of which have large current account deficits and rely on foreign savings to finance these deficits. In the second quarter of 2020, South Africa's financial account of the balance of payments posted its largest outflows since the global financial crisis, as non-residents sold off investments. Continued monetary policy stimulus, particularly in major developed economies, may support a moderate rise in risk appetite.

Borrowing to support the coronavirus response has increased the global stock of sovereign debt. Multilateral financial institutions have emphasised the need for policy makers to do what is necessary to support near-term growth with a sustainable rate of debt accumulation, while avoiding a build-up of unsustainable risks over the medium term. Global growth prospects will ultimately depend on the efficacy of efforts to bolster economic resilience, supported by investment and structural reforms that enhance growth and equity.

The gains from reform: the case of Brazil

Credible fiscal and economic reforms, the full effects of which may only be realised over the medium term, can reduce government borrowing costs and boost investor confidence in the short term, as recently demonstrated in Brazil.

Brazil and South Africa are often compared as developing-country peers. In both nations, GDP growth rates have declined over the past decade, partly due to weaker commodity prices and reduced business confidence, and government debt has risen rapidly. These fiscal challenges are reflected in elevated risk premiums – the higher returns governments must pay to compensate investors for perceived riskiness – and elevated bond yields.

South Africa and Brazil have tended to move closely together in both categories. Since late 2018, however, Brazil's risk premium and the yield on its 10-year government bond have declined in comparison with South Africa. Although its debt has risen sharply, Brazil has made significant progress on a range of long-awaited and far-reaching reforms. This included simplifying its tax system (one of the world's most complex systems) and revisions to its pension framework. It is now estimated that Brazil's debt will no longer balloon to over 140 per cent of GDP over the next decade, but rise on a more moderate trajectory to about 100 per cent of GDP by 2030. As investor confidence subsequently improved, lower borrowing costs created additional fiscal space beyond the direct economic effect of the reforms.

Figure 2.4 Developing economy risk premiums

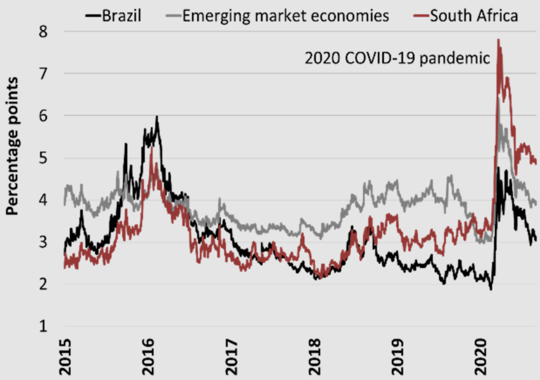
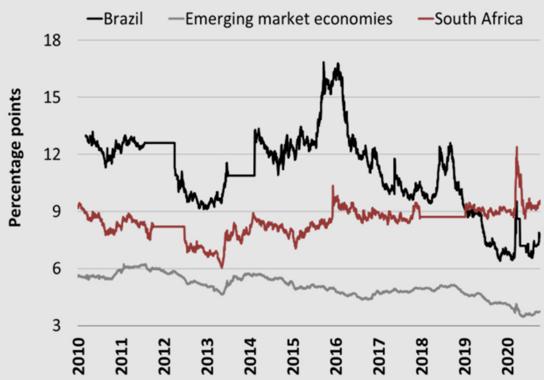


Figure 2.5 Developing economy bond yields



Source: Bloomberg

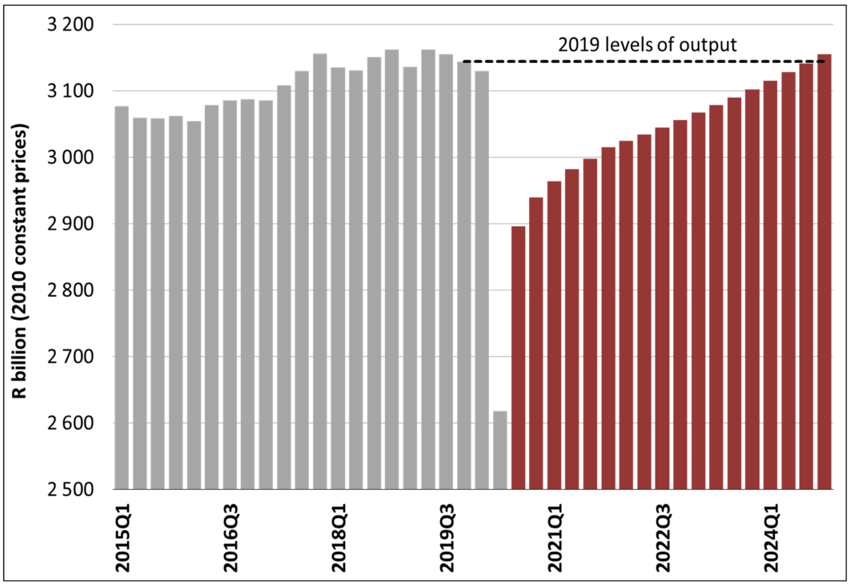
Domestic outlook

The National Treasury projects real economic growth of 3.3 per cent in 2021, following an expected contraction of 7.8 per cent in 2020. Real GDP growth is expected to moderate to 1.7 per cent in 2022 and 1.5 per cent in 2023, averaging 2.1 per cent over the medium term.

South Africa experienced its largest recorded decline in economic output in the second quarter of 2020 due to the strict COVID-19 lockdown. Real GDP fell by 17.1 per cent relative to the previous quarter (or 51 per cent on a seasonally adjusted and annualised basis), with all major sectors except agriculture declining. The second-quarter results were weaker than expected in the June special adjustments budget, which projected a contraction of 7.2 per cent in 2020.

High-frequency data for the third quarter – such as the volume of electricity distributed, mining and manufacturing output, business confidence and the Absa Purchasing Managers' Index (PMI) – shows evidence of a limited rebound. Although growth rates are likely to improve quickly as restrictions are removed, based on current projections output is only expected to return to pre-pandemic levels in 2024.

Figure 2.6 Anticipated recovery in economic activity



Source: National Treasury calculations and Statistics South Africa

Risks to the growth outlook

The main risks to the economic outlook are weaker-than-expected growth, continued deterioration in the public finances and a failure to implement structural reforms. A second wave of COVID-19 infections, accompanied by new restrictions on economic activity, would have significant implications for the outlook.

Government's fiscal position is a risk to growth: higher long-term borrowing costs and risk premiums have started to affect the broader economy, as discussed in Chapter 3. In addition, recovery efforts will fail unless structural constraints (including in energy, infrastructure and competitiveness) are urgently addressed. While the reforms required in these areas do not immediately affect growth, they are critical for confidence and investment.

Globally, there are persistent risks associated with COVID-19 and rapid debt accumulation. While global monetary policy is expected to continue supporting growth and liquidity, financial market sentiment is likely to remain volatile. This implies continued bouts of risk aversion and lower global capital flows to small, open developing countries like South Africa.

There is also the possibility of a faster-than-expected global recovery if reopening economies normalise quickly. The development of a safe and effective COVID-19 vaccine would likely improve sentiment, productivity and growth in the short to medium term.

Table 2.2 Macroeconomic performance and projections

Calendar year	2017	2018	2019	2020	2021	2022	2023
Percentage change		**Actual**		**Estimate**		**Forecast**	
Final household consumption	2.1	1.8	1.0	-7.9	4.7	2.2	1.9
Final government consumption	0.2	1.9	1.5	1.0	-2.5	-2.4	-3.6
Gross fixed-capital formation	1.0	-1.4	-0.9	-19.6	-1.4	3.9	3.9
Gross domestic expenditure	1.9	1.0	0.7	-8.5	2.9	1.6	1.3
Exports	-0.7	2.6	-2.5	-12.8	5.9	3.0	2.7
Imports	1.0	3.3	-0.5	-14.7	4.7	2.8	2.2
Real GDP growth	**1.4**	**0.8**	**0.2**	**-7.8**	**3.3**	**1.7**	**1.5**
GDP inflation	5.3	3.9	4.0	4.3	3.9	4.2	4.3
GDP at current prices (R billion)	**4 654**	**4 874**	**5 078**	**4 885**	**5 240**	**5 553**	**5 877**
CPI inflation	5.3	4.6	4.1	3.2	4.1	4.4	4.5
Current account balance (% of GDP)	-2.5	-3.5	-3.0	-0.8	-1.6	-2.0	-2.7

Source: National Treasury, Reserve Bank and Statistics South Africa

Macroeconomic assumptions

The forecast incorporates assumptions outlined in Table 2.3 below. The main changes since the June special adjustments budget include upward revisions to key export prices. A gradual recovery in nominal investment by government and public corporations, while public consumption declines in nominal terms, reflects fiscal consolidation that is weighted towards the public-service wage bill and seeks to protect capital spending from reductions.

Table 2.3 Assumptions informing the macroeconomic forecast

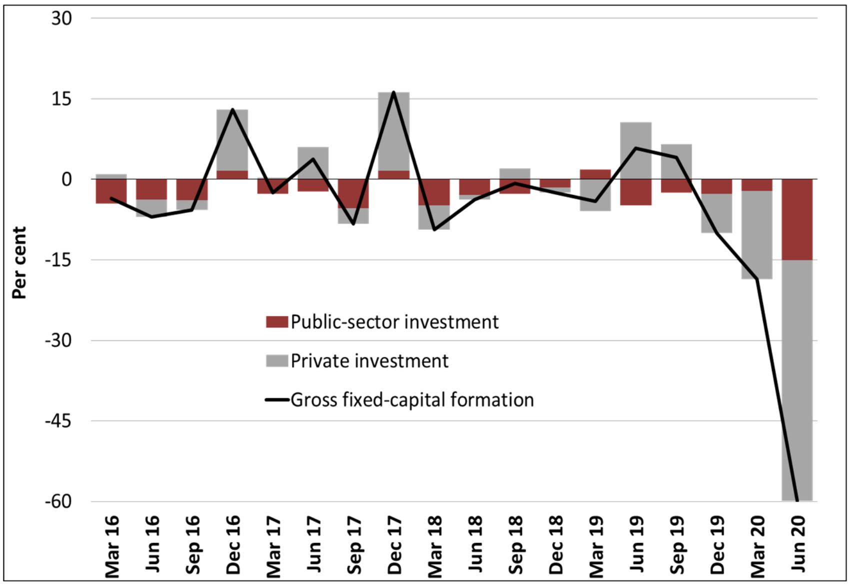
	2018	2019	2020	2021	2022	2023
Percentage change	**Actual**		**Estimate**		**Forecast**	
Global demand[1]	**4.4**	**3.3**	**-2.7**	**6.2**	**4.5**	**4.4**
International commodity prices[2]						
Brent crude oil (US$ per barrel)	71.0	64.3	40.8	43.0	45.2	46.7
Gold (US$ per ounce)	1 269.3	1 392.5	1 776.8	1 921.9	1 938.6	1 959.4
Platinum (US$ per ounce)	880.7	863.8	870.0	903.3	927.5	952.1
Coal (US$ per ton)	90.5	78.5	63.5	67.9	71.0	73.2
Iron ore (US$ per ton)	67.2	91.1	99.8	90.5	76.2	65.0
Food inflation	**3.6**	**3.4**	**4.2**	**4.3**	**4.5**	**4.6**
Sovereign risk premium (percentage point)	**3.1**	**3.2**	**5.2**	**4.8**	**4.0**	**3.7**
Public corporation investment	**-12.5**	**-1.6**	**-26.9**	**-4.1**	**3.9**	**2.3**

1. Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, October 2020)
2. Source: Bloomberg futures prices as at 14 October 2020
Source: National Treasury

Investment

The decline in gross fixed-capital formation across the public and private sectors deepened in the second quarter. South Africa is on course for its fourth consecutive year of contracting investment, and investment as a percentage of GDP has fallen from 23 per cent in 2008 to an average of 17 per cent in 2020 to date. A credible fiscal framework and the rapid and effective implementation of the economic recovery plan, including addressing electricity supply constraints, is crucial to boost investment.

Figure 2.7 Gross fixed-capital formation



Source: Statistics South Africa

Household consumption

Household expenditure has evolved in line with lockdown restrictions, with high-contact, consumer-facing sectors (retail, leisure, alcohol and tobacco) experiencing a sharp drop due to COVID-19 containment measures. Conversely, higher spending on communication, housing and utilities is consistent with increased home-based work and leisure.

Aggregate household consumption is expected to remain below pre-pandemic levels for some time. Consumption will be severely constrained by record job losses, steep declines in incomes and low confidence. Despite lower interest rates and inflation, demand for credit remains muted, implying that households expect prolonged economic weakness.

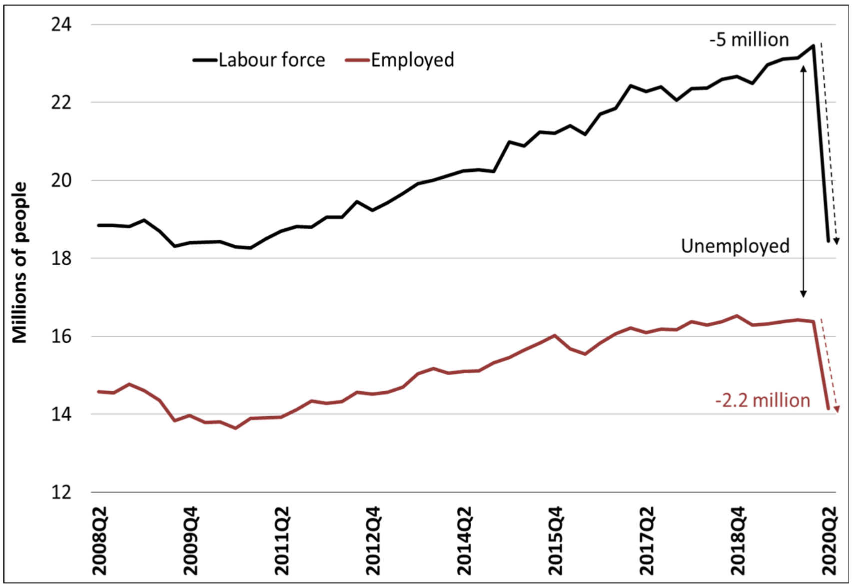
Inflation

Headline inflation is at the lower end of the 3 to 6 per cent target range. Goods and services inflation has broadly declined due to weak demand and falling oil prices. Inflation is forecast to fluctuate around the 4.5 per cent midpoint over the medium term in line with moderating inflation expectations. Below-potential economic output and weak imported inflation are also expected to keep inflation contained.

Employment

The coronavirus pandemic and the associated lockdown led to record unemployment, as businesses closed and millions were unable to seek work. In a population of 59.6 million, with a labour force of 18.4 million, only 14.1 million South Africans are currently employed (Figure 2.8).

Figure 2.8 The South African labour market



Source: Reserve Bank and Statistics South Africa

Restrictions on movement and activity resulted in a technical fall in the official unemployment rate in the second quarter of 2020 (to 23.3 per cent, from 30.1 per cent in the first quarter). Although 2.2 million fewer people were employed in the second quarter, millions more were defined as economically inactive – outside the labour market – because they were unable to look for work. The expanded unemployment rate, which includes those out of work who were not actively looking for work, increased by 2.3 percentage points to 42 per cent – its highest level since the Quarterly Labour Force Survey began in 2008.

Recent surveys, including the second round of the National Income Dynamics Study – Coronavirus Rapid Mobile Survey, show that many temporary job losses are at risk of becoming permanent as lockdown restrictions lift.

Worker mobility, skills and productivity

In the long run, economic growth is driven by productivity gains. Worker mobility across firms is one channel through which productivity can rise, if workers bring new technological knowledge that boosts the productivity and innovative ability of their new firms. This is likely where large knowledge gaps exist between firms, and where workers are moving from high- to low-productivity firms.

Recent research[1] indicates that, on average, South African workers are more likely to move from low-productivity to high-productivity firms, which lowers the average productivity of the receiving firms. This is likely due to significant skills shortages in the South African labour market, which constrain long-term growth.

[1]A. Hlatshwayo (National Treasury), F. Kreuser, C. Newman, and J. Rand. 2019. *Worker Mobility and Productivity Spillovers: An Emerging Market Perspective* (https://sa-tied.wider.unu.edu)

Job creation is a top priority of the economic recovery plan that will guide policy actions over the medium term, supported by new infrastructure investment and large-scale public employment programmes. In addition, targeted skills development will improve productivity and employment prospects.

Sector performance and outlook

Growth in real output contracted by 8.7 per cent in the first six months of 2020 compared with the same period in 2019. The steep annualised contraction in the second quarter marked the fourth consecutive quarter of contraction.

Agriculture

Agriculture was the only sector that increased output during the first half of 2020. Real gross value added in the agriculture, forestry and fishing industry grew by 11.7 per cent in the first half of 2020 compared with the same period in 2019. Favourable weather conditions are expected to support grain production, as shown in a substantially higher maize crop and optimistic forecasts for wheat production in 2020. This will also support the livestock industry, which has largely recovered from the outbreak of foot-and-mouth disease in 2019.

Agriculture recorded a trade surplus in the first half of 2020, bolstered by higher exports in citrus, maize, apples, macadamia nuts and sugar cane. Exports are expected to remain strong for the rest of the year, supported by high external demand.

Mining

Reflecting the global downturn, mining production contracted by 19.8 per cent in the first six months of 2020 compared with the same period in 2019. Mining remains susceptible to fluctuating global demand. In addition, domestic structural challenges such as regulatory uncertainty, lack of investment and electricity disruptions continue to affect sector performance. As a result, production is likely to remain weak for the next few years.

Manufacturing

Manufacturing output contracted by 18.3 per cent in the first six months of 2020 compared with the same period in 2019. This was the largest contribution to the overall decline in output. Over the same period, manufactured exports and imports fell by 26.7 per cent and 11.2 per cent respectively.

While production remains below pre-pandemic levels, improving business conditions boosted the Absa PMI to 58.3 index points in September 2020 – its fifth consecutive month above the neutral 50-point mark. Production is expected to recover gradually, and the outlook remains subdued due to unstable electricity supply, low demand, and weak domestic and global growth.

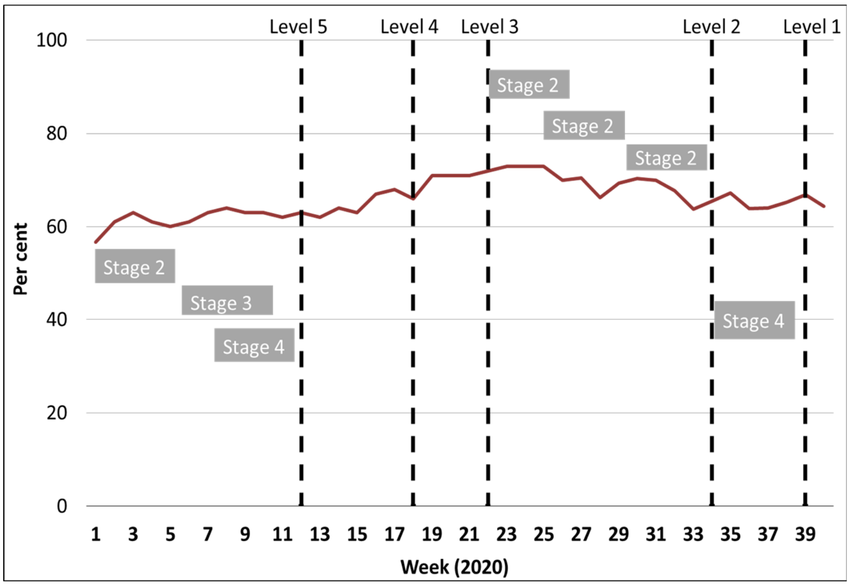
Electricity

The electricity, gas and water sector contracted by 8.7 per cent in the first six months of 2020 relative to the first half of 2019. The decline was largely due to a broad industrial and mining shutdown for much of the second quarter, and the poor performance of Eskom plants.

The Level 5 lockdown offered an opportunity for Eskom, whose staff were defined as essential workers, to expedite maintenance. As the economy reopened, however, capacity was still insufficient to meet demand. The electricity availability factor from coal-fired power stations improved to 73 in June, before deteriorating to 65 in September as lockdown levels eased.

Electricity remains a binding constraint on economic recovery, with power interruptions expected to continue into 2021. Private generation will only be able to plug the electricity gap to a limited extent over the next year.

Figure 2.9 South African electricity availability factor during 2020



Source: Eskom and National Treasury calculations

Construction

Real gross value added in the construction sector fell 19.2 per cent in the first half of 2020 relative to the corresponding period in 2019. Sector outcomes correspond with falling investment – particularly lower investment by public corporations. The sector has contracted for the past eight quarters.

The lockdown resulted in a near-complete shutdown of the construction sector, which employs over 1 million people. Employment fell by 10.8 per cent in the first half of 2020 compared with the same period in 2019. Uncertainty, low investment and electricity supply interruptions are expected to hamper recovery over the medium term.

Transport, storage and communication

The transport, storage and communication sector contracted by 15.1 per cent in the first half of the year relative to the same period in 2019. Lockdown restrictions severely affected land and air transport, as well as support services, with the effects of travel restrictions outweighing the gains from increased demand for networking and data services to support remote work and business continuity.

Finance and business services

The finance and business services sector contracted by 1.8 per cent in the first half of 2020 compared with the same period in 2019, marking the first quarter-on-quarter decline since 2009. Lingering risks to the banking sector include a build-up of credit losses, deteriorating profitability and exposure to weakness in the broader economy. That said, domestic banks and insurers remain largely sound, highly liquid and well capitalised.

Banks have continued to provide credit to the rest of the economy. However, a deeper economic downturn amid increasing indebtedness and associated credit defaults could undermine financial resilience over time.

Conclusion

The economy has begun to recover from a historic contraction, but the economic growth outlook remains muted. The economic recovery plan agreed on by the social partners targets short- and longer-term reforms to boost growth and remove constraints to investment and employment. Rapid and effective implementation of this plan is a critical driver of higher and sustained growth over the medium term.

3

Fiscal policy

In brief

- Government remains committed to closing the budget deficit and stabilising the national debt-to-GDP ratio. A combination of expenditure and revenue measures will narrow the consolidated deficit from 15.7 per cent of GDP in 2020/21 to 7.3 per cent by 2023/24. Gross national debt is projected to stabilise at 95.3 per cent of GDP by 2025/26.
- Achieving these targets will require large reductions in non-interest spending over the next three years, amounting to R300 billion relative to projections set out in the 2020 *Budget Review*. The majority of these reductions will be applied to the wage bill. Government will aim to protect funding for infrastructure investment.
- To assist with the consolidation, government has projected tax increases of R5 billion in 2021/22.
- The fiscal outlook is highly uncertain. Major risks include the speed of the economic recovery, the legal process associated with public-service compensation and the forthcoming wage negotiations. In the broader public sector, several state-owned companies and municipalities have insufficient funds to cover operational expenses.

Introduction

The 2020 *Medium Term Budget Policy Statement* (MTBPS) proposes steps to reduce the fiscal deficit and stabilise the debt-to-GDP ratio over a five-year period. Large fiscal adjustments and an improving economic outlook will narrow the budget deficit by 7.3 percentage points of GDP over the medium-term expenditure framework (MTEF) period, and by an additional 1.8 percentage points in the subsequent two years. The aim is to reach a main budget primary surplus by 2025/26. This target is expected to result in debt stabilising at 95.3 per cent of GDP in the same year.

The impact of the COVID-19 economic contraction on South Africa's public finances will be felt for years to come. Although the economy has begun to recover from the hard lockdown, tax revenue in the current year is projected to be R8.7 billion lower than the June estimate. Gross debt is projected to reach 81.8 per cent of GDP in the current year, up from 65.6 per cent projected in February 2020. Additional fiscal pressures from the broader public sector – including state-owned companies, social security funds and municipalities – remain unresolved. The fiscal trajectory is a major source of uncertainty, pushing up borrowing costs for the broader economy.

Returning the public finances to a sustainable position requires large adjustments. Government spending remains too high for the tax base – and this gap has likely increased as a result of the 2020 recession. Recent tax increases have generated less revenue than expected, and evidence suggests that tax increases can have large negative effects on GDP growth. Without a major reduction in public spending, debt will continue to accumulate and interest payments – which already consume 21 cents of every rand of main budget revenue – will crowd out other spending.

Debt stabilisation involves difficult decisions, with short-term costs for the economy and the fiscus. To partially offset the effect of the spending adjustment, government has weighted the largest share of reductions to the wage bill, while supporting capital grants and the Infrastructure Fund.

Figure 3.1 Main budget balance

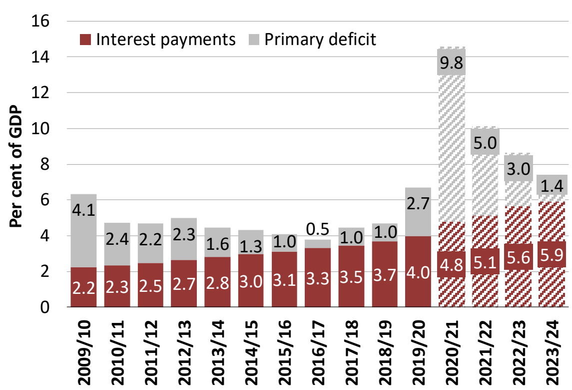


Figure 3.2 Gross debt-to-GDP outlook*

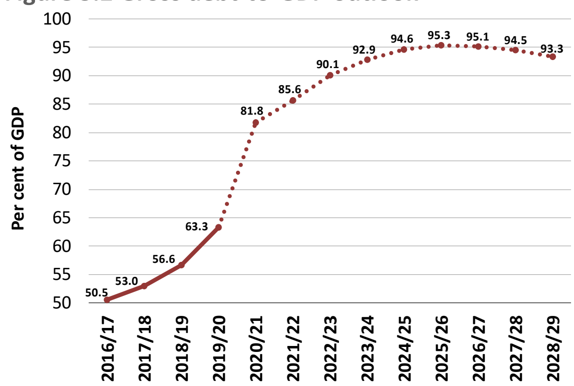


Figure 3.3 Main budget primary balance**

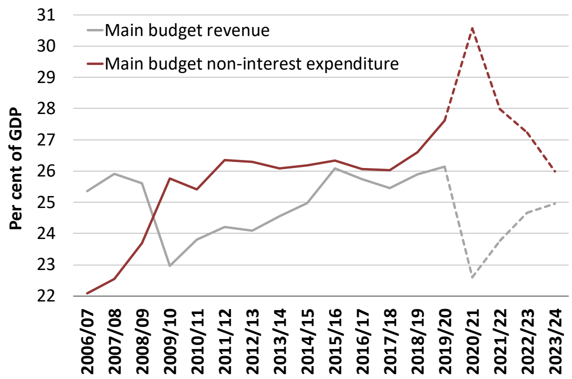
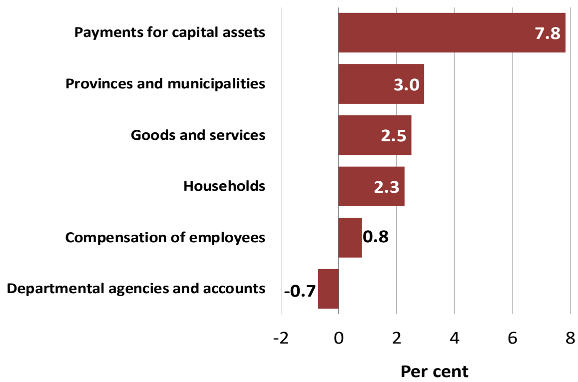


Figure 3.4 Average nominal spending growth, 2020/21 – 2023/24***



**The assumptions underlying the long-term projections appear in Annexure C*
***Excludes Eskom financial support and transactions in financial assets and liabilities*
****Excludes COVID-19 fiscal relief measures in 2020/21*
Source: National Treasury

South Africa's fiscal choices

The deteriorating fiscal position reflects a combination of economic factors and fiscal choices. Between 2007/08 and 2011/12, non-interest spending grew by an annual average of 14 per cent, reflecting an increase in public-service compensation and an expansion of social grants, among other factors. The introduction of the expenditure ceiling in 2012/13 constrained expenditure growth. But despite efforts to slow non-interest spending growth and raise taxes, the structural gap between revenue and expenditure has not been adequately addressed. While deficit spending has provided some support to the economy, real economic growth has declined over the past decade. Downward revisions to nominal GDP have also pushed up the budget deficit and debt-to-GDP ratio.

In comparison with a wide range of other countries (Figure 3.5), South Africa's average primary balance over the last 10 years falls in the middle of the distribution. Figure 3.6, however, shows that South Africa's three-year increase in debt to GDP is the largest among a group of developing countries. The probability of a debt trap – in which rising debt-service costs are increasingly paid from additional borrowing – has increased.

As debt has mounted, these deficits have become a drag on growth. Current expenditure is increasingly funded by debt, and borrowing is becoming more expensive. In June 2020, volatility in bond market auctions triggered the introduction of a bond-purchase programme by the Reserve Bank.

Fiscal distress is mounting in developing countries amid historically high indebtedness. A case in point is Argentina, where a decade of rapid spending growth reversed sharply over the past two years, culminating in a sovereign debt default in March 2020. In this environment of rising fiscal pressures, South Africa is losing ground to its peers, as shown in Figure 3.6.

Figure 3.5 Average primary balance, 2009–2019

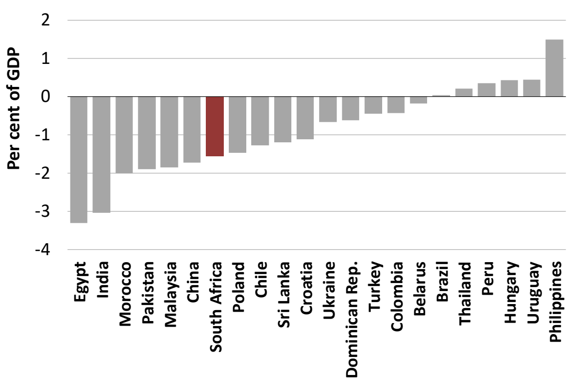
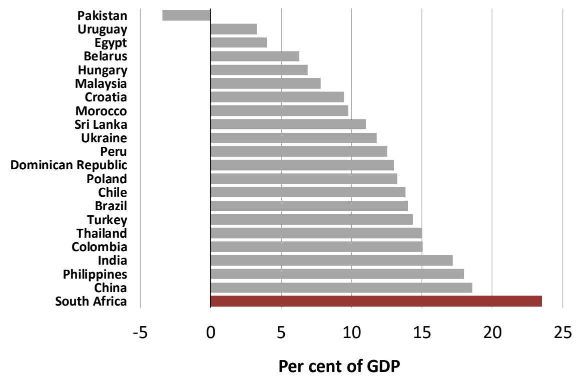


Figure 3.6 Projected three-year increase in debt



Source: IMF Fiscal Monitor, October 2020

Over the past five years, the fiscal environment has been characterised by:

- Interest payments absorbing a growing share of limited public resources, which increasingly crowds out spending on social and economic investment. Debt-service costs are now 4.8 per cent of GDP, up from 3.3 per cent in 2016/17.
- A sharp drop in public infrastructure investment, mostly driven by declines in spending by state-owned companies. Between 2016/17 and 2019/20, total public infrastructure spending fell from R250 billion to R183 billion, or from 5.7 to 4 per cent of GDP.

- A deteriorating government balance sheet, including state-owned companies and municipalities struggling to pay salaries and other operational costs.

Options to stabilise the fiscus are becoming increasingly limited. Implementation of 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. Narrowing the deficit and improving the composition of spending requires reductions in the growth of the wage bill, which accounts for about one-third of the consolidated budget. Salaries for civil servants have grown by about 40 per cent in real terms over the past decade.

Update on the public-service wage bill

Government proposes growth in the public-service wage bill of 1.8 per cent in the current year and average annual growth of 0.8 per cent over the 2021 MTEF period.

To achieve these targets, which are essential for fiscal sustainability, government has not implemented the third year of the 2018 wage agreement. Furthermore, the Budget Guidelines propose a wage freeze for the next three years to support fiscal consolidation. Additional options to be explored include harmonising the allowances and benefits available to public servants, reconsidering pay progression rules and reviewing occupation-specific dispensations. The next round of wage negotiations is due to start soon and work is under way to formulate government's position.

In addition, government is coordinating work relating to developing a comprehensive public-sector remuneration strategy for the medium to long term. This will include public office bearers, state-owned companies, public entities and local government. The strategy will seek to better balance competing interests on the basis of fairness, equity and affordability.

The financial position of state-owned companies and public entities was weak before the onset of the pandemic. The current increase in requests for recapitalisation largely reflects the in-year deterioration in their operating environment. Lenders have called the guarantees of South African Express and the Land Bank, with a negligible effect on the fiscal framework. Larger calls on guaranteed debt are expected unless steps are taken to turn around the most indebted state-owned companies.

How much does public spending boost growth? Examining South Africa's fiscal multiplier

There has been considerable debate on South Africa's fiscal strategy. Although there is some agreement that the debt-to-GDP ratio should stabilise over a reasonable time period, there are questions about how much support government can give to the economy in the short term and how much the state can borrow. The fiscal multiplier – a ratio that measures the extent to which national income changes in response to changes in government spending – is one tool for assessing the trade-offs involved in this debate. A multiplier of more than 1 implies that an additional rand of government spending can translate into more than one additional rand of GDP.

In general, a higher fiscal multiplier implies that more government spending will boost economic growth. Recent research in South Africa[1] concluded that spending multipliers are positive, albeit generally smaller than 1. The Reserve Bank estimates that the fiscal multiplier declined from 1.6 to less than zero between 2009 and 2019, as South Africa approached its fiscal limits.[2] In general, infrastructure investment multipliers tend to exceed consumption spending multipliers.

The literature shows large negative multipliers from revenue increases, suggesting that South Africa's growth slowdown over the past five years may be related to rising taxes. The National Treasury's view is that the potential growth rate is low, the country is reaching its fiscal limits, and the fiscal multiplier is low (or possibly negative). This implies that a large fiscal consolidation to narrow the budget deficit and stabilise debt – complemented by implementation of structural reforms – is more likely to support economic growth than continued spending funded by higher borrowing and taxation.

[1] J. H. Kemp. 2020. *Empirical Estimates of Fiscal Multipliers for South Africa.* SA-TIED Working Paper 127
[2] Reserve Bank. 2020. *Monetary Policy Review October 2020*

Expenditure performance and outlook

In-year spending adjustments

Main budget non-interest spending has increased by R36 billion in the current year compared with 2020 Budget estimates. This reflects net additions made for the COVID-19 fiscal relief package, as discussed in the June special adjustments budget. Table 3.1 shows new proposed allocations of R34.3 billion in 2020/21, which are financed through reallocations and baseline reductions.

Table 3.1 Revisions to non-interest expenditure for 2020/21

	R million
Non-interest expenditure (2020 Budget Review)	**1 536 724**
2020 special adjustments budget (SAB) net additions	36 006
Revised non-interest expenditure (2020 SAB)	**1 572 731**
COVID-19 fiscal relief package allocations	**19 431**
Employment creation	12 634
Extension of special COVID-19 social relief of distress grant	6 797
Increases in allocations since 2020 SAB	**14 904**
South African Airways	10 500
Other allocations in AENE[1]	4 404
Resources used to fund adjustments since 2020 SAB	**(33 286)**
Net of provisional allocations for COVID-19 fiscal relief package	(19 575)
Reductions to fund South African Airways allocation	(6 970)
Drawdowns, suspensions and projected underspending[2]	(6 740)
Other adjustments[3]	**(1 050)**
Revised non-interest expenditure (2020 MTBPS)	**1 572 731**
Change in non-interest expenditure from 2020 SAB	–
Change in non-interest expenditure from 2020 Budget	36 006

1. 2020 Adjusted Estimates of National Expenditure
2. Including suspensions, projected underspending and drawdown on the contingency reserve and of provisional allocations announced in 2020 Budget
3. Including an increase of R66 million in NRF payments and R1.1 billion downward adjustment to skills development levy
Source: National Treasury

Medium-term expenditure outlook

Government proposes downward adjustments to main budget spending plans over the next three years. Relative to the 2020 Budget, total main budget non-interest expenditure is projected to decrease by R62.9 billion in 2021/22, R92.9 billion in 2022/23 and R150.9 billion in 2023/24. These downward adjustments reflect:

- Reductions of R60 billion in 2021/22, R90 billion in 2022/23 and R150 billion in 2023/24, mostly falling on compensation. Other non-interest spending items are also reduced, while funding for buildings and other fixed structures, provincial and local capital grants, and the Infrastructure Fund is protected.
- Lower estimated spending by the National Skills Fund and sector education and training authorities of R2.8 billion in 2021/22, R2.7 billion in 2022/23 and R0.9 billion in 2023/24, reflecting the decline in skills development levy projections.

- Early retirement savings anticipated in national departments of R109 million in 2021/22 and R118 million in 2022/23.

Main budget non-interest expenditure is projected to contract in real terms in each year of the MTEF period. As a share of GDP, non-interest expenditure will moderate from a peak of 32.4 per cent in 2020/21 to 26.4 per cent by 2023/24. This includes a contingency reserve of R5 billion per year over the medium term. Due to a wider deficit, weaker currency and higher interest rates, debt-service costs will continue rising over the medium term.

Expenditure ceiling

The main budget expenditure ceiling provides an upper limit within which departments prepare their budgets. The ceiling has anchored fiscal policy since the 2012 Budget. Expenditure exceeded the 2019/20 ceiling mainly due to early payment of social grants. In the current year, expenditure breached the ceiling by R45.2 billion relative to the 2020 *Budget Review* estimates, as a result of the emergency response to COVID-19. Compared with the 2020 Budget, the ceiling is lower by R58.9 billion in 2021/22 and R89 billion in 2022/23.

Eskom financial support, classified as payments for financial assets, is excluded from the expenditure ceiling. Annexure C 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	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
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	
2020 Budget Review			1 409 244	1 457 703	1 538 590	1 605 098	
2020 MTBPS			**1 418 408**	**1 502 867**	**1 479 709**	**1 516 052**	**1 529 585**

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

Revenue performance and outlook

The gross tax revenue estimate for 2020/21 has been revised down by R8.7 billion compared with the projection in the June special adjustments budget. This deterioration is aligned with revised economic growth projections and the expected performance of the major tax bases.

Gross tax revenue is expected to be 17.9 per cent lower than collections in 2019/20, or R312.8 billion below the 2020 Budget forecast. The tax-to-GDP ratio is expected to decline substantially, dropping from 26.3 per cent to 22.9 per cent. A strong and sustained rebound in economic growth is required for the tax-to-GDP ratio to return to levels seen in 2019/20.

Table 3.3 Gross tax revenue

R billion	2019/20			2020/21				
	Budget Review	Outcome	Deviations	Budget Review	SAB[1]	Revised	Deviation from Budget Review	Deviation from SAB
Persons and individuals	527.6	527.6	0.0	546.8	455.5	454.2	-92.6	-1.3
Companies	216.7	211.5	-5.2	230.2	154.6	159.6	-70.7	5.0
Value-added tax	344.2	346.7	2.5	360.6	301.3	287.7	-72.9	-13.6
Dividends tax	29.1	27.9	-1.2	31.2	16.7	20.7	-10.5	4.0
Specific excise duties	46.8	46.8	0.1	48.8	36.3	33.8	-15.1	-2.5
Fuel levy	79.3	80.2	0.9	83.4	63.2	68.4	-15.1	5.2
Customs duties	56.3	55.4	-0.9	59.5	45.8	40.3	-19.2	-5.5
Ad valorem excise duties	4.1	4.1	0.0	4.3	3.9	3.2	-1.1	-0.7
Other	54.8	55.4	0.6	60.6	44.1	44.8	-15.8	0.7
Gross tax revenue	**1 358.9**	**1 355.7**	**-3.2**	**1 425.4**	**1 121.3**	**1 112.6**	**-312.8**	**-8.7**

1. 2020 special adjustments budget figures
Source: National Treasury

Tax revenue performance in the initial stage of the pandemic

Tax revenues, which fell sharply during the first several months of the coronavirus pandemic, have begun to recover. However, monthly collections remain well below 2019/20 levels in many tax categories. For example, domestic value-added tax (VAT) collected in the first six months of 2020/21 was 6.7 per cent lower than the same period in 2019/20.

Figure 3.7 Domestic value-added tax

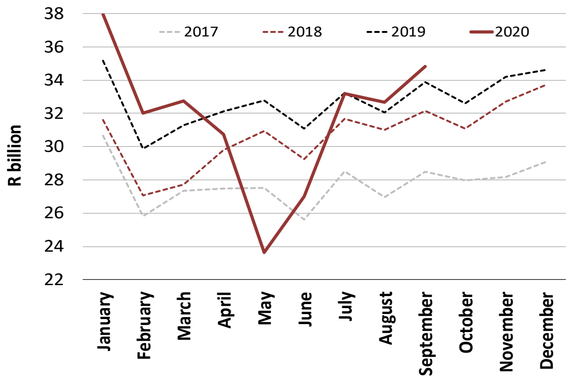
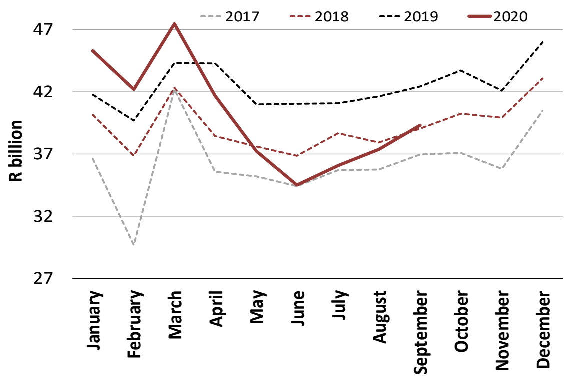


Figure 3.8 Pay-as-you-earn tax



Source: National Treasury and South African Revenue Service

Key factors affecting in-year revenue collection include:

- A significant decline in compensation, and therefore personal income tax, due to the lockdown.
- A weaker import outlook, which has reduced VAT and customs expectations.
- A sharp reduction in consumption, lowering domestic VAT collection.
- Downward adjustments in specific excise duties associated with a longer-than-expected tobacco ban.
- Stronger-than-expected corporate profitability, limiting the anticipated reduction in corporate income tax and dividend tax receipts.

In April 2020, government introduced tax relief measures to provide temporary assistance to businesses and households during the lockdown. These interventions offered a combination of cash-flow relief through tax deferrals, and direct support through increased incentives to retain lower-income employees and reductions in payroll taxes. Details on the take-up and effects of these measures will be provided in the 2021 *Budget Review*.

Improved tax collection and administration continues to be an important element in achieving fiscal consolidation. The South African Revenue Service continues to rebuild its capacity following several years of mismanagement. Near-term objectives include:

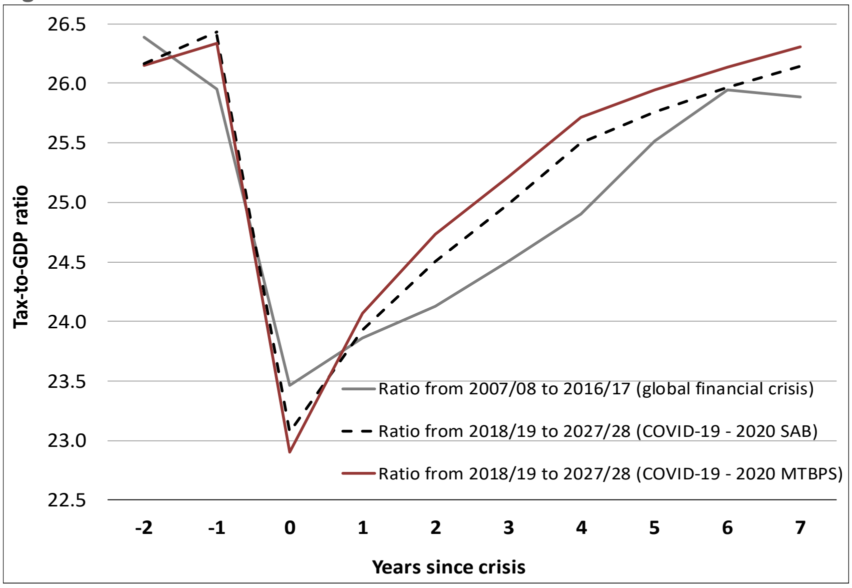
- Finalising the tax gap study in December 2020 to quantify the difference between how much tax should be collected and how much is collected.
- Remaining focused on international taxes, particularly aggressive tax planning using transfer pricing.
- Increasing enforcement to eliminate syndicated fraud and tax crimes.
- Continuing to use third-party data to find non-compliant taxpayers.
- Collecting pay-as-you-earn and VAT debt, and ensuring that outstanding taxpayer returns are filed and liabilities paid.

Medium-term revenue outlook

Tax revenue is expected to increase to R1.5 trillion, or 25.2 per cent of GDP, by the end of the MTEF period.

The extraordinary shock to economic output in 2020/21 translates into large revenue shortfalls that will persist over the medium term. The shortfalls are exacerbated by a reduction in the tax-to-GDP ratio, because the tax system automatically adjusts to reduce the amount of revenue that is collected for a given level of economic activity in the event of a crisis.

Figure 3.9 Tax-to-GDP ratio after crisis



Source: National Treasury and South African Revenue Service

Tax buoyancies can become highly volatile over these periods, as shown in Table 3.4. Although overall buoyancies appear relatively large up until the end of the MTEF period, this reflects a slow improvement in the tax-to-GDP ratio after the large once-off decrease in 2020/21. The ratio is only expected to recover to the 2019/20 level by 2027/28. Additional details appear in Table C.5 of Annexure C.

Table 3.4 Revised revenue projections

R billion	2020/21	2021/22	2022/23	2023/24
2020 Budget	**1 425.4**	**1 512.2**	**1 609.7**	
Buoyancy	*0.93*	*1.00*	*1.01*	
2020 special adjustments budget	**1 121.3**	**1 291.4**	**1 394.0**	**1 508.9**
Buoyancy	*3.23*	*1.58*	*1.46*	*1.33*
Revised estimates	**1 112.6**	**1 279.5**	**1 392.2**	**1 503.2**
Buoyancy	*3.18*	*1.59*	*1.50*	*1.35*
Change since 2020 Budget	**-312.8**	**-232.7**	**-217.5**	
Change since 2020 special adjustments budget	**-8.7**	**-11.9**	**-1.8**	**-5.7**

Source: National Treasury

The improvement in revenue collection over the next four years includes the revenue proposals announced in the June special adjustments budget, including tax increases of R5 billion in 2021/22, R10 billion in 2022/23, R10 billion in 2023/24 and R15 billion in 2024/25. It does not include any additional revenue from more effective collection.

Table 3.5 Medium-term revenue framework

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
R billion		Outcome		Revised		Medium-term estimates	
Gross tax revenue	**1 216.5**	**1 287.7**	**1 355.7**	**1 112.6**	**1 279.5**	**1 392.2**	**1 503.2**
Gross tax revenue growth	6.3%	5.9%	5.3%	-17.9%	15.0%	8.8%	8.0%
Nominal GDP growth	6.3%	4.8%	4.6%	-5.6%	9.4%	5.9%	5.9%
Buoyancy	*1.00*	*1.22*	*1.16*	*3.18*	*1.59*	*1.50*	*1.35*
Non-tax revenue	19.2	23.9	27.6	24.9	22.3	23.3	25.0
Southern African Customs Union[1]	-56.0	-48.3	-50.3	-63.4	-46.0	-31.5	-42.5
National Revenue Fund receipts[2]	16.6	12.0	12.8	23.8	7.9	4.3	1.4
Main budget revenue	**1 196.4**	**1 275.3**	**1 345.9**	**1 097.9**	**1 263.6**	**1 388.3**	**1 487.1**

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

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 sharply over the next two years compared with 2020 Budget estimates. Details appear in Annexure C.

Non-tax revenue estimates for the next two years are lower than the 2020 Budget estimates by an average of R5.8 billion.

Main budget framework

The main budget framework summarises spending financed from the National Revenue Fund. Main budget revenue is expected to fall sharply in the current year to 22.6 per cent of GDP due to the steep economic contraction. It is projected to peak at 37.2 per cent of GDP in 2020/21, relative to the 2020 Budget estimate of 32.5 per cent of GDP. This largely reflects the response to COVID-19 and higher debt-service costs. The main budget deficit is therefore expected to widen significantly to 14.6 per cent of GDP, from 6.8 per cent of GDP as projected in the 2020 Budget.

Main budget revenue will improve as a share of GDP, reaching 24.9 per cent by 2023/24, while non-interest expenditure is expected to decrease as a share of GDP. Debt-service costs will continue rising over the forecast period. The main budget balance and the primary balance will narrow to stabilise debt in 2025/26. Compared with the 2020 *Budget Review* estimates, both metrics have deteriorated. Changes to the main budget framework since February 2020 are presented in Annexure C.

Table 3.6 Main budget framework

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
R billion/percentage of GDP		**Outcome**		**Revised**		**Medium-term estimates**	
Main budget revenue	**1 196.4**	**1 275.3**	**1 345.9**	**1 097.9**	**1 263.6**	**1 388.3**	**1 487.1**
	25.5%	*25.9%*	*26.1%*	*22.6%*	*23.8%*	*24.7%*	*24.9%*
Main budget expenditure	**1 404.9**	**1 506.6**	**1 690.9**	**1 805.8**	**1 801.1**	**1 874.8**	**1 924.6**
	29.9%	*30.6%*	*32.8%*	*37.2%*	*33.9%*	*33.3%*	*32.3%*
Non-interest expenditure	1 242.3	1 324.8	1 486.2	1 572.7	1 529.3	1 557.2	1 571.5
	26.4%	*26.9%*	*28.9%*	*32.4%*	*28.8%*	*27.7%*	*26.4%*
Debt-service costs	162.6	181.8	204.8	233.0	271.8	317.6	353.1
	3.5%	*3.7%*	*4.0%*	*4.8%*	*5.1%*	*5.6%*	*5.9%*
Main budget balance	**-208.6**	**-231.3**	**-345.1**	**-707.8**	**-537.4**	**-486.6**	**-437.5**
	-4.4%	*-4.7%*	*-6.7%*	*-14.6%*	*-10.1%*	*-8.6%*	*-7.3%*
Primary balance	**-45.9**	**-49.5**	**-140.3**	**-474.8**	**-265.7**	**-169.0**	**-84.4**
	-1.0%	*-1.0%*	*-2.7%*	*-9.8%*	*-5.0%*	*-3.0%*	*-1.4%*

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. In 2020/21, the consolidated budget deficit has been revised from 6.8 per cent of GDP projected in the 2020 Budget to 15.7 per cent of GDP.

Public entities, social security funds and provinces are projected to have a combined cash surplus over the medium term, partially offsetting the main budget deficit. Over the next two years, the consolidated budget deficit is projected, on average, to be 3.4 percentage points of GDP wider than the 2020 Budget estimates.

Table 3.7 Consolidated budget balance

R billion	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
		Outcome		Revised		Medium-term estimates	
Main budget	-208.6	-231.3	-345.1	-707.8	-537.4	-486.6	-437.5
Social security funds	9.3	6.8	-3.3	-49.1	-1.0	-2.4	-2.5
Public entities	8.3	26.3	13.4	5.1	2.0	4.2	5.7
Provinces	0.8	1.0	5.0	-9.3	0.6	1.0	0.9
RDP Fund	-0.3	-0.2	-0.6	-0.0	-0.1	-0.1	-0.0
Consolidated budget balance	**-190.5**	**-197.3**	**-330.6**	**-761.1**	**-535.9**	**-483.9**	**-433.4**
Percentage of GDP	*-4.1%*	*-4.0%*	*-6.4%*	*-15.7%*	*-10.1%*	*-8.6%*	*-7.3%*

Source: National Treasury

Financing and debt management strategy

As a result of this year's steep economic contraction, government's gross borrowing requirement – the sum of the budget deficit and maturing loans – has increased by R342 billion to R774.7 billion, relative to the 2020 Budget. This is a marginal decline from the June estimate of R776.9 billion in 2020/21. The debt portfolio, which is structured to manage risk, remains within all its strategic benchmarks.

The coronavirus pandemic triggered a large global selloff of bonds in developing countries, including South Africa. These developments led to Moody's downgrading South Africa's sovereign credit rating to sub-investment grade, which put the domestic capital market under pressure. Higher bond yields – which reflect an elevated perception of risk – and exchange rate depreciation have increased borrowing costs.

In response, government revised its financing strategy, as outlined in the special adjustments budget, to make use of sterilisation and foreign-currency deposits at the Reserve Bank, and new loans from international finance institutions. In addition, government increased its borrowing in the domestic money and bond markets. These actions have ensured that government is able to meet its borrowing requirement.

Table 3.8 National government gross borrowing requirement and financing

R billion	2019/20	2020/21	2021/22	2022/23	2023/24
	Outcome	Revised		Medium-term estimates	
Gross borrowing					
Main budget balance	**-345.1**	**-707.8**	**-537.4**	**-486.6**	**-437.5**
Redemptions	**-70.7**	**-66.9**	**-65.5**	**-150.6**	**-155.7**
Domestic long-term loans	-19.4	-52.5	-60.9	-134.2	-112.9
Foreign loans	-51.2	-14.4	-4.6	-16.4	-42.8
Total	**-415.8**	**-774.7**	**-602.9**	**-637.2**	**-593.2**
Financing					
Domestic short-term loans (net)	36.1	143.0	67.0	71.0	62.0
Domestic long-term loans	305.4	462.5	472.2	500.8	436.8
Foreign loans	76.1	121.4	49.4	49.3	66.6
Change in cash and other balances	-1.8	47.8	14.3	16.1	27.8
Total	**415.8**	**774.7**	**602.9**	**637.2**	**593.2**

Source: National Treasury

In the current year, short-term borrowing has increased by R95 billion to R143 billion, relative to the 2020 Budget estimate. This is marginally lower than the June estimate. Short-term borrowing will average

R66.7 billion per year over the next three years. Long-term borrowing in the domestic bond market will be kept at R462.5 billion, unchanged from June 2020, and average R469.9 billion per year over the medium term.

As increased bond market volatility favoured short-dated debt, government issuance initially focused on shorter-term bonds to reduce borrowing costs. Once volatility declined, government renewed issuing bonds over the entire yield curve. Bond auctions were increased in July 2020 to fund the higher borrowing requirement. There was strong support for the bond auctions, especially the non-competitive auctions. As a result, government does not anticipate increasing auction levels in the current year. To manage near-term refinancing risk, government will continue with the bond-switch programme.

In the special adjustments budget, government announced borrowing of US$7 billion from international finance institutions. This has been revised to US$7.3 billion, (R121.4 billion), of which US$5.5 billion has been disbursed, with the remainder expected by 31 March 2021.

Table 3.9 Borrowing from international finance institutions

Institutions	Disbursement date	Interest rate	Terms (years)	Grace period[1] (years)	Amount billions
New Development Bank	20 July 2020	6-month LIBOR[2] plus 1.25%	30	5	US$1.0
International Monetary Fund	29 July 2020	1.066%	5	3	US$4.3
African Development Bank	15 October 2020	3-month JIBAR[3] plus 0.8%	20	5	R5.0[4]

1. A period after the disbursement where no capital repayments are required
2. LIBOR (London Interbank Offered Rate)
3. JIBAR (Johannesburg Interbank Average Rate)
4. The US dollar equivalent is US$0.29 billion
Source: National Treasury

Gross loan debt is expected to increase from R3.97 trillion, or 81.8 per cent of GDP, in 2020/21 to R5.54 trillion, or 92.9 per cent of GDP, in 2023/24. The key drivers of this increase remain the budget balance and fluctuations in the interest, inflation and exchange rates.

Compared with the 2020 Budget estimate, debt-service costs will increase by R3.8 billion to R233 billion in 2020/21. These costs will reach R353.1 billion, or 5.9 per cent of GDP, by 2023/24. As a share of expenditure, debt-service costs will increase from 12.9 per cent in 2020/21 to 18.3 per cent in 2023/24.

Table 3.10 Total national government debt

End of period R billion	2019/20 Outcome	2020/21 Revised	2021/22 Medium-term estimates	2022/23	2023/24
Domestic loans[1]	**2 874.1**	**3 497.9**	**4 043.1**	**4 530.7**	**4 964.8**
Short-term	360.7	503.7	570.7	641.7	703.7
Long-term	2 513.4	2 994.2	3 472.4	3 889.0	4 261.1
Fixed-rate	*1 863.2*	*2 227.4*	*2 634.7*	*2 913.9*	*3 264.0*
Inflation-linked	*650.2*	*766.8*	*837.7*	*975.1*	*997.1*
Foreign loans[1]	**387.2**	**476.2**	**508.7**	**540.6**	**571.4**
Gross loan debt	**3 261.3**	**3 974.1**	**4 551.8**	**5 071.3**	**5 536.2**
Less: National Revenue Fund bank balances	-263.6	-204.6	-183.5	-168.1	-147.6
Net loan debt[2]	**2 997.7**	**3 769.5**	**4 368.3**	**4 903.2**	**5 388.6**
As percentage of GDP:					
Gross loan debt	*63.3%*	*81.8%*	*85.6%*	*90.1%*	*92.9%*
Net loan debt	*58.2%*	*77.6%*	*82.2%*	*87.1%*	*90.4%*

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

Risks to the fiscal outlook

This year's global recession has led to extreme economic and fiscal uncertainty, and there are high levels of risk associated with South Africa's outlook.

Without implementation of the proposed fiscal consolidation plans and higher economic growth, the probability of a debt default will increase over time.

The major short- to medium-term risks to the fiscal framework include:

- Uncertainty around the speed of the economic recovery – including the medium-term effects of the lockdown, both domestically and internationally. Globally, several developed economies have returned to strict lockdowns.
- Implementation risks for expenditure reductions, particularly on the wage bill. Both the upcoming decision on the final year of the current wage agreement and the upcoming wage talks pose significant risks to the expenditure ceiling.
- Additional spending pressures from state-owned companies. Several companies, including South African Airways, are insolvent and have insufficient funds to cover operational expenses.

Annexure A contains the fiscal risk statement, which examines medium- to longer-term risks to government's forecasts and the public finances.

Conclusion

Government remains committed to fiscal sustainability. In light of the weak economic outlook and the deteriorating fiscal position, the 2020 MTBPS sets out ambitious consolidation targets to achieve a primary surplus by 2025/26. This requires substantial spending reductions, particularly to the wage bill, to stabilise debt and improve the composition of spending. 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.

4

Expenditure priorities

In brief

- Medium-term spending priorities reflect government's policy of stabilising debt while supporting economic recovery, with a notable shift in the composition of spending from consumption towards growth-enhancing investment.
- Consolidated government spending is expected to total R6.21 trillion over the medium-term expenditure framework (MTEF) period, increasing from R2.04 trillion in 2020/21 to R2.14 trillion in 2023/24, at an average annual growth rate of 1.6 per cent.
- Relative to the 2020 Budget, total main budget non-interest spending is increased by R36 billion in 2020/21.
- To support debt stabilisation, non-interest spending is reduced by R60 billion in 2021/22, R90 billion in 2022/23 and R150 billion in 2023/24 relative to the 2020 Budget estimates. Over the next three years, departments will have to adjust spending priorities and programmes to take into account the revised baseline allocations.
- Government intends to use the findings from spending reviews currently under way to begin implementing the principles of zero-based budgeting in the 2022 MTEF period.

Introduction

The COVID-19 pandemic required government to repurpose and reprioritise the 2020/21 spending plans initially tabled in the 2020 Budget. These changes were outlined in the June 2020 special adjustments budget, and additional adjustments are set out in the 2020 *Adjusted Estimates of National Expenditure*.

South Africa began 2020 in a weak fiscal position. The 2020 Budget included historically high levels of government spending, with consolidated expenditure reaching R1.95 trillion, or 36 per cent of GDP, in 2020/21. High expenditure levels, combined with low economic growth, have led to rising budget deficits and an unsustainable debt burden. To support the stabilisation of debt, significant spending reductions are required. Relative to the 2020 *Budget Review* projections, total main budget non-interest spending – including other adjustments discussed in Chapter 3 – is reduced by R62.9 billion in 2021/22, R92.9 billion in 2022/23 and R150.9 billion in 2023/24.

Reductions to compensation account for about half of the total reduction, while payments for capital assets increase. In this way, the composition of expenditure begins to shift away from consumption towards investment. Over the MTEF period, departments will have to review their spending priorities and programmes to align with revised baseline allocations. The budget framework also provides sufficient flexibility for adjustments to be made within overall ceilings in response to social and economic priorities. Additional details will be set out in the 2021 *Budget Review.*

Revisions to medium-term expenditure priorities

Consolidated government spending will grow below inflation at 1.6 per cent, increasing from R2.04 trillion in 2020/21 to R2.14 trillion in 2023/24. Nevertheless, spending levels remain near historic highs both in nominal terms and as a proportion of economic activity. Main budget spending averages 33.2 per cent of GDP over the MTEF period.

Spending on government programmes has exceeded annual revenues for more than a decade. The persistent gap between spending and government revenue requires difficult decisions about the structure, effectiveness and affordability of certain programmes. To ensure sustainability, high-level policy discussions are needed on:

- The approaches to providing financial support to students in post-school education.
- The subsidy mix for urban transport systems.
- The structure of the human settlements delivery programme.
- The number and size of departments, ministries and public entities in national and provincial governments.
- Management of the functions assigned to the three spheres of government.
- Measures to strengthen the social protection system for the most vulnerable.
- Containing the public-service wage bill.

Progress on spending reviews and zero-based budgeting

South Africa's public spending levels are not matched by high levels of quality or efficiency in the services delivered by the state. This has led to an over-emphasis on incremental changes to annual budgets – and rising allocations – without adequate analysis of programme effectiveness. To address this problem, some reforms to the budgeting process are necessary, and government proposes to implement the principles of zero-based budgeting.

Since June 2020, the National Treasury has been reviewing government spending to improve efficiency. More than 30 spending reviews across all functions have been conducted. The reviews make use of large data systems to understand service-delivery outcomes, and how these might change under different scenarios. Preliminary findings indicate that:

- Many policies are designed and adopted without considering their total costs and affordability.
- Multiple institutions share overlapping responsibilities or mandates, leading to duplication of work.
- In several high-spending procurement areas, including information and communications technology, and infrastructure, it appears that government is overpaying for goods and services.

The spending reviews will be used to inform the zero-based budgeting approach that government will use to review baseline allocations in the 2022 MTEF period.

Table 4.1 Consolidated expenditure by function[1]

R billion	2019/20 Outcome	2020/21 Revised[2]	2021/22	2022/23	2023/24	Average annual growth 2020/21 – 2023/24
			Medium-term estimates			
Learning and culture	**383.4**	**398.3**	**399.0**	**406.7**	**411.3**	**1.1%**
Basic education	261.1	267.8	267.8	272.0	274.5	0.8%
Post-school education and training	111.8	118.7	119.7	123.0	124.9	1.7%
Arts, culture, sport and recreation	10.5	11.8	11.5	11.8	11.9	0.2%
Health	**223.2**	**226.2**	**235.3**	**242.0**	**246.3**	**2.9%**
Peace and security	**212.8**	**216.8**	**210.7**	**213.3**	**214.5**	**-0.4%**
Defence and state security	50.8	52.0	47.2	47.7	48.1	-2.5%
Police services	104.3	104.8	105.3	106.1	106.4	0.5%
Law courts and prisons	47.7	49.5	49.1	49.7	50.0	0.3%
Home affairs	10.0	10.5	9.1	9.9	10.0	-1.7%
Community development	**197.0**	**208.2**	**221.1**	**232.2**	**236.4**	**4.3%**
Economic development	**196.7**	**211.3**	**224.7**	**236.3**	**242.0**	**4.6%**
Industrialisation and exports	37.2	38.6	41.5	41.5	42.3	3.1%
Agriculture and rural development	28.8	29.1	28.2	28.7	28.9	-0.2%
Job creation and labour affairs	21.4	23.1	24.3	25.3	25.6	3.4%
Economic regulation and infrastructure	92.8	103.9	113.7	123.3	127.3	7.0%
Innovation, science and technology	16.5	16.6	17.0	17.5	17.8	2.4%
General public services	**66.2**	**69.8**	**71.0**	**70.4**	**71.2**	**0.6%**
Executive and legislative organs	15.2	15.2	14.6	14.9	15.0	-0.3%
Public administration and fiscal affairs	43.5	46.6	48.4	47.2	47.8	0.9%
External affairs	7.5	8.1	8.0	8.2	8.3	0.9%
Social development	**298.7**	**315.4**	**312.2**	**329.9**	**335.7**	**2.1%**
Social protection	221.7	227.3	228.4	241.0	242.8	2.2%
Social security funds	77.0	88.0	83.7	88.9	92.9	1.8%
Payments for financial assets	**66.0**	**86.5**	**42.9**	**26.2**	**23.7**	**–**
Allocated by function	**1 644.0**	**1 732.6**	**1 716.7**	**1 757.0**	**1 781.0**	**0.9%**
Debt-service costs	204.8	225.9	271.8	317.6	353.1	16.1%
Contingency reserve	–	–	5.0	5.0	5.0	–
Consolidated expenditure	**1 848.7**	**1 958.4**	**1 993.5**	**2 079.6**	**2 139.2**	**3.0%**
Consolidated expenditure including June 2020 budget adjustments	**1 848.7**	**2 037.8**	**1 993.5**	**2 079.6**	**2 139.2**	**1.6%**

1. Consisting of national and provincial departments, social security funds and public entities
2. 2020/21 excludes June 2020 budget adjustments
Source: National Treasury

Table 4.1 shows consolidated expenditure by function. Over the medium term, the learning and culture function continues to receive the largest allocation of funds, mainly for basic and post-school education and training. Economic development and community development are the fastest-growing functions at 4.6 per cent and 4.3 per cent, respectively, mainly due to above-inflation growth in road infrastructure and expanded access to basic services in line with the economic recovery plan. Spending in the peace and security function will decrease, mainly due to reductions to the special defence account.

Table 4.2 shows consolidated expenditure by economic classification. Debt service is the fastest-growing expenditure item over the medium term, increasingly crowding out spending in most functions. Debt-service costs are projected to increase from R225.9 billion in 2020/21 to

R353.1 billion in 2023/24, at an average annual growth rate of 16.1 per cent.

Table 4.2 Consolidated expenditure by economic classification[1]

R billion	2019/20 Outcome	2020/21 Revised[2]	2021/22 Medium-term estimates	2022/23	2023/24	Average annual growth 2020/21 – 2023/24
Current payments	**1 087.7**	**1 138.3**	**1 196.2**	**1 256.1**	**1 302.0**	**4.6%**
Compensation of employees	626.1	639.3	639.1	646.5	655.0	0.8%
Goods and services	246.9	262.9	275.3	281.5	283.3	2.5%
Interest and rent on land	214.8	236.1	281.8	328.0	363.8	15.5%
of which: debt-service costs	*204.8*	*225.9*	*271.8*	*317.6*	*353.1*	*16.1%*
Transfers and subsidies	**616.4**	**644.7**	**648.6**	**683.2**	**696.9**	**2.6%**
Provinces and municipalities	136.6	149.3	151.5	159.9	162.9	3.0%
Departmental agencies and accounts	27.7	26.3	24.7	25.4	25.7	-0.7%
Higher education institutions	46.6	47.4	48.0	49.0	49.8	1.6%
Foreign governments and international organisations	2.5	2.9	2.7	2.9	2.9	0.1%
Public corporations and private enterprises	35.1	34.8	37.3	40.2	43.9	8.0%
Non-profit institutions	38.1	40.7	41.8	43.7	44.3	2.9%
Households	329.8	343.4	342.5	362.0	367.4	2.3%
Payments for capital assets	**78.6**	**88.9**	**100.8**	**109.2**	**111.5**	**7.8%**
Buildings and other capital assets	60.3	70.3	79.6	86.6	88.5	7.9%
Machinery and equipment	18.3	18.5	21.2	22.6	23.0	7.5%
Payments for financial assets	**66.0**	**86.5**	**42.9**	**26.2**	**23.7**	**–**
Total	**1 848.7**	**1 958.4**	**1 988.5**	**2 074.6**	**2 134.2**	**2.9%**
Contingency reserve	–	–	5.0	5.0	5.0	–
Consolidated expenditure	**1 848.7**	**1 958.4**	**1 993.5**	**2 079.6**	**2 139.2**	**3.0%**
Consolidated expenditure including June 2020 budget adjustments	**1 848.7**	**2 037.8**	**1 993.5**	**2 079.6**	**2 139.2**	**1.6%**

1. Consisting of national and provincial departments, social security funds and public entities
2. 2020/21 excludes June 2020 budget adjustments
Source: National Treasury

Compensation expenditure

Employee compensation as a share of total spending will decrease from 32.7 per cent as estimated in the 2020 *Budget Review* to 31.3 per cent over the medium term, largely due to baseline reductions. Consistent with government's aim of shifting spending from consumption to investment, payments for capital assets grow above inflation, increasing from R88.9 billion in 2020/21 to R111.5 billion in 2023/24, at an annual average rate of 7.8 per cent.

The reductions on employee compensation in 2020/21 and over the MTEF period are discussed in Chapter 3. More than 80 per cent of the total compensation reductions occur in the learning and culture, health, and peace and security functions. These labour-intensive functions account for the majority of personnel in the public service.

Over the MTEF period, all departments will be required to control wages and headcounts. In addition, they will have to review and rationalise their organisational structures to minimise the effects on frontline services and ensure that they remain within their compensation expenditure ceilings.

Table 4.3 Reductions to compensation of employees

R million	2020/21	2021/22	2022/23	2023/24	Total
Function					
Community development	-632	-1 636	-2 294	-1 545	-6 107
Economic development	-1 676	-4 469	-6 084	-4 112	-16 341
General public services	-1 268	-4 064	-5 444	-3 765	-14 542
Health	-8 987	-19 147	-27 388	-17 202	-72 723
Learning and culture	-14 007	-30 038	-42 948	-27 207	-114 199
Peace and security	-9 185	-21 644	-28 848	-18 863	-78 541
Social development	-760	-2 190	-3 065	-2 116	-8 132
Total	**-36 515**	**-83 187**	**-116 071**	**-74 811**	**-310 585**

Source: National Treasury

In-year spending adjustments

Relative to the 2020 Budget, total main budget non-interest expenditure for 2020/21 is increased by R36 billion for the COVID-19 fiscal relief package.

The following adjustments, as announced or provisionally allocated in the 2020 Budget, are made:

- R23 billion is allocated to Eskom.
- R6.5 billion is allocated to South African Airways (SAA) for settling its guaranteed debt and interest.
- R84.7 million is allocated to the Independent Communications Authority of South Africa for the licensing of high-demand spectrum.
- R36.5 billion is reduced from compensation of employees, mainly from a freeze on salary increases.

In addition, R10.5 billion is allocated to SAA to implement its business rescue plan. This allocation was mainly funded through reductions to the baselines of national departments and their public entities, and provincial and local government conditional grants.

Specific details on adjustments to in-year spending for national departments are set out in the 2020 *Adjusted Estimates of National Expenditure*. Changes to conditional grants are included in the 2020 Division of Revenue Second Amendment Bill. Revised provincial appropriations will be tabled in provincial legislatures before the end of the current fiscal year.

Presidential employment interventions

A provisional allocation of R19.6 billion was set aside in the June special adjustments budget, mainly for job creation and protection. Of this amount, R6.8 billion is allocated to the Department of Social Development to fund the extension of the *special COVID-19 social relief of distress grant* for three months until 31 January 2021. An amount of R12.6 billion is allocated for presidential employment interventions to address unemployment, especially as it affects youth.

The Minister of Finance approved the allocation of these funds in terms of section 6(1)(a) of the Appropriation Act (2020), as amended by section 8 of the Adjustments Appropriation Act (2020). Table 4.4 provides a breakdown of the allocation for presidential employment interventions.

Table 4.4 Major presidential employment initiative projects

Vote	Description of project	Allocation R thousand
Vote 8: National Treasury	Provincial equitable share allocation to employ assistants in public schools. Posts at government-subsidised independent schools will also be supported	6 998 800
Vote 18: Health	Recruitment of outreach team leaders, community health workers, enrolled nurses and auxiliary nurses	393 571
Vote 19: Social Development	Support for early childhood development and social workers, and appointment of registration support officers	588 728
Vote 29: Agriculture, Land Reform and Rural Development	Retention of self-employed subsistence producers and support for food value chains	1 000 000
Vote 32: Environment, Forestry and Fisheries	Creation of jobs across various programmes in the department and its entities	1 983 000
Vote 37: Sports, Arts and Culture	Creation of jobs across the arts, culture, heritage and sports sector, and support for current cultural, creative and sports institutions	665 000
Vote 40: Transport	Creation of jobs for provincial roads maintenance through the S'hamba Sonke Programme	630 000
Other	Job creation opportunities in votes 3, 13, 16, 35 and 39	375 079
Total		**12 634 178**

Source: National Treasury

Spending priorities by function group

A range of policy decisions in each sector, including more efficient and cost-effective methods of implementation, is required to align spending with available resources.

Learning and culture

Over the medium term, this function will focus on ensuring that planned infrastructure projects in basic education, universities and technical and vocational education and training (TVET) colleges, as well as in the sports, arts and culture sector, are delivered on time and within the available budget. Basic education, representing the largest share of expenditure in the function, remains committed to improving educational outcomes. To ensure sustainability of the post-school education and training sector, changes in the pace of enrolment at universities and TVET colleges, as well as the coverage of the National Student Financial Aid Scheme bursaries, are likely.

Figure 4.1 Average nominal growth in spending, 2020/21 – 2023/24

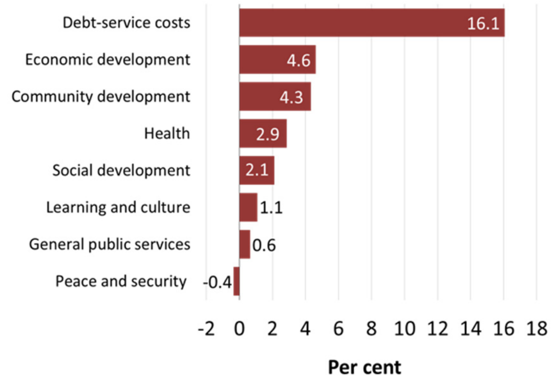
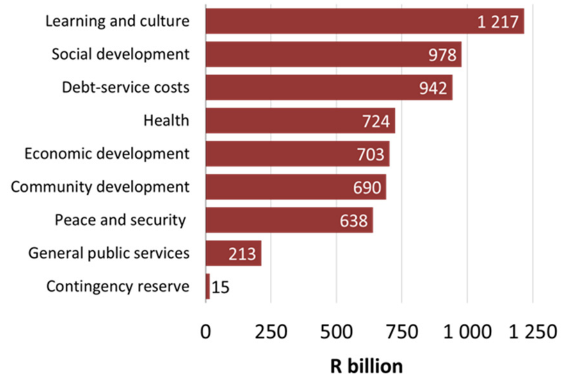


Figure 4.2 Consolidated government expenditure by function, 2021/22 – 2023/24



Source: National Treasury

Health

Over the medium term, greater efficiency and prioritisation is required to protect service delivery in areas such as primary healthcare, immunisation, and HIV prevention and treatment. Large spending reductions in the provincial equitable share formula, which is the main funding instrument for health, will require significant restructuring of provincial health services, with a focus on efficiency savings.

National health insurance could improve healthcare services from both public and private providers. However, progress has been slow. The National Health Insurance Bill is being processed by Parliament and capacity building within the national Department of Health has been delayed. Nonetheless, there are useful lessons from public- and private-sector collaboration during the COVID-19 pandemic.

Provisional funding has been made available from 2021/22 to build the Tygerberg Regional Hospital and Klipfontein Hospital in the Western Cape, subject to certain conditions. These hospitals will alleviate pressure on existing health facilities in these areas with rapid population growth.

Progress on health response to COVID-19

To support the public health response to the coronavirus pandemic, national and provincial governments reprioritised about R20 billion and allocated about R2.9 billion in new funding to the health sector during 2020/21. This funding was used to purchase protective and medical equipment, employ additional staff and upgrade facilities. Since July, new daily COVID-19 cases and deaths have declined significantly. The health sector, while maintaining capacity in case of another wave of infections, is now addressing backlogs in other service areas, such as elective surgeries.

The course of the pandemic remains uncertain. As the economy opens up, continued efforts to contain the spread of the virus will be required. Government is exploring options to ensure access to vaccines when they become available, including participation in the COVAX facility, a global initiative to ensure equitable access to future vaccines.

Social development

This function includes programmes aimed at income protection and social welfare, addressing the challenges of job losses and increasing poverty.

To continue mitigating food insecurity and poverty, an additional R6.8 billion is allocated to the Department of Social Development to extend the *special COVID-19 social relief of distress grant* for three months until 31 January 2021. In addition, R1 billion is allocated for food relief to vulnerable households. In total, short-term social grant-based relief amounts to R48 billion in 2020/21. During the year, more than 12 million new recipients received income protection. Implementation of the special grant shows the need for measures to cross-check applicants across databases, such as common social security registries.

The sector will be supported from October 2020 to March 2021 through the presidential employment interventions shown in Table 4.4. Over the MTEF period, responsibility for early childhood development will be transferred to the basic education sector.

Community development

This function funds access to services such as water, electricity, sanitation, housing and public transport. Government will review programmes related to the provision of mass housing, public transport standards and the levels of free basic services. The introduction of the *informal settlements upgrading partnership grant* in 2021 for provinces and metropolitan municipalities empowers communities to improve their living conditions.

Deteriorating water services and electricity distribution infrastructure affects the ability of municipalities to provide reliable services. This is exacerbated by weak technical skills and inadequate spending on repairs and maintenance. In the short term, a programmatic approach to asset management is required while the relevant departments undertake institutional reviews. The *municipal infrastructure grant* will be adjusted to facilitate this work.

Government is reviewing the operating model of the Passenger Rail Agency of South Africa to return the agency to sustainability. The Department of Transport is also exploring ways to integrate public transport funding.

Economic development

The economic development function group supports job creation, industrial development, and inclusive and sustainable economic growth. Spending in this function group is mainly driven by transfers and subsidies for incentive programmes, many of which are part of the economic recovery plan. The function will prioritise areas such as finalising outstanding restitution claims and supporting resettled farmers to sustain productivity, create jobs and reduce poverty.

Government and the tourism sector will collaborate to maintain tourism assets. Government will extend the short-term tourism relief fund to mid-2021 to assist eligible small, medium and micro-enterprises with working capital. Over the medium term, government has set aside about R540 million for a tourism equity fund to support black-owned and commercially viable enterprises to acquire shares in tourism enterprises.

Peace and security

The security cluster's medium-term priorities are to fight crime and ensure territorial integrity. Because most departments in this function are labour intensive, spending reductions will mainly affect staff.

The South African Police Service is allocated a rollover of R252.8 million, mainly for personal protective equipment procured in 2019/20 but delivered in 2020/21. The State Capture Commission of Inquiry is allocated an additional R63 million from the Department of Justice and Constitutional Development to finalise investigations and produce a close-out report.

Funds have been set aside over the medium term to establish the Border Management Authority, which will consolidate border management functions. The bulk of its financing and staff will be shifted, over time, from the government departments currently performing this function.

Funds will be reprioritised to capacitate the Information Regulator, which monitors and enforces compliance with the Protection of Personal Information Act (2013) and Promotion of Access to Information Act (2000).

General public services

This function group aims to build a professional state to develop and transform the public service. The Department of Public Service and Administration will reprioritise funds for personnel expenditure reviews in national, provincial and local government, public entities and state-owned companies over the next two years. These will assist in developing measures to manage the public-service wage bill sustainably.

The Department of Public Enterprises will reprioritise funds to support the Presidential State-Owned Enterprises Council, an advisory body to assist with strengthening state-owned companies. The Department of Planning, Monitoring and Evaluation will reprioritise funds to enhance public-service reporting on planning and performance.

Reductions to departmental baselines may delay the introduction of efficiency-enhancing initiatives such as e-Cabinet, and the full operationalisation of new units such as the project management office in the Presidency.

Division of revenue

Provinces are responsible for basic education and health services, roads, housing, social development and agriculture. Municipalities provide basic services such as water, sanitation, electricity reticulation, roads and community services. Provincial and municipal governments face multiple pressures over the medium term as government reduces expenditure growth and poor economic performance affects other revenues and funding sources. During the 2021 MTEF period, transfers to provinces and municipalities are growing below inflation or contracting.

Over the medium term, government proposes to allocate 48.2 per cent of available non-interest expenditure to national departments, 42.2 per cent to provinces and 9.6 per cent to local government. Over this period, national government resources decline at an annual average of 3 per cent, provincial resources increase by 0.9 per cent and local government resources increase by 2.1 per cent.

Table 4.5 Division of revenue framework

R billion	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Outcome			Revised	Medium-term estimates		
Division of available funds							
National departments	**592.6**	**634.3**	**749.7**	**806.7**	**718.7**	**732.7**	**736.9**
Provinces	**538.6**	**572.0**	**613.1**	**628.3**	**629.4**	**641.8**	**645.6**
Equitable share	441.3	470.3	505.6	520.7	514.0	522.0	523.1
Conditional grants	97.2	101.7	107.6	107.6	115.4	119.8	122.5
Local government	**111.1**	**118.5**	**123.3**	**139.9**	**138.7**	**146.5**	**149.1**
Equitable share	55.6	60.8	65.6	85.7	78.0	83.1	83.7
General fuel levy sharing with metropolitan municipalities	11.8	12.5	13.2	14.0	14.6	15.3	15.4
Conditional grants	43.7	45.3	44.5	40.2	46.1	48.0	50.0
Provisional allocations not assigned to votes	–	–	–	–	37.6	31.3	34.9
Projected underspending	–	–	–	-2.1	–	–	–
Total	**1 242.3**	**1 324.8**	**1 486.2**	**1 572.7**	**1 524.3**	**1 552.2**	**1 566.5**
Percentage shares							
National departments	47.7%	47.9%	50.4%	51.2%	48.3%	48.2%	48.1%
Provinces	43.4%	43.2%	41.3%	39.9%	42.3%	42.2%	42.1%
Local government	8.9%	8.9%	8.3%	8.9%	9.3%	9.6%	9.7%

Source: National Treasury

Managing the effect of reductions in planned expenditure

Relative to the 2020 Budget, the provincial equitable share will be reduced by R60 billion in 2021/22, R85.6 billion in 2022/23 and R64.1 billion in 2023/24. These reductions include compensation reductions announced in the 2020 Budget and in this *Medium Term Budget Policy Statement* (MTBPS), which account for about 85 per cent of the total, and reductions to conditional grants of R12.1 billion.

Rural provinces, which are more dependent on transfers from national government, are likely to be more affected than urban provinces with additional revenue sources. The current review of the provincial equitable share formula will include refinements to assist in addressing the costs associated with service delivery in rural and urban locations. To respond to the planned adjustments to expenditure, all provinces will need to reprioritise and increase efficiency.

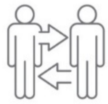
Transfers to local government will be reduced by R17.7 billion, including R14.5 billion from the local government equitable share, R2.7 billion from the general fuel levy and R569 million in direct conditional grants. The majority of municipalities increased wages by 6.3 per cent from July 2020 in line with their existing multi-year wage agreement. The implications of these reductions will be set out in more detail in the 2021 *Budget Review*.

Underperforming programmes will be revisited. For example, some cities receiving the *public transport network grant* have not launched their integrated public transport networks. Over the MTEF period, at least two more poorly performing cities will be suspended from this grant and the remaining cities will be required to reduce costs and demonstrate their effectiveness to remain funded.

Changes to the structure of provincial allocations

Several changes are proposed to the structure of conditional human settlements grants over the medium term.

The *title deeds restoration grant* will end in 2020/21. The grant established mechanisms, processes and capacity within each province to help eradicate the backlog in providing title deeds to subsidised houses delivered before 2014. The funds from this grant will be shifted back into the *human settlements development grant* from 2021/22, which will fund these eradication initiatives. Once a province has cleared its backlog, it can allocate the remaining funds to other projects within the grant.



Following an allocation in the 2019 Budget, a component within the *human settlements development grant* and the *urban settlements development grant* was allocated a minimum amount for informal settlement upgrades, in partnership with communities. From 2021/22, a new *informal settlements upgrading partnership grant* will be introduced for provinces and metros. The design of this grant incorporates the lessons learnt, including requirements for informal settlement upgrading strategies and planning individual upgrading projects with communities.

To ensure fair funding allocations to each province, the provincial equitable share formula is updated annually to reflect demographic changes. This formula is under review, in collaboration with provincial treasuries, although no changes are proposed this year.

Table 4.6 Provincial equitable share

R million	2020/21	2021/22	2022/23	2023/24
Eastern Cape	69 195	66 799	67 158	66 620
Free State	28 934	28 516	28 891	28 885
Gauteng	108 310	109 360	112 109	113 395
KwaZulu-Natal	107 608	105 139	106 499	106 449
Limpopo	60 299	58 915	59 382	59 058
Mpumalanga	42 637	42 034	42 627	42 656
Northern Cape	13 749	13 662	13 873	13 901
North West	36 307	36 111	36 791	36 989
Western Cape	53 677	53 438	54 656	55 159
Total	**520 717**	**513 973**	**521 988**	**523 111**

Source: National Treasury

Changes to the structure of local government allocations

The local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the MTEF period. To help municipalities improve their asset management practices, an indirect component of the *municipal infrastructure grant* will be introduced in 2021/22, and funded from the direct component.

Additional instruments to finance infrastructure in municipalities

Beyond infrastructure grants, municipalities can access other instruments to finance the development of infrastructure that boosts economic growth.

Municipalities earn revenue from charging developers to connect new developments to municipal services. The draft Municipal Fiscal Powers and Functions Amendment Bill proposes new, uniform regulations for these development charges, strengthening the revenue-raising framework for municipalities. After processing comments, the National Treasury will submit the bill to Cabinet and Parliament for consideration in 2021.

Creditworthy municipalities can also borrow in capital markets. The National Treasury has updated the original municipal borrowing policy framework, which guides this borrowing, and will shortly submit it to Cabinet for approval. The proposed changes aim to increase the term maturity of borrowing, improve the secondary market for the trade of municipal debt instruments and define the role of development finance institutions to avoid crowding out the private sector.

Reviewing the structure of the local government fiscal framework

Following an announcement by the Minister of Finance, a meeting on local government finances took place in August 2020. The special lekgotla of the Budget Forum – the intergovernmental structure established to facilitate consultation on local government finances – is addressing the problem of unfunded budgets, municipal sustainability, and structural and operational challenges impeding the effective functioning of municipalities.

Conclusion

Current trends in South Africa's public finances – high levels of expenditure, lower levels of revenue and growing government debt – are unsustainable. The 2020 MTBPS proposes a fiscal consolidation to stabilise debt and promote economic growth. Spending reductions will lower the budget deficit and are weighted towards the wage bill to shift the composition of spending from consumption to investment. At the same time, reductions will require both improvements in efficiency and high-level decisions on government priorities. Finally, government will implement the principles of zero-based budgeting to address the negative impact of waste and unsustainable incremental increases to spending.

ANNEXURES

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A

Fiscal risk statement

Introduction

This statement sets out the medium- to longer-term risks to the public finances, with shorter-term risks outlined in Chapter 3.

The major fiscal risks are lower potential economic growth, debt management considerations associated with the elevated public-sector borrowing, financial weaknesses in subnational government, and government's large contingent and accrued liabilities.

This statement categorises fiscal risks in the four areas shown in Figure A.1.

Figure A.1 Fiscal risk framework

Risk category	Major issues considered under each sub-topic
Macroeconomic risks	▪ Lower nominal GDP and revenue growth over the medium term ▪ Debt sustainability under different macroeconomic scenarios
Debt management risks	▪ Large debt redemptions falling due over the medium term ▪ Growth in debt-service costs ▪ Domestic banks' exposure to public-sector debt
Subnational government risks	▪ Medico-legal claims ▪ Unpaid provincial invoices ▪ Financial condition of municipalities
Contingent and accrued liability risks	▪ State-owned companies' guarantee exposures ▪ Public-private partnerships ▪ Financial position of the Road Accident Fund

Macroeconomic risks

The weakening of South Africa's fiscal position has partly been the result of long-term economic trends. Economic growth has declined on aggregate since the global financial crisis of 2008/09, reflecting structural constraints that limit the economy's ability to grow. This has been exacerbated by downward revisions to nominal GDP and declining GDP inflation. In 2020, the coronavirus pandemic and the associated lockdown sharply reduced productive capacity and employment, resulting in higher poverty levels. The longer-term implications of the lockdown remain to be seen. A key issue is whether the economic recovery will be strong enough to allow for the full withdrawal of temporary support under the COVID-19 fiscal support measures. Persistently low economic and revenue growth will make it more difficult to achieve the fiscal targets.

Figure A.2 Government bond yields

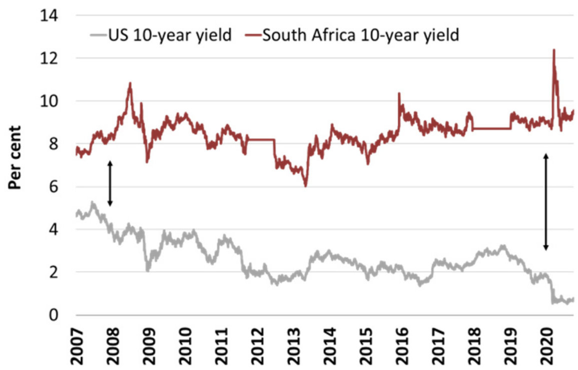


Figure A.3 Nominal GDP growth

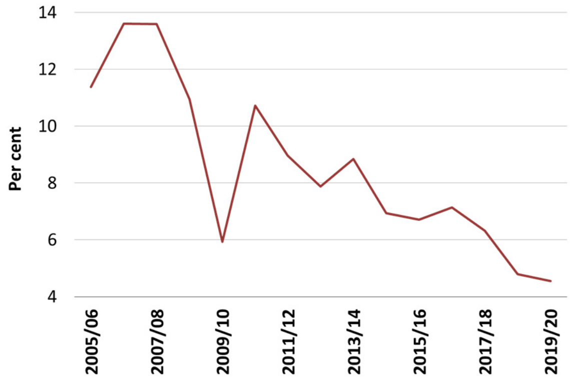


Figure A.4 GDP inflation

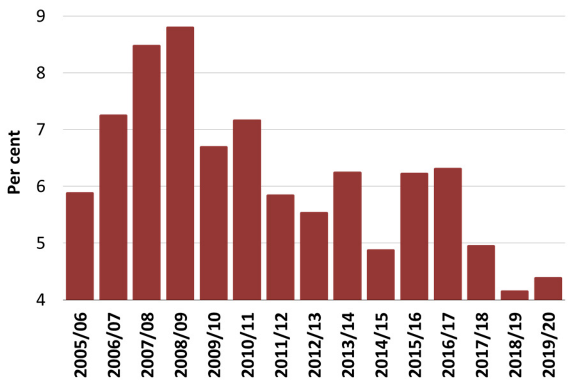
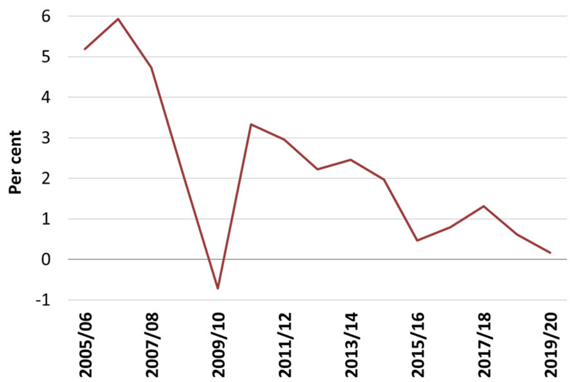


Figure A.5 Real GDP growth



Source: National Treasury, Bloomberg and Statistics South Africa

Since 2014, the yield on South Africa's long-term debt has trended upwards, while the yield on the United States 10-year Treasury bond has declined. This shows an increase in South Africa's risk premium – the additional amount that government pays to compensate for uncertainty. Should this combination of weaker nominal growth and rising yields persist, it will require consistently higher primary surpluses, where revenue exceeds non-interest expenditure, to stabilise the public finances over the long term.

The National Treasury maintains a long-term fiscal model. It uses the model to cost new policy initiatives and determine the sustainability of current spending commitments, based on assumptions of economic and demographic growth. The results are published every two years. The next update is scheduled for 2021, and the National Treasury will undertake an extensive review of the model, with newly costed spending and sustainability estimates for long-term commitments such as national health insurance.

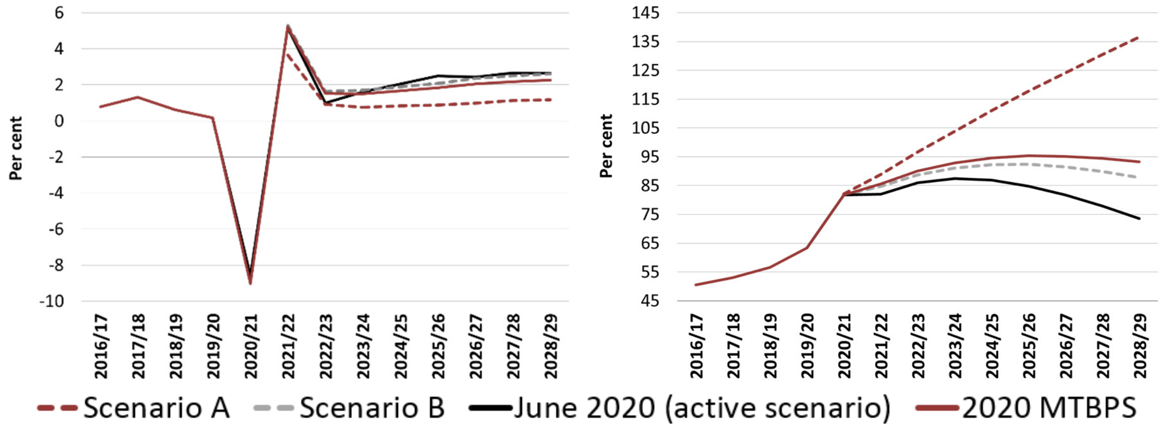
Fiscal scenarios around the baseline economic forecast

Chapter 2 presents the National Treasury's baseline economic forecast. Two scenarios have been modelled around this forecast, as set out below. Given the complex nature of long-term modelling, any moderate deviation from the assumptions could result in substantially different outcomes.

Scenario A – Spending reductions are not implemented and limited progress is made on structural economic reforms. On average, the primary deficit is 2.4 percentage points of GDP wider than the baseline over the medium term. As a share of revenue, debt-service costs increase from 21.2 per cent in 2020/21 to 35 per cent in 2028/29. The debt-to-GDP ratio does not stabilise.

Scenario B – Implementation of economic reforms strengthens domestic growth. The primary balance closes more rapidly than in the baseline forecast. Debt stabilises at 92.4 per cent of GDP in 2025/26.

Figure A.6 GDP growth scenarios **Figure A.7 Gross debt-to-GDP scenarios**



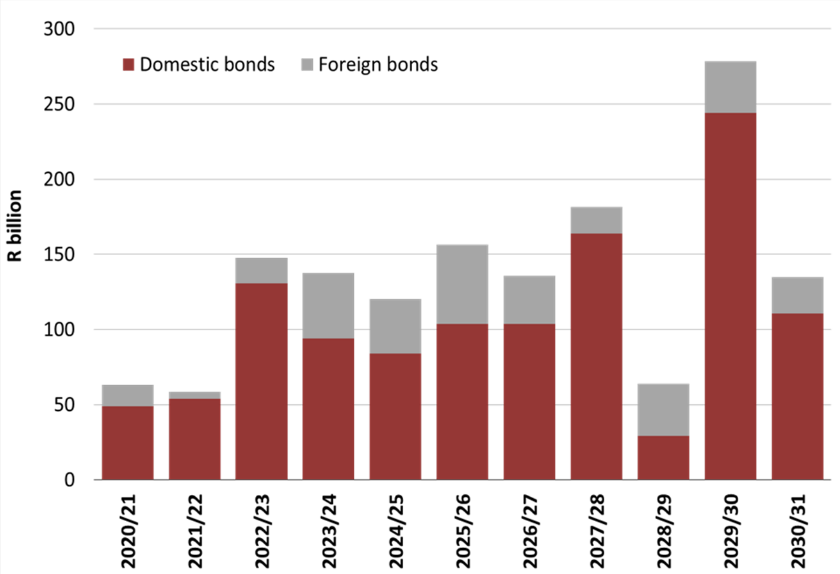
Source: National Treasury

Debt management risks

Government's funding needs will remain elevated for the next several years. Debt levels will become unsustainable without fiscal consolidation. Long-term debt redemptions (Figure A.8) will average about R134.4 billion over the next decade, up from an average of R37.3 billion in the previous 10 years. If additional borrowing is required to finance deviations from fiscal targets, it will result in higher redemptions falling due, creating rollover risks. To mitigate this risk, government will increase its cash balances through borrowing in the domestic and international markets, and continue with the bond-switch programme, which exchanges shorter-dated debt for long-dated debt.

In the current year, government's financing costs have been largely driven by concerns about low growth and fiscal weakness, as reflected in sovereign credit rating downgrades by all major rating agencies. Higher financing costs of net new debt have in turn increased debt and debt-service costs. A peer comparison undertaken by the National Treasury in August 2020 observed that South Africa's ratio of interest payments to GDP is projected to be higher than in countries with similar or weaker credit ratings, such as Morocco, Brazil and Armenia, in 2020 and 2021. Furthermore, the negative outlooks assigned by three of the four rating agencies implies a high likelihood of further downgrades, which would put upward pressure on funding costs. Government will continue mitigating this financing cost risk by issuing bonds with a 10–15 year maturity to lower the cost of funding, while considering the effect on refinancing risk. Ultimately, fiscal consolidation is required to mitigate the risk of higher debt and debt-service costs.

Figure A.8 Long-term government debt redemptions



Source: National Treasury, as at 30 September 2020

Non-resident holdings of South African bonds have fallen from 37.1 per cent in December 2019 to 29.2 per cent in September 2020, their lowest level since 2011. This decline has been offset by an increase in the bond holdings of domestic banks, which have increased from 16.8 per cent in January 2020 to 22.9 per cent in September 2020. South African banks' exposure to public-sector debt (bonds and loans) grew from R174 billion in 2008 to R811 billion in February 2020. This translates to 15.3 per cent of total banking assets, a 7.7 percentage point increase from a decade earlier.

Table A.1 shows the sensitivity of the debt portfolio to changes in interest-rate, exchange-rate and inflation assumptions. In the case of a 10 per cent increase in any category, government would continue to finance its borrowing requirement, but at greater cost. Similarly, favourable movements in any of these categories would reduce borrowing costs.

Table A.1 Sensitivity in debt stock and debt-service costs, 2020/21

R billion	Debt-service costs	Gross loan debt
Effect of a 10 per cent change in:		
Interest rates	5.6	23.5
Rand/US dollar exchange rate	2.1	49.6
Headline inflation	0.1	3.1

Source: National Treasury

Funding in an environment of low credit ratings, deteriorating economic conditions and rising debt levels implies a funding strategy of navigating carefully through the trade-offs of reducing the costs, while controlling refinancing risk and managing the impact of currency risk.

Subnational government risks

Over the medium term, the primary fiscal risks associated with subnational government relate to medico-legal claims, unpaid provincial invoices and weak financial management in municipalities.

The potential liability from **medico-legal claims** (Figure A.9) increased from R97.4 billion in 2018/19 to R111.5 billion in 2019/20. The highest level of claims (38 per cent) is in the Eastern Cape. Although actual payments declined slightly from R2 billion in 2018/19 to R1.7 billion in 2019/20, this remains a considerable source of pressure on provincial healthcare budgets. The

State Liability Amendment Bill, currently before Parliament, seeks to alleviate the problem by allowing courts to order the public sector to provide rehabilitation services to claimants in kind instead of paying private-sector rates, and allowing for future costs and compensation to be paid periodically instead of as lump sums up front.

Unpaid provincial invoices (Figure A.10) declined slightly from R23.9 billion in 2018/19 to R22.2 billion in 2019/20. The implication is that the future provincial budgets will have to pay down accruals before purchasing goods and services. In the worst-affected provinces, goods and services budgets may be insufficient to cater for their service delivery commitments for the entire fiscal year after paying down accruals. In the context of fiscal consolidation weighted towards the wage bill, provinces will have to implement strong measures to ensure that the accruals continue on a downward trend.

Figure A.9 Medico-legal liabilities

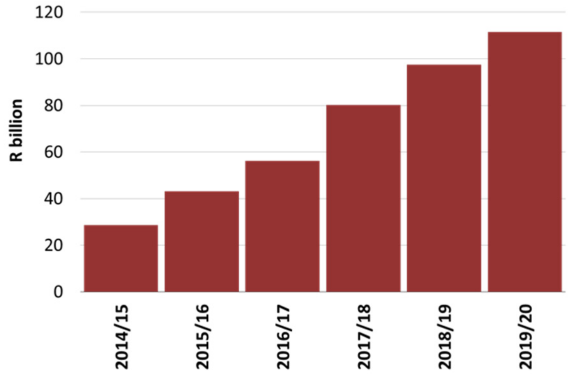
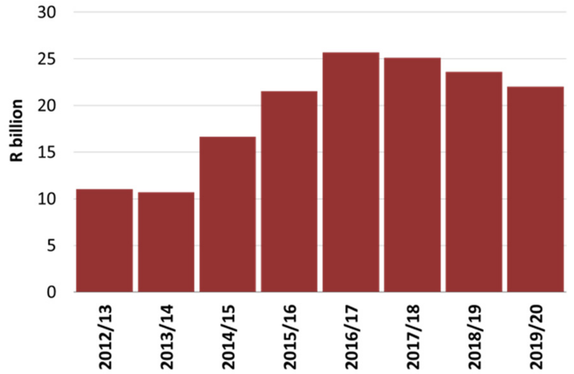


Figure A.10 Provincial accruals and payables



Source: National Treasury

The **poor financial position of many municipalities** – a consequence of weak financial management – has been exacerbated by COVID-19. At the end of June 2020, uncollected revenues in local government had grown by 16.3 per cent from June 2019 to R171.9 billion. According to the Auditor-General's 2018/19 report on local government finances, about 47 per cent of municipalities incurred a deficit and total deficits grew from R669 million in 2017/18 to R2.3 billion in 2018/19. This financial weakness has led to a decline in repairs and maintenance spending, which in turn has caused high water and electricity losses. Above-inflation wage increases at local government level will add additional pressure.

The National Treasury and the Department of Cooperative Governance and Traditional Affairs have developed a rigorous monitoring regime to strengthen local government finances.

Contingent liabilities

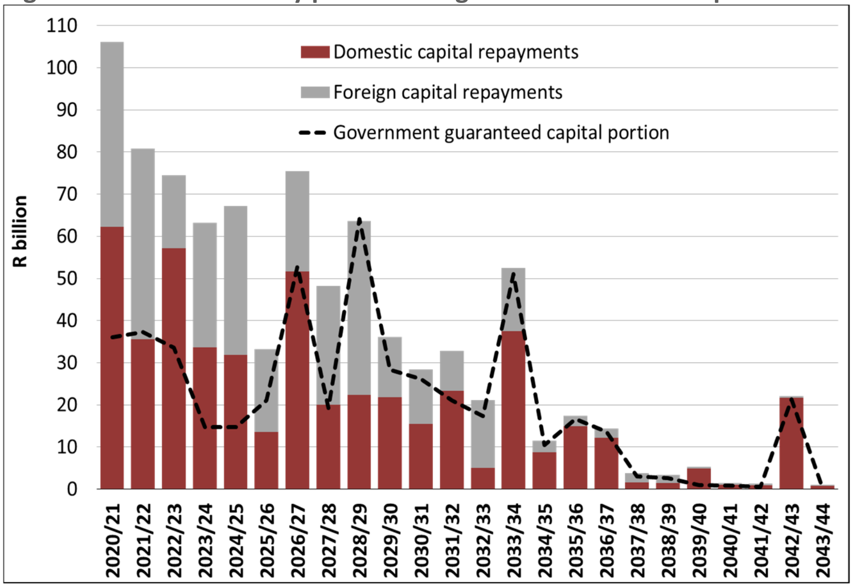
Contingent liabilities are commitments that may result in financial obligations if specific events occur. The majority of contingent liability risk stems from the poor financial condition of South Africa's major state-owned companies. Some of these risks have already materialised.

By 2022/23, contingent liabilities are expected to exceed R1 trillion. These liabilities consist of government guarantees to state-owned companies, the Renewable Energy Independent Power Producer Programme, public-private partnerships (PPPs), and obligations to the Road Accident Fund and other social security funds. Government's guarantee portfolio has increased from R680 billion in March 2019 to R693.7 billion in March 2020, of which the largest facility has been granted to Eskom (R350 billion). By end-March 2020, R583.8 billion of these government guarantees had been used. Over the next three fiscal years, guaranteed debt redemptions are expected to average R35.6 billion, up from R27.5 billion reported last year.

The interest-bearing debt of the 10 largest borrowers grew from R266.7 billion in 2009/10 to R795 billion in 2017/18 – an increase of 198 per cent in nine years. The National Treasury estimates that the collective debt of the 10 largest borrowers is likely to exceed R810 billion in 2019/20. In addition, the effective cost of debt for these entities, a broader measure that includes both interest and non-interest costs, rose from 8.7 per cent in 2009/10 to 9.8 per cent in 2017/18. Total debt redemptions are estimated to average R87.1 billion annually over the next three years.

It has become increasingly difficult for state-owned companies to access capital market funding. Capital markets assign high levels of risk to poor financial performance, substandard operating performance, unsustainable debt-service costs and lapses in governance. Rising interest rates and increasingly unfavourable loan terms and conditions raise borrowing costs significantly. Over the past several years, these trends have combined to put additional strain on the public finances, in the form of additional requests for guarantees and recapitalisation. The coronavirus pandemic has exacerbated this trend.

Figure A.11 Debt maturity profile of largest state-owned companies*



**Airports Company South Africa, Denel, Development Bank of Southern Africa, Eskom, Industrial Development Corporation, Land Bank, South African Airways, South African National Roads Agency Limited, Trans-Caledon Tunnel Authority and Transnet*

Source: National Treasury as at 31 March 2020

Government's contingent liabilities include PPP contracts worth R8.7 billion. Although several PPPs experienced revenue losses as a result of the national state of disaster regulations, they did not call on the guarantees. This demonstrates the high-quality PPP approval process that the National Treasury put in place following the 2008 global financial crisis, during which several developed-country governments faced large liabilities from badly designed and undisclosed PPPs. The National Treasury continues to work with the World Bank to enhance risk-sharing and transparency in its PPP approval process.

State-owned companies

State-owned companies continue to present significant fiscal risks in the form of contingent liabilities and direct requests for state financial support. COVID-19 and associated restrictions on economic activity have increased the financial pressures they face. Changing debt market dynamics and other factors threaten the survival of some companies in their current form. Addressing these matters requires both decisive government action and determined implementation of turnaround plans.

Airports Company South Africa

Travel restrictions imposed during the coronavirus pandemic resulted in a sharp decline in air traffic volumes in 2020. Medium-term projections are also expected to be relatively low. As a result, Airports Company South Africa (ACSA) does not have sufficient funds for its operational requirements. To address the shortfall, ACSA has secured short-term bank loans, reduced operational and capital expenditure, and revised its corporate strategy. In addition, ACSA has approached its shareholders for possible support. Government owns 75 per cent of ACSA.

Eskom

Eskom continues to rely on government support and borrowing to run its operations. The power utility received R49 billion of its equity allocation by 31 March 2019. It used R320 billion of its R350 billion guarantee, with an additional R7 billion committed, leaving R23 billion available on the existing facility by 30 June 2020. By 30 September 2020, R6 billion of the R56 billion equity allocation for 2020/21 had been provided to Eskom. The utility has made some progress in implementing its turnaround plan by achieving some targeted cost savings, although lockdowns are likely to have reduced Eskom's revenues during 2020. The utility began implementing revised business models for each division and appointed divisional boards at the end of March 2020. Eskom continues to report to the Ministers of Finance and Public Enterprises on its compliance with the conditions imposed in terms of the Special Appropriation Act (2019).

Land Bank

Following a credit rating downgrade in response to its deteriorating financial position, the Land Bank experienced a liquidity shortfall as investors failed to refinance debt. It began defaulting on its debt obligations in April 2020. Government allocated R3 billion to stabilise the Land Bank through the June 2020 special adjustments budget. This funding, and collections from loan book repayments, allowed the entity to start paying overdue interest from August 2020. It is engaging with its creditors to restructure capital repayments on debt that is in default. To ensure financial sustainability, the Land Bank is focused on optimising its equity base and restructuring its assets and liabilities. This process depends on further shareholder recapitalisation and the reduction of its loan assets to retire some of its debt. The Land Bank has approached government for additional financial support.

Road Accident Fund

The Road Accident Fund (RAF) is government's largest contingent liability. The RAF's accumulated deficit is projected to grow to R593 billion by 2022/23. The Road Accident Benefit Scheme, which government developed to reduce this liability, was rejected by Parliament in August 2020 and the liability will continue to grow.

South African National Roads Agency Limited

The South African National Roads Agency Limited (SANRAL) is unable to meet its financing obligations. It will not generate sufficient cash from its toll portfolio to settle operational costs and debt redemptions falling due in March and September 2021. Since 2014/15, SANRAL has incurred annual average losses of R2.5 billion. Consequently, the first phase of the Gauteng Freeway Improvement Project has not received periodic maintenance, and the second and third phases have been delayed. The result is increased congestion and deterioration in the quality of Gauteng's highway network. Other national toll roads are also experiencing financial difficulty, because toll tariff increases granted by the Minister of Transport have been below what was agreed to in the toll concession contracts. This shortfall will cost the fiscus an additional R300 million in 2020/21.

As of 31 March 2020, SANRAL had used R39 billion of its total government guarantee of R37.9 billion. Over the medium term, SANRAL is expected to repay R10.7 billion of maturing debt obligations and R10.8 billion of interest payments.

Conclusion

The outlook for fiscal risks has continued to deteriorate over the past year. Over the medium to long term, the public finances will remain vulnerable to the four principal risks covered in this statement. Achieving the economic and fiscal objectives set out in this *Medium Term Budget Policy Statement* will require a significant effort across the entire public sector to prevent these risks from materialising – and, where that is not possible, to mitigate and manage their consequences.

B

Compensation data

Introduction

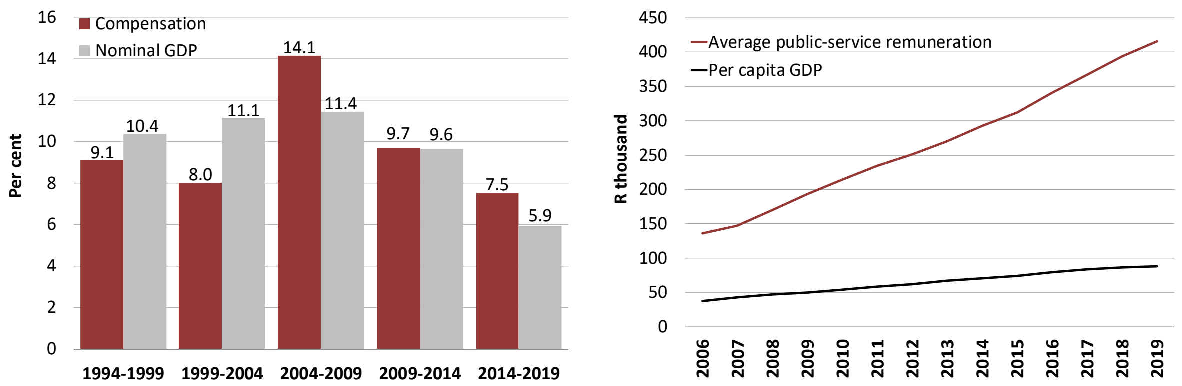
This annexure analyses trends in public-service compensation. Because services such as education, law enforcement and healthcare are inherently labour intensive, the remuneration of teachers, police officers, doctors and nurses accounts for a high proportion of their budgets. Given that these functions account for the largest share of the consolidated budget, compensation accounts for a large share of aggregate spending.

Until the mid-2000s, public-service compensation spending grew more slowly than nominal GDP. Since 2004, however, this relationship has reversed (Figure B.1), and the ratio of compensation spending to GDP has increased to about 11 per cent.

As a proportion of consolidated spending, compensation has averaged about 35 per cent of the total over the last 25 years, with a high of 42 per cent in 1996/97 and a low of 31 per cent in 2008/09. In 2019/20, compensation spending was the equivalent of 41 per cent of consolidated revenue.

Figure B.1 Compensation and nominal GDP growth

Figure B.2 Public-service remuneration and per capita GDP



Source: National Treasury and Reserve Bank

Public-service remuneration in a wider context

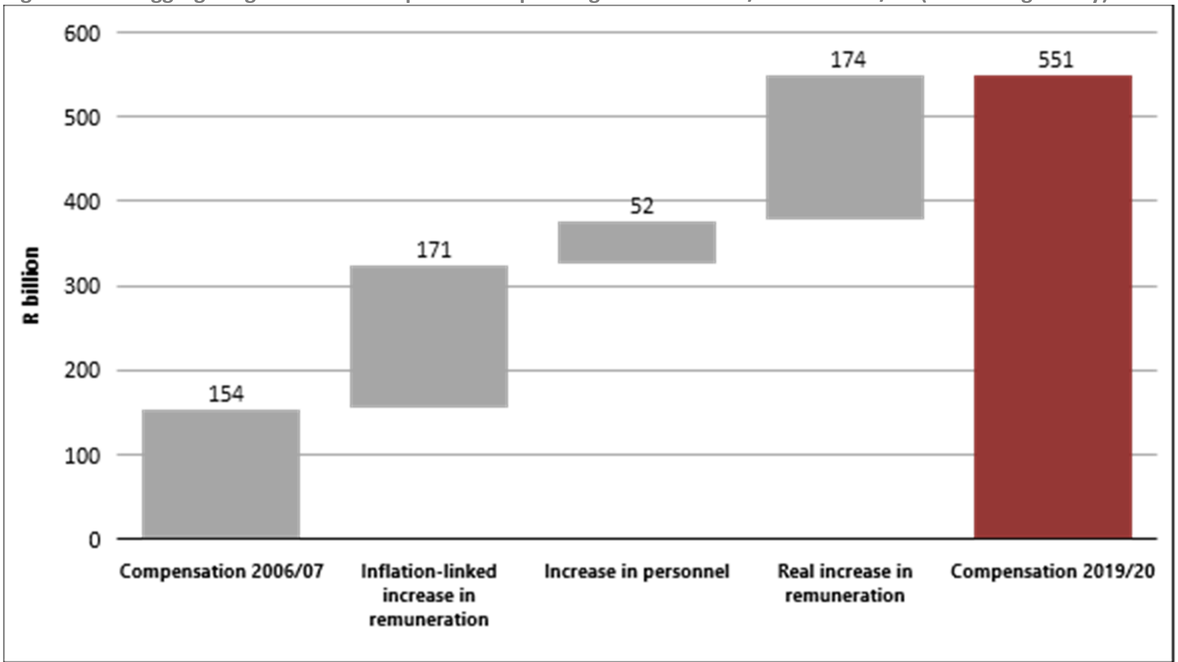
Since 2006/07, average public-service remuneration has increased at a faster pace than per capita GDP (Figure B.2), and is now 4.7 times larger. The growing gap is partly the result of slow economic growth and high levels of unemployment, both of which suppress per capita GDP. But divergence this rapid is unsustainable and suggests that the model for setting wages in the public sector has not been able to moderate the rate of increase of remuneration to weaker economic conditions.

Remuneration for employees of national and provincial governments tends to be higher than that of private-sector workers. More than 95 per cent of public servants earn more than the bottom 50 per cent of registered taxpayers. Statistics South Africa survey data also suggests that public-sector compensation growth has outpaced private-sector compensation growth over the past decade, as discussed in the 2019 *Medium Term Budget Policy Statement* (MTBPS).

The drivers of rising compensation spending

As outlined in the 2018 and 2019 MTBPS documents, growth in compensation spending was driven by two forces: an increase in personnel numbers and an increase in remuneration. Of the two, the increase in remuneration has been the most important, accounting for 77 per cent of the increase in spending on compensation on the main budget between 2006/07 and 2019/20 even after adjusting 2006/07 salaries for inflation. An increase in personnel numbers over the period, from 1.15 million to 1.33 million, accounts for the remainder of the increase.

Figure B.3 Disaggregating increased compensation spending between 2006/07 and 2019/20 (main budget only)

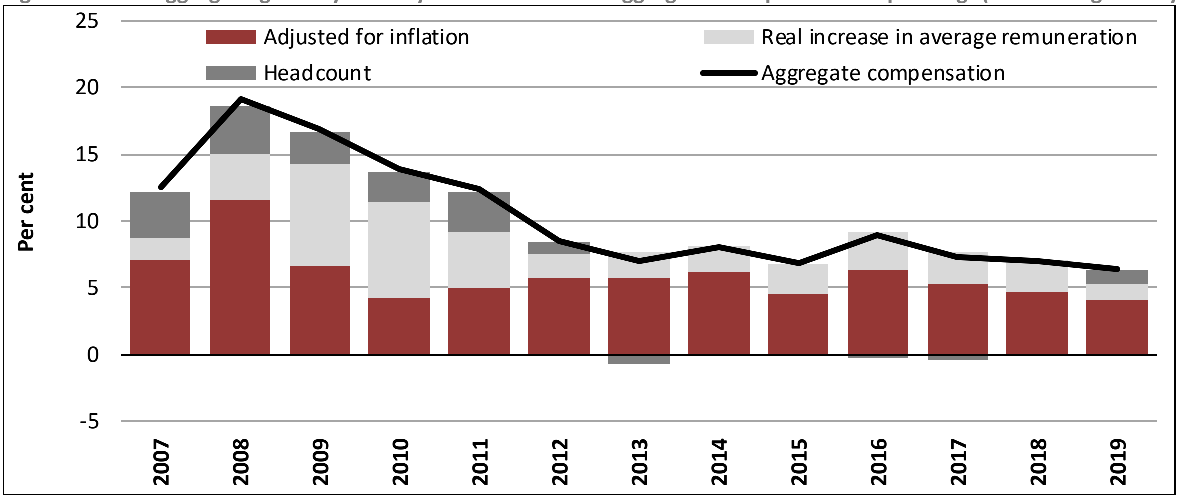


Source: National Treasury

Annual growth in aggregate nominal compensation has varied between 19 per cent in 2008/09 and 6 per cent in 2019/20. In general, inflation adjustments to public servants' remuneration account for 60 per cent of each year's increase, with increases in real remuneration accounting for 30 per cent and changes in personnel numbers accounting for the remainder.

Because personnel numbers have remained largely unchanged over five of the last six years, inflation and real increases in remuneration account for over 95 per cent of the increase in spending over this period. Although real increases in remuneration were fastest in 2009/10 and 2010/11 when occupation-specific dispensations were introduced, average remuneration has continued to rise at an inflation-adjusted rate of over 2 per cent a year in most years.

Figure B.4 Disaggregating the year-on-year increases in aggregate compensation spending (main budget only)



Source: National Treasury

The increase in personnel numbers

Between 2006/07 and 2019/20, total headcounts increased by 16 per cent, from 1.15 million to 1.33 million. Over the same period, Statistics South Africa estimates that the population increased by 21 per cent, which means that the ratio of public servants to population fell overall. Although the increase in personnel numbers is broad-based, employment has grown fastest in the health function, which grew by 32 per cent and is the only function in which the ratio of public servants to population rose. Personnel numbers also rose marginally in 2019/20, due almost entirely to an increase in staff of health departments.

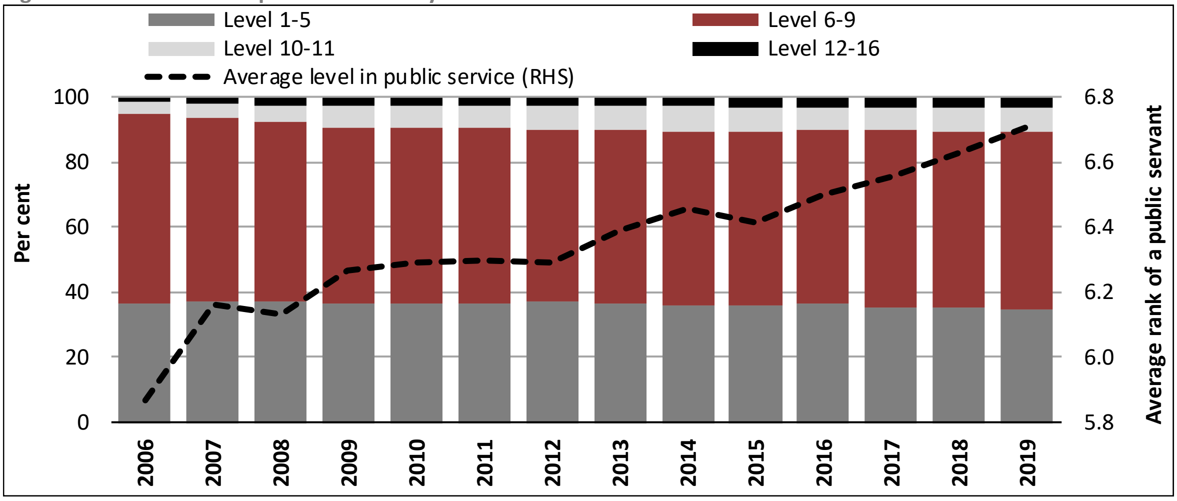
The increase in remuneration

The increase in public-service remuneration has been driven by three main factors:

- The introduction in the late 2000s of occupation-specific wage dispensations, which produced a large, once-off increase to the salaries of skilled staff.
- Annual cost-of-living adjustments to basic pay, which have generally resulted in compensation rising faster than the rate of inflation (except in some cases where adjustments for senior officials were in line with inflation).
- A system of wage progression (within-rank increases offered to staff who perform their duties satisfactorily) and of promotion between ranks, which has resulted in a degree of grade-inflation. This has meant that, on average, the public service is now one full rank more senior today than it was in 2006/07.

The impact of grade-inflation on aggregate compensation costs is magnified by increases in basic pay for each salary level. Between 2006/07 and 2019/20, average remuneration in the public service more than tripled, from R136 000 to over R415 000. In inflation-adjusted terms, this represents a real increase of 45 per cent over the period. The rate of increase has been broadly progressive, resulting in the compression of the distribution of wages.

Figure B.5 Distribution of public servants by rank



Source: National Treasury

Table B.1 Average remuneration by rank, 2006/07 and 2019/20 (main budget, excluding SANDF)

Rands	2006/07 average nominal	2006/07 real average (2019/20 rands)	2019/20 average	Real average annual increase
Level 1-5	71 789	151 405	232 673	3.4%
Level 6-9	155 650	328 269	435 430	2.2%
Level 10-11	313 094	660 322	759 384	1.1%
Level 12-16	508 974	1 073 438	1 222 898	1.0%
Average	**135 914**	**286 646**	**415 460**	**2.9%**

Source: National Treasury

To assess remuneration fully, it is useful to look at public servants who have been employed by government for many years. About 830 000 public servants employed in 2020 (75 per cent of the total excluding the South African National Defence Force) had been working for government since 2010. Of these, 5 per cent have received real decreases in average remuneration of at least 1 per cent over the period, while another 5 per cent have received increases of between 0 per cent and 19 per cent. Half of all long-term public servants have received real increases of more than 44 per cent over the last 10 years; 25 per cent have received increases above 71 per cent; and a small fraction have seen real increases of over 1 000 per cent.

Part of the reason for these large increases is that long-term employees are likely to have been promoted at least once, and the likelihood is greatest for those in the lowest salary bands. For example, all officials who were in level 1 in 2010 were promoted at least once, with 24 per cent of them enjoying two or more promotions. Similarly, of the 530 000 officials in levels 1 to 7 in 2010, 67 per cent received one promotion and 13 per cent received two or more.

Conclusion

There are 1.3 million employees in national and provincial government who received R567 billion in compensation in 2019/20. Over the last 15 years, public-service compensation spending has grown at an unsustainable rate that is nearly 1.5 percentage points faster than the rate of growth of GDP, largely because of increases in average remuneration. The result is that public-service compensation now accounts for the equivalent of 11 per cent of GDP, up from 9 per cent in 2004/05.

C

Technical annexure

In-year adjustments to main budget non-interest expenditure

Table C.1 shows in-year adjustments to main budget non-interest expenditure since the 2020 *Budget Review*. These include the June special adjustments budget allocations.

Table C.1 In-year adjustments to the main budget non-interest expenditure

R million		Allocation of amounts announced in 2020 Budget Review						
	Special adjustments budget (SAB)	Provisional allocations	Allocation to Eskom	Allocation of compensation reductions	Allocation of COVID-19 provisional allocation	South African Airways (SAA)	Other AENE adjustments	Final AENE
Allocated expenditure (2020 Budget Review)	**1 528 938**							
Provisional allocation not assigned to votes	7 021	-7 021						
Provisional allocation for Eskom restructuring	23 000		-23 000					
Compensation of employees adjustment	-37 807			37 807				
Main budget non-interest expenditure (2020 Budget Review)	**1 536 724**	**-7 021**	**-23 000**	**37 807**				**1 544 511**
Allocation of amounts announced in 2020 Budget		**6 502**	**23 000**	**-36 515**	**–**	**–**	**–**	**-7 013**
Settlement of SAA debt		6 502				–		6 502
Eskom equity contribution			23 000			–		23 000
Compensation of employees downward adjustment				-36 515				-36 515
Provincial compensation				*-25 253*				*-25 253*
National departments and entities compensation				*-11 050*				*-11 050*
Salaries of magistrates and judges				*-181*				*-181*
Salaries of members of Parliament				*-31*				*-31*
Proposed upward expenditure adjustments announced in SAB	**145 000**				**-19 431**	**–**	**6 653**	**132 221**
Support to vulnerable households for 6 months	40 891							40 891
Extension of support to vulnerable households for 3 months							6 797	6 797
Health	21 544							21 544
Support to municipalities	20 034							20 034
Other frontline services	13 623							13 623
Basic and higher education	12 541							12 541
Small and informal business support, and job creation and protection	6 061							6 061
Support to public entities	5 964							5 964
Other COVID-19 interventions	1 766							1 766
Allocated for COVID-19 fiscal relief package	**122 425**				**–**	**–**	**6 797**	**129 221**
Land Bank equity investment	3 000							3 000
Net of provisional allocations for COVID-19 fiscal relief package	19 575				-19 431		-144	–

Table C.1 In-year adjustments to the main budget non-interest expenditure *(continued)*

R million	Special adjustments budget (SAB)	Allocation of amounts announced in 2020 Budget Review: Provisional allocations	Allocation to Eskom	Allocation of compensation reductions	Allocation of COVID-19 provisional allocation	South African Airways (SAA)	Other AENE adjustments	Final AENE
Upward expenditure adjustments since 2020 SAB					**12 634**		**4 404**	**17 039**
Rollovers							1 602	1 602
National: Employment creation allocation					5 635			5 635
Provincial equitable share: Employment creation allocation					6 999			6 999
Unforeseeable and unavoidable expenditure: Food relief							1 000	1 000
SAA allocation						10 500		10 500
Self-financing							1 500	1 500
ICASA for the licensing process of high-demand spectrum							85	85
Land and Agricultural Development Bank of South Africa							74	74
South African Express Airways SOC Ltd							143	143
Proposed downward expenditure adjustments announced in SAB	**-100 885**							**-100 885**
National departments' baseline suspensions	-54 403							-54 403
Repurposing of provincial equitable share	-20 000							-20 000
Provincial conditional grant suspensions	-13 848							-13 848
Local government conditional grant suspensions	-12 633							-12 633
Downward expenditure adjustments since 2020 SAB					**–**	**-6 970**	**-7 513**	**-14 483**
Baseline suspensions to fund SAA bailout						-6 970		-6 970
Declared unspent funds							-187	-187
National government projected underspending							-2 109	-2 109
Contingency reserve							-5 000	-5 000
Suspension of funds for section 70 of the PFMA payments							-218	-218
Other adjustments	**-8 109**				**–**		**-1 050**	**-9 159**
National Revenue Fund payments	13						66	80
Downward revisions to skills development levy	-2 122						-1 116	-3 238
Lower skills development levy due to 4-month holiday contribution	-6 000							-6 000
Revised non-interest expenditure	**1 572 731**	**-519**	**–**	**1 292**	**-6 797**	**3 530**	**2 494**	**1 572 731**
Change in non-interest expenditure from 2020 Budget	36 006							

Source: National Treasury

Main budget expenditure ceiling

Table C.2 Expenditure ceiling calculations

R million	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Non-interest expenditure	**1 242 295**	**1 324 756**	**1 486 163**	**1 572 731**	**1 529 305**	**1 557 222**	**1 571 497**
Technical adjustments							
Skills development levy	-16 294	-17 480	-18 284	-10 175	-17 813	-19 230	-20 763
SOCs' funding requests financed by sale of assets	–	–	–	-3 500	–	–	–
Eskom funding provisions	–	–	-49 000	-56 000	-31 771	-21 927	-21 137
NRF payments	-587	-162	-468	-178	–	–	–
International Oil Pollution Compensation Fund	-6	-3	-3	-11	-12	-12	-13
Expenditure ceiling	**1 225 409**	**1 307 112**	**1 418 408**	**1 502 867**	**1 479 709**	**1 516 052**	**1 529 585**

Source: National Treasury

Table C.2 shows technical adjustments made to main budget non-interest expenditure to calculate the expenditure ceiling. The ceiling excludes payments that are directly financed by dedicated revenue sources, and others not subject to policy oversight. These include:

- **Payments for financial assets financed by asset sales in the same financial year:** Revenue from the sale of assets, particularly for equity investments, generally offsets the increases in associated spending levels, so these increases do not require adjustments to departmental allocations. For example, non-core asset sales in 2020/21 are expected to generate R3.5 billion in revenue, which will offset funding allocations of the same amount requested by smaller state-owned companies. Financial support for Eskom is not included in the expenditure ceiling. This support is viewed as a balance sheet transaction, which could take the form of a loan agreement or large equity investment. Such transactions are excluded from the spending ceiling.

- **Payment transactions linked to the management of debt:** This includes premiums paid on new loan issues, bond switches and buy-back transactions, revaluation profits or losses on government's foreign-exchange deposits at the Reserve Bank when used to meet government's foreign-currency position commitments, and realised profits and losses on the Gold and Foreign Exchange Contingency Reserve Account. These items relate to debt and currency transactions that are not financed through main budget appropriations.
- **Direct charges that relate to specific payments made in terms of legislation that provides for the collection and transfer of such receipts outside of the main budget:** These include skills development levy contributions and the International Oil Pollution Compensation Fund. Skills development levy contributions are paid to the National Skills Fund and the sector education and training authorities. The payment schedule to the National Skills Fund is generally revised to align it directly with anticipated receipts from the levy.

Table C.3 Main budget framework and financing requirements

MACROECONOMIC PROJECTIONS							
R billion/percentage change	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Real GDP growth	1.3%	0.6%	0.2%	-9.0%	5.2%	1.5%	1.5%
Nominal GDP growth	6.3%	4.8%	4.6%	-5.6%	9.4%	5.9%	5.9%
CPI inflation	4.7%	4.6%	4.2%	2.9%	4.4%	4.4%	4.5%
GDP at current prices (R billion)	**4 698.7**	**4 924.0**	**5 148.3**	**4 858.3**	**5 317.0**	**5 629.3**	**5 961.3**
MAIN BUDGET FRAMEWORK							
R billion/percentage of GDP	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Revenue							
Personal income tax	461.0	492.1	527.6	454.2	495.0	531.2	566.7
Corporate income tax	217.4	212.0	211.5	159.6	183.0	206.5	227.0
Value-added tax	298.0	324.8	346.7	287.7	345.6	371.8	398.5
Other tax revenue	149.8	158.8	163.5	133.9	166.0	187.1	209.6
Customs and excise duties	90.3	100.0	106.4	77.3	90.0	95.5	101.4
SACU transfers	-56.0	-48.3	-50.3	-63.4	-46.0	-31.5	-42.5
Non-tax revenue	19.2	23.9	27.6	24.9	22.3	23.3	25.0
National Revenue Fund receipts[1]	16.6	12.0	12.8	23.8	7.9	4.3	1.4
Main budget revenue	**1 196.4**	**1 275.3**	**1 345.9**	**1 097.9**	**1 263.6**	**1 388.3**	**1 487.1**
	25.5%	*25.9%*	*26.1%*	*22.6%*	*23.8%*	*24.7%*	*24.9%*
Expenditure							
Expenditure ceiling	1 225.4	1 307.1	1 418.4	1 502.9	1 479.7	1 516.1	1 529.6
Baseline allocations	*1 225.4*	*1 307.1*	*1 418.4*	*1 502.9*	*1 474.7*	*1 511.1*	*1 524.6*
Contingency reserve	–	–	–	–	*5.0*	*5.0*	*5.0*
Other non-interest expenditure[2]	16.9	17.6	67.8	69.9	49.6	41.2	41.9
Non-interest expenditure	**1 242.3**	**1 324.8**	**1 486.2**	**1 572.7**	**1 529.3**	**1 557.2**	**1 571.5**
Debt-service costs	162.6	181.8	204.8	233.0	271.8	317.6	353.1
Main budget expenditure	**1 404.9**	**1 506.6**	**1 690.9**	**1 805.8**	**1 801.1**	**1 874.8**	**1 924.6**
	29.9%	*30.6%*	*32.8%*	*37.2%*	*33.9%*	*33.3%*	*32.3%*
Main budget balance	**-208.6**	**-231.3**	**-345.1**	**-707.8**	**-537.4**	**-486.6**	**-437.5**
	-4.4%	*-4.7%*	*-6.7%*	*-14.6%*	*-10.1%*	*-8.6%*	*-7.3%*
Primary balance	**-45.9**	**-49.5**	**-140.3**	**-474.8**	**-265.7**	**-169.0**	**-84.4**
	-1.0%	*-1.0%*	*-2.7%*	*-9.8%*	*-5.0%*	*-3.0%*	*-1.4%*
BORROWING REQUIREMENT							
Main budget balance	-208.6	-231.3	-345.1	-707.8	-537.4	-486.6	-437.5
Redemptions	-28.4	-15.6	-70.7	-66.9	-65.5	-150.6	-155.7
Gross borrowing requirement	**-237.0**	**-246.9**	**-415.8**	**-774.7**	**-602.9**	**-637.2**	**-593.2**
	-5.0%	*-5.0%*	*-8.1%*	*-15.9%*	*-11.3%*	*-11.3%*	*-10.0%*
GOVERNMENT DEBT							
Gross loan debt	**2 489.7**	**2 788.3**	**3 261.3**	**3 974.1**	**4 551.8**	**5 071.3**	**5 536.2**
	53.0%	*56.6%*	*63.3%*	*81.8%*	*85.6%*	*90.1%*	*92.9%*
Net loan debt	**2 260.4**	**2 545.2**	**2 997.7**	**3 769.5**	**4 368.3**	**4 903.2**	**5 388.6**
	48.1%	*51.7%*	*58.2%*	*77.6%*	*82.2%*	*87.1%*	*90.4%*

1. Mainly revaluation profits on foreign-currency transactions and premiums on loan transactions
2. Technical adjustments explained in Table C.2
Source: National Treasury

Changes to main budget framework since the 2020 Budget

Table C.4 summarises the changes to the main budget fiscal framework compared with the 2020 Budget estimates. The fiscal balances for 2020/21 to 2022/23 have worsened due to significant revenue shortfalls and higher debt-service costs. The reductions in non-interest expenditure partially offset the revenue shortfalls and higher interest payments over the next two fiscal years.

Table C.4 Revisions to main budget framework since 2020 Budget

R million	2020/21	2021/22	2022/23
Main budget revenue			
Revised	1 097 932	1 263 630	1 388 265
2020 Budget estimates	1 397 996	1 484 294	1 580 877
Difference	**-300 064**	**-220 664**	**-192 612**
Main budget non-interest expenditure			
Revised	1 572 731	1 529 305	1 557 222
2020 Budget estimates	1 536 724	1 592 186	1 650 080
Difference	**36 006**	**-62 881**	**-92 858**
Debt-service costs			
Revised	233 028	271 752	317 609
2020 Budget estimates	229 270	258 482	290 145
Difference	**3 758**	**13 270**	**27 464**
Main budget primary balance			
Revised	-474 799	-265 675	-168 957
2020 Budget estimates	-138 729	-107 892	-69 203
Difference	**-336 070**	**-157 782**	**-99 754**
Main budget balance			
Revised	-707 827	-537 426	-486 566
2020 Budget estimates	-367 999	-366 374	-359 348
Difference	**-339 828**	**-171 052**	**-127 218**

Source: National Treasury

Tax revenue and expenditure ceiling outlook

Table C.5 Tax revenue and tax bases

R million/percentage change	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
		Outcome		Estimate		Projections	
Personal income tax	**460 953**	**492 083**	**527 630**	**454 156**	**495 015**	**531 207**	**566 731**
Wage bill [1]	*6.7%*	*4.3%*	*4.1%*	*-6.8%*	*6.5%*	*5.8%*	*5.3%*
Buoyancy	*1.28*	*1.57*	*1.76*	*2.04*	*1.38*	*1.25*	*1.25*
Corporate income tax	**217 412**	**212 046**	**211 521**	**159 575**	**182 963**	**206 501**	**226 956**
Net operating surplus	*7.5%*	*2.3%*	*4.3%*	*-6.3%*	*15.7%*	*5.7%*	*6.6%*
Buoyancy	*0.85*	*-1.05*	*-0.06*	*3.87*	*0.93*	*2.25*	*1.50*
Net value-added tax	**297 998**	**324 766**	**346 748**	**287 698**	**345 594**	**371 798**	**398 515**
Household consumption	*6.6%*	*5.4%*	*4.7%*	*-6.7%*	*12.1%*	*6.2%*	*6.7%*
Buoyancy	*0.46*	*1.66*	*1.45*	*2.54*	*1.66*	*1.22*	*1.07*
Domestic VAT	**336 279**	**378 733**	**399 281**	**365 069**	**409 376**	**438 595**	**471 126**
Household consumption	*6.6%*	*5.4%*	*4.7%*	*-6.7%*	*12.1%*	*6.2%*	*6.7%*
Buoyancy	*0.70*	*2.33*	*1.16*	*1.28*	*1.00*	*1.15*	*1.10*
Import VAT	**152 789**	**175 185**	**179 987**	**138 001**	**174 218**	**187 112**	**200 819**
Nominal imports	*2.6%*	*9.0%*	*1.7%*	*-14.2%*	*13.1%*	*5.9%*	*6.7%*
Buoyancy	*0.89*	*1.62*	*1.60*	*1.65*	*2.00*	*1.25*	*1.10*
VAT refunds	**-191 071**	**-229 151**	**-232 521**	**-215 372**	**-237 999**	**-253 909**	**-273 430**
Nominal exports	*2.5%*	*7.5%*	*4.3%*	*-10.2%*	*13.1%*	*6.7%*	*7.0%*
Buoyancy	*2.07*	*2.64*	*0.34*	*0.72*	*0.80*	*1.00*	*1.10*
Customs duties	**49 152**	**54 968**	**55 428**	**40 302**	**50 879**	**54 645**	**58 648**
Nominal imports	*2.6%*	*9.0%*	*1.7%*	*-14.2%*	*13.1%*	*5.9%*	*6.7%*
Buoyancy	*2.97*	*1.31*	*0.49*	*1.93*	*2.00*	*1.25*	*1.10*
Specific excise duties	**37 356**	**40 830**	**46 827**	**33 778**	**35 268**	**36 834**	**38 499**
CPI inflation	*4.7%*	*4.6%*	*4.2%*	*2.9%*	*4.4%*	*4.4%*	*4.5%*
Buoyancy	*0.94*	*2.00*	*3.51*	*-9.77*	*1.00*	*1.00*	*1.00*
Skills development levy	**16 012**	**17 439**	**18 486**	**10 175**	**17 813**	**19 230**	**20 763**
Private-sector wage bill	*6.3%*	*3.3%*	*3.9%*	*-11.0%*	*10.1%*	*8.0%*	*8.0%*
Buoyancy	*0.72*	*2.70*	*1.55*	*4.08*	*7.41*	*1.00*	*1.00*
Fuel levy	**70 949**	**75 372**	**80 175**	**68 384**	**78 069**	**83 808**	**89 803**
Nominal GDP	*6.3%*	*4.8%*	*4.6%*	*-5.6%*	*9.4%*	*5.9%*	*5.9%*
Buoyancy	*2.06*	*1.30*	*1.40*	*2.61*	*1.50*	*1.25*	*1.21*
Ad valorem excise duties	**3 781**	**4 192**	**4 124**	**3 202**	**3 806**	**4 030**	**4 267**
Nominal GDP	*6.3%*	*4.8%*	*4.6%*	*-5.6%*	*9.4%*	*5.9%*	*5.9%*
Buoyancy	*1.79*	*2.27*	*-0.35*	*3.97*	*2.00*	*1.00*	*1.00*
Other [2]	**62 852**	**65 994**	**64 810**	**55 310**	**65 120**	**68 815**	**72 807**
Nominal GDP	*6.3%*	*4.8%*	*4.6%*	*-5.6%*	*9.4%*	*5.9%*	*5.9%*
Buoyancy	*-0.06*	*1.04*	*-0.39*	*2.60*	*1.88*	*0.97*	*0.98*
Gross tax (pre-proposals)	**1 216 464**	**1 287 690**	**1 355 749**	**1 112 579**	**1 274 528**	**1 376 867**	**1 476 990**
Nominal GDP	*6.3%*	*4.8%*	*4.6%*	*-5.6%*	*9.4%*	*5.9%*	*5.9%*
Buoyancy	*1.00*	*1.22*	*1.16*	*3.18*	*1.54*	*1.37*	*1.23*
Announced tax policy measures [3]	–	–	–	–	*5 000*	*15 294*	*26 196*
Gross tax	**1 216 464**	**1 287 690**	**1 355 749**	**1 112 579**	**1 279 528**	**1 392 161**	**1 503 186**
Nominal GDP	*6.3%*	*4.8%*	*4.6%*	*-5.6%*	*9.4%*	*5.9%*	*5.9%*
Buoyancy	*1.00*	*1.22*	*1.16*	*3.18*	*1.59*	*1.50*	*1.35*

1. Total remuneration in the formal non-agriculture sector
2. Other includes dividends tax, interest on overdue income tax, taxes on property, stamp duties and fees, air departure tax, electricity levy, plastic bag levy and all other minor taxes
3. Unspecified tax policy measures announced in the 2020 special adjustments budget. The details will be announced in the 2021 Budget. The tax increases are carried through into the following years at the same rate as nominal GDP growth
Source: National Treasury

Southern African Customs Union revenue pool

Payments to the Southern African Customs Union (SACU) have been revised downwards by R14.5 billion in 2021/22 and R31.9 billion in 2022/23 compared with the 2020 Budget estimates. The revisions reflect lower customs and excise duties projections, and changes to forecast error adjustments. Member states' estimates of GDP, population and intra-SACU trade have also been updated. A much weaker outlook for imports has led to reduced expectations for customs duties. Specific excise duties have also been adjusted downwards due to the lockdown restrictions that constrained the sale of alcohol and tobacco products in the current year. The SACU revenue-sharing formula adjusts for forecast errors with a two-year lag. As a result, the projected 2021/22 SACU payments include the forecast error adjustment for 2019/20. SACU payments projections for 2022/23 include the adjustment for forecast errors for 2020/21.

Table C.6 Change to SACU common revenue pool since 2020 Budget

	2020 Budget estimates		Revised estimates		Deviations	
R million	**2020/21**	**2021/22**	**2020/21**	**2021/22**	**2020/21**	**2021/22**
Customs duties	59 500	63 607	40 302	50 879	-19 198	-12 728
Specific excise duties	48 836	51 097	33 778	35 268	-15 058	-15 829
Ad valorem excise duties	4 328	4 592	3 202	3 806	-1 127	-786
Common revenue pool	**112 665**	**119 296**	**77 282**	**89 954**	**-35 383**	**-29 342**

Source: National Treasury

Fiscal framework assumptions for long-term main budget baseline

The long-term main budget fiscal framework assumptions that underpin the long-term debt outlook include the following:

- Higher tax elasticities than the long-run average up until 2026/27 based on a gradual recovery to the peak level of tax to GDP reached before the COVID-19 pandemic.
- The gap between gross tax and main budget revenue is assumed at a long-run average of 0.27 per cent of GDP per year from 2024/25 onwards.
- Tax increases and the downward non-interest spending adjustments will carry through to the following years from the year they are introduced.
- Non-interest expenditure (excluding Eskom financial support and the Infrastructure Fund) grows in line with CPI inflation before further downward non-interest spending adjustments of R20 billion per year in 2024/25 and 2025/26.
- In real terms, non-interest expenditure (excluding the Infrastructure Fund) grows by 1.5 per cent per year from 2026/27 onwards.
- The Infrastructure Fund amounts are assumed at R10 billion in 2024/25, R12 billion in 2025/26, R15 billion in 2026/27, R20 billion in 2027/28 and R24 billion in 2028/29. This, together with the medium-term provisional allocations, will amount to the R100 billion announced in the 2019 *Medium Term Budget Policy Statement* for the Infrastructure Fund over a decade from 2019/20.
- Financial support for Eskom is reduced by R4.2 billion over the medium term. It is assumed to amount to R225.8 billion from 2019/20 until 2025/26.
- No further recapitalisation of state-owned companies is assumed over the medium term apart from the 2020 Budget estimates.
- Beyond the medium term, average real GDP growth is assumed to be 2 per cent.

2019/20 outcomes and 2020/21 mid-year estimates

Table C.7 summarises national and provincial appropriated expenditure outcomes for 2019/20 and estimates for the first half of 2020/21. Tables C.8 and C.9 present additional details.

In 2019/20, national expenditure amounted to R1.69 trillion, which was R7.6 billion higher than the adjusted budget estimate. The overspending was mainly driven by transfers and subsidies due to the payment of social grants in March instead of April 2020. The higher-than-estimated expenditure was partly offset by lower spending on goods and services and capital assets. Provincial expenditure was R628.6 billion in 2019/20, R10.1 billion below adjusted estimates.

For the first six months of 2020/21, national departments spent R875.6 billion or 48.5 per cent of their adjusted budgets, while provinces spent R300.8 billion or 44.7 per cent of their adjusted budgets for the year. Provinces are primarily responsible for delivering social services, including basic education and health. Compensation of employees is the largest spending item in provincial budgets, accounting for 64.3 per cent of spending in the first six months of 2020/21.

Table C.7 National and provincial expenditure outcomes and mid-year estimates

	2019/20				2020/21					
R billion	Original budget	Adjusted estimate	Audited outcome	Over(-)/ Under(+)	Original budget	Special appro-priation[1]	Adjustments appropriation[2]	Second adjustments appropriation	Adjusted estimate	Actual spending April to September
National appropriation	**900.2**	**941.1**	**944.9**	**-3.8**	**963.1**	**33.0**	**24.5**	**4.7**	**1 025.3**	**478.8**
Direct charges	**743.9**	**745.4**	**746.1**	**-1.0**	**805.7**	**–**	**-0.9**	**-22.2**	**782.5**	**396.8**
Debt-service costs	202.2	203.7	204.8	-1.0	229.3	–	7.2	-3.4	233.0	116.3
Provincial equitable share	505.6	505.6	505.6	–	538.5	–	–	-17.8	520.7	269.2
Other direct charges	36.1	36.1	35.7	–	37.9	–	-8.1	-1.0	28.8	11.3
National votes	**1 644.1**	**1 686.5**	**1 690.9**	**-4.4**	**1 768.8**	**33.0**	**23.6**	**-17.5**	**1 807.9**	**875.6**
of which:										
Compensation of employees	*176.5*	*175.5*	*176.3*	*-0.8*	*187.7*	–	*-0.5*	*-9.8*	*177.4*	*86.8*
Goods and services	*75.5*	*76.0*	*70.6*	*5.4*	*77.9*	–	*1.6*	*1.3*	*80.8*	*27.1*
Transfers and subsidies	*1 151.9*	*1 151.2*	*1 161.9*	*-10.7*	*1 215.9*	–	*12.1*	*-14.4*	*1 213.6*	*621.6*
Payments for capital assets	*15.5*	*14.7*	*12.2*	*2.5*	*15.3*	–	*0.2*	*-0.6*	*14.8*	*3.5*
Payments for financial assets	*22.5*	*65.2*	*65.0*	*0.2*	*42.6*	*33.0*	*3.0*	*9.5*	*88.0*	*20.3*
Provisional allocation for contingencies not assigned to votes	1.6	–	–	–	-7.8	–	19.6	-11.8	–	–
Contingency reserve	13.0	–	–	–	5.0	–	–	-5.0	–	–
Projected underspending	–	-3.2	–	-3.2	–	–	–	-2.1	-2.1	–
Main budget expenditure	**1 658.7**	**1 683.4**	**1 690.9**	**-7.6**	**1 766.0**	**33.0**	**43.2**	**-36.4**	**1 805.8**	**875.6**
Provincial expenditure	**632.3**	**638.7**	**628.6**	**10.1**	**669.7**	**–**	**–**	**–**	**673.2**	**300.8**
of which:										
Compensation of employees	*389.6*	*387.1*	*384.4*	*2.6*	*417.3*	–	–	–	*416.6*	*193.5*
Transfers and subsidies	*79.2*	*82.7*	*82.7*	*-0.0*	*81.7*	–	–	–	*79.3*	*34.5*
Payments for capital assets	*35.9*	*35.8*	*31.8*	*4.0*	*35.8*	–	–	–	*33.9*	*12.1*

1. Special Appropriation Act (2019)
2. Adjusted Appropriation Act (2020)
Source: National Treasury

Table C.8 Expenditure by vote

	2019/20				2020/21					
R million	Main budget	Adjusted budget	Audited outcome	Over(-)/ Under(+)	Main budget	Special appro-priation[2]	Adjustments appropriation[3]	Second adjustments appropriation	Adjusted budget	Actual spending April to September
1 The Presidency	699	699	639	60	612	–	-51	12	573	231
2 Parliament[1]	1 993	1 993	1 993	–	2 180	–	-80	-85	2 016	–
3 Cooperative Governance	90 554	90 178	86 782	3 396	96 234	–	10 955	-246	106 943	41 211
4 Government Communication and Information System	689	684	674	10	721	–	30	-25	725	389
5 Home Affairs	8 340	9 528	9 528	0	9 030	–	-562	320	8 787	4 074
6 International Relations and Cooperation	6 509	6 509	6 308	201	6 850	–	-317	-219	6 315	3 275
7 National School of Government	188	188	183	5	207	–	-16	37	227	100
8 National Treasury	30 721	30 629	29 771	858	33 123	–	2 137	-734	34 526	15 851
9 Planning, Monitoring and Evaluation	478	479	439	40	500	–	-100	–	400	170
10 Public Enterprises	17 945	56 883	56 846	37	37 849	33 000	-62	6 819	77 607	16 628
11 Public Service and Administration	536	527	489	38	566	–	-86	-11	469	207
12 Public Service Commission	278	278	275	4	298	–	-10	-14	274	123
13 Public Works and Infrastructure	7 869	7 967	7 820	147	8 071	–	–	-346	7 724	3 642
14 Statistics South Africa	2 514	2 514	2 553	-39	3 452	–	-200	-121	3 132	1 104
15 Traditional Affairs	163	168	161	8	173	–	-3	-9	162	64
16 Basic Education	24 505	24 465	23 852	613	25 328	–	-2 095	162	23 395	12 851
17 Higher Education and Training	89 455	89 014	88 784	230	97 444	–	-1 734	-1 615	94 095	73 894
18 Health	51 461	51 195	50 773	422	55 516	–	2 914	-377	58 053	27 453
19 Social Development	184 768	184 698	199 714	-15 016	197 718	–	25 474	7 615	230 807	112 533
20 Women, Youth and Persons with Disabilities	739	738	725	12	778	–	-133	-24	621	337
21 Civilian Secretariat for the Police Service	147	143	137	6	156	–	-12	-7	137	54
22 Correctional Services	25 408	25 317	25 186	131	26 800	–	–	-1 203	25 597	12 095
23 Defence	49 850	50 236	50 230	6	52 439	–	2 880	-1 117	54 201	25 351
24 Independent Police Investigative Directorate	337	337	337	0	356	–	–	-15	341	173
25 Justice and Constitutional Development	18 717	18 782	18 188	594	19 861	–	-416	-778	18 666	7 761
26 Military Veterans	663	653	477	175	683	–	-137	-66	480	123
27 Office of the Chief Justice	1 198	1 198	1 134	64	1 260	–	-30	-42	1 188	461
28 Police	97 449	96 684	95 930	754	101 711	–	3 700	-5 850	99 561	46 389
29 Agriculture, Land Reform and Rural Development	17 399	17 229	16 948	281	16 810	–	-2 394	831	15 248	5 853
30 Communications and Digital Technologies	2 572	5 774	5 666	109	3 395	–	-111	-2	3 281	1 316
31 Employment and Labour	3 435	3 433	3 216	217	3 638	–	-262	-77	3 299	1 495
32 Environment, Forestry and Fisheries	8 742	8 696	8 691	4	8 955	–	-766	1 749	9 938	3 405
33 Human Settlements	33 879	33 862	33 346	516	31 325	–	-2 261	15	29 079	10 189
34 Mineral Resources and Energy	9 445	9 186	8 916	270	9 337	–	-1 574	-196	7 567	3 804
35 Science and Innovation	8 195	8 172	8 081	91	8 797	–	-1 436	-84	7 278	3 712
36 Small Business Development	2 569	2 269	2 229	40	2 407	–	-67	-62	2 278	1 752
37 Sports, Arts and Culture	5 771	5 723	5 480	243	5 720	–	-965	556	5 311	2 321
38 Tourism	2 393	2 393	2 384	8	2 481	–	-1 000	-54	1 427	550
39 Trade, Industry and Competition	11 044	11 014	10 876	138	11 082	–	-1 771	-37	9 273	4 014
40 Transport	64 194	64 205	63 889	317	62 036	–	-4 640	-41	57 355	27 602
41 Water and Sanitation	16 440	16 467	15 218	1 250	17 216	–	-257	35	16 994	6 282
Total appropriation by vote	**900 249**	**941 106**	**944 866**	**-3 761**	**963 114**	**33 000**	**24 540**	**4 696**	**1 025 350**	**478 838**

Table C.8 Expenditure by vote *(continued)*

	2019/20				2020/21					
R million	Main budget	Adjusted budget	Audited outcome	Over(-)/ Under(+)	Main budget	Special appro-priation[2]	Adjustments appropriation[3]	Second adjustments appropriation	Adjusted budget	Actual spending April to September
Total appropriation by vote	**900 249**	**941 106**	**944 866**	**-3 761**	**963 114**	**33 000**	**24 540**	**4 696**	**1 025 350**	**478 838**
Plus:										
Direct charges against the National Revenue Fund										
President and deputy president salaries (The Presidency)	7	7	6	2	8	–	–	–	8	3
Members' remuneration (Parliament)	528	601	601	–	507	–	–	-31	476	–
Debt-service costs (National Treasury)	202 208	203 731	204 769	-1 039	229 270	–	7 174	-3 417	233 028	116 292
Provincial equitable share (National Treasury)	505 554	505 554	505 554	–	538 472	–	–	-17 755	520 717	269 236
General fuel levy sharing with metropolitan municipalities (National Treasury)	13 167	13 167	13 167	–	14 027	–	–	–	14 027	4 676
National Revenue Fund payments (National Treasury)	135	360	468	-109	98	–	13	66	178	178
Auditor-General of South Africa (National Treasury)	50	63	63	–	120	–	–	–	120	70
Section 70 of the PFMA payment: Land and Agricultural Development Bank of South Africa (National Treasury)	–	–	–	–	–	–	–	74	74	74
Section 70 of the PFMA payment: South African Express Airways SOC Ltd (Public Enterprises)	–	–	–	–	–	–	–	143	143	143
Skills levy and sector education and training authorities (Higher Education and Training)	18 759	18 576	18 284	292	19 413	–	-8 122	-1 116	10 175	4 534
Magistrates' salaries (Justice and Constitutional Development)	2 384	2 264	2 100	164	2 550	–	–	-108	2 442	1 074
Judges' salaries (Office of the Chief Justice and Judicial Administration)	1 099	1 099	1 052	47	1 191	–	–	-73	1 118	528
International Oil Pollution Compensation Fund (Transport)	10	10	3	8	11	–	–	–	11	–
Total direct charges against the National Revenue Fund	**743 900**	**745 430**	**746 066**	**-635**	**805 666**	**–**	**-935**	**-22 214**	**782 517**	**396 807**
Provisional allocation not assigned to votes	10	–	–	–	7 021	–	–	-7 021	–	–
Infrastructure fund not assigned to votes	1 000	–	–	–	–	–	–	–	–	–
Provisional allocation for Eskom restructuring	5 348	–	–	–	23 000	–	–	-23 000	–	–
Compensation of employees adjustment	-4 800	–	–	–	-37 807	–	–	37 807	–	–
Provisional allocation for Presidential Employment Intervention	–	–	–	–	–	–	19 575	-19 575	–	–
Contingency reserve	13 000	–	–	–	5 000	–	–	-5 000	–	–
National government projected underspending	–	-1 184	–	-1 184	–	–	–	-2 109	-2 109	–
Local government repayment to the National Revenue Fund	–	-2 000	–	-2 000	–	–	–	–	–	–
Total	**1 658 707**	**1 683 352**	**1 690 932**	**-7 580**	**1 765 994**	**33 000**	**43 181**	**-36 417**	**1 805 758**	**875 645**

1. Amendments to Parliament's budget are determined independently of the national government's budget processes in accordance with the Financial Management of Parliament and Provincial Legislatures Act (2009) as amended

2. Special Appropriation Act (2019)

3. Adjusted Appropriation Act (2020)

Source: National Treasury

Table C.9 Expenditure by province

R million	2019/20 Main budget	2019/20 Adjusted budget	2019/20 Pre-audited outcome	2019/20 Over(-)/ Under(+)	2019/20 Deviation from adjusted budget	2020/21 Main budget	2020/21 Adjusted budget	2020/21 Actual spending April to September
Eastern Cape	**82 198**	**83 690**	**83 598**	**92**	**0.1%**	**85 908**	**85 406**	**40 590**
Education	36 329	36 465	37 180	-715	-2.0%	37 769	36 422	17 926
Health	25 190	25 972	26 201	-228	-0.9%	26 391	28 135	14 590
Social development	3 021	3 044	2 965	79	2.6%	3 228	3 218	1 271
Other functions	17 659	18 209	17 253	956	5.3%	18 521	17 631	6 803
Free State	**37 274**	**37 604**	**37 269**	**335**	**0.9%**	**39 055**	**39 055**	**17 681**
Education	14 733	14 898	14 843	55	0.4%	15 620	15 620	7 203
Health	11 142	11 250	11 124	126	1.1%	12 477	12 477	5 532
Social development	1 375	1 412	1 367	46	3.2%	1 492	1 492	619
Other functions	10 023	10 044	9 936	108	1.1%	9 466	9 466	4 328
Gauteng	**132 443**	**132 452**	**128 217**	**4 235**	**3.2%**	**142 367**	**146 389**	**62 596**
Education	49 810	49 421	48 032	1 389	2.8%	53 593	54 463	22 839
Health	50 767	51 579	50 674	905	1.8%	55 728	60 277	27 711
Social development	5 517	5 443	5 041	402	7.4%	5 776	5 823	2 517
Other functions	26 349	26 009	24 470	1 539	5.9%	27 270	25 826	9 529
KwaZulu-Natal	**130 474**	**131 943**	**130 155**	**1 789**	**1.4%**	**138 182**	**140 005**	**62 350**
Education	54 022	54 188	54 413	-225	-0.4%	57 247	57 739	26 191
Health	45 037	45 152	45 227	-75	-0.2%	48 058	53 140	24 557
Social development	3 519	3 576	3 542	34	0.9%	3 836	3 772	1 604
Other functions	27 897	29 028	26 972	2 055	7.1%	29 041	25 354	9 997
Limpopo	**69 501**	**70 436**	**69 084**	**1 352**	**1.9%**	**72 796**	**71 609**	**32 473**
Education	32 291	32 438	31 954	484	1.5%	33 894	33 578	15 114
Health	20 777	20 912	21 011	-99	-0.5%	22 143	23 227	10 930
Social development	2 181	2 182	2 142	41	1.9%	2 360	2 172	1 028
Other functions	14 252	14 903	13 977	926	6.2%	14 400	12 633	5 400
Mpumalanga	**50 981**	**51 671**	**51 487**	**184**	**0.4%**	**54 019**	**53 579**	**23 954**
Education	21 862	22 365	22 395	-30	-0.1%	23 498	22 949	10 427
Health	14 387	14 281	14 258	23	0.2%	15 568	16 776	7 469
Social development	1 657	1 647	1 636	11	0.7%	1 838	1 691	747
Other functions	13 075	13 378	13 198	180	1.3%	13 115	12 163	5 311
Northern Cape	**18 255**	**18 416**	**18 290**	**126**	**0.7%**	**19 147**	**18 450**	**8 646**
Education	6 906	6 906	6 910	-4	-0.1%	7 222	7 132	3 495
Health	5 197	5 230	5 183	47	0.9%	5 593	5 761	2 773
Social development	921	925	911	15	1.6%	1 012	1 032	442
Other functions	5 232	5 355	5 285	69	1.3%	5 320	4 524	1 937
North West	**44 029**	**44 471**	**42 944**	**1 526**	**3.4%**	**46 513**	**45 895**	**19 990**
Education	17 110	17 093	16 757	336	2.0%	18 380	18 063	7 756
Health	12 274	12 326	12 436	-110	-0.9%	13 197	14 483	6 849
Social development	1 747	1 722	1 684	38	2.2%	1 878	1 820	690
Other functions	12 898	13 330	12 068	1 262	9.5%	13 058	11 529	4 695
Western Cape	**67 191**	**68 009**	**67 577**	**432**	**0.6%**	**71 664**	**72 791**	**32 543**
Education	23 669	23 650	23 446	204	0.9%	25 050	24 912	11 185
Health	24 757	24 852	24 773	79	0.3%	26 252	27 857	12 975
Social development	2 464	2 461	2 432	29	1.2%	2 673	2 681	1 219
Other functions	16 301	17 045	16 925	120	0.7%	17 690	17 341	7 164
Total	**632 346**	**638 691**	**628 621**	**10 070**	**1.6%**	**669 652**	**673 179**	**300 822**
Education	256 731	257 424	255 931	1 493	0.6%	272 271	270 877	122 136
Health	209 529	211 555	210 886	669	0.3%	225 406	242 133	113 386
Social development	22 402	22 412	21 719	694	3.1%	24 094	23 701	10 136
Other functions	143 685	147 300	140 085	7 215	4.9%	147 881	136 468	55 164

Source: National Treasury

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Glossary

Accrued liability	A liability that is not paid in the fiscal year in which it is incurred, and so continues to be owed in the next fiscal year.
Adjustment estimates	Presentation to Parliament of the amendments to be made to the appropriations voted in the main budget for the year.
Administered prices	Prices set outside ordinary market processes through administrative decisions by government, a public entity or a regulator.
Appropriation	The approval by Parliament of spending from the National Revenue Fund, or by a provincial legislature from the Provincial Revenue Fund.
Asset price inflation	An increase in the overall price of assets over a specific period of time.
Balance of payments	A summary statement of all the transactions of the residents of a country with the rest of the world over a particular time period.
Basel III	Reforms developed by the Basel Committee on Banking Supervision to strengthen the regulation, supervision and risk management of the banking sector.
Baseline	The initial allocations used during the budget process, derived from the previous year's forward estimates.
Blended finance	The combination of public, private, development and multilateral sources of financing to leverage funding for infrastructure projects.
Bond-switch programme	An auction that aims to ease pressure on targeted areas of the redemption profile by exchanging shorter-dated debt and longer-term debt.
Budget balance	The difference between expenditure and revenue. If expenditure exceeds revenue, the budget is in deficit. If the reverse is true, it is in surplus.
Budget Facility for Infrastructure	A reform to the budget process that establishes specialised structures, procedures and criteria for committing fiscal resources to public infrastructure spending.
Buy-back transaction	A transaction where government buys debt instruments from investors before their redemption date.
Capital erosion	The deterioration of capital due to the lack of investment in the economy.
Capital flight	A large outflow of investments from a country in response to heightened economic, political or policy risk.
Capital flow	A flow of investments into or out of the country.
Concessionary financing	Financing or loans that are extended on terms that are more generous than market loans, for example through lower interest rates or grace periods where there is no repayment.

Conditional grants	Allocations of money from one sphere of government to another, conditional on certain services being delivered or on compliance with specified requirements.
Consolidated government expenditure	Total expenditure by national and provincial government, social security funds and selected public entities, including transfers to municipalities or other entities. See also *main budget expenditure*.
Consumer price index (CPI)	The main measure of inflation, charting changes in the price movements of a basket of consumer goods and services.
Consumption expenditure	Expenditure on goods and services, including salaries, which are consumed within a short period of time – usually a year.
Contingency reserve	An amount set aside, but not allocated in advance, to accommodate changes in the economic environment and to meet unforeseen spending pressures.
Contingent liability	A government obligation, such as a guarantee, that will only result in expenditure if a specific event occurs. See also *government guarantee*.
Core inflation	A measure of the change in consumer price levels that excludes temporary shocks and represents the long-term trend of changes in the price level. See also *headline inflation*.
Countercyclical fiscal policy	Policy that has the opposite effect on economic activity to that caused by the business cycle, such as slowing spending growth in a boom period and accelerating spending in a recession.
Credit rating	An indicator of the risk of default by a borrower or the riskiness of a financial instrument. Rating agencies assign grades signifying the borrower's capacity to meet its financial obligations or the probability that the value of the financial instrument will be realised. See also *rating agency*.
Crowding in	An increase in private investment or consumption as a result of government spending.
Crowding out	A fall in private investment or consumption as a result of increased government spending.
Current account (of the balance of payments)	The difference between total exports and imports, including service payments and receipts, interest, dividends and transfers. This account can be in deficit or surplus. See also *trade balance.*
Current balance	The difference between revenue and current expenditure, which consists of compensation of employees, goods and services, and interest and rent on land.
Debt redemption	Repayment of the principal and any outstanding interest on a bond.
Debt-service cost	The cost of interest on government debt.

Depreciation (capital)	A reduction in the value of fixed capital as a result of wear and tear or redundancy.
Depreciation (exchange rate)	A reduction in the external value of a currency.
Disposable income	Total income less all taxes and employee contributions.
Division of revenue	The allocation of funds between national, provincial and local government as required by the Constitution.
Economically active population	The sum of people who are employed and actively seeking employment.
Economic growth	An increase in the total amount of output, income and spending in the economy.
Effective cost of debt	A measure of the cost of debt that includes non-interest costs, such as penalties and upfront payments, which are often applied to distressed borrowers.
Electricity availability factor	A measure of plant availability, taking into account planned maintenance, unplanned breakdowns and energy losses.
Emerging economies	A name given by international investors to middle-income economies.
Employment tax incentive	An incentive to encourage the creation of jobs for youth by allowing employers to claim a reduction in employees' tax.
Equitable share	The allocation of revenue to national, provincial and local government as required by the Constitution.
Expenditure ceiling	An overall limit on expenditure that enables government to manage departmental spending levels.
External imbalance	An excessively positive or negative current account balance, reflecting an excess or deficit of domestic investment over domestic savings.
Financial account (of the balance of payments)	A statement of all financial transactions between a country and the rest of the world, including portfolio and fixed investment flows, and movements in foreign reserves.
Financial and Fiscal Commission	An independent body established in terms of the Constitution to make recommendations to Parliament and provincial legislatures about financial issues affecting the three spheres of government.
Financial year	The 12 months according to which companies and organisations budget and account. Government's financial year runs from 1 April to 31 March.
Fiscal consolidation	Measures to stabilise a government's debt-to-GDP ratio and narrow its budget deficit.
Fiscal multipliers	A ratio measuring the extent to which national income changes in response to changes in government spending. For example, a fiscal multiplier of 0.5 implies that national income increases by 50 cents for every R1 of additional government spending.
Fiscal policy	Policy on taxation, spending and borrowing by government.
Fiscal space	Government's ability to provide additional resources in the budget without jeopardising fiscal sustainability.
Flexible exchange rate	Determination of currency exchange rates by market forces.

Floating exchange rate	An exchange rate regime in which the exchange rate of a country can fluctuate in response to movements in the foreign exchange market.
Foreign direct investment	The acquisition of long-term business interests in another country, usually involving management, technology and financial participation.
Full-time equivalent	An indicator measuring the proportion of time for which an employee receives a salary. It enables government to estimate annual personnel costs by aggregating the amount of part-time work to calculate the full-time equivalents. For example, two people working full-time for six months of the year would count as one full-time equivalent.
Gini coefficient	A measure that illustrates inequality in the distribution of income. It is expressed as a number between 0 and 1, with 0 representing perfect equality in income and 1 representing perfect inequality.
Gold and Foreign Exchange Account	A Reserve Bank account that reflects its losses and profits on holdings of foreign currency and gold reserves, driven by changes in the exchange rate of the rand to the US dollar and the gold price.
Government guarantee	An assurance made by government to a lender that a financial obligation will be honoured, even if the borrowing government institution is unable to repay the debt. See also *contingent liability.*
Gross domestic product (GDP)	A measure of total national output, income and expenditure in the economy.
Gross domestic product inflation	A measure of the total increase in prices in the whole economy. Unlike CPI inflation, GDP inflation includes price increases of goods that are exported and intermediate goods such as machines, but excludes imported goods.
Gross fixed-capital formation	The addition to a country’s fixed-capital stock over a specific period, before providing for depreciation.
Headline inflation	A measure of the change in the CPI level that includes temporary price shocks to the economy, such as once-off price changes. See also *core inflation*.
Independent power producer	A private-sector business that generates energy for the national grid.
Indirect grant	A grant allowing a national department to perform a function on behalf of a province or municipality. No funds are transferred, but the end-product of the grant, such as infrastructure, is generally transferred to the province or municipality.
Inflation	An increase in the general level of prices.
Inflation targeting	A monetary policy framework intended to achieve price stability over a certain period of time. The Reserve Bank and government agree on a target rate or range of inflation to be maintained.

Infrastructure Fund	A fund housed in the Development Bank of Southern Africa that will provide government support to co-finance projects that blend public and private resources.
Integrated financial management system (IFMS) project	A project to review, upgrade and integrate government's financial management information technology systems.
Intergenerational equity	A principle based on ensuring that future generations do not have to repay debts taken on today, unless they also share in the benefits of assets.
Investment grade	A credit rating for bonds regarded as carrying minimal risk to investors.
Labour force participation	The ratio of employed and unemployed workers (the labour force) relative to the working-age population.
Liquidity	The ease with which assets can be bought and sold.
Main budget expenditure	National government expenditure and transfers to provincial and local government financed from the National Revenue Fund, excluding revenues and spending related to social security funds, extra-budgetary institutions and provincial own revenue. See also *consolidated government expenditure.*
Medium Term Expenditure Committee (MTEC)	The technical committee responsible for evaluating the medium-term expenditure framework budget submissions of national departments and making recommendations to the Minister of Finance regarding allocations to national departments.
Medium-term expenditure framework (MTEF)	The three-year spending plans of national and provincial governments published at the time of the Budget.
Medium-term strategic framework	The five-year strategy of government coinciding with the electoral term.
Monetary policy	The actions taken by a country's monetary authority (e.g. the Reserve Bank), usually focused on money supply and interest rates.
Money supply	The total stock of money in an economy.
National budget	The projected revenue and expenditure flowing through the National Revenue Fund. It does not include spending by provinces or local government from their own revenues.
National Development Plan (NDP)	A national strategy to eliminate poverty and reduce inequality.
National Economic Development and Labour Council (NEDLAC)	A forum consisting of representatives from government, organised labour, organised business and community organisations that seek to cooperate on economic, labour and development issues and related challenges facing South Africa.
National health insurance (NHI)	A policy relating to healthcare that aims to provide access to quality and affordable health services to all South Africans.

National Revenue Fund	The consolidated account of national government into which all taxes, fees and charges collected by the South African Revenue Service and departmental revenue must be paid.
Net asset position	The total value of a company's assets minus its liabilities.
Nominal exchange rate	The current rate of exchange between the rand and foreign currencies.
Nominal wage	The return, or wage, to employees at the current price level.
Non-interest expenditure	Total expenditure by government less debt-service costs.
Occupation-specific dispensation (OSD)	A public-sector initiative aimed at improving government's ability to attract and retain skilled employees in targeted occupations through increased remuneration.
Opportunity cost	The cost of an alternative forgone to pursue a certain action.
Payroll tax	Tax an employer withholds and/or pays on behalf of employees based on employee wages or salaries.
Potential growth	The fastest growth that an economy can sustain without increasing inflation.
Primary deficit/surplus	The difference between total revenue and non-interest expenditure. When revenue exceeds non-interest expenditure, there is a surplus.
Primary expenditure	Non-interest expenditure by government.
Primary sector	The agricultural and mining sectors of the economy.
Private-sector credit extension	Credit provided to the private sector by financial services providers. This includes all loans, credit card balances and leases.
Productivity	A measure of the amount of output generated from every unit of input over a period of time. Typically used to measure changes in labour efficiency.
Protectionism	When a country restricts international trade to protect domestic industries.
Public entities	Companies, agencies, funds and accounts that are fully or partly owned by government or public authorities and regulated by law.
Public-sector borrowing requirement	The consolidated cash borrowing requirement of general government and non-financial public enterprises.
Purchasing managers' index (PMI)	A composite index measuring the change in manufacturing activity compared with the previous month.
Quantitative easing	A measure used by central banks to stimulate economic growth when interest rates are near zero by increasing money supply. Also called monetary easing.
Rating agency	A company that evaluates the ability of countries or other borrowers to honour their debt obligations. Credit ratings are used by international investors as indications of risk. See also *credit rating.*

Real effective exchange rate	A measure of the rate of exchange of the rand relative to a trade-weighted average of South Africa's trading partners' currencies, adjusted for inflation.
Real expenditure	Expenditure measured in constant prices, in other words, adjusted to remove the effects of inflation.
Real interest rate	The level of interest after removing the effects of inflation.
Recapitalisation	Injection of funds into a company or entity to aid liquidity, either as a loan or in return for equity.
Redemption	The return of an investor's principal in a fixed-income security, such as a preferred stock or bond.
Refinancing	The repayment of debt at a scheduled time with the proceeds of new loans.
Repurchase (repo) rate	The interest rate at which the Reserve Bank lends to commercial banks.
Reserves (foreign exchange)	Holdings of foreign exchange, either by the Reserve Bank only, or by the Reserve Bank and domestic banking institutions.
Revaluation gain/loss	The difference in value of an asset, liability or transaction from its original (historical) rate to its current rate.
Risk premium	A return that compensates for uncertainty.
Rollover	Funds not spent during a given financial year that flow into the following year's budget.
Seasonally adjusted and annualised	The process of removing the seasonal volatility (monthly or quarterly) from a time series. This provides a measure of the underlying trend in the data. Once the rate is annualised, it is expressed as if it were applied over one year.
Social grants	Social benefits available to qualifying individuals, funded wholly or partly by the state.
Southern African Customs Union (SACU) agreement	An agreement that allows for the unrestricted flow of goods and services, and the sharing of customs and excise revenue, between South Africa, Botswana, eSwatini, Lesotho and Namibia.
Southern African Development Community (SADC)	A regional intergovernmental organisation that promotes collaboration, economic integration and technical cooperation throughout Southern Africa.
Sovereign credit rating	An assessment of the creditworthiness of a country.
Sovereign debt	Debt issued by a government.
Sovereign risk premium	The additional return demanded by investors to compensate them for the higher risk associated with investing in a foreign country.
Special economic zone	A designated area where infrastructure and incentives are provided to clusters of businesses to encourage private investment and employment growth.
Structural reforms	Measures that are put in place with the aim of substantially changing the economy, or the institutional and regulatory framework in which people and businesses operate.

Supply-side constraints	A situation where a country's productive capacity cannot keep up with rising demand.
Switch (auction)	Auctions to exchange bonds to manage refinancing risk or improve tradability.
Tax avoidance	When individuals or businesses legitimately use provisions in the tax law to reduce their tax liability.
Tax buoyancy	Describes the relationship between total tax revenue collections and economic growth. This measure includes the effects of policy changes on revenue. A value above one means that revenues are growing faster than the economy and below one means they are growing below the rate of GDP growth.
Tax evasion	When individuals or businesses illegally reduce their tax liability.
Tax-to-GDP ratio	For public finance comparison purposes, a country's tax burden, or tax-to-GDP ratio, is calculated by expressing the total tax payments for a particular fiscal year as a fraction or percentage of the GDP for that year.
Terms of trade	An index measuring the ratio of export prices to import prices.
Trade balance	The monetary record of a country's net imports and exports of physical merchandise. See also *current account.*
Transversal term contract	A fixed-term contract to procure goods or services needed by more than one government department.
Treasury bills	Short-term government debt instruments that yield no interest but are issued at a discount. Maturities vary from one day to 12 months.
Twin deficit	The combination of deficits on the budget and the current account.
Twin peaks	An approach to organising financial sector regulation and supervision involving two regulators. One is responsible for ensuring financial services firms treat their customers fairly. The other is responsible for ensuring financial firms remain financially sound and are generally prudent.
Undercapitalisation	Lack of sufficient funds (capital) to conduct day-to-day operations.
Unit labour costs	The cost of labour per unit of output, calculated by dividing average wages by productivity (output per worker per hour).
Unsecured lending	A loan that is not backed or secured by any type of collateral to reduce the lender's risk.
Yield	A financial return or interest paid to buyers of government bonds. The yield/rate of return on bonds includes the total annual interest payments, the purchase price, the redemption value and the time remaining until maturity.