3

Fiscal policy

In brief

- Medium-term fiscal policy is focused on reducing the budget deficit and stabilising the debt-to-GDP ratio. To support this consolidation, government will use a portion of higher-than-anticipated tax revenue to narrow the deficit while increasing non-interest expenditure to support economic growth, job creation and social protection.
- Staying the course will enable government to bring fiscal consolidation to a close. In 2024/25, main budget non-interest expenditure will grow slightly above inflation.
- The consolidated deficit is expected to decline from 5.7 per cent of GDP in 2021/22 to 4.2 per cent of GDP in 2024/25. Gross loan debt is projected to stabilise at 75.1 per cent of GDP in 2024/25.
- Significant risks to the fiscal outlook include the introduction of unfunded spending programmes, another economic slowdown, higher borrowing costs, the contingent liabilities of state-owned companies and higher-than-budgeted public-service wage settlements.

Overview

The fiscal outlook has improved somewhat over the past year as a result of higher-than-expected revenue collection. This revenue will be used to fund pressing policy priorities, and to narrow the deficit and reduce the borrowing requirement. As a result, government expects to realise a primary surplus – where revenue exceeds non-interest expenditure – by 2023/24, a year earlier than projected in the 2021 *Medium Term Budget Policy Statement* (MTBPS). Achieving this objective will enable government to bring consolidation to a close.

The consolidated budget deficit is projected to narrow from 5.7 per cent of GDP in 2021/22 to 4.2 per cent of GDP by 2024/25. Gross loan debt is expected to stabilise at 75.1 per cent of GDP by 2024/25.

There are, however, significant risks to the fiscal outlook. These include a weakening of global or domestic economic growth, rising global borrowing costs, the possibility of higher public-service wage costs, and the poor financial condition of several major state-owned companies. In combination, government's fiscal imbalances and the risk outlook limit what can be funded. Any large permanent increases in spending, such as a new social grant, cannot be accommodated without matching permanent increases in revenue.

Over the medium term, restoring fiscal sustainability requires continued restraint in expenditure growth and reforms to raise economic growth. The 2022 Budget proposes:

- Additional allocations to address immediate spending pressures, including extending the *special COVID-19 social relief of distress grant* for 12 months until March 2023, and bolstering provincial transfers for health and education.
- Setting aside a portion of higher-than-expected revenue to narrow the budget deficit. This mitigates the impact of higher interest rates on debt-service costs and improves the longer-term debt outlook.
- Supporting economic growth through a range of reforms, including the infrastructure build programme financed through innovative funding mechanisms and supported by improved technical capabilities.

Over the next three years, GDP is expected to grow at a marginally higher rate than projected in the 2021 MTBPS. Higher growth in turn contributes to improved revenue performance, allowing for a narrower budget deficit while providing some space to address critical spending pressures. Government will also consider introducing a fiscal anchor to safeguard the public finances.

Table 3.1 Macroeconomic performance and projections

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Percentage change		**Actual**		**Estimate**		**Forecast**	
Real GDP growth	1.3	0.1	-7.2	6.0	1.9	1.7	1.8
Nominal GDP growth	5.5	5.0	-2.1	12.3	3.0	5.7	6.3
CPI inflation	4.6	4.2	2.9	5.1	4.5	4.4	4.5
GDP at current prices (R billion)	**5 418.3**	**5 686.7**	**5 566.2**	**6 251.5**	**6 441.3**	**6 805.3**	**7 233.7**

Source: National Treasury

Fiscal outlook

Evolution of the public finances

Government has failed to close the large gap between revenue and expenditure that emerged during the 2008 global financial crisis. Since then, rising expenditure, unmatched by revenue growth, has led to primary deficits and a sevenfold increase in public debt.

Government debt amounted to R627 billion in 2008/09, rose to R2.02 trillion in 2015/16 and is projected to increase to R4.35 trillion in 2021/22. Put another way, inflation-adjusted public debt in 2008/09 was equivalent to R22 869 per capita; today, it is equivalent to R69 291 per capita. Over the same period, the real interest costs on this debt more than doubled from R1 984 to R4 278 per person per year. This trajectory far exceeds per-capita GDP growth and cannot be sustained.

In the 2013 Budget, government initiated a process to slow expenditure growth by reducing baseline budgets and setting ceilings on compensation spending. These measures, which curtailed spending growth on core functions, were offset by several shocks that led to additional expenditure, including the impact of inadequate electricity supply on the economy and state-owned company failures that required bailouts. At the same time, policy decisions to institute fee-free higher education and above-inflation public-service wage increases contributed to a widening gap between revenue and expenditure, increasing pressure on basic service delivery.

The consolidated budget has grown from R712.8 billion in 2008/09 to R2.08 trillion in 2021/22 – an average annual increase of 8.6 per cent that was not matched by gains in efficiency or effectiveness. Much of the growth was absorbed by rising public-service salaries and debt-service costs. The composition of public spending has also deteriorated: spending that supports long-term growth – such as infrastructure investment – now accounts for a smaller proportion of the total (Figure 3.2).

Figure 3.1 Public spending trends

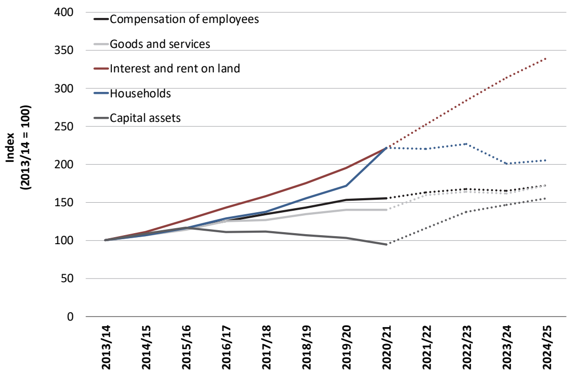


Figure 3.2 Composition of consolidated government spending

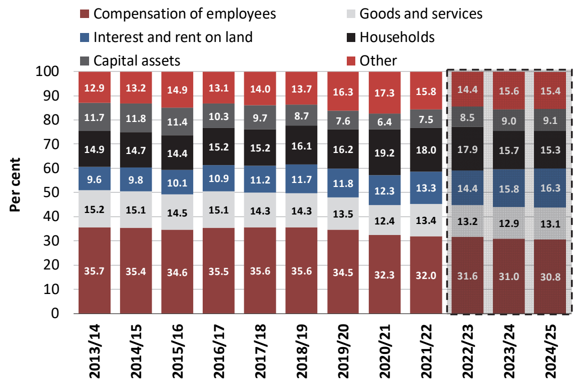


Figure 3.3 Main budget balance

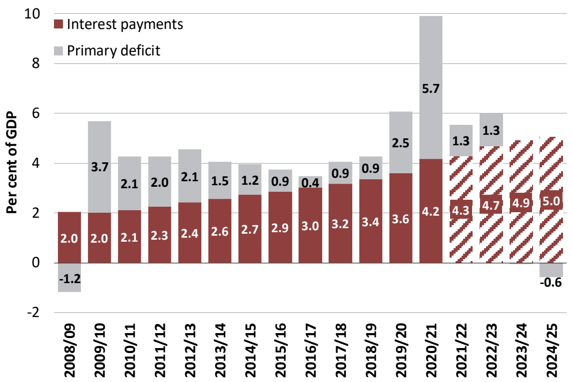
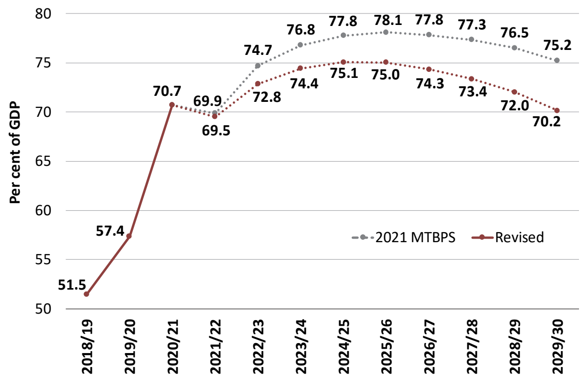


Figure 3.4 Gross debt-to-GDP outlook



Source: National Treasury

Debt-service costs consume an increasing share of GDP and revenue. Interest payments on debt have crowded out spending on essential public services such as health and basic education. Over the medium term, debt redemptions increase and debt-service costs are expected to average R333.4 billion a year. On average, 20 cents of every rand collected in revenue every year will be needed to pay debt-service costs.

To reverse this trend, a portion of revenue improvements will be used to reduce the deficit over the medium-term expenditure framework (MTEF) period. As a result, the debt trajectory improves compared to the 2021 MTBPS. Gross loan debt will stabilise at 75.1 per cent of GDP in 2024/25, a year earlier and at a lower level than projected in the 2021 MTBPS (Figure 3.4).

Implications of the fiscal strategy for expenditure growth

Consolidation measures introduced since the 2013 Budget included substantive baseline reductions in eight consecutive budgets, focusing on reducing growth in employee compensation and consumption expenditure. However, unbudgeted spending decisions and external factors have largely diluted these efforts. In real terms, consolidated expenditure increased by R260.5 billion from 2012/13 to 2021/22.

The largest increase over this period resulted from the introduction of fee-free higher education. Health spending increased mainly because of pressures related to the COVID-19 pandemic. And high unemployment resulted in increased spending by the Unemployment Insurance Fund (social development function). In addition, state-owned company bailouts and larger-than-anticipated wage settlements account for much of the increase.

Table 3.2 Real consolidated non-interest expenditure by function

R billion	2012/13	2021/22[1]	2024/25	Change 2012/13 to 2021/22	Average annual change 2012/13 to 2021/22	Average annual change 2021/22 to 2024/25
Learning and culture	335.3	415.2	401.7	79.8	2.4%	-1.1%
Health	193.1	238.4	225.8	45.2	2.4%	-1.8%
Social development	228.8	304.6	282.5	75.7	3.2%	-2.5%
Community development	201.5	211.7	233.8	10.2	0.5%	3.4%
Economic development	199.0	192.9	218.2	-6.1	-0.3%	4.2%
Peace and security	226.9	218.4	198.8	-8.5	-0.4%	-3.1%
General public services	74.3	71.7	61.7	-2.5	-0.4%	-4.9%
Contingency and unallocated reserve	–	–	30.7	–		
Consolidated non-interest expenditure	**1 459.0**	**1 652.8**	**1 653.2**	**193.8**	**1.4%**	**0.0%**
Consolidated non-interest expenditure including payments for financial assets	1 466.9	1 727.4	1 675.1	260.5	1.8%	-1.0%
Consolidated non-interest expenditure excluding compensation of employees	**878.0**	**987.8**	**1 037.5**	**163.3**	**1.3%**	**1.6%**

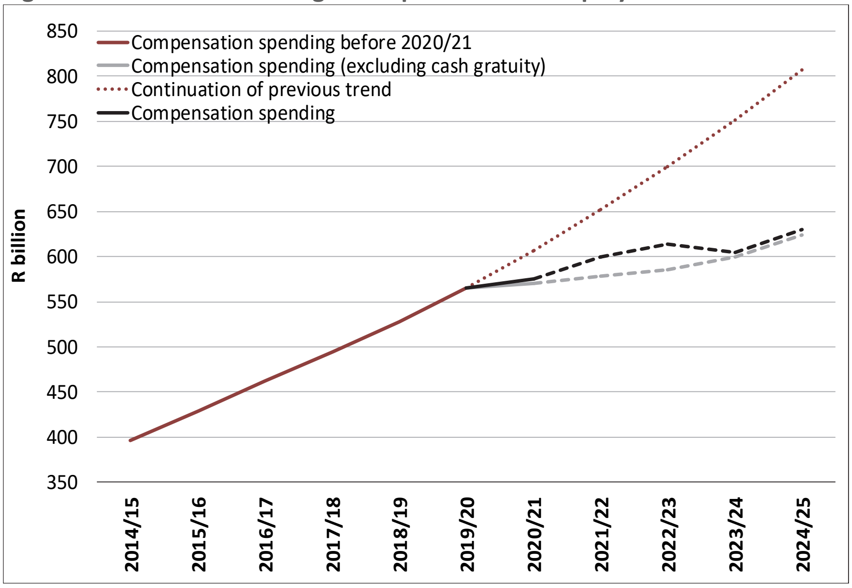
1. Excludes allocations for COVID-19 response
Source: National Treasury

These real spending increases have put pressure on other functions. Over the MTEF period, spending in functions that employ a large number of staff declines in real terms. This is due to compensation ceilings and some base effects from the impact of the COVID-19 spending response in 2021/22. At an aggregate level, consolidated non-interest expenditure excluding payments for financial assets does not increase over the MTEF period.

Managing the public-service wage bill

Compensation spending for national and provincial government grew by 7.3 per cent on average for the period 2014/15 to 2019/20, compared with 6.8 per cent average growth in non-interest expenditure. This trend crowded out other spending items like goods and services, with a concomitant impact on service delivery. The decision to not implement the final leg of the 2018 wage agreement and other measures to reduce average wage costs have improved the wage trajectory. As Figure 3.5 shows, medium-term wage bill growth is projected to be much lower than the original trend. This will contribute to closing the gap between revenue and expenditure, improving the composition of expenditure.

Figure 3.5 Consolidated budget compensation of employees*



**Excludes public entities*
Source: National Treasury

A new round of collective bargaining will begin in March 2022. The National Treasury is working with the Department of Public Service and Administration to keep the compensation baseline within affordable limits. As indicated in the 2020 Budget, compensation baselines will grow at the rate of inflation from 2024/25. Should collective bargaining result in salary adjustments that exceed compensation ceilings, reductions in headcount will be required.

The 2021 wage agreement awarded employees a non-pensionable cash gratuity. In the absence of a new agreement, the same gratuity will be paid in 2022/23, and provision for this is made in the 2022 Budget. Baseline adjustments in previous budgets did not fully accommodate the gratuity costs and the impact of the pandemic, placing pressure on provincial health and education compensation budgets. To alleviate this short-term pressure, a portion of the revenue improvement is allocated to provinces.

Securing the fiscal adjustment

The spending ceiling was introduced in the 2013 Budget. However, its effectiveness has been limited and fiscal imbalances continued to grow through the rest of the decade. South Africa was consequently ill-prepared to deal with the crisis induced by the COVID-19 pandemic.

Since the 2020 Budget, government has undertaken a difficult fiscal consolidation. A steep rise in the deficit, due to a large decline in revenues following the outbreak of COVID-19, necessitated budget reductions of R264.9 billion over the 2021 MTEF period.

The 2022 Budget already reflects the benefits of this strategy, with the fiscal deficit in decline and debt stabilising over the next three years. To ensure that these benefits are secured in the future and that the debt burden does not return to an unsustainable trajectory, the National Treasury is assessing the potential for a more robust fiscal anchor. Over the next year, options will be considered for introduction in the 2023 MTEF period.

Changes in tax revenue and expenditure

Tax revenue

COVID-19 resulted in elevated uncertainty in economic and fiscal forecasting, reflected in large revisions to tax revenue. A surge in commodity prices has significantly improved the in-year revenue outlook, even compared with pre-pandemic expectations. However, a portion of the positive effect of commodity prices on tax revenue is likely to be temporary.

Relative to the 2021 MTBPS, gross tax revenue for 2021/22 is R61.7 billion above projections. The upward revision reflects improvements in corporate and personal income taxes, value-added tax, fuel levies, customs duties and specific excise duties.

Table 3.3 Revised gross tax revenue projections

R million	2020/21	2021/22	2022/23	2023/24	2024/25
Revised estimate	**1 249 711**	**1 547 071**	**1 598 447**	**1 694 259**	**1 807 614**
Buoyancy	*3.69*	*1.93*	*1.09*	*1.06*	*1.06*
2021 MTBPS	**1 249 711**	**1 485 415**	**1 527 412**	**1 608 006**	**1 715 258**
Elasticity	*3.69*	*1.73*	*0.99*	*0.97*	*1.05*
2021 Budget	**1 212 206**	**1 365 124**	**1 457 653**	**1 548 512**	
Elasticity	*2.39*	*1.44*	*1.15*	*1.07*	
Projected improvement against 2021 MTBPS	–	61 656	71 036	86 253	92 356
Projected improvement against 2021 Budget	37 505	181 946	140 795	145 747	

Source: National Treasury

As signalled in the 2021 MTBPS, the current framework does not include additional tax revenue measures over the MTEF period ahead. Overall, tax revenue projections are higher than the 2021 MTBPS estimates by R71 billion in 2022/23, R86.3 billion in 2023/24 and R92.4 billion in 2024/25.

Main budget non-interest expenditure adjustments

The projected revenue collection provides space for government to respond to some immediate spending pressures while continuing to stabilise the public finances. The additional resources in 2021/22 will be used primarily to fund a 12-month extension of the *special COVID-19 social relief of distress grant* until the end of March 2023 and an equity contribution to SASRIA of R7.1 billion.

Table 3.4 outlines the additions to main budget non-interest spending proposed over the MTEF period. These include:

- R87.6 billion for social welfare and free basic services – an amount that includes R44 billion for the 12-month extension of the *special COVID-19 social relief of distress grant*.
- R21.1 billion for health services, including COVID-19 interventions, and health-related wage pressures.
- R57.1 billion for basic education and funding for the National Student Financial Aid Scheme.
- R27.9 billion for infrastructure investment and employment programmes, including the presidential employment initiative, as well as disaster recovery following storms and floods in KwaZulu-Natal.

Table 3.4 Revisions to main budget non-interest expenditure over MTEF period

R million	2022/23	2023/24	2024/25	MTEF total
Main budget non-interest expenditure (2021 Budget)	**1 562 821**	**1 572 455**	**1 645 944**	**4 781 219**
Spending pressures funded in 2022 Budget	**110 815**	**60 026**	**56 579**	**227 420**
Social welfare interventions and free basic services	48 227	16 704	22 634	87 565
Health pressures	10 757	4 649	5 682	21 088
Education pressures	16 763	18 838	21 544	57 145
Infrastructure investments and public employment	10 059	13 815	4 000	27 874
Other priorities[1]	25 009	6 020	2 719	33 748
Unallocated reserve 2022 Budget	**–**	**25 000**	**30 000**	**55 000**
NRF payments adjustments	**56**	**–**	**–**	**56**
Technical adjustments to 2021 MTBPS unallocated reserve[2]	**-241**	**-452**	**521**	**-172**
Main budget non-interest expenditure (2022 Budget)	**1 673 450**	**1 657 028**	**1 733 044**	**5 063 522**
Change since 2021 Budget	*110 629*	*84 573*	*87 101*	*282 303*

1. Includes R20.5 billion in 2022/23 allocated to the wage bill in 2021 MTBPS

2. A negative figure shows an increase in the unallocated reserve while a positive figure shows a decrease
Source: National Treasury

Due to exceptionally high levels of uncertainty and volatility, government created an unallocated reserve in the 2021 MTBPS. Most of that reserve is retained in 2023/24 and 2024/25. Over the period ahead, government will consider options for the reserve that are consistent with the fiscal objectives and revenue outcomes.

Compared with the 2021 Budget, the main budget expenditure ceiling is increased by R192.2 billion in the first two years of the MTEF period. This increase is made possible by the improved revenue position.

Table 3.5 Main budget expenditure ceiling

R million	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
2019 MTBPS	1 307 235	1 404 675	1 493 029	1 591 287	1 673 601		
2020 Budget Review	1 307 119	1 409 244	1 457 703	1 538 590	1 605 098		
2020 MTBPS	1 307 112	1 418 408	1 502 867	1 479 709	1 516 052	1 529 585	
2021 Budget Review		1 418 399	1 504 656	1 514 934	1 521 721	1 530 664	
2021 MTBPS		1 418 456	1 487 399	1 570 890	1 552 268	1 558 725	1 627 154
2022 Budget			**1 487 399**	**1 575 002**	**1 630 905**	**1 613 671**	**1 686 932**

Source: National Treasury

Consolidated fiscal framework

Between the 2021 Budget and 2022 Budget, the consolidated budget deficit for 2021/22 declined from 8.5 per cent to 5.7 per cent of GDP. The deficit is projected to narrow from 6 per cent of GDP in 2022/23 to 4.2 per cent of GDP in the outer year of the forecast, as the main budget deficit narrows and is partially offset by a combined cash surplus of social security funds, provinces and public entities. Over the next three years, consolidated non-interest expenditure will contract at an annual average of 2.4 per cent in real terms.

Table 3.6 Consolidated fiscal framework

R billion/percentage of GDP	2018/19	2019/20 Outcome	2020/21	2021/22 Revised estimate	2022/23	2023/24 Medium-term estimates	2024/25
Revenue	**1 447.7**	**1 519.3**	**1 406.0**	**1 721.3**	**1 770.6**	**1 853.2**	**1 977.6**
	26.7%	*26.7%*	*25.3%*	*27.5%*	*27.5%*	*27.2%*	*27.3%*
Expenditure	**1 642.5**	**1 807.1**	**1 964.1**	**2 077.0**	**2 157.3**	**2 176.8**	**2 281.8**
	30.3%	*31.8%*	*35.3%*	*33.2%*	*33.5%*	*32.0%*	*31.5%*
Non-interest expenditure	*1 450.5*	*1 593.1*	*1 722.3*	*1 800.2*	*1 846.4*	*1 833.1*	*1 909.8*
	26.8%	*28.0%*	*30.9%*	*28.8%*	*28.7%*	*26.9%*	*26.4%*
Budget balance	**-194.9**	**-287.8**	**-558.1**	**-355.7**	**-386.6**	**-323.6**	**-304.2**
	-3.6%	*-5.1%*	*-10.0%*	*-5.7%*	*-6.0%*	*-4.8%*	*-4.2%*

Source: National Treasury

Spending on compensation of employees continues to be the largest component of current spending, but declines from 36 per cent in 2021/22 to an average of 35.1 per cent over the medium term. Spending on transfers and subsidies – the second-largest component – decreases from 34 per cent of current spending in 2021/22 to an average of 32.8 per cent over the MTEF period. In contrast, spending on goods and services is projected to increase from 14.7 per cent of current spending in 2022/23 to 14.9 per cent in 2024/25.

Over the medium term, the composition of consolidated spending improves, continuing the shift towards capital rather than current spending outlined in the 2021 Budget. The current deficit – the gap between revenue and current spending – is projected to narrow from 2.7 per cent of GDP in 2022/23 to 0.6 per cent of GDP in 2024/25. Capital payments and transfers grow by a nominal annual average of 10.2 per cent over the next three years.

Table 3.7 Consolidated operating and capital accounts

R billion/percentage of GDP	2018/19	2019/20 Outcome	2020/21	2021/22 Revised estimate	2022/23	2023/24 Medium-term estimates	2024/25
OPERATING ACCOUNT							
Current revenue	**1 431.5**	**1 499.5**	**1 374.1**	**1 711.1**	**1 763.3**	**1 844.0**	**1 969.6**
Current payments	**1 484.3**	**1 602.9**	**1 746.4**	**1 847.3**	**1 936.3**	**1 926.1**	**2 013.9**
Compensation of employees	584.3	624.3	634.6	665.1	682.5	675.0	702.0
Goods and services	234.1	244.2	244.2	277.9	284.8	281.6	299.9
Interest payments	192.0	214.0	241.7	276.9	310.8	343.7	372.0
Current transfers and subsidies	473.9	520.4	625.9	627.4	658.2	625.8	640.0
Current balance	**-52.8**	**-103.5**	**-372.3**	**-136.2**	**-172.9**	**-82.1**	**-44.3**
	-1.0%	*-1.8%*	*-6.7%*	*-2.2%*	*-2.7%*	*-1.2%*	*-0.6%*
CAPITAL ACCOUNT							
Capital receipts	0.6	0.3	0.2	0.2	0.2	0.2	0.2
Capital payments	69.9	63.2	62.3	82.2	102.4	109.1	116.2
Capital transfers	72.6	75.0	64.3	73.0	81.4	86.8	91.8
Capital financing requirement	**-141.9**	**-137.9**	**-126.4**	**-155.0**	**-183.6**	**-195.7**	**-207.7**
	-2.6%	*-2.4%*	*-2.3%*	*-2.5%*	*-2.9%*	*-2.9%*	*-2.9%*
Financial transactions[1]	-0.2	-46.4	-59.4	-64.6	-20.1	-15.8	-17.1
Contingency reserve	–	–	–	–	10.0	5.0	5.0
Unallocated reserve	–	–	–	–	–	25.0	30.0
Budget balance	**-194.9**	**-287.8**	**-558.1**	**-355.7**	**-386.6**	**-323.6**	**-304.2**
	-3.6%	*-5.1%*	*-10.0%*	*-5.7%*	*-6.0%*	*-4.8%*	*-4.2%*

1. Balance of transactions in financial assets and liabilities
Source: National Treasury

Elements of the consolidated budget

The consolidated budget includes the main budget framework and spending by provinces, social security funds and public entities financed from their revenue sources.

Main budget framework

Spending financed from the National Revenue Fund is summarised in Table 3.8. The 2020/21 main budget deficit reached 9.9 per cent of GDP, compared with the 11.1 per cent projected in the 2021 Budget. Improved in-year revenue performance adds an additional R65.9 billion to main budget revenue in 2021/22 compared with the 2021 MTBPS estimate.

Non-interest expenditure in 2021/22 is projected to be R1.63 trillion, which is R4.1 billion less than the adjusted appropriation at the time of the MTBPS. In-year spending is increased by R7.1 billion to provide for a further equity contribution to SASRIA to compensate for the costs associated with the public violence in July 2021. Departments have declared underspending of R6.1 billion, with further underspending of R4.3 billion projected for 2021/22. This results in an improvement in the main budget deficit of R63 billion. The deficit is expected to improve to 5.5 per cent of GDP in 2021/22 before narrowing to 4.5 per cent by 2024/25. Details of in-year adjustments are provided in the *Estimates of National Expenditure*.

Table 3.8 Main budget framework

R billion/percentage of GDP	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
		Outcome		Revised estimate		Medium-term estimates	
Revenue							
Gross tax revenue after proposals	1 287.7	1 355.8	1 249.7	1 547.1	1 598.4	1 694.3	1 807.6
Non-tax revenue	23.9	27.6	26.3	42.6	30.6	27.7	28.6
SACU[1]	-48.3	-50.3	-63.4	-46.0	-43.7	-66.5	-65.5
National Revenue Fund receipts	12.0	12.8	25.8	5.3	2.6	4.8	3.4
Main budget revenue	**1 275.3**	**1 345.9**	**1 238.4**	**1 549.1**	**1 588.0**	**1 660.2**	**1 774.2**
	23.5%	*23.7%*	*22.2%*	*24.8%*	*24.7%*	*24.4%*	*24.5%*
Expenditure							
National departments	634.3	749.8	790.5	831.1	824.7	770.9	805.7
Provinces	572.0	613.4	628.8	661.2	682.5	667.3	690.2
Local government	118.5	123.0	137.1	135.3	150.6	160.5	170.1
Contingency reserve	–	–	–	–	10.0	5.0	5.0
Provisional allocation not assigned to votes	–	–	–	–	5.6	28.3	32.1
Unallocated reserve	–	–	–	–	–	25.0	30.0
Non-interest expenditure	**1 324.8**	**1 486.2**	**1 556.4**	**1 627.6**	**1 673.5**	**1 657.0**	**1 733.0**
Debt-service costs	181.8	204.8	232.6	268.3	301.8	335.0	363.5
Main budget expenditure	**1 506.6**	**1 691.0**	**1 789.0**	**1 896.0**	**1 975.3**	**1 992.0**	**2 096.6**
	27.8%	*29.7%*	*32.1%*	*30.3%*	*30.7%*	*29.3%*	*29.0%*
Main budget balance	**-231.3**	**-345.1**	**-550.6**	**-346.9**	**-387.2**	**-331.8**	**-322.4**
	-4.3%	*-6.1%*	*-9.9%*	*-5.5%*	*-6.0%*	*-4.9%*	*-4.5%*
Primary balance	**-49.5**	**-140.3**	**-318.0**	**-78.6**	**-85.4**	**3.2**	**41.1**
	-0.9%	*-2.5%*	*-5.7%*	*-1.3%*	*-1.3%*	*0.0%*	*0.6%*

1. Southern African Customs Union. Amounts made up of payments and other adjustments. The estimates for the next two years include projected forecast error adjustments for 2020/21 and 2021/22, respectively
Source: National Treasury

The 2022/23 contingency reserve is increased by R5 billion. This provides for the 2021/22 allocation to the Land Bank to be paid in the new financial year. Conditions for the release of these funds have not yet been met.

Since the 2021 MTBPS, medium-term non-tax revenue estimates have been revised down by R9.7 billion, driven by lower mineral and petroleum royalties and departmental receipts. Projections of National Revenue Fund receipts have been revised down by R1.7 billion over the period due to lower expected revaluation profits on foreign-currency transactions.

Payments to the Southern African Customs Union (SACU) have been revised up by R1.9 billion in 2023/24 and R2.1 billion in 2024/25 compared with the 2021 MTBPS estimates, mainly due to an improved outlook and better performance in specific excise duties.

Main budget non-interest expenditure is projected to reach 26 per cent of GDP by 2021/22 and then decline to 24 per cent in 2024/25. Real main budget non-interest expenditure is projected to contract in 2021/22 and over the next two years. Government will exit fiscal consolidation in 2024/25, when real non-interest expenditure will grow by 0.1 per cent.

Compared with 2021 Budget estimates, main budget revenue is projected to improve by R470 billion between 2021/22 and 2023/24. High levels of uncertainty at the time of the 2021 Budget due to the pandemic resulted in prudent revenue projections. This, as well as a surge in commodity prices, drives the substantive increase in revenue collections and projections.

The higher-than-expected revenue projected since then is divided between additional spending and deficit reduction. Of this revenue, 55 per cent (R258.3 billion) is allocated to urgent spending priorities between 2021/22 and 2023/24. The remaining 45 per cent (R211.6 billion) is used to reduce the deficit and borrowing requirement.

Table 3.9 Revisions to main budget revenue and expenditure estimates

	2021/22		2022/23		2023/24	
R billion/percentage of GDP	**2021 Budget**	**2022 Budget**	**2021 Budget**	**2022 Budget**	**2021 Budget**	**2022 Budget**
Revenue						
Gross tax revenue	1 365.1	1 547.1	1 457.7	1 598.4	1 548.5	1 694.3
Non-tax revenue	27.7	42.6	28.6	30.6	30.4	27.7
SACU[1]	-46.0	-46.0	-33.4	-43.7	-58.0	-66.5
National Revenue Fund receipts	4.9	5.3	0.8	2.6	1.1	4.8
Main budget revenue	**1 351.7**	**1 549.1**	**1 453.7**	**1 588.0**	**1 522.0**	**1 660.2**
Change since Budget 2021		*197.4*		*134.4*		*138.2*
	22.9%	*24.8%*	*23.2%*	*24.7%*	*23.0%*	*24.4%*
Expenditure						
Current payments	529.5	536.3	565.6	566.6	594.8	594.0
of which:						
Compensation of employees	*175.0*	*180.8*	*175.4*	*182.8*	*175.5*	*178.1*
Goods and services	*84.6*	*87.0*	*81.9*	*81.7*	*80.5*	*80.7*
Debt-service costs	*269.7*	*268.3*	*308.0*	*301.8*	*338.6*	*335.0*
Transfers and subsidies	1 219.3	1 275.2	1 249.0	1 352.0	1 260.1	1 321.7
Payments for capital assets	15.0	15.3	15.7	15.5	16.2	16.1
Payments for financial assets	46.8	73.4	3.4	25.6	1.7	1.9
Provisional allocation not assigned to votes	11.6	–	32.1	–	4.2	21.0
Contingency reserve	12.0	–	5.0	10.0	5.0	5.0
Unallocated reserve	–	–	–	–	–	25.0
Total expenditure	**1 834.3**	**1 896.0**	**1 870.8**	**1 975.3**	**1 911.0**	**1 992.0**
Non-interest expenditure	**1 564.5**	**1 627.6**	**1 562.8**	**1 673.5**	**1 572.5**	**1 657.0**
Change since Budget 2021		63.1		110.6		84.6
	31.0%	*30.3%*	*29.9%*	*30.7%*	*28.9%*	*29.3%*

1. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury

Social security funds, public entities and provincial balances

Social security funds ran a large cash deficit of R45.1 billion in 2020/21 due to higher spending by the Unemployment Insurance Fund in response to COVID-19. The deficit is projected to decrease to R18.7 billion in 2021/22 as payouts decline under the Temporary Employer/Employee Relief Scheme benefits. The social security funds are expected to return to a surplus position by 2023/24, largely as a result of the projected cash surplus of the Road Accident Fund, which is partially offset by the projected cash deficit of the Unemployment Insurance Fund.

Public entities recorded a cash surplus of R35.2 billion in 2020/21, resulting from lower spending by the South African National Roads Agency Limited, the Passenger Rail Agency of South Africa and the Water Trading Entity.

Table 3.10 Consolidated budget balances

R billion	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Main budget	-231.3	-345.1	-550.6	-346.9	-387.2	-331.8	-322.4
Social security funds	8.8	11.9	-45.1	-18.7	-7.1	7.5	19.3
Provinces	1.5	6.4	3.0	6.3	3.6	-0.9	3.8
Public entities	26.4	39.6	35.2	4.3	4.3	1.7	-4.9
RDP Fund[1]	-0.2	-0.6	-0.5	-0.8	-0.2	-0.1	-0.0
Consolidated budget	**-194.9**	**-287.8**	**-558.1**	**-355.7**	**-386.6**	**-323.6**	**-304.2**

1. Reconstruction and Development Programme Fund

Source: National Treasury

Public-sector borrowing requirement

The public-sector borrowing requirement increased sharply during 2020/21 as a result of the pandemic. In-year borrowing requirements are now projected at R403.5 billion, or 6.5 per cent of GDP, mainly driven by the larger main budget deficit. State-owned companies, including Eskom, have reduced their borrowing plans over the medium term, as discussed in Chapter 8.

Table 3.11 Public-sector borrowing requirement[1]

	2018/19	2019/20	2020/21	2021/22		2022/23	2023/24	2024/25
		Outcome		Budget[2] 2021	Budget 2022		Medium-term estimates	
R billion/percentage of GDP								
Main budget	231.3	345.1	550.6	482.6	346.9	387.2	331.8	322.4
Social security funds	-8.8	-11.9	45.1	36.0	18.7	7.1	-7.5	-19.3
Provinces	-1.5	-6.4	-3.0	0.6	-6.3	-3.6	0.9	-3.8
Public entities	-26.4	-39.6	-35.2	-19.3	-4.3	-4.3	-1.7	4.9
RDP Fund	0.2	0.6	0.5	0.1	0.8	0.2	0.1	0.0
Consolidated government	**194.9**	**287.8**	**558.1**	**500.0**	**355.7**	**386.6**	**323.6**	**304.2**
	3.6%	*5.1%*	*10.0%*	*8.5%*	*5.7%*	*6.0%*	*4.8%*	*4.2%*
Local authorities[3]	**5.9**	**8.6**	**9.3**	**13.4**	**11.9**	**13.8**	**15.4**	**14.6**
	0.1%	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*
State-owned companies[4]	**77.1**	**54.1**	**32.9**	**51.2**	**35.8**	**39.0**	**32.1**	**23.2**
	1.4%	*1.0%*	*0.6%*	*0.9%*	*0.6%*	*0.6%*	*0.5%*	*0.3%*
Borrowing requirement	**277.8**	**350.5**	**600.3**	**564.6**	**403.5**	**439.4**	**371.1**	**341.9**
	5.1%	*6.2%*	*10.8%*	*9.6%*	*6.5%*	*6.8%*	*5.5%*	*4.7%*

1. A negative number reflects a surplus and a positive number a deficit
2. 2021 Budget Review estimates. Proportions to GDP recalculated using an estimate based on rebased GDP
3. 2020/21 is an adjusted budget estimate, as the outcome is still being audited
4. Includes Eskom, South African Airways, Transnet, Airports Company South Africa and Denel. South African National Roads Agency Limited and Trans-Caledon Tunnel Authority are included in consolidated government net borrowing

Source: National Treasury

Risks to the fiscal framework

The largest risk to the recovery in the public finances is a deterioration in in GDP growth. Higher-than-expected global inflation could lead to higher global interest rates, affecting debt-service costs and the exchange rate. Other significant risks include:

- The weak financial position of several state-owned companies that rely on government support to operate.
- A public-service wage agreement exceeding the rate of growth of the compensation budget would require additional fiscal measures to contain overall compensation spending or reductions in headcounts. An adverse decision by the Constitutional Court in the case relating to the 2018 wage agreement could significantly increase compensation costs, with implications for employee headcount.
- Additional spending pressures from new spending programmes or the realisation of contingent liabilities would affect the sustainability of the public finances, and could require spending cuts elsewhere.
- Government's debt redemptions over the next five years will average about R150 billion per year. Additional debt financing could increase refinancing risk and result in higher associated costs.

Conclusion

Since the 2021 MTBPS, government's fiscal position has improved as a result of higher-than-anticipated revenue collection. This revenue will be used to alleviate short-term spending pressures and reduce the budget deficit. Government remains committed to stabilising the debt-to-GDP ratio by ensuring that spending is prudent and sustainable. Gross debt will stabilise by 2024/25.

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