MTBPS

MEDIUM TERM BUDGET
POLICY STATEMENT

A RESILIENT SOUTH AFRICA MAKING HARD CHOICES IN DIFFICULT TIMES

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA
TOGETHER WE CAN BEAT CORONAVIRUS

OVERVIEW

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MEDIUM TERM BUDGET POLICY STATEMENT

- The COVID-19 pandemic has magnified South Africa's social and economic crises, further straining the public finances.
- Over the next three years, government will balance support for economic recovery and reconstruction – through both short-term spending measures and structural reforms – along with rebuilding the public finances.
- The economy has recovered more quickly than anticipated. Nevertheless, the recent spike in commodity prices, which has supported GDP growth and tax revenues, is considered temporary. Long-term structural constraints and scarring from the effects of the pandemic weigh on the outlook. Fiscal risks have increased.
- Fiscal consolidation is critical to reduce the public debt burden, restore investor confidence and avoid overexposure to global and domestic risks.
- The Medium Term Budget Policy Statement (MTBPS) proposes to maintain restraint in public expenditure. Government will not commit to new long-term spending in response to temporary revenue windfalls. No additional funding is provided to state-owned companies over the medium-term.

GLOBAL ECONOMIC RECOVERY STILL IMPACTED BY COVID-19

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Table 2.1 Economic growth in selected countries

Region/country	2019	2020	2021	2022	2023
Percentage	Actual		Forecast		
World	**2.8**	**-3.1**	**5.9**	**4.9**	**3.6**
Advanced economies	**1.7**	**-4.5**	**5.2**	**4.5**	**2.2**
United States	2.3	-3.4	6.0	5.2	2.2
Euro area	1.5	-6.3	5.0	4.3	2.0
United Kingdom	1.4	-9.8	6.8	5.0	1.9
Japan	0.0	-4.6	2.4	3.2	1.4
Emerging and developing countries	**3.7**	**-2.1**	**6.4**	**5.1**	**4.6**
China	6.0	2.3	8.0	5.6	5.3
India	4.0	-7.3	9.5	8.5	6.6
Brazil	1.4	-4.1	5.2	1.5	2.0
Russia	2.0	-3.0	4.7	2.9	2.0
Sub-Saharan Africa	**3.1**	**-1.7**	**3.7**	**3.8**	**4.1**
Nigeria	2.2	-1.8	2.6	2.7	2.7
South Africa[1]	0.1	-6.4	5.1	1.8	1.6
World trade volumes	**0.9**	**-8.2**	**9.7**	**6.7**	**4.5**

1. National Treasury forecasts
Source: IMF World Economic Outlook, October 2021

- The COVID-19 pandemic continues to take a toll on global growth. In developing economies, scarring – defined as medium-term economic performance below pre-pandemic projections – is expected to be pervasive.
- Positive global growth outlook is predicated on several factors, including global vaccine access, sustained monetary and fiscal policy support, and stabilising inflation.

DOMESTIC ECONOMIC OUTLOOK

Table 1.2 Macroeconomic projections

Calendar year	2020 Actual	2021 Estimate	2022	2023 Forecast	2024
Percentage change unless otherwise indicated					
Household consumption	-6.5	5.7	2.0	1.9	1.9
Gross fixed-capital formation	-14.9	1.2	3.1	3.4	3.5
Real GDP growth	**-6.4**	**5.1**	**1.8**	**1.6**	**1.7**
GDP at current prices (R billion)	**5 521**	**6 112**	**6 304**	**6 607**	**7 018**
CPI inflation	3.3	4.5	4.2	4.3	4.5
Current account balance (% of GDP)	2.0	3.8	0.4	-1.5	-1.7

Source: Reserve Bank and National Treasury

- The South African economy grew faster than expected in the first half of 2021, but this momentum is expected to wane following public violence in July, port and rail disruptions, and the third wave of COVID-19 infections.
- Real GDP is forecast to grow by 5.1 per cent in 2021. Output is expected to return to pre-pandemic levels in 2022, a year earlier than estimated in February. This is largely the result of global demand, higher commodity prices and the easing of COVID-19 lockdown restrictions.
- Household consumption has improved but has not fully recovered from the pandemic. Inflation is contained within the target band, despite upward pressure from food and energy prices. Gross fixed-capital investment remains well below pre-pandemic levels. The labour market is weak, with unemployment at 34.4 per cent.

PROGRESS ON STRUCTURAL REFORMS CRITICAL TO ECONOMIC RECOVERY

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- **Electricity:** The procurement of additional electricity generation capacity through the fifth bid window of the Renewable Energy Independent Power Producer Procurement Programme is expected to add 6 800 MW of renewable energy to the grid over the medium term. Raising the licensing threshold from 1 to 100 megawatts (MW), has made it possible for private power generators to sell directly to customers. This will reduce pressure on the national grid.
- **Transport:** Transnet National Ports Authority has been corporatized to improve incentives for efficiency and competitiveness. Transnet Freight Rail to allow third-party access to the freight rail network by end-2022. Allowing private rail operators to use the freight rail network, this will bolster system volume and capacity.
- **Tourism:** The now completed eVisa system will be rolled out to 15 countries by March 2022, providing much-needed support for the tourism sector.
- **Water:** the National Water Resources Infrastructure Agency is being established to improve the management of bulk water resources. The application process for issuing single-use water licences is being fast-tracked to meet the 90-day target by March 2022.
- **Telecommunications:** Work is underway to standardise and improve processes for applications to access property in rolling out towers and fibre to expand digital communications infrastructure – to be finalised by October 2022.
- **Infrastructure:** A review of public-private partnership regulations completed in May 2021 recommends simplifying the regulations, eliminating delays in approval and implementation, standardising project preparation, and building capacity at all levels of government – to be implemented from early 2022.

FISCAL STRATEGY

- Government remains committed to reducing the budget deficit and stabilising the debt-to-GDP ratio.
- Government will use part of the higher tax revenues associated with the recent commodity price surge to narrow the deficit, and to provide short-term to the most vulnerable, and cover the higher costs of the public-service wage agreement.
- In line with government's commitment to support vulnerable households, particularly given the impact of COVID-19, additional resources for social protectio will be considered, if the fiscal situation improves by February 2022.
- Over the next three years, spending will remain restrained. To avoid a widening of the budget deficit, changes to spending will be funded through improved revenue performance or through reprioritisation and reviewing existing programmes.
- Infrastructure projects will be financed through the Infrastructure Fund, using public-private partnerships and other funding arrangements to improve planning and speed up delivery.
- Barring major new shocks or unbudgeted spending commitments, staying the course will lead to a primary fiscal surplus in 2024/25, bringing an end to fiscal consolidation at the end of the MTEF period.
- This consolidation will be supported by structural reforms to unlock private-sector investment and job creation.

FISCAL FRAMEWORK

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Table 1.3 Consolidated government fiscal framework

R billion/percentage of GDP	2020/21 Outcome	2021/22 Revised	2022/23	2023/24	2024/25
				Medium-term estimates	
Revenue	**1 414.1**	**1 648.8**	**1 695.7**	**1 772.7**	**1 890.9**
	25.4%	*26.7%*	*26.7%*	*26.5%*	*26.6%*
Expenditure	**1 971.8**	**2 128.5**	**2 075.0**	**2 126.3**	**2 239.8**
	35.4%	*34.5%*	*32.7%*	*31.7%*	*31.5%*
Budget balance	**-557.7**	**-479.7**	**-379.3**	**-353.6**	**-348.9**
	-10.0%	*-7.8%*	*-6.0%*	*-5.3%*	*-4.9%*
Total gross loan debt	**3 935.7**	**4 313.9**	**4 744.7**	**5 144.4**	**5 537.6**
	70.7%	*69.9%*	*74.7%*	*76.8%*	*77.8%*

Source: National Treasury

- The consolidated deficit includes national and provincial government, social security funds and public entities.
- The consolidated deficit will narrow from 7.8 per cent of GDP in 2021/22 to 4.9 per cent of GDP in 2024/25.

MAIN BUDGET AND PRIMARY BALANCES

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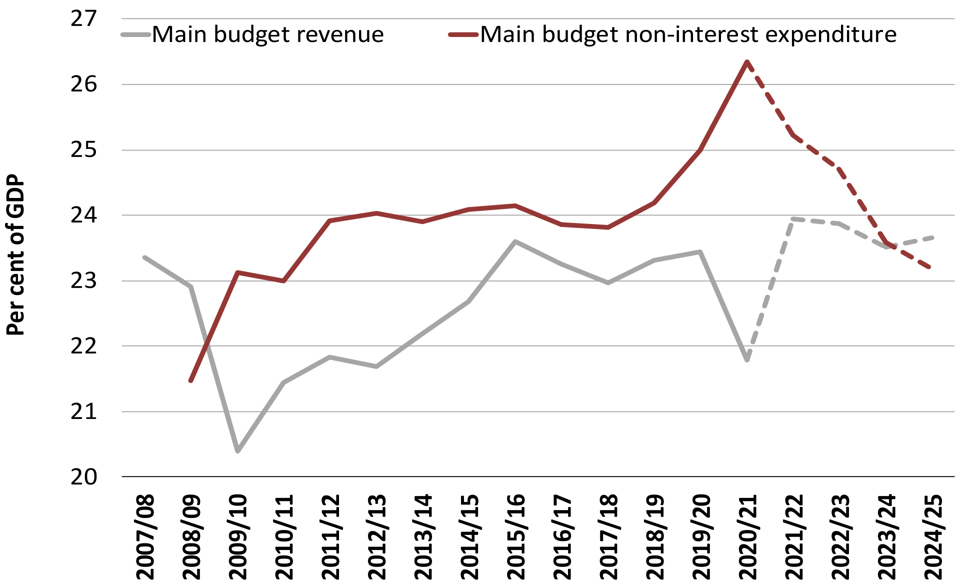
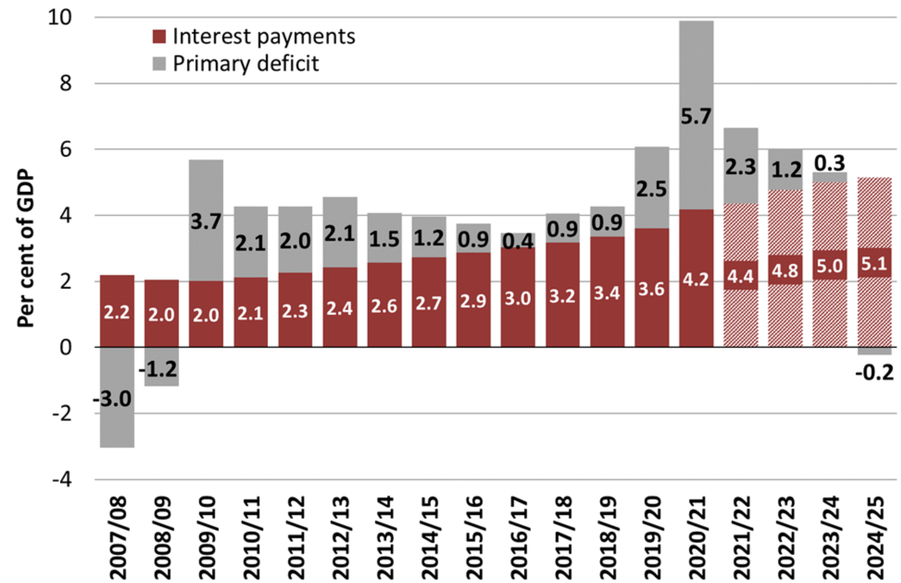
Main budget primary balance*



Main budget balance



**Excludes Eskom financial support and transactions in financial assets and liabilities*

- South Africa's fiscal position was already weak prior to the economic crisis in 2020
- The COVID-19 pandemic led to a historic economic contraction, an unprecedented widening of the budget deficit and a spike in debt stock.
- Interest payments now absorb a growing share of national resources, averaging nearly 5 per cent of GDP over the next two years.
- Over the period ahead, government will continue to narrow the budget deficit, which is key to stabilising the debt-to-GDP ratio.
- A primary budget surplus is projected by 2024/25.

REVENUE OUTLOOK

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Table 3.5 Revised revenue projections

R billion	2021/22	2022/23	2023/24	2024/25
2021 Budget	**1 365.1**	**1 457.7**	**1 548.5**	
Buoyancy	*1.44*	*1.15*	*1.07*	
Revised estimates	**1 485.4**	**1 527.4**	**1 608.0**	**1 715.3**
Buoyancy	*1.73*	*0.99*	*0.97*	*1.05*
Change since 2021 Budget	**120.3**	**69.8**	**59.5**	

Source: National Treasury

- Surging commodity prices have improved the in-year revenue outlook, yet these temporary benefits result in declining surpluses over the medium term.
- Revised revenue projections fall short of pre-COVID-19 expectations by R284.7 billion until 2022/23.
- Overall buoyancies beyond 2021/22 are lowered as the terms of trade momentum dissipates, and the outlook for several major tax bases declines relative to 2021 Budget estimates.
- Further improvement in the tax-to-GDP ratio over the medium term depends on sustained economic growth and greater efficiency in revenue collection.

IN-YEAR ADJUSTMENTS TO NON-INTEREST SPENDING

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Table 3.1 Revisions to non-interest expenditure for 2021/22

	R million
Non-interest expenditure (2021 Budget Review)	**1 564 511**
Public violence and COVID-19 fiscal relief package allocations	**32 850**
Increases in other allocations since 2021 Budget	**41 048**
National and provincial departments allocations for wage bill adjustments	20 512
Denel	2 923
Further purchase of vaccines funded from contingency reserve	2 342
Presidential employment initiative phase 2 allocation	10 954
Other allocations in AENE[1]	4 317
Resources used to fund adjustments since 2021 Budget	**-17 942**
Drawdowns, suspensions and projected underspending[2]	-17 942
Other adjustments[3]	**3 402**
Revised non-interest expenditure (2021 MTBPS)	**1 623 869**
Change in non-interest expenditure from 2021 Budget	59 358

1. 2021 Adjusted Estimates of National Expenditure
2. Including suspensions, projected underspending and drawdown on the contingency reserve and of provisional allocations announced in 2021 Budget
3. Including increases of R2.3 billion in NRF payments and R1.1 billion for skills development levy
Source: National Treasury

- A net addition of R59.4 billion to main budget non-interest spending is proposed, consisting of R77.3 billion in spending increases, partially offset by projected underspending, drawdowns on the contingency reserve and provisional allocations announced in the 2021 Budget.

The 2021/22 fiscal framework includes:

- R3 billion in the contingency reserve for additional vaccine purchases, and
- R11 billion as a provisional allocation to SASRIA for risk coverage in the wake of the outbreak of public violence in July.

FISCAL RESPONSE TO COVID-19 AND SOCIAL NEEDS

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Table 1.1 Fiscal relief package, 2021/22

R million	2021/22
Fiscal response measures	**32 850**
Social grants additions[1]	26 700
SASRIA	3 900
Business support[2]	2 300
Reprioritisation from DTIC and DSBD	-1 000
South African National Defence Force	700
South African Police Service	250
Increase in spending ceiling	**32 850**
Revenue measures	**5 000**
Employment tax incentive	5 000
Total, financed through higher-than-expected revenue collection	**37 850**

- Higher-than-expected revenue collection enabled government to respond with a fiscal package of R37.9 billion in 2021/22.
- The spending measures include reintroduction of the temporary R350 *special COVID-19 social relief of distress grant* until the end of 2021/22, with broadened eligibility to include caregivers who receive the child support grant.

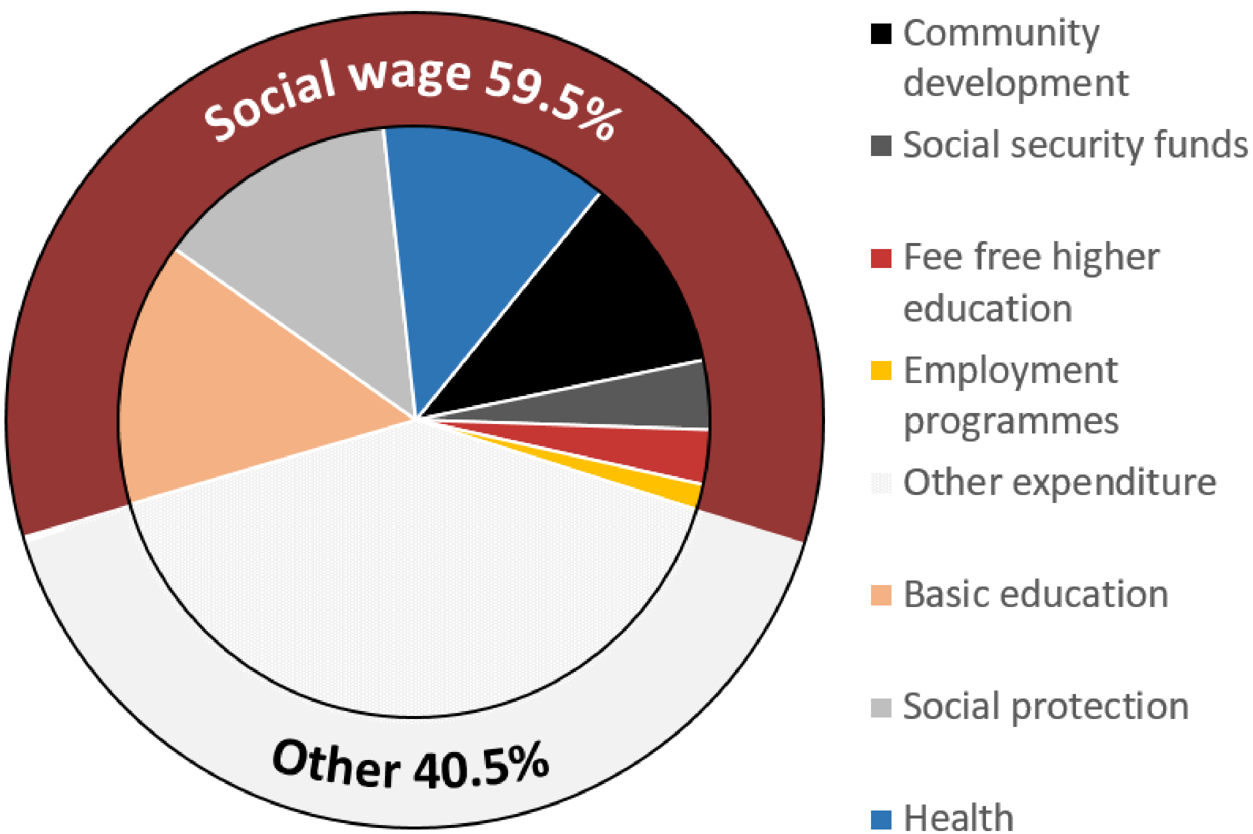
- An allocation of R3.9 billion for SASRIA – for balance sheet support to ensure that claims following the July public violence are settled. A further provisional allocation of R11 billion is provided for in the 2021/22 fiscal framework, should further support be required in the current year.
- Support for small businesses affected by COVID-19 restrictions and the July public violence, amounting to R1.3 billion.
- Additional funding totalling R950 million allocated to the South African Police Service and the South African National Defence Force.

MEDIUM-TERM EXPENDITURE OUTLOOK

- Considering the improved tax revenue estimates, government proposes to maintain some support to the economy over the MTEF period, including through a small increase in non-interest spending compared with the 2021 Budget projections.
- Total main budget non-interest expenditure is projected to increase by R31.9 billion in 2022/23 and by R29.6 billion in 2023/24. Details of the spending allocations will be provided in the 2022 Budget. The following upward adjustments are included in the fiscal framework:
  - An additional provisional allocation of R20.5 billion in 2022/23 for wage bill adjustments.
  - Higher estimated spending by the National Skills Fund and sector education and training authorities of R1.4 billion in 2022/23 and R1.6 billion in 2023/24, reflecting the projected rise in skills development levy collections.
- As a share of GDP, non-interest expenditure will moderate from 26.3 per cent in 2021/22 to 23.5 per cent by 2024/25, including a contingency reserve of R5 billion per year over the MTEF period.
- Debt-service costs will continue rising over the medium term given the persistent main budget deficit, weaker currency and higher interest rates.
- In line with government's consolidation stance, main budget non-interest expenditure is projected to grow in line with consumer price index inflation in 2024/25.

SOCIAL WAGE ACCOUNTS FOR MAJORITY OF NON-INTEREST SPENDING

Per cent of consolidated non-interest spending, average over 2022 MTEF



- The social wage accounts for nearly 60 per cent of consolidated non-interest spending over the MTEF period
- Healthcare, education and social protection make up the bulk of this amount.

NATIONAL GOVERNMENT GROSS BORROWING REQUIREMENT AND FINANCING

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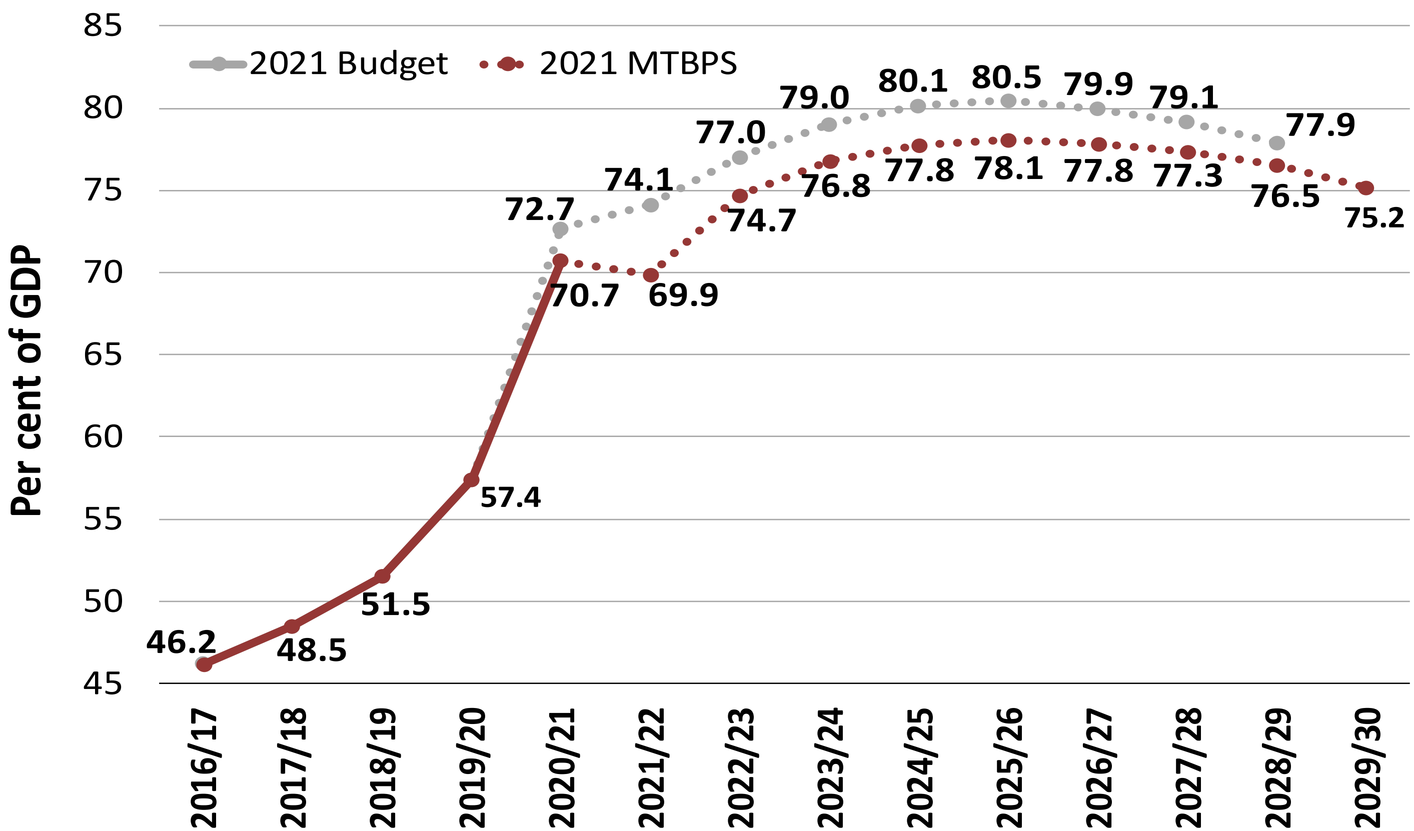
Table 3.9 National government gross borrowing requirement and financing

R billion	2020/21 Outcome	2021/22 Revised	2022/23	2023/24 Medium-term estimates	2024/25
Gross borrowing					
Main budget balance	**-550.6**	**-409.9**	**-380.4**	**-355.4**	**-349.7**
Redemptions	**-67.6**	**-65.2**	**-113.0**	**-154.7**	**-155.8**
Domestic long-term loans	-53.2	-61.3	-97.3	-113.1	-120.4
Foreign loans	-14.4	-3.9	-15.7	-41.6	-35.5
Total	**-618.3**	**-475.1**	**-493.3**	**-510.0**	**-505.5**
Financing					
Domestic short-term loans (net)	95.3	–	54.0	53.0	52.0
Domestic long-term loans	523.4	285.3	381.8	373.0	369.4
Foreign loans	91.9	77.6	47.0	64.7	66.2
Change in cash and other balances	-92.4	112.2	10.5	19.3	17.9
Total	**618.3**	**475.1**	**493.3**	**510.0**	**505.5**

Source: National Treasury

- Government will continue with its bond switch programme to reduce the redemptions due and manage refinancing risks.
- US$5.3 billion will be raised from international financial institutions and foreign capital markets to finance foreign currency commitments in 2021/22.
- R112.2 billion of government's cash balances will be used to finance the gross borrowing requirement in 2021/22.

GROSS LOAN DEBT OUTLOOK



- Gross loan debt will stabilise at 78.1 per cent of GDP in 2025/26 compared to the 2021 Budget estimate of 80.5 per cent of GDP.
- This is due to a narrowing budget deficit which will be achieved by controlling non-interest expenditure growth.

EXPENDITURE PRIORITIES

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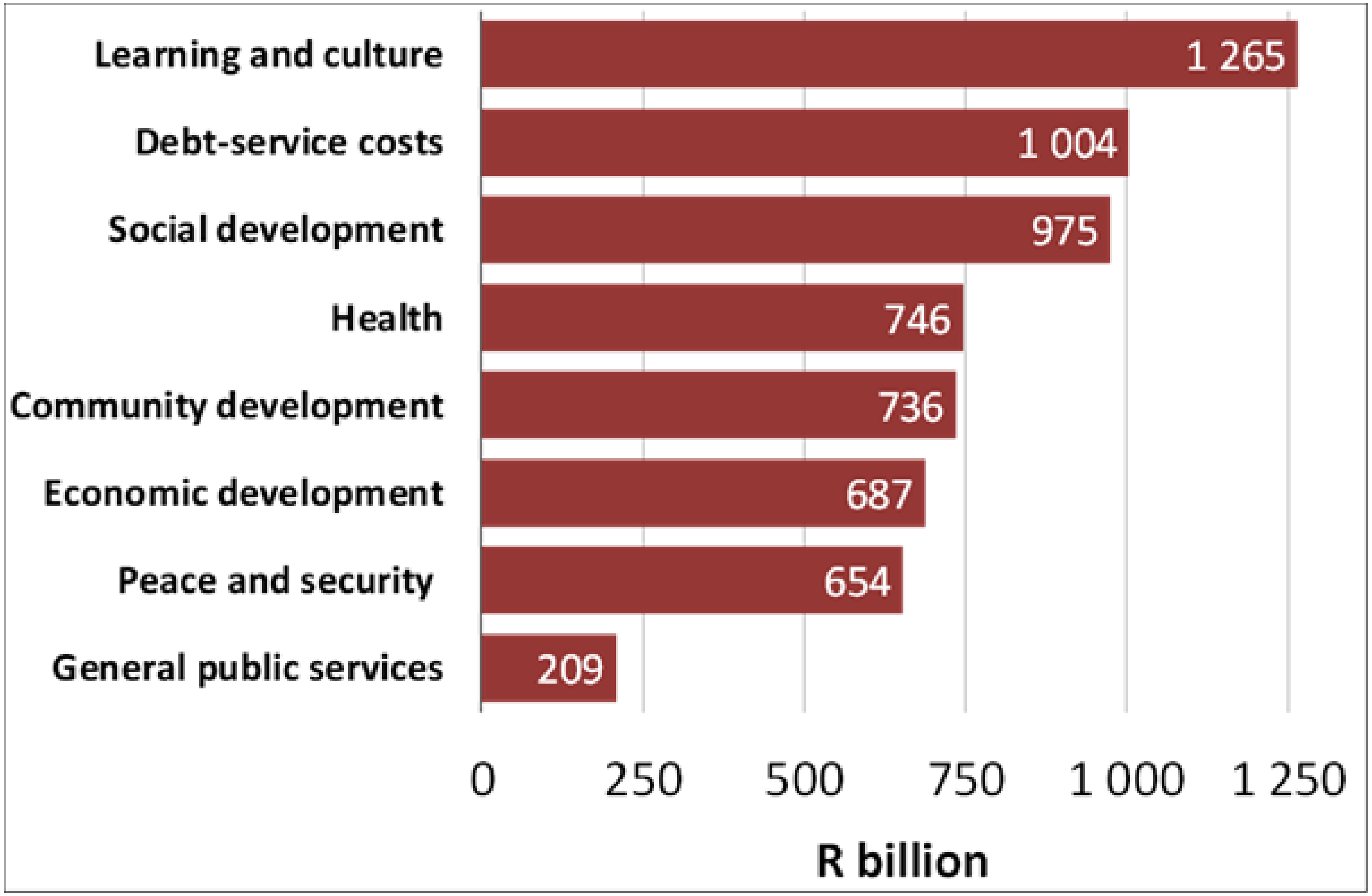
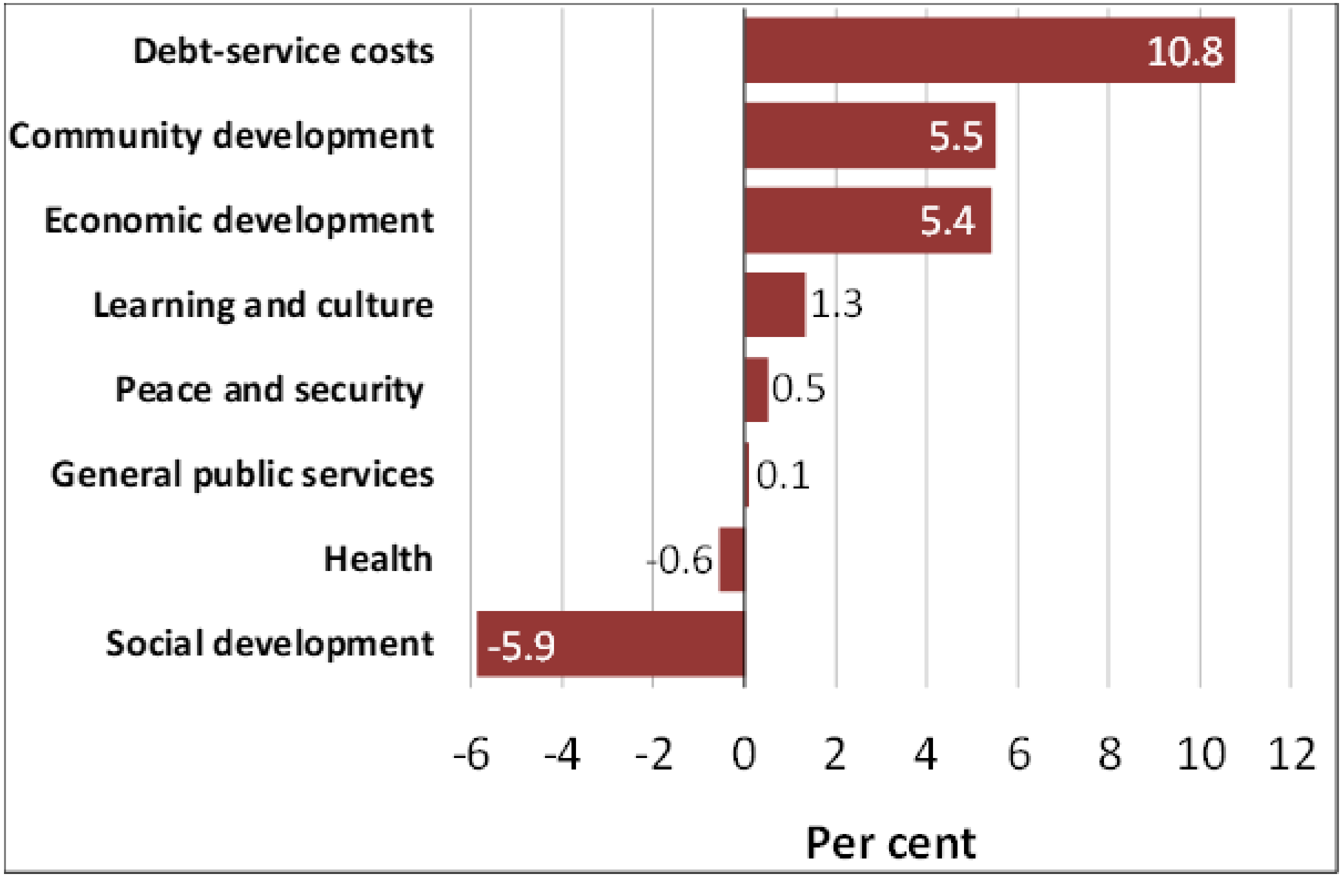
Consolidated government expenditure by function, 2022/23 - 2024/25



- Rising debt-service costs, estimated at R1 trillion over the MTEF is crowding out spending on service delivery functions, highlighting the impact of South Africa's rising debt stock on basic services.
- Learning and culture remains the largest function, confirming governments commitment to skills development

FASTEST GROWING FUNCTIONS

Average annual nominal growth in consolidated spending, 2021/22 - 2024/25



- Debt-service costs is the fastest growing spending item.
- Spending on the community development function, which mainly provides basic services to households, grows at the fastest rate over the 2022 MTEF period, averaging 5.5 per cent per year.
- Over the same period, social development spending will contract due to the *special COVID-19 social relief of distress grant* paid in 2021/22.

- Spending on the health function also contracts due to the base effect of the COVID-19 interventions included in 2020/21.

DIVISION OF REVENUE

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R billion	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
		Outcome				Medium-term estimates	
Division of available funds							
National departments	**634.3**	**749.8**	**790.5**	**817.4**	**764.7**	**743.0**	**774.4**
of which:							
Provincial indirect grants	*3.9*	*2.9*	*3.1*	*4.0*	*4.6*	*4.5*	*4.0*
Local indirect grants	*6.3*	*5.6*	*4.1*	*4.9*	*8.4*	*9.0*	*9.4*
Provinces	**572.0**	**613.4**	**628.8**	**661.2**	**658.4**	**647.2**	**676.1**
Equitable share	470.3	505.6	520.7	544.8	538.8	525.3	548.9
Conditional grants	101.7	107.9	108.1	116.4	119.6	121.9	127.2
Local government	**118.5**	**123.0**	**137.1**	**137.6**	**146.3**	**148.9**	**155.4**
Equitable share	60.8	65.6	83.1	78.0	83.1	83.6	87.3
General fuel levy sharing with metropolitan municipalities	12.5	13.2	14.0	14.6	15.3	15.4	16.1
Conditional grants	45.3	44.2	40.0	45.0	47.9	49.9	51.9
Provisional allocations not assigned to votes[1]	–	–	–	11.0	5.3	29.3	33.1
Unallocated reserve	–	–	–	–	15.1	28.8	29.3
Projected underspending	–	–	–	-6.3	–	–	–
Non-interest allocations	**1 324.8**	**1 486.2**	**1 556.4**	**1 620.9**	**1 589.8**	**1 597.1**	**1 668.3**
Debt-service costs	181.8	204.8	232.6	269.2	303.1	334.6	365.8
Contingency reserve	–	–	–	3.0	5.0	5.0	5.0
Main budget expenditure	**1 506.6**	**1 691.0**	**1 789.0**	**1 893.1**	**1 897.9**	**1 936.7**	**2 039.1**
Percentage shares							
National departments	47.9%	50.4%	50.8%	50.6%	48.7%	48.3%	48.2%
Provinces	43.2%	41.3%	40.4%	40.9%	42.0%	42.0%	42.1%
Local government	8.9%	8.3%	8.8%	8.5%	9.3%	9.7%	9.7%

1. Includes support to Eskom, amounts for projects approved through Budget Facility for Infrastructure and other provisional allocations

Source: National Treasury

- Over the next three years, government proposes to allocate 48.4 per cent of available non-interest expenditure to national departments, 42 per cent to provinces and 9.6 per cent to local government.
- Over the same period, national resources contract by an annual average of 1.8 per cent, provincial resources increase by 0.7 per cent and local government resources increase by 4.1 per cent.

RISKS AND SPENDING PRESSURES

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- There are significant risks to the medium-term fiscal framework:
  - A slowdown in global and domestic economic growth
  - The evolution of COVID-19 and slow progress in vaccine rollout
  - Slow implementation of structural reforms
  - Further credit rating downgrades due to spending pressures and materialisation of contingent liabilities
  - Pressure on the government wage bill ceiling could undermine fiscal consolidation measures.
- The fiscal framework does not include any additional support to state-owned companies, but the poor financial condition and operational performance of several of these companies remains a large contingent risk. Several entities may request further bailouts.

CONCLUSION

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- Government, through Operation Vulindlela, has made progress on several key reforms outlined in its October 2020 economic recovery plan.
- Over the period ahead, government will continue to narrow the budget deficit to stabilise the debt-to-GDP ratio. This will be achieved mainly by controlling non-interest expenditure growth.
- This consolidation will be supported by structural reforms that unlock private-sector investment and job creation.
- The revenue windfall will partially support increased allocations for urgent social and economic priorities, increasing non-interest expenditure. Government will maintain such allocations should revenue performance improve over the medium term.
- Over the next several years, large debt redemptions associated with previous spending decisions will need to be repaid or rolled over. Setting aside a portion of unanticipated revenue improvements will mitigate these pressures.
- The fiscal outlook is highly uncertain. Major risks include the durability of the economic recovery, the legal process associated with public-service compensation, and future wage negotiations. In the broader public sector, several state-owned companies and municipalities have insufficient funds to cover operational expenses.