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Supporting the recovery and building for the future

In brief

- The 2022 Budget continues to consolidate the public finances while providing immediate support for the pandemic response, job creation and social protection, as outlined in the 2021 *Medium Term Budget Policy Statement* (MTBPS).
- Following economic growth of 4.8 per cent in 2021, GDP growth is expected to average 1.8 per cent over the next three years.
- Government's steadfast commitment to restoring sustainability to the public finances is supported by better-than-expected revenue collection. A primary surplus will be achieved in 2023/24 and the consolidated budget deficit is projected to narrow to 4.2 per cent of GDP by 2024/25. Gross debt stabilises in 2024/25.
- The *special COVID-19 social relief of distress grant* will be temporarily extended. Any permanent extensions of social support need to be matched by new tax measures or expenditure reductions.
- Risks to the outlook are elevated, including from global economic conditions, as well as domestic economic and fiscal challenges.

Overview

The 2022 Budget extends government's support to poor and vulnerable South Africans, while staying on course to restore the health of the public finances. This approach is supported by economic reforms to bolster investment, growth and employment. The budget responds to the immediate needs of low-income households by providing short-term assistance. But uprooting poverty and inequality requires a thorough restructuring of the economy, and creating an environment in which the private sector can invest and create jobs.

Despite an uneven economic recovery, tax collections over the past 12 months have outperformed expectations due to the strength of mining sector revenue and an upturn in earnings following the 2020 recession. Some of this improved performance is projected to continue over the medium term. Government is using a portion of the additional revenue to accelerate debt stabilisation, with the majority targeted to address urgent social needs, promote job creation through the presidential employment initiative, and support the public health sector.

Over the next three years, consolidated government spending is expected to grow at an annual average of 3.2 per cent, from R2.08 trillion in 2021/22 to R2.28 trillion in 2024/25. Most non-interest spending is directed to the social wage, which includes health, education, housing, social protection, employment programmes and local amenities. An amount of R18.4 billion is allocated in 2022/23 and 2023/24 to support youth employment and the creation of short-term jobs under the presidential employment initiative.

Government's steadfast commitment to returning the public finances to a sustainable position means that it will achieve a primary surplus – where revenue is higher than non-interest spending – by 2023/24, one year earlier than anticipated at the time of the 2021 MTBPS. This will bring the period of fiscal consolidation to a close, creating space to reconsider the funding of South Africa's priorities in a fiscally stable environment.

As public debt stabilises, government will progressively reduce debt and the burden it places on the economy. In 2008/09, public debt adjusted for inflation was equivalent to R22 869 for every person living in South Africa; it has since tripled to R69 291 for every person in the country. Over the same period, the real interest costs of this debt rose from R1 984 to R4 278 per person per year. Annual spending on interest payments exceeds the budgets for health and basic education.

Government intends to secure the benefits of a more stable fiscal position by working to introduce a new fiscal anchor in the outer years of the medium-term expenditure framework (MTEF) period.

The fiscal outlook is subject to significant risks. These include slowing global and domestic economic growth, more difficult global borrowing conditions, calls for a permanent increase in social protection that exceeds available resources, pressures from the public-service wage bill, and continued calls for financial support from financially distressed state-owned companies.

Figure 1.1 Main budget primary balance* **

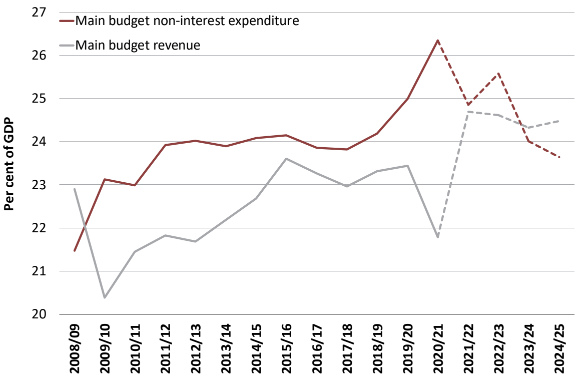
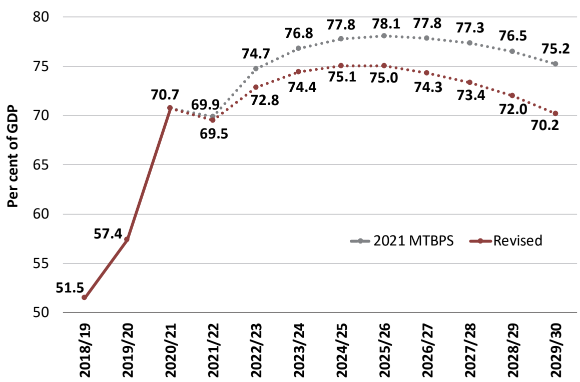


Figure 1.2 Gross debt-to-GDP outlook



**Excludes Eskom financial support and transactions in financial assets and liabilities*
***All GDP data in this Budget is recalculated in line with Statistics South Africa's 2021 rebasing and benchmarking exercise. It is therefore not directly comparable with GDP data from earlier budget documentation. For more information, see Annexure C of the 2021 MTBPS*
Source: National Treasury

Economic recovery and reconstruction

The economy began to bounce back from the pandemic lockdowns in 2021, but the recovery weakened in the second half of the year. GDP growth is expected to average 1.8 per cent over the next three years. Significant risks to the outlook include the emergence of new COVID-19 variants in the context of low vaccination levels, rising global inflation, and continued disruptions to power supply.

Longstanding structural constraints entrench South Africa’s high levels of poverty and unemployment. Government continues to advance a multifaceted strategy to achieve higher and sustained economic growth rates. These reforms are intended to build private-sector confidence and investment. The combined impact of structural reforms, support for small business and new infrastructure investment will enable higher rates of growth and job creation over the long term. Over the next three years, government will introduce additional measures to improve the delivery of public infrastructure and attract private capital.

Update on government’s infrastructure investment drive

Public-sector infrastructure spending over the next three years is estimated at R812.5 billion.

The National Treasury – through the Budget Facility for Infrastructure (BFI) and partnerships with the Development Bank of Southern Africa and Infrastructure South Africa – is helping to build a pipeline of viable projects. The BFI has considered 61 projects submitted by public institutions and approved a total of R6.7 billion in fiscal support for them in the 2021/22 adjustments budget and over the 2022 MTEF period. Most of these projects have multiple funding sources and are designed to crowd in private investment.

- The Infrastructure Fund is working with other public agencies to prepare six projects with a total value of R96 billion. This includes the rollout of broadband infrastructure and construction of six new border posts.
- The value of public-private partnerships (PPPs) has steadily declined in recent years, from an estimated R10.7 billion in 2011/12 to R5.6 billion in 2019/20. This is partly due to onerous approval processes, especially for small projects, and poor capacity of departments to estimate risk-sharing with the private sector. At the same time, lack of clarity regarding the user-pays principle affects the cost of state guarantees.
- A PPP review concluded by the National Treasury in September 2021 emphasised the need to simplify approval and compliance requirements, and reform the policy framework to assess and prioritise PPPs. This is expected to encourage private-sector financing solutions. The review recommends that government create a PPP centre of excellence, and that an expedited approval process be considered for projects below R1 billion in value. The National Treasury aims to implement these reforms over the next 24 months.

Annexures D and E provide an extensive overview of government’s infrastructure plans and PPPs.

Over the medium term, government will devote considerable attention to strengthening the fight against corruption flowing from the reports of the State Capture Commission, cutting red tape for small businesses and strengthening the green transition. In line with government’s international and domestic commitments to climate change adaptation and mitigation, the National Treasury plans to pilot a climate budget tagging methodology, which can inform future spending priorities and budget reforms.

Fiscal outlook considerations

Government is on track to achieve the fiscal goals outlined in the 2021 MTBPS. The fiscal outlook has benefited from higher tax collection compared with the 2021 Budget estimates. The fiscal strategy divides this revenue between deficit reduction and spending priorities. As a result, debt will stabilise at 75.1 per cent in 2024/25, a year earlier than estimated in the 2021 MTBPS. The budget deficit is now expected to reach 5.7 per cent of GDP in 2021/22, compared with 7.8 per cent estimated at the time of the MTBPS.

The character of the economic recovery from the COVID-19 pandemic has been markedly different to previous negative shocks. Following the 2008 global financial crisis, it was several years before major tax categories recovered to pre-crisis collections from income and consumption. Tax resiliency in this recovery has been far stronger, potentially due to the artificial nature of the downturn through lockdowns and enforced restrictions on activity, rather than damage inflicted by a recession.

Tax receipts for 2021/22 have exceeded initial expectations and are now projected to reach R1.55 trillion, compared to an estimated R1.37 trillion at the time of the 2021 Budget. Although revenue gains from elevated commodity prices are expected to dissipate, some of the improved revenue collection is expected to continue over the MTEF period.

The introduction of a new fiscal anchor – a method to ensure that government maintains expenditure within agreed limits – will help secure a sustainable fiscal position for the long term.

Social protection

While remaining on course to stabilise debt, government proposes raising spending in the areas of greatest need. The 2022 Budget provides for a 12-month extension of the R350 per month *special COVID-19 social relief of distress grant*. This will ensure the continuation of public support for poor households as the pandemic recedes.

South Africa's comprehensive social wage has been significantly augmented in the last two budgets. Spending on the social wage has risen from 58.2 per cent to 59.5 per cent of consolidated non-interest spending between 2019/20 and 2021/22, and nearly half of the population currently receives at least one social grant from the state. At the same time, a key weakness in economic performance has been persistently high joblessness, which lies at the root of poverty and exacerbates inequality.

The pandemic has elevated the public debate on how government should provide social protection to poor and vulnerable households. The *special COVID-19 social relief of distress grant*, like South Africa's other social grants, has helped to alleviate poverty. However, in a context of overstretched public finances and persistently high unemployment, the continuation of such a social transfer must be matched by a combination of permanent spending reductions and tax revenue increases.

Matching new spending with permanent revenue sources is prudent and responsible fiscal policy. Given the economic outlook, the current improvement in revenue performance is not considered permanent. The Presidency, the National Treasury, the Department of Social Development and interested parties are working on a sustainable long-term approach to social protection consistent with government's broad development mandate and the need to ensure affordability.

Wage bill restraint

As outlined in the 2021 Budget, government is working to reduce the pressure exerted on the budget by public-service compensation costs. These efforts have successfully reduced the rate of growth in the wage bill. Between 2014/15 and 2019/20, public-service compensation grew at an average annual rate of 7.3 per cent. Between 2019/20 and the end of the MTEF period, it will grow at 2.1 per cent per year. Although the 2021 public-service wage agreement was higher than the budgeted amount, it consists of a cash gratuity rather than a permanent adjustment of salaries. As a result, public-service compensation spending increased by R20.5 billion in 2021/22.

Risks to the fiscal outlook

Elevated risks to the fiscal outlook include:

- A global or domestic economic slowdown, resulting in lower revenue and greater calls for fiscal support.
- Rising borrowing costs due to inflation and higher global interest rates.
- The materialisation of contingent liabilities from state-owned companies.
- Higher-than-budgeted compensation increases, and/or a decision by the Constitutional Court to uphold the appeal related to non-implementation of the final leg of the 2018 wage agreement.

Summary of the 2022 Budget

Economic outlook

Estimated real GDP growth of 4.8 per cent in 2021 is projected to be followed by growth averaging 1.8 per cent in the next three years. This outlook partly reflects a slowing recovery. Chapter 2 outlines the key risks and scenarios, as well as the growth agenda adopted by government. This includes the work of Operation Vulindlela, a joint effort between the National Treasury and the Presidency, to accelerate critical reforms.

Table 1.1 Macroeconomic outlook – summary

	2021	2022	2023	2024
Real percentage growth	**Estimate**		**Forecast**	
Household consumption	5.6	2.5	1.8	2.0
Gross fixed-capital formation	1.2	3.2	3.8	4.1
Exports	9.3	2.9	2.8	2.7
Imports	8.5	5.4	3.9	3.3
Real GDP growth	**4.8**	**2.1**	**1.6**	**1.7**
Consumer price index (CPI) inflation	4.5	4.8	4.4	4.5
Current account balance (% of GDP)	3.8	0.3	-1.2	-1.5

Across all tables in the Budget Review, the use of "0" refers to a value of small magnitude that is rounded up or down to zero. If a value is exactly zero, it will be denoted by "–". If data is not available, it is denoted by "N/A"
Source: National Treasury

Fiscal policy

A consolidated budget deficit of 6 per cent of GDP is projected for 2022/23, narrowing to 4.2 per cent of GDP in 2024/25. Gross debt is projected to stabilise at 75.1 per cent of GDP in 2024/25.

Table 1.2 Consolidated government fiscal framework

R billion/percentage of GDP	2021/22 Revised estimate	2022/23	2023/24	2024/25
		Medium-term estimates		
Revenue	**1 721.3**	**1 770.6**	**1 853.2**	**1 977.6**
	27.5%	*27.5%*	*27.2%*	*27.3%*
Expenditure	**2 077.0**	**2 157.3**	**2 176.8**	**2 281.8**
	33.2%	*33.5%*	*32.0%*	*31.5%*
Budget balance	**-355.7**	**-386.6**	**-323.6**	**-304.2**
	-5.7%	*-6.0%*	*-4.8%*	*-4.2%*

Source: National Treasury

Revenue trends and tax proposals

Gross tax revenue for 2021/22 is expected to be R181.9 billion higher than projections in the 2021 Budget. For two years, policy has focused on broadening the tax base, improving administration and lowering tax rates. Government intends to continue with this approach, avoiding rate increases to the degree possible, subject to major spending revisions. The 2022 Budget proposals include inflationary relief through a 4.5 per cent adjustment in personal income tax brackets and rebates, no change to the fuel levies, and a 1 percentage point reduction in the corporate income tax rate.

Table 1.3 Impact of tax proposals on 2022/23 revenue[1]

R million		Effect on tax proposals
Gross tax revenue (before tax proposals)		**1 603 647**
Budget 2022/23 proposals		**-5 200**
Direct taxes		**-2 200**
Personal income tax		
Increasing brackets by inflation	–	
Revenue if no adjustment is made	*13 500*	
Increase in brackets and rebates by inflation	*-13 500*	
Expansion of the employment tax incentive	-2 200	
Corporate income tax		
Reform package	–	
Reduction in corporate income tax rate to 27 per cent	-2 600	
Restriction of assessed losses	1 100	
Additional interest limitation	1 500	
Indirect taxes		**-3 000**
Fuel levy		
Not adjusting the general fuel levy	-3 500	
Specific excise duties		
Increase in excise duties on alcohol	400	
Increase in excise duties on tobacco	100	
Gross tax revenue (after tax proposals)		**1 598 447**

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation
Source: National Treasury

Medium-term spending plans

Government's medium-term spending plans include an allocation of R3.33 trillion for the social wage, and R18.4 billion to support youth employment and the creation of short-term jobs in 2022/23 and 2023/24. Consolidated spending is expected to amount to R6.62 trillion over the MTEF period.

Additional allocations since the 2021 MTBPS support policy priorities in higher education, teacher retention in basic education, health budgets for new hires and the continued response to COVID-19. Debt-service costs account for 15.1 per cent of total spending and grow faster than all functions, including learning and culture and health.

Table 1.4 Consolidated government expenditure by function

R billion	2021/22 Revised estimate	2022/23 Budget estimate	Average 2021/22 – 2024/25
Learning and culture	421.4	441.5	2.8%
Health	256.2	259.0	0.2%
Social development	352.7	364.4	-3.0%
Community development	212.5	236.3	7.9%
Economic development	201.0	227.1	8.5%
Peace and security	218.4	220.7	1.2%
General public services	71.9	69.2	-0.7%
Payments for financial assets	74.6	27.2	
Allocated expenditure	**1 808.7**	**1 845.5**	**1.4%**
Debt-service costs	268.3	301.8	10.7%
Contingency reserve	–	10.0	
Consolidated expenditure[1]	**2 077.0**	**2 157.3**	**3.2%**

1. Consisting of national, provincial, social security funds and selected public entities
See Annexure W2 on the National Treasury website for a full list of entities included
Source: National Treasury

Division of revenue

Over the 2022 MTEF period, after budgeting for debt-service costs, the contingency reserve and provisional allocations, 48.8 per cent of nationally raised funds are allocated to national government, 41.4 per cent to provinces and 9.8 per cent to local government.

Table 1.5 Division of revenue

R billion	2021/22	2022/23	2023/24	2024/25
National allocations	831.1	824.7	770.9	805.7
Provincial allocations	661.2	682.5	667.3	690.2
Equitable share	*544.8*	*560.8*	*543.1*	*562.0*
Conditional grants	*116.4*	*121.8*	*124.2*	*128.1*
Local government allocations	135.3	150.6	160.5	170.1
Provisional allocations not assigned to votes	–	5.6	28.3	32.1
Total allocations	**1 627.6**	**1 663.5**	**1 627.0**	**1 698.0**
Percentage shares				
National	*51.1%*	*49.7%*	*48.2%*	*48.4%*
Provincial	*40.6%*	*41.2%*	*41.7%*	*41.4%*
Local government	*8.3%*	*9.1%*	*10.0%*	*10.2%*

Source: National Treasury

Government debt and contingent liabilities

Gross loan debt is expected to increase from R4.35 trillion or 69.5 per cent of GDP in 2021/22 to R5.43 trillion or 75.1 per cent of GDP by 2024/25. Over the same period, net loan debt – gross loan debt less cash balances – will increase from R4.06 trillion or 64.9 per cent of GDP to R5.27 trillion or 72.9 per cent of GDP. Contingent liabilities are projected to reach R1.17 trillion in 2022/23. Over the medium term, cash balances will be used to reduce the borrowing requirement and, consequently, debt issuance.

Table 1.6 Projected state debt and debt-service costs

R billion/percentage of GDP	2021/22	2022/23	2023/24	2024/25
Gross loan debt	**4 345.7**	**4 692.2**	**5 065.6**	**5 429.3**
	69.5%	*72.8%*	*74.4%*	*75.1%*
Debt-service costs	**268.3**	**301.8**	**335.0**	**363.5**
	4.3%	*4.7%*	*4.9%*	*5.0%*

Source: National Treasury

Financial position of public-sector institutions

In 2020/21, state-owned companies made limited progress in their reforms. Eskom registered its transmission business as a subsidiary and plans are being finalised to sell a stake in South African Airways to a strategic equity partner. However, many state-owned companies remain reliant on government support, and several have missed their capital investment and loan disbursement targets. The financial positions of the Unemployment Insurance Fund and Compensation Fund are strong and set to improve over the medium term, but are more than offset by persistently large liabilities at the Road Accident Fund.

Table 1.7 Combined financial position of public institutions

R billion/net asset value	2018/19	2019/20	2020/21[1]
State-owned companies	343.8	352.7	378.7
Development finance institutions	132.5	97.8	125.2
Social security funds	-79.6	-156.5	-221.5
Other public entities[2]	724.6	811.2	834.4

1. Due to the COVID-19 pandemic, many entities have not released audited financial statements, therefore unaudited financials or last quarter reports were used for 2019/20

2. State-owned institutions without a commercial mandate and listed in either schedule 1 or 3 of the PFMA such as the National Library of South Africa

Source: National Treasury

Budget documentation

The 2022 *Budget Review* accompanies several other documents and submissions tabled in Parliament on Budget Day. These include:

- The Budget Speech
- The Division of Revenue Bill
- The Appropriation Bill
- The Estimates of National Expenditure.

These and other fiscal and financial publications, including the People's Guide to the Budget, are available at www.treasury.gov.za.