3

Fiscal policy

In brief

- Government remains committed to reducing the budget deficit and stabilising the debt-to-GDP ratio.
- Fiscal consolidation will reduce debt-service costs to below 22 per cent of main budget revenue by 2026/27.
- Revenue collections remain well below pre-pandemic expectations. Revenue from 2020/21 through 2022/23 is forecast to be R284.7 billion below the 2020 Budget projections. However, owing to faster economic growth, revenue collection has improved in the current year compared with the 2021 Budget forecast.
- 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.
- The consolidated budget deficit will measure 7.8 per cent of GDP in 2021/22 and narrow to 4.9 per cent in 2024/25 – the first year since 2008/09 in which government expects revenue to exceed non-interest spending. Gross debt is expected to stabilise in 2025/26 at 78.1 per cent of GDP.
- 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.

Introduction

Over the medium-term expenditure framework (MTEF) period, debt-service payments are expected to average R334.5 billion a year – higher than projected spending on health, social development and peace and security. On average, 21 cents of every rand collected in revenue per year will pay for interest on public debt. Mounting debt-service costs are a clear signal that South Africa must stabilise its public finances to redirect spending in favour of social and economic development.

Medium-term fiscal policy is focused on consolidation: 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, while increasing non-interest expenditure to support

economic growth, job creation and social protection, and cover the higher costs of the public-service wage agreement.

Government remains committed to supporting low-income households, particularly given the severe impact of the COVID-19 pandemic. The budget will set aside additional resources for social relief if the fiscal situation improves by February 2022. 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.

This stance is in line with the approach adopted in the 2020 special adjustments budget and the 2021 Budget, which remains broadly on track. Staying the course will enable government to bring fiscal consolidation to a close at the end of the forthcoming MTEF period, in 2024/25. 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. Debt is expected to stabilise at 78.1 per cent of GDP by 2025/26. Over time, this consolidation will enable government to allocate revenue it currently pays to bondholders to areas such as health, education and economic development.

Over the past decade, a combination of declining economic growth and rapid debt accumulation has increased South Africa's sovereign risk premium. In effect, this means that buyers of government bonds are charging higher rates to compensate for the additional risk associated with investing in South Africa. This pushes up the cost of borrowing throughout the economy, making it difficult for businesses to invest in new projects and hire new workers. Given the failure of fiscal expansion to raise GDP growth between 2008/09 and 2018/19, and the increasing crowding-out effect of interest payments, government must contain expenditure growth to restore the health of public finances and reduce overall indebtedness. By improving South Africa's creditworthiness, fiscal consolidation will bolster investor confidence, lower the cost of doing business, and provide support to households and job-seekers.

Medium-term fiscal strategy

Evolution of the public finances

Government spends far more than it receives in revenue. This unsustainable fiscal position, which began to develop in the wake of the 2008 financial crisis, is illustrated in the four charts on the facing page.

GDP growth did not recover to pre-2008 levels following the crisis and South Africa fell behind other emerging market economies. Therefore, beginning with the 2013 Budget, government moved to contain unsustainable expenditure growth. Although fiscal policy succeeded in narrowing the gap between revenue and non-interest expenditure for several years (Figure 3.1), various shocks hampered the pace of fiscal consolidation. Meanwhile, lack of progress in the implementation of reforms outlined in the National Development Plan allowed structural drags on the economy, such as inadequate electricity supply, to persist. In addition, several policy decisions resulted in increased spending, among

them fee-free higher education, above-inflation public-service wage increases, and bailouts of state-owned companies.

The COVID-19 pandemic led to a historic economic contraction, an unprecedented widening of the budget deficit and a spike in debt stock. Overall, public debt has increased seven-fold, from R577 billion in 2007/08 to over R4 trillion in 2021/22. A larger debt stock means that interest payments absorb a growing share of national resources, averaging nearly 5 per cent of GDP over the next two years (Figure 3.3). Although public spending has risen, spending that supports long-term growth – such as capital investment in infrastructure – has shrunk as a proportion of the total (Figure 3.4).

Meanwhile, the baseline fiscal position has improved marginally since the 2021 *Budget Review*. Despite difficult reductions in government spending, a stronger-than-expected recovery in GDP has increased tax revenue. However, the factors driving these changes are largely temporary. There is significant uncertainty about the durability of the economic recovery, and certain domestic risks identified in the 2021 Budget have begun to materialise. These include the recent public-service wage agreement, which breached the budget ceiling for compensation of employees, and the continued financial deterioration of state-owned companies.

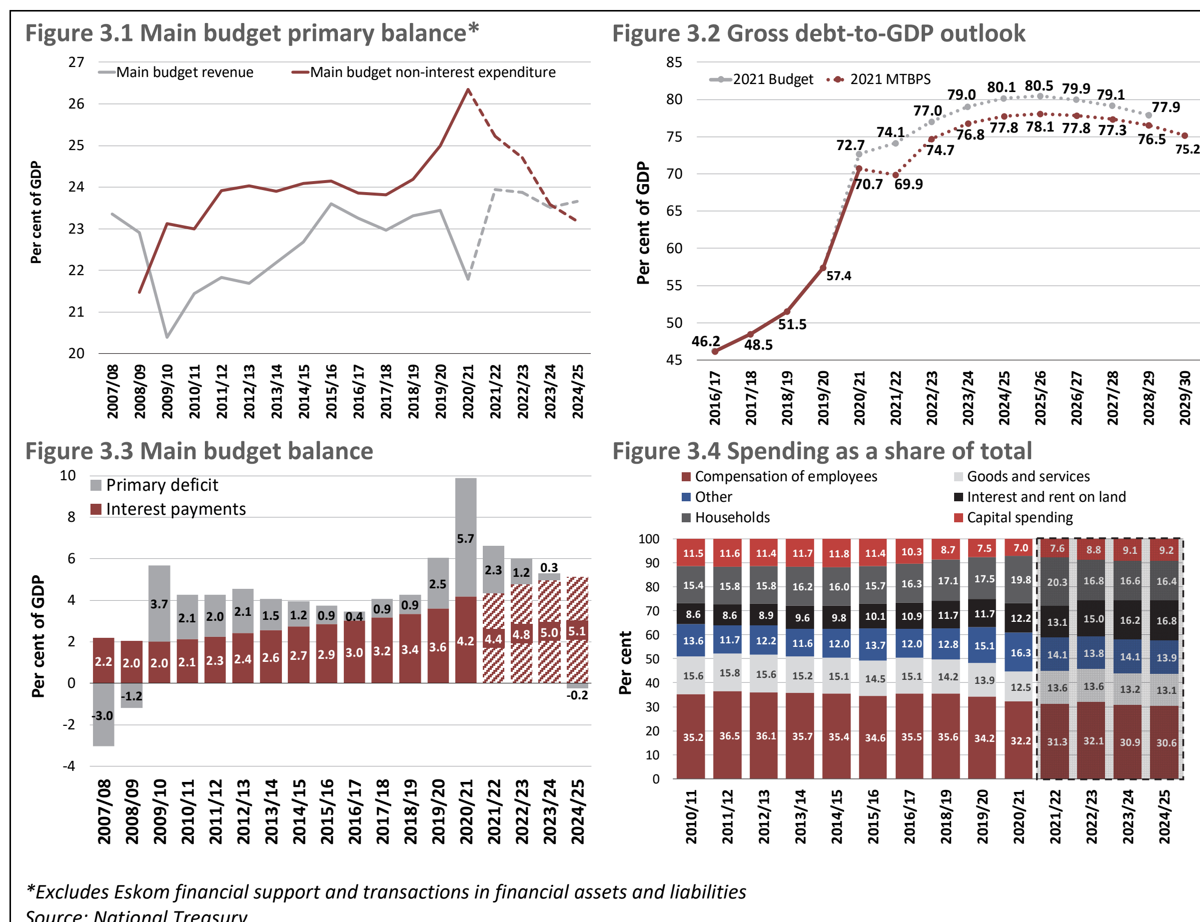


Figure 3.1 Main budget primary balance*

Figure 3.2 Gross debt-to-GDP outlook

Figure 3.3 Main budget balance

Figure 3.4 Spending as a share of total

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

Stabilising debt and supporting capital investment

Over the period ahead, government will continue to narrow the budget deficit, which is key to stabilising the debt-to-GDP ratio (Figure 3.2). This will be achieved mainly by controlling non-interest expenditure growth.

The fiscal framework contains growth in compensation spending while increasing capital expenditure. Infrastructure projects will be financed through the Infrastructure Fund, using public-private partnerships and other funding arrangements to improve planning and speed up delivery. The National Treasury completed its review of the public-private partnerships framework in May 2021, and policy changes based on the recommendations will be announced in the 2022 Budget. New spending pressures will be accommodated within existing baselines.

In 2021/22, gross tax revenue is expected to be R120.3 billion higher than projected in the 2021 Budget, with corresponding improvements of R69.8 billion and R59.5 billion expected in 2022/23 and 2023/24 respectively. This is still well below pre-pandemic revenue estimates (as shown in Figure 3.7), but it provides space for government to deal with immediate fiscal pressures while continuing to stabilise the public finances.

Medium-term loan redemptions amount to R423.4 billion, compared with R153.9 billion over the previous three years (Figure 3.5). These redemptions – paying back borrowed money – are the consequence of previous spending decisions. To support the borrowing programme, a portion of the higher revenue outcome will be used to narrow the budget deficit, with the balance used to support the fiscal framework. Compared with 2021 Budget projections, debt-service costs are expected to decline from 23.1 per cent to 22 per cent as a share of main budget revenue in 2025/26.

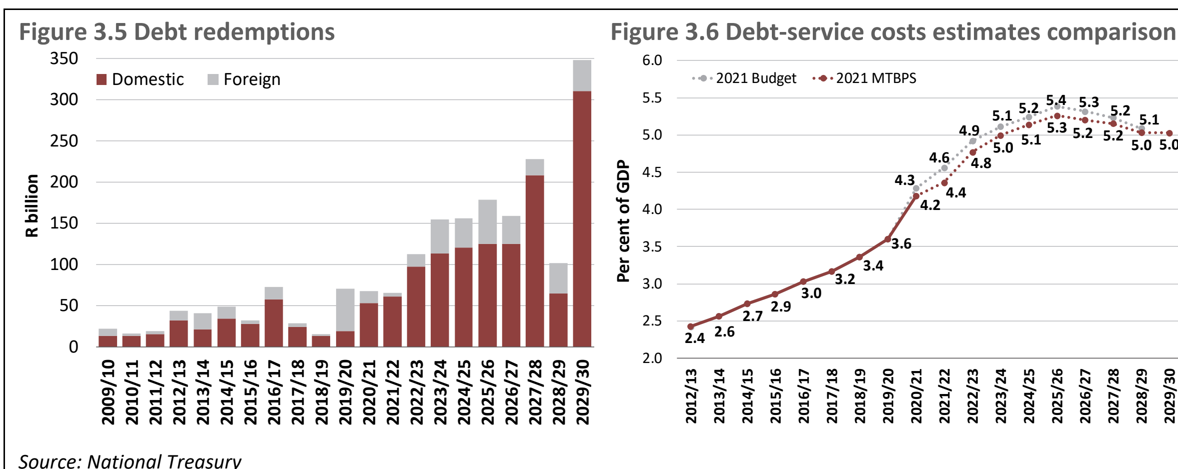


Figure 3.5 Debt redemptions

Figure 3.6 Debt-service costs estimates comparison

Source: National Treasury

Update on the public-service wage bill

The 2021 wage agreement provides for a pensionable increase of 1.5 per cent, as provided for in the 2021 Budget. It includes a once-off non-pensionable cash gratuity of R1 000 after tax per person per month, which was not budgeted for. This gratuity is expected to cost government R20.5 billion in the current year, with a preliminary carry through of R20.5 billion in 2022/23 if no new agreement is reached. In 2021/22, the gratuity will be largely funded by additional revenue, and will require shifting funds from the Infrastructure Fund, with a provisional allocation of R20.5 billion for 2022/23 included in the fiscal framework.

Fiscal consolidation has halted the trend of above-inflation growth in the wage bill, with budgeted increases of 1.5 per cent growth in the baseline for 2021/22 and 2022/23. Should it be necessary to implement the final leg of the 2018 wage agreement retroactively, however, additional measures would be required. These could include revenue measures, increased borrowing and active steps to reduce the size of the public service.

In addition, government is 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. Additional details on compensation trends are provided in Annexure B.

Expenditure performance and outlook

In-year spending adjustments

Government's efforts to manage the COVID-19 pandemic and support vulnerable households and firms require increased spending in the current year. 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. Details of allocations are provided in the 2021 *Adjusted Estimates of National Expenditure*.

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

In the Second Special Appropriation Bill of 2021, government announced a fiscal relief package, including R5 billion in tax relief and R32.9 billion in once-off spending measures (Table 3.2). Further adjustments to in-year spending include R20.5 billion for the 2021 wage agreement, R2.3 billion for COVID-19 vaccines and an equity injection of R2.9 billion in Denel. This is offset by a portion of the R120.3 billion revenue windfall.

The fiscal relief package includes:

- A 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*.
- A provision of R3.9 billion for SASRIA – the state-owned insurer covering risks such as public disorder and riots – for balance sheet support to ensure that claims following the July public violence are settled.
- 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.
- An amount of R5 billion of estimated revenue foregone from expanding the employment tax incentive for four months from 1 August 2021.

In addition, an amount of R5.3 billion has been set aside by the Unemployment Insurance Fund to extend coverage of the temporary employer/employee relief scheme.

Table 3.2 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**

1. Of which R500 million is for grants administration
2. Department of Trade, Industry and Competition (DTIC), Department of Small Business Development (DSBD)
Source: National Treasury

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. In the meantime, 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. This includes 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.

Expenditure ceiling

The main budget expenditure ceiling provides an upper limit within which departments prepare their budgets. It has anchored fiscal policy since the 2012 Budget. The *Budget Review* includes the baseline ceiling and the *Medium Term Budget Policy Statement* includes adjustments to the ceiling if necessary. Table 3.3 shows the ceiling and actual spending over recent years. Government aims to maintain spending levels within the ceiling. In the current year, expenditure is expected to breach the 2021 *Budget Review* ceiling of R1.51 trillion by R56 billion owing to the COVID-19 lockdowns and public violence, as well as wage bill adjustments.

Revenue improvements since the 2021 Budget allow for an increase in the spending ceiling over the MTEF period. The ceiling is raised by R30.5 billion in 2022/23 and R28.1 billion in 2023/24, compared with the 2021 Budget.

Table 3.3 Main budget expenditure ceiling[1]

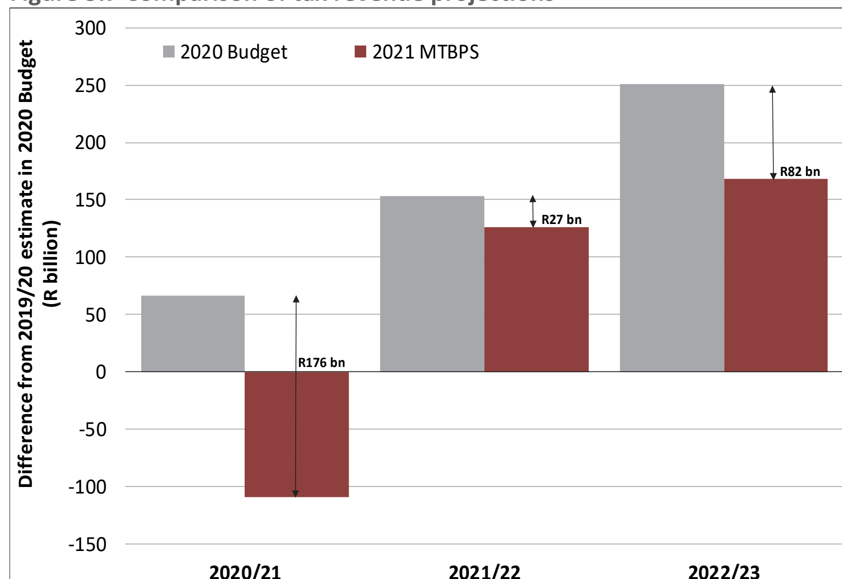
R million	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
2019 MTBPS	1 307 235	1 404 675	1 493 029	1 591 287	1 673 601		
2020 Budget Review	1 307 119	1 409 244	1 457 703	1 538 590	1 605 098		
2020 MTBPS	1 307 112	1 418 408	1 502 867	1 479 709	1 516 052	1 529 585	
2021 Budget Review		1 418 399	1 504 656	1 514 934	1 521 721	1 530 664	
2021 MTBPS		**1 418 456**	**1 487 388**	**1 570 890**	**1 552 268**	**1 558 725**	**1 627 154**

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

A surge in commodity prices has significantly improved the in-year revenue outlook, although its effect is likely to be temporary. Revenue collections remain well below pre-pandemic expectations, and in this sense the updated numbers flatter to deceive. Compared with the 2020 Budget projections, revenue is expected to be R284.7 billion lower than forecast until 2022/23.

Figure 3.7 Comparison of tax revenue projections



Source: National Treasury and South African Revenue Service

The gross tax revenue estimate for 2021/22 has been revised up by R120.3 billion compared with the projection in the 2021 Budget. This improved outlook is due to better-than-expected collections in the final quarter of 2020/21, upward revisions to near-term economic growth projections and strong income tax collections, especially from corporates. After falling to 22.5 per cent last year, the tax-to-GDP ratio is expected to increase to 24.1 per cent in the current year. Strong and sustained economic growth, coupled with greater efficiency in revenue collection, is needed to raise the tax-to-GDP ratio over the medium term.

Table 3.4 Gross tax revenue

	2020/21			2021/22		
R billion	**Budget[1]**	**Outcome**	**Deviation**	**Budget[1]**	**Revised**	**Deviation**
Persons and individuals	482.1	487.0	4.9	516.0	542.1	26.1
Companies	188.8	202.1	13.3	213.1	288.6	75.5
Value-added tax	324.6	331.2	6.6	370.2	373.6	3.5
Dividends tax	23.0	24.8	1.9	26.2	29.9	3.8
Specific excise duties	24.7	32.3	7.6	43.7	42.3	-1.4
Fuel levy	75.2	75.5	0.3	83.1	89.2	6.1
Customs duties	45.2	47.3	2.1	53.1	54.7	1.6
Ad valorem excise duties	3.3	3.4	0.1	3.5	4.4	0.9
Other	45.3	46.1	0.8	56.1	60.4	4.3
Gross tax revenue	**1 212.2**	**1 249.7**	**37.5**	**1 365.1**	**1 485.4**	**120.3**

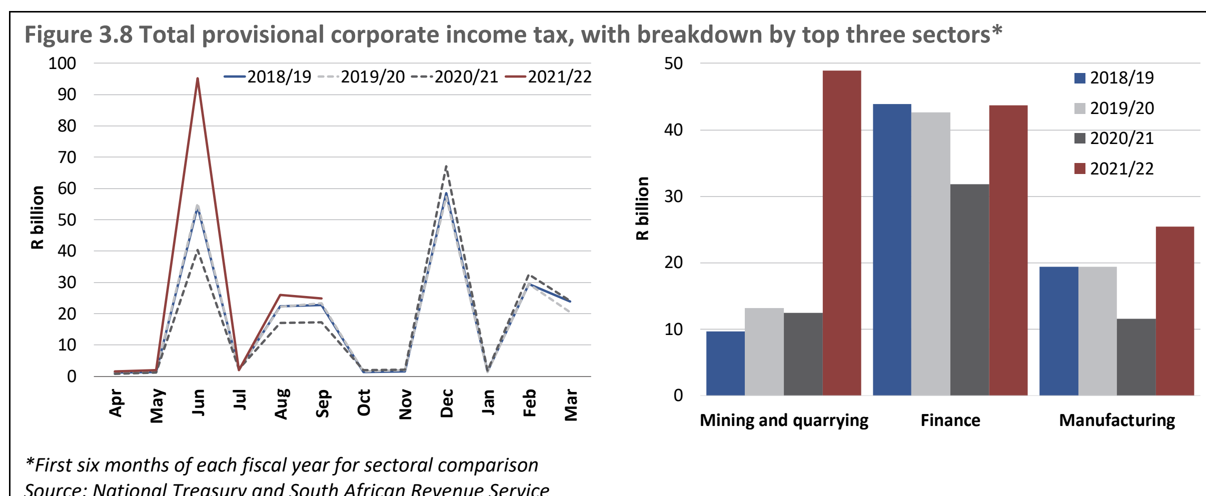
1. 2021 Budget figures
Source: National Treasury

Revenue performance in 2021/22

After falling by 7.8 per cent last year, tax revenues rose appreciably in the first six months of 2021/22. Corporate income taxes in particular have increased due to high commodity prices and a favourable ratio of export to import prices. Provisional corporate income tax collected in the first six months of 2021/22 was 44.1 per cent higher than the equivalent period in 2019/20, primarily driven by the mining and quarrying sector (Figure 3.8).

Other major tax categories have also grown above 2019/20 levels, except for specific excise and customs duties.

Figure 3.8 Total provisional corporate income tax, with breakdown by top three sectors*



**First six months of each fiscal year for sectoral comparison*
Source: National Treasury and South African Revenue Service

Key factors affecting in-year revenue collection include:

- A strong recovery in earnings, with both nominal and real average wages close to 2019 levels by the first quarter of 2021, supporting personal income tax collection.
- Higher export prices boosting profitability in the mining sector, and improved collections from manufacturing and finance.
- Resilient household consumption amid the economic recovery, buoyed by strong earnings, low borrowing costs and larger social transfers, which strengthened domestic value-added tax (VAT) collections.
- Improved import volumes in the first half of 2021, offset by trade disruptions, leading to lower import VAT and customs collections.

Estimated tax revenue for 2021/22 has been revised higher by R120.3 billion, of which corporate income tax accounts for R75.5 billion. Stronger personal income tax receipts are expected to bring in an additional R26.1 billion relative to the 2021 Budget projections.

Table 3.5 Revised revenue projections

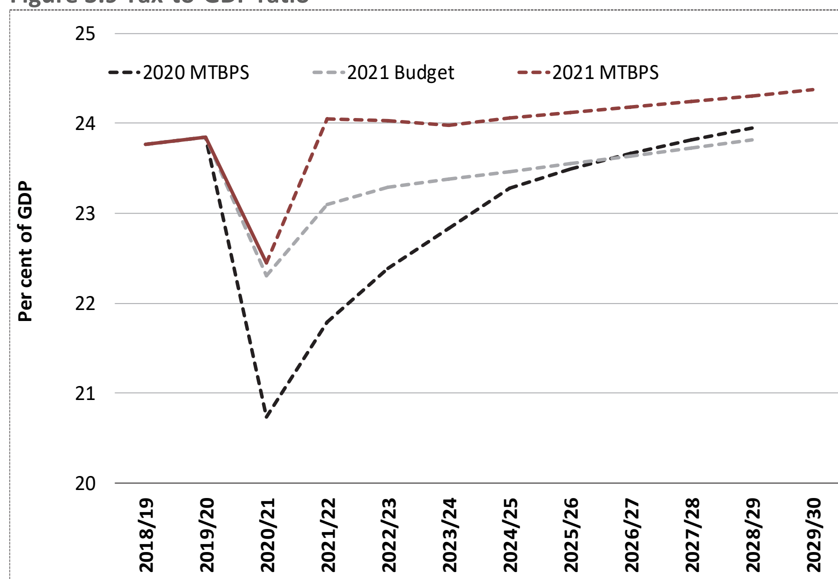
R billion	2021/22	2022/23	2023/24	2024/25
2021 Budget	**1 365.1**	**1 457.7**	**1 548.5**	
Buoyancy	*1.44*	*1.15*	*1.07*	
Revised estimates	**1 485.4**	**1 527.4**	**1 608.0**	**1 715.3**
Buoyancy	*1.73*	*0.99*	*0.97*	*1.05*
Change since 2021 Budget	**120.3**	**69.8**	**59.5**	

Source: National Treasury

Medium-term revenue outlook

Tax revenues are expected to increase to R1.72 trillion, or 24.1 per cent of GDP, by 2024/25. The commodity price rally and resulting terms of trade benefits are expected to remain supportive for the rest of 2021/22, but export commodity prices are expected to decline, with an associated deterioration in the terms of trade in the outer years of the forecast.

Figure 3.9 Tax-to-GDP ratio



Source: National Treasury and South African Revenue Service

Windfall commodity revenues are unlikely to provide significant additional revenues beyond 2021/22. Similarly, slow employment growth and lower employment levels limit personal income tax projections. Although revenue collection has been revised higher, the difference between 2021 Budget and current estimates declines over the MTEF forecast period. The outlook for several major tax bases has been revised lower relative to the 2021 Budget.

Further improvement in the gross tax-to-GDP ratio depends on a durable economic recovery that addresses structural imbalances in the economy. Additional information, including changes in tax buoyancies, appears in Table C.6 of Annexure C.

Table 3.6 Medium-term revenue framework

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
R billion		**Outcome**		**Revised**		**Medium-term estimates**	
Gross tax revenue	**1 287.7**	**1 355.8**	**1 249.7**	**1 485.4**	**1 527.4**	**1 608.0**	**1 715.3**
Gross tax revenue growth	5.9%	5.3%	-7.8%	18.9%	2.8%	5.3%	6.7%
Nominal GDP growth	5.5%	5.0%	-2.1%	10.9%	2.9%	5.5%	6.3%
Buoyancy	*1.07*	*1.07*	*3.69*	*1.73*	*0.99*	*0.97*	*1.05*
Non-tax revenue	23.9	27.6	26.3	39.1	32.2	31.5	33.0
Southern African Customs Union[1]	-48.3	-50.3	-63.4	-46.0	-43.7	-64.6	-63.4
National Revenue Fund receipts[2]	12.0	12.8	25.8	4.6	1.6	6.4	4.5
Main budget revenue	**1 275.3**	**1 345.9**	**1 238.4**	**1 483.2**	**1 517.5**	**1 581.3**	**1 689.4**

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 up sharply over the next two years compared with 2021 Budget estimates. Details appear in Annexure C.

Non-tax revenue estimates for the next two years are higher than the 2021 Budget estimates by an average of R2.4 billion.

Main budget framework

The main budget framework summarises spending financed from the National Revenue Fund. Main budget revenue is expected to increase in the current year to 24 per cent of GDP due to a slightly stronger economic outlook and better-than expected revenue collection.

Table 3.7 Main budget framework

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
R billion/percentage of GDP		**Outcome**		**Revised**		**Medium-term estimates**	
Main budget revenue	**1 275.3**	**1 345.9**	**1 238.4**	**1 483.2**	**1 517.5**	**1 581.3**	**1 689.4**
	23.5%	*23.7%*	*22.2%*	*24.0%*	*23.9%*	*23.6%*	*23.7%*
Main budget expenditure	**1 506.6**	**1 691.0**	**1 789.0**	**1 893.1**	**1 897.9**	**1 936.7**	**2 039.1**
	27.8%	*29.7%*	*32.1%*	*30.7%*	*29.9%*	*28.9%*	*28.6%*
Non-interest expenditure	1 324.8	1 486.2	1 556.4	1 623.9	1 594.8	1 602.1	1 673.3
	24.4%	*26.1%*	*28.0%*	*26.3%*	*25.1%*	*23.9%*	*23.5%*
Debt-service costs	181.8	204.8	232.6	269.2	303.1	334.6	365.8
	3.4%	*3.6%*	*4.2%*	*4.4%*	*4.8%*	*5.0%*	*5.1%*
Main budget balance	**-231.3**	**-345.1**	**-550.6**	**-409.9**	**-380.4**	**-355.4**	**-349.7**
	-4.3%	*-6.1%*	*-9.9%*	*-6.6%*	*-6.0%*	*-5.3%*	*-4.9%*
Primary balance	**-49.5**	**-140.3**	**-318.0**	**-140.7**	**-77.2**	**-20.8**	**16.1**
	-0.9%	*-2.5%*	*-5.7%*	*-2.3%*	*-1.2%*	*-0.3%*	*0.2%*

Source: National Treasury

Revenue is projected to average 23.7 per cent of GDP over the medium term. Main budget expenditure reaches 30.7 per cent of GDP in 2021/22, moderating to 28.6 per cent of GDP by 2024/25. This largely reflects fiscal consolidation measures, although debt-service costs will continue to rise over the MTEF period. The main budget deficit is expected to moderate from 6.6 per cent of GDP in the current year to 4.9 per cent of GDP by 2024/25.

A primary budget surplus is projected from 2024/25, and debt is expected to stabilise in the following year. Compared with the 2021 *Budget Review* estimates, both metrics have improved. Changes to the main budget framework since February 2021 are presented in Annexure C.

Consolidated budget framework

The consolidated budget includes the main budget and spending financed from revenues raised by provinces, social security funds and public entities. The consolidated budget deficit is projected to narrow from 7.8 per cent of GDP in 2021/22 to 4.9 per cent of GDP in 2024/25. 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.

Table 3.8 Consolidated budget balance

R billion	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
		Outcome		Revised		Medium-term estimates	
Main budget	-231.3	-345.1	-550.6	-409.9	-380.4	-355.4	-349.7
Social security funds	8.8	5.3	-49.2	-73.2	-8.9	-0.2	1.8
Public entities	26.2	44.1	39.9	2.8	3.6	3.5	0.6
Provinces	1.0	5.1	2.8	1.2	6.4	-1.4	-1.5
RDP Fund	-0.2	-0.6	-0.5	-0.6	-0.2	-0.1	-0.0
Consolidated budget balance	**-195.6**	**-291.2**	**-557.7**	**-479.7**	**-379.3**	**-353.6**	**-348.9**
Percentage of GDP	*-3.6%*	*-5.1%*	*-10.0%*	*-7.8%*	*-6.0%*	*-5.3%*	*-4.9%*

Source: National Treasury

Financing and debt management strategy

Over the past 18 months, global borrowing conditions have become less favourable, even as South Africa's borrowing requirement has grown. Government continues to manage public debt prudently to meet the borrowing requirement in a sustainable and efficient manner. Over the next several years, large debt redemptions associated with previous spending decisions will need to be repaid or rolled over. Government will continue to exchange shorter-dated for longer-dated bonds as conditions permit. Setting aside a portion of unanticipated revenue improvements will mitigate these pressures by reducing the gross borrowing requirement, and ultimately, the stock of debt and debt-service costs.

The impact of the global pandemic in 2020 resulted in a sharp increase in government's gross borrowing requirement. To reduce the impact on the stock of debt and debt-service costs, government used a portion of its sterilisation deposits with the Reserve Bank. The current fiscal framework allows government to revert to using these deposits as a bridging finance tool. Given high levels of uncertainty in the global outlook and volatility in capital flows, sterilisation deposits provide an important buffer against abrupt market changes that could put debt funding under severe pressure.

Government's gross borrowing requirement – the sum of the budget deficit and maturing loans – has been revised lower for 2021/22, from R547.9 billion at the time of the 2021 Budget to R475.1 billion. Over the medium term, the gross borrowing requirement will average R503 billion, compared with R550.5 billion at the time of the 2021 Budget.

Relative to the 2021 Budget, which projected a net increase of R9 billion, no new short-term borrowing is now expected for 2021/22. Short-term borrowing will average R53 billion over the next three years. Long-term borrowing in the domestic bond market will decline from R380 billion to R285.3 billion in 2021/22, averaging R374.7 billion over the medium term.

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

Borrowing costs remain higher than pre-pandemic levels. To limit the additional cost of borrowing, 77 per cent of the total long-term fixed-rate bond issuance is concentrated in the three- to 16-year maturity area.

Table 3.10 Total national government debt

End of period R billion	2020/21 Outcome	2021/22 Revised	2022/23	2023/24 Medium-term estimates	2024/25
Domestic loans[1]	**3 543.3**	**3 843.9**	**4 220.5**	**4 580.2**	**4 929.3**
Short-term	456.0	456.0	510.0	563.0	615.0
Long-term	3 087.3	3 387.8	3 710.5	4 017.1	4 314.2
Fixed-rate	*2 300.0*	*2 553.1*	*2 765.8*	*3 065.7*	*3 363.3*
Inflation-linked	*787.3*	*834.7*	*944.6*	*951.4*	*951.0*
Foreign loans[1]	**392.4**	**470.1**	**524.1**	**564.3**	**608.4**
Gross loan debt	**3 935.7**	**4 313.9**	**4 744.7**	**5 144.4**	**5 537.6**
Less: National Revenue Fund bank balances	-333.9	-224.9	-225.0	-209.2	-194.9
Net loan debt[2]	**3 601.8**	**4 089.0**	**4 519.6**	**4 935.2**	**5 342.7**
As percentage of GDP:					
Gross loan debt	*70.7%*	*69.9%*	*74.7%*	*76.8%*	*77.8%*
Net loan debt	*64.7%*	*66.2%*	*71.2%*	*73.7%*	*75.0%*

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

In 2021/22, government will raise US$5.3 billion to meet its foreign currency commitments by raising funds in global capital markets and sourcing lower-cost funding from international financing institutions. To date, government has raised an additional US$1 billion economic recovery loan from the New Development Bank. In addition, South Africa received about US$4.2 billion in August 2021 from the International Monetary Fund in terms of the general Special Drawing Rights allocation to member countries. These funds are deposited in the Special Drawing Rights holdings account with the Reserve Bank and can be used to meet government's foreign currency commitments in line with liquidity requirements.

Gross loan debt is expected to increase from R4.31 trillion, or 69.9 per cent of GDP, in 2021/22 to R5.54 trillion, or 77.8 per cent of GDP, in 2024/25. The key drivers of this increase remain the budget balance and fluctuations in the interest, inflation and exchange rates.

Compared with the 2021 Budget estimate, debt-service costs will decrease by R0.5 billion to R269.2 billion in 2021/22. These costs will reach R365.8 billion, or 5.1 per cent of GDP, by 2024/25. As a share of main budget expenditure, debt-service costs will increase from 14.2 per cent in 2021/22 to 17.9 per cent in 2024/25.

Risks to the fiscal outlook

Government remains committed to a measured fiscal consolidation that supports economic recovery. However, there are significant risks to the medium-term fiscal framework:

- A slowdown in economic growth, a reversal of the commodity cycle or tightening of global financial conditions would negatively affect government revenues.
- The evolution of COVID-19 and slow progress in vaccine rollout reinforces uncertainty and poses risks to economic recovery.
- Slow implementation of structural reforms continues to weigh on business confidence and private investment. Electricity supply constraints, which could worsen over the short term, are a drag on economic growth. In contrast, progress on energy reforms poses upside risks to fixed investment and the overall economic outlook.
- A further deterioration in the public finances due to various spending pressures and the materialisation of contingent liabilities could trigger further credit rating downgrades.
- Pressures 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. A number of entities may request further bailouts.

Government is strictly enforcing minimum criteria before guaranteeing the debt of state-owned companies, as outlined in the 2021 Budget, which has led to a decline in guarantee requests. Nonetheless, the broader context of financial distress, weak governance and unsustainable operations in many of these companies remains unaddressed.

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

Conclusion

Government's proposed fiscal stance is in line with the approach adopted in the 2020 special adjustments budget and the 2021 Budget. Efforts to narrow the budget deficit and stabilise debt remain broadly on track. Staying the course will enable government to bring fiscal consolidation to a close more quickly than anticipated, in 2024/25.