3

Fiscal policy

In brief

- Government is returning the public finances to a sustainable position. Net loan debt – gross loan debt less cash balances – will stabilise at 69 per cent of GDP in 2024/25.
- Main budget non-interest spending will grow slightly above consumer price index (CPI) inflation in the outer two years of the medium-term expenditure framework (MTEF) period. More resources are added to health, education, local government free basic services, infrastructure, and safety and security.
- In a volatile global environment, the fiscal strategy reduces risks to the economy and the public finances over the medium term. Government will use a portion of revenue improvements to narrow the budget deficit and keep debt stabilisation on track. In-year allocations are made to mitigate economic and fiscal risks associated with Denel, the South African National Roads Agency Limited (SANRAL) and Transnet.
- To ensure Eskom's long-term financial viability, government plans to take over a portion of the entity's R400 billion debt.
- The consolidated budget deficit is projected to narrow from 4.1 per cent of GDP in 2023/24 to 3.2 per cent of GDP in 2025/26.
- Risks to the fiscal outlook include further slowdowns in economic growth, higher public-service wage costs, contingent liabilities of state-owned companies and the introduction of unfunded spending programmes.

Introduction

Despite a challenging economic environment, government has remained focused on stabilising public debt and ensuring the sustainability of the public finances. At the same time, government continues to support social and economic development.

Gross government debt is expected to stabilise at 71.4 per cent of GDP in 2022/23 — two years earlier and at a lower level than projected in the 2022 Budget. Debt stabilisation in the current year reflects the impact of several changes since February. Nominal GDP increased as a result of higher GDP inflation given high global and domestic prices. At the same time, the primary budget balance – revenue less non-interest spending –

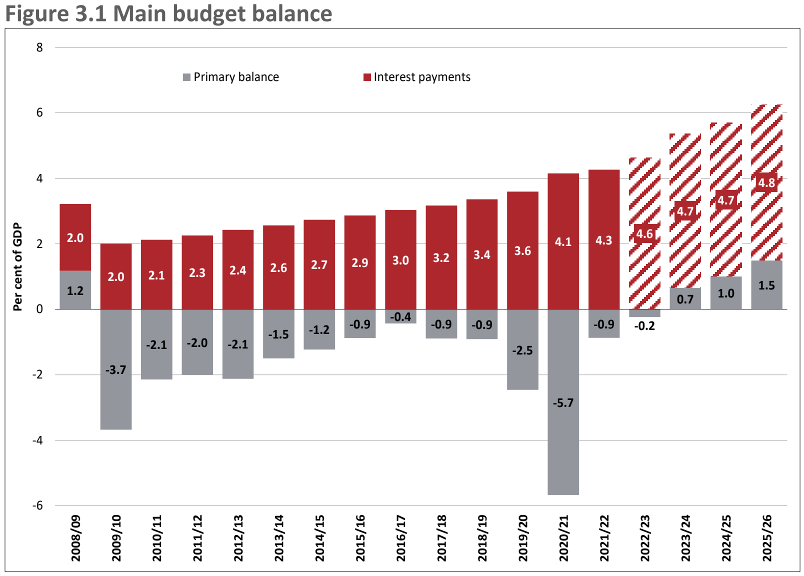
improved. These changes outweigh the adverse effects of higher interest costs and the weaker exchange rate.

Revenue collection has exceeded projections across most major tax categories. In the current year, government will use 65 per cent of this projected additional revenue to improve its primary balance, followed by 45 per cent in 2023/24 and 37 per cent in 2024/25.

As a result of determined and disciplined budgeting, supported by favourable revenue dynamics, government expects to achieve a primary budget surplus in 2023/24 (Figure 3.1). Net government debt is forecast to stabilise at 69 per cent of GDP the following year. The consolidated budget deficit is projected to narrow from 4.1 per cent of GDP in 2023/24 to 3.2 per cent of GDP in 2025/26.

Since the 2022 Budget, global growth has weakened and borrowing costs are rising rapidly, pushing a number of countries closer to sovereign debt crises. Since 2007/08, South Africa's public debt has risen sevenfold, from R577 billion to over R4 trillion in 2021/22. As a result, payments on the interest for this debt now exceed spending on essential services like health and security. Debt-service costs will continue to rise over the medium term and are projected to peak as a proportion of revenue in 2025/26 (Figure 3.2). The country's stock of debt remains high, and prudent public financial management remains essential to reduce the proportion of revenue dedicated to servicing debt over time.

Figure 3.1 Main budget balance



Source: National Treasury

Since the 2022 Budget, revenue collection has exceeded projections, allowing government to narrow the deficit and mitigate some of the risks from high interest costs. Key baselines for the delivery of services are also gradually being restored, without making unaffordable permanent commitments. Additional resources are provided over the medium term for the security forces, health, education, local amenities and infrastructure investment.

The future of the *COVID-19 social relief of distress grant* introduced in May 2020 remains under discussion. For now, these transfers to low-income households are extended for another year without compromising fiscal consolidation. Over the next year, government will make a decision in line with its commitment to sustainable public finances. Any permanent increase in expenditure, such as a new social grant, will need to be matched by permanent revenue increases or spending reductions elsewhere.

Government is also allocating funds to reduce fiscal and economic risks posed by Denel, SANRAL and Transnet, and plans to take over a portion of Eskom's debt. These actions will help secure the gains of fiscal consolidation by improving economic growth and associated revenue collection, and reducing contingent liabilities.

Medium-term fiscal strategy

In 2023/24, South Africa is expected to achieve its first primary budget surplus in 15 years. Over the past several years, government's efforts to stabilise debt and narrow the budget deficit were interrupted by a series of shocks that required urgent fiscal allocations – most notably by the near-collapse of Eskom in 2019/20 and the COVID-19 pandemic in 2020/21. These pressures were managed primarily by reallocating funding within the budget and establishing firm expenditure ceilings.

Figure 3.2 Debt-service costs as a share of main budget revenue

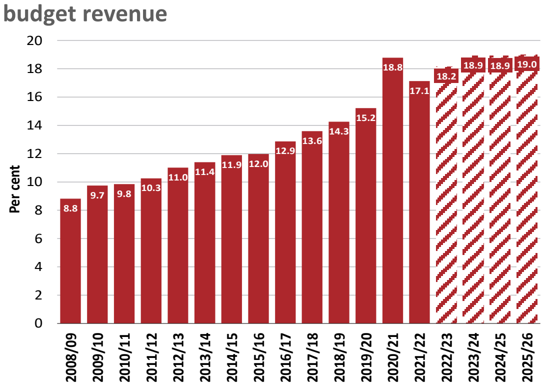


Figure 3.3 Real growth in non-interest expenditure

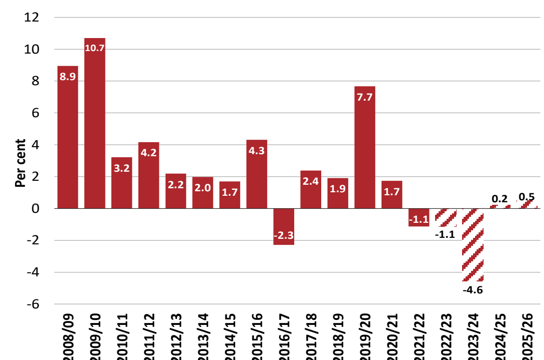


Figure 3.4 Social wage*

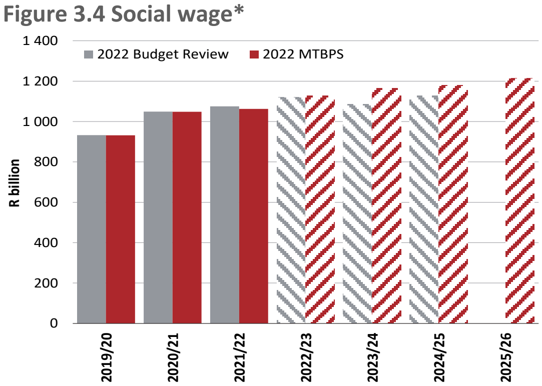
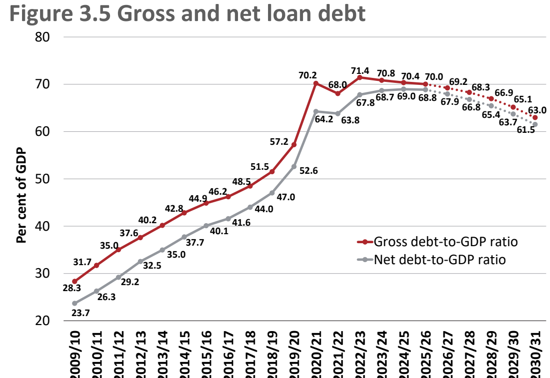


Figure 3.5 Gross and net loan debt



**Includes health, education, housing, social protection, transport, employment programmes and local amenities*
Source: National Treasury

The medium-term fiscal strategy prioritises:

- Achieving fiscal sustainability by narrowing the budget deficit and stabilising debt.
- Increasing spending on policy priorities such as security and infrastructure, thereby promoting economic growth.
- Reducing fiscal and economic risks, including through targeted support to key public entities and building fiscal buffers for future shocks.

Over the next three years, spending increases will support economic growth and the delivery of health, education and local government free basic services. Main budget non-interest spending will grow slightly above CPI inflation in 2024/25 and 2025/26 as more resources are added to key baselines for delivery of services, infrastructure, and safety and security – and funds are set aside to reduce fiscal risks.

Over the medium term, 59.2 per cent of consolidated non-interest spending goes to the social wage – combined public spending on health, education, housing, social protection, transport, employment and local amenities. Infrastructure spending is also expected to increase over the 2023 MTEF period, relative to the 2022 MTEF period, due to additional project allocations, including through the Budget Facility for Infrastructure.

Proposed conditional in-year allocations to Denel, SANRAL and Transnet will reduce contingent liabilities and enable these entities to continue supporting economic growth and national security. In addition, government will increase the size of the contingency reserve over the next two years to improve responsiveness to emergencies such as natural disasters. In 2024/25 and 2025/26 funds will be set aside for the unallocated reserve as a buffer against other fiscal risks that may materialise.

Government is considering various policy approaches to safeguard fiscal sustainability. The National Treasury has tested the appropriateness of fiscal rules such as a debt ceiling, expenditure or revenue rule, which may limit excessive deficits. Work in this area is ongoing, taking into account economic volatility and the country’s large development needs.

In-year revenue and expenditure outlook

In-year revenue projections

The in-year revenue outlook is positive given strong collections in the first half of 2022/23. While the contribution from elevated commodity prices has waned, there has been a broad-based recovery in corporate tax collections, which bodes well for receipts over the remainder of the fiscal year. However, there are significant downside economic risks to these revenue projections and they may be lowered if power cuts intensify, global growth slows further or there is an escalation in the Russia-Ukraine war.

Table 3.1 Gross tax revenue

	2021/22			2022/23		
R billion	**Budget[1]**	**Outcome**	**Deviation**	**Budget[1]**	**Revised**	**Deviation**
Persons and individuals	553.5	554.0	0.4	587.9	596.1	8.2
Companies	318.4	320.4	2.1	269.9	332.7	62.8
Value-added tax	383.7	390.9	7.2	439.7	434.9	-4.8
Dividends tax	32.2	33.4	1.2	30.4	36.2	5.7
Specific excise duties	48.2	49.7	1.5	51.9	55.5	3.7
Fuel levy	89.9	88.9	-1.0	89.1	80.6	-8.5
Customs duties	55.8	58.0	2.2	61.1	72.6	11.5
Ad valorem excise duties	4.3	4.7	0.4	4.4	4.8	0.4
Other	61.1	63.7	2.7	64.0	68.4	4.4
Gross tax revenue	**1 547.1**	**1 563.8**	**16.7**	**1 598.4**	**1 681.9**	**83.5**

1. 2022 Budget figures
Source: National Treasury

Compared with the 2022 Budget, the gross tax revenue estimate for 2022/23 has been revised up by R83.5 billion. The higher estimate is largely due to better-than-expected collections in the final quarter of 2021/22, upward revisions to near-term tax base growth projections and strong corporate income tax collections.

Key factors affecting in-year revenue collection include:

- Higher profitability in the finance and manufacturing sectors. The mining sector's contribution to corporate tax collections remains high in historical terms.
- Large import volumes and elevated prices have contributed to strong import value-added tax (VAT) and customs duty collections.
- Collections from employees in the finance sector benefited from a recovery in earnings and improved bonus payments, although employment growth remains weak.
- Net VAT collections have been revised down compared to 2022 Budget estimates, as higher VAT refunds more than offset improved domestic VAT receipts. VAT refund payments averaged R25.1 billion per month over the first half of 2022/23, driven by increased capital expenditure in the finance sector and manufactured exports. Lower disposable incomes for households will also weigh on domestic VAT collections.
- Fuel levy collections are projected to fall short of expectations due to the additional fuel levy relief provided during the first half of 2022/23.

Figure 3.6 Total provisional corporate income tax

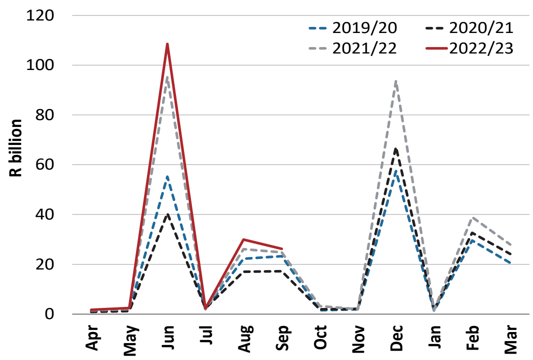
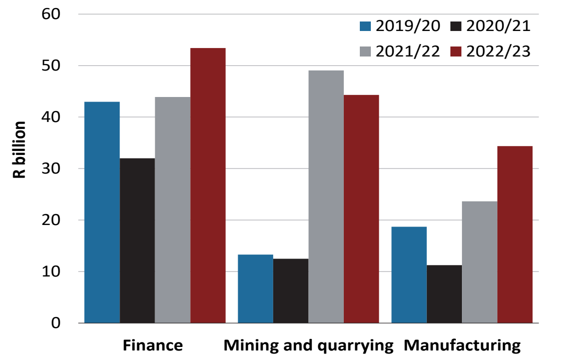


Figure 3.7 Provisional corporate income tax collections by sector*



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

The tax-to-GDP ratio is expected to increase from 24.9 per cent in 2021/22 to 25.3 per cent in 2022/23. Further improvement depends on a durable economic recovery. Additional information, including changes in tax buoyancies, appears in Table C.6 of Annexure C.

In-year spending adjustments

Compared with the 2022 Budget estimates, government proposes a net addition of R37 billion to main budget non-interest spending in 2022/23, as shown in Table 3.2. This consists of R54.1 billion in spending increases, partially offset by declared unspent funds, projected underspending and contingency reserve drawdowns.

Table 3.2 Revisions to non-interest expenditure for 2022/23

R million	2022/23
Non-interest expenditure (2022 Budget Review)	**1 673 450**
Upward expenditure adjustments	**54 117**
Expenditure earmarked in the 2022 Budget speech for future allocation	500
Self-financing expenditure[1]	1 580
Special appropriation[2]	30 014
Other allocations in the AENE[3]	22 022
Downward expenditure adjustments	**-17 078**
Declared unspent funds	-1 963
Infrastructure Fund not assigned to votes	-4 197
Contingency reserve	-5 000
National government projected underspending	-3 917
Local government repayment to the National Revenue Fund	-2 000
Revised non-interest expenditure (2022 MTBPS)	**1 710 489**
Change in non-interest expenditure from 2022 Budget	37 039

1. Spending financed from revenue derived from departments' specific activities
2. The entities receiving the allocations are Transnet, SANRAL and Denel
3. 2022 Adjusted Estimates of National Expenditure
Source: National Treasury

The in-year allocations will address balance sheet weaknesses in public entities that are central to economic recovery. SANRAL is allocated R23.7 billion to settle maturing debt and debt-related obligations. A total of R5.8 billion will be allocated to Transnet – half of which is shifted funds to repair infrastructure damaged by the recent floods, and half to repair and maintain freight rail locomotives. Denel will be allocated R204.7 million to reduce contingent liabilities arising from its weak financial position and R3.4 billion – if set conditions are met – to complete its turnaround plan.

The Land Bank remains in financial distress and the process to finalise a solution is ongoing. An amount of R5 billion remains in the contingency reserve in 2022/23 as part of the funding provided for the Land Bank in the previous budget. Conditions for the release of these funds have not yet been met.

Medium-term revenue and expenditure outlook

Revenue

Tax revenues are expected to increase to R2.04 trillion, or 25.4 per cent of GDP, by 2025/26. This strong growth in revenue occurs despite relatively lower overall tax buoyancies over the medium term.

Table 3.3 Revised revenue projections

R billion	2022/23	2023/24	2024/25	2025/26
2022 Budget	**1 598.4**	**1 694.3**	**1 807.6**	
Buoyancy	*1.09*	*1.06*	*1.06*	
Revised estimates	**1 681.9**	**1 788.9**	**1 907.3**	**2 036.5**
Buoyancy	*1.30*	*1.03*	*1.00*	*1.06*
Change since 2022 Budget	**83.5**	**94.6**	**99.7**	

Source: National Treasury

Both the tax-to-GDP ratio and nominal revenue collections are now expected to be higher than pre-COVID projections. This assumes that most of the windfall tax receipts from higher commodity prices fall away over the next two years. The higher estimates partially reflect a permanent increase in revenue, most likely due to improvements in efficiencies at the South African Revenue Service. The outlook for several major tax bases has also been revised higher relative to the 2022 Budget. Although a mild labour market recovery may occur in the near term, medium-term prospects for employment growth remain weak, limiting personal income tax projections.

Figure 3.8 Tax-to-GDP ratio

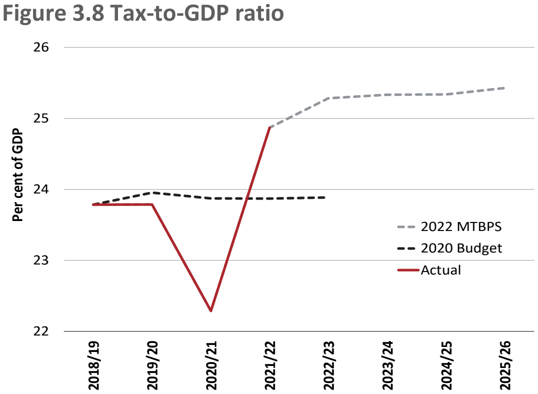
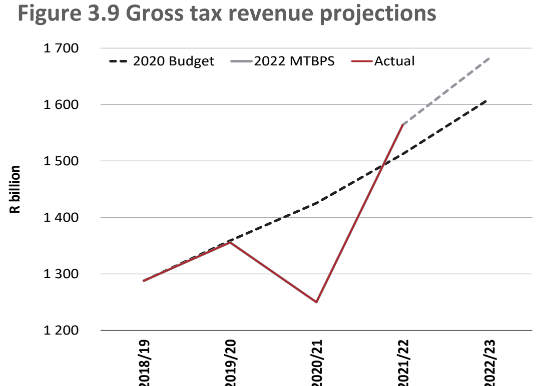


Figure 3.9 Gross tax revenue projections



Source: National Treasury and South African Revenue Service

Table 3.4 shows the key components of main budget revenue. 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 2022 Budget estimates. Details appear in Annexure C.

Table 3.4 Medium-term revenue framework

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
R billion	**Outcome**			**Revised**	**Medium-term estimates**		
Gross tax revenue	**1 355.8**	**1 249.7**	**1 563.8**	**1 681.9**	**1 788.9**	**1 907.3**	**2 036.5**
Gross tax revenue growth	5.3%	-7.8%	25.1%	7.6%	6.4%	6.6%	6.8%
Nominal GDP growth	5.3%	-1.6%	12.1%	5.8%	6.2%	6.6%	6.4%
Buoyancy	*1.00*	*4.82*	*2.07*	*1.30*	*1.03*	*1.00*	*1.06*
Non-tax revenue	27.6	26.3	40.5	52.3	38.5	40.0	42.3
Southern African Customs Union[1]	-50.3	-63.4	-46.0	-43.7	-79.7	-84.9	-78.5
National Revenue Fund receipts[2]	12.8	25.8	6.1	3.9	7.9	4.4	2.2
Main budget revenue	**1 345.9**	**1 238.4**	**1 564.3**	**1 694.5**	**1 755.5**	**1 866.8**	**2 002.5**

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

Expenditure

Main budget non-interest expenditure will increase by a net R52.4 billion in 2023/24 and R58.5 billion in 2024/25 compared with the 2022 Budget. This includes the following proposed additions over the next two years:

- R66.9 billion for health, education and provision of free basic services by local government, and a one-year extension of the *COVID-19 social relief of distress grant*.
- R8.9 billion for safety and security.
- R11.3 billion for infrastructure investment, including rehabilitating damaged municipal infrastructure and refurbishing provincial roads.

The spending increases are funded by the improved revenue estimates and an expected drawdown of the 2022 Budget unallocated reserve in 2023/24. The unallocated and contingency reserves cushion the framework from fiscal risks that may materialise over the medium term. The unallocated reserve is increased by R11.3 billion to R41.3 billion in 2024/25. The contingency reserve has also been increased by R2 billion over the next two years.

Compared with the 2022 Budget, the expenditure ceiling has increased by R51.7 billion in 2023/24 and R57.8 billion in 2024/25. Additional information, including the calculation of the expenditure ceiling, appears in tables C.2 and C.3 of Annexure C. The national and provincial government compensation ceilings increase by R43.6 billion over the 2023 MTEF period mainly to address spending and demand pressures in health, education, police and defence. In 2023/24, additional allocations amount to R11.7 billion. This amount excludes wage increases in 2023/24 as the next wage negotiation process has not begun.

Fiscal framework

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 25.5 per cent of GDP on the strength of higher revenue collections. Over the medium term, main budget revenue is estimated to average 24.9 per cent of GDP.

Table 3.5 Main budget framework

R billion/percentage of GDP	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		Outcome		Revised		Medium-term estimates	
Main budget revenue	**1 345.9**	**1 238.4**	**1 564.3**	**1 694.5**	**1 755.5**	**1 866.8**	**2 002.5**
	23.6%	*22.1%*	*24.9%*	*25.5%*	*24.9%*	*24.8%*	*25.0%*
Main budget expenditure	**1 691.0**	**1 789.0**	**1 887.5**	**2 018.2**	**2 041.6**	**2 144.5**	**2 263.2**
	29.7%	*31.9%*	*30.0%*	*30.3%*	*28.9%*	*28.5%*	*28.3%*
Non-interest expenditure	1 486.2	1 556.4	1 619.4	1 710.5	1 709.4	1 791.6	1 882.5
	26.1%	*27.8%*	*25.8%*	*25.7%*	*24.2%*	*23.8%*	*23.5%*
Debt-service costs	204.8	232.6	268.1	307.7	332.2	352.9	380.7
	3.6%	*4.1%*	*4.3%*	*4.6%*	*4.7%*	*4.7%*	*4.8%*
Main budget balance	**-345.1**	**-550.6**	**-323.1**	**-323.7**	**-286.1**	**-277.7**	**-260.7**
	-6.1%	*-9.8%*	*-5.1%*	*-4.9%*	*-4.1%*	*-3.7%*	*-3.3%*
Primary balance	**-140.3**	**-318.0**	**-55.1**	**-16.0**	**46.1**	**75.2**	**119.9**
	-2.5%	*-5.7%*	*-0.9%*	*-0.2%*	*0.7%*	*1.0%*	*1.5%*

Source: National Treasury

Main budget expenditure is estimated to reach 30.3 per cent of GDP in 2022/23, moderating to 28.3 per cent of GDP by 2025/26. This largely reflects fiscal consolidation measures implemented over the past few years, although debt-service costs will continue to rise over the MTEF period.

The main budget deficit is expected to moderate from 4.9 per cent of GDP in the current year to 3.3 per cent of GDP by 2025/26. A primary budget surplus is projected from 2023/24 and will increase over the outer two years to ensure debt stabilisation. Compared with the 2022 Budget estimates, both metrics have improved. Changes to the main budget framework since February 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 4.9 per cent of GDP in 2022/23 to 3.2 per cent of GDP in 2025/26. Public entities, social security funds and provinces are expected to have a combined cash deficit over the next two years.

The projected cash deficit for public entities in 2024/25 and 2025/26 is driven by planned spending on capital projects by SANRAL, the Passenger Rail Agency of South Africa and the water boards, as discussed in Chapter 4.

Table 3.6 Consolidated budget balance

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
R billion		**Outcome**		**Revised**		**Medium-term estimates**	
Main budget	-345.1	-550.6	-323.1	-323.7	-286.1	-277.7	-260.7
Social security funds	11.9	-45.0	-5.8	-9.8	-6.8	-7.0	17.6
Public entities	39.6	34.9	28.8	3.5	1.4	-10.6	-18.9
Provinces	6.4	3.0	4.5	7.2	2.7	3.5	3.1
RDP Fund	-0.6	-0.5	-1.0	-0.2	-0.1	-0.0	–
Consolidated budget balance	**-287.8**	**-558.2**	**-296.7**	**-323.1**	**-288.9**	**-291.9**	**-259.0**
Percentage of GDP	*-5.1%*	*-10.0%*	*-4.7%*	*-4.9%*	*-4.1%*	*-3.9%*	*-3.2%*

Source: National Treasury

Financing and debt management strategy

During 2022, the global funding environment has been characterised by elevated risk aversion and sharp increases in risk premia. Government continues to finance the borrowing requirement in a prudent and sustainable manner. A portion of the higher-than-expected revenue since the 2022 Budget will be used to reduce government's gross borrowing requirement – the sum of the budget deficit and maturing loans – and subsequently its stock of debt.

Table 3.7 National government gross borrowing requirement and financing

	2021/22	2022/23	2023/24	2024/25	2025/26
R billion	**Outcome**	**Revised**		**Medium-term estimates**	
Gross borrowing					
Main budget balance	**-323.1**	**-323.7**	**-286.1**	**-277.7**	**-260.7**
Redemptions	**-65.3**	**-87.5**	**-160.6**	**-167.0**	**-184.9**
Domestic long-term loans	-61.4	-71.7	-117.4	-130.6	-129.6
Foreign loans	-3.9	-15.8	-43.2	-36.5	-55.4
Total	**-388.4**	**-411.2**	**-446.7**	**-444.7**	**-445.7**
Financing					
Domestic short-term loans (net)	-8.0	-3.4	33.0	36.0	35.0
Domestic long-term loans	289.9	299.4	295.6	323.1	318.4
Foreign loans	31.3	73.8	33.6	34.1	77.9
Change in cash and other balances	75.1	41.4	84.5	51.6	14.4
Total	**388.4**	**411.2**	**446.7**	**444.7**	**445.7**

Source: National Treasury

Over the medium term, government will need to manage large redemptions, which are reflected in the gross borrowing requirement. This requirement has been revised down from R484.5 billion at the time of the 2022 Budget to R411.2 billion in 2022/23, and over the medium term it will average R445.7 billion. The higher figure compared to the current year is mainly due to high loan redemptions.

Long-term borrowing in the domestic bond market will decline from R330.4 billion estimated in the 2022 Budget to R299.4 billion in 2022/23, averaging R312.4 billion over the medium term.

In 2022/23, government has raised US$3 billion in the foreign capital market and an additional US$1.7 billion through concessional funding from international financial institutions to meet its foreign-currency commitments. Over the next two years, government will draw down on its foreign exchange balances and continue accessing cheaper financing from global financial institutions to meet foreign-currency commitments.

A portion of the higher revenue collections will be used to increase the closing cash balances in 2022/23. These funds will be carried over to 2023/24 to finance a portion of the gross borrowing requirement.

Table 3.8 Total national government debt

End of period	2021/22	2022/23	2023/24	2024/25	2025/26
R billion	Outcome	Revised	Medium-term estimates		
Domestic loans[1]	**3 865.4**	**4 192.8**	**4 474.7**	**4 763.0**	**5 043.1**
Short-term	448.1	444.9	477.9	513.9	548.9
Long-term	3 417.2	3 747.9	3 996.8	4 249.1	4 494.2
Fixed-rate	*2 563.8*	*2 765.4*	*3 008.0*	*3 261.4*	*3 381.8*
Inflation-linked	*853.5*	*982.5*	*988.8*	*987.7*	*1 112.3*
Foreign loans[1]	**412.1**	**559.1**	**527.4**	**533.1**	**564.8**
Gross loan debt	**4 277.5**	**4 752.0**	**5 002.2**	**5 296.1**	**5 607.8**
Less: National Revenue Fund bank balances	-266.4	-243.7	-152.7	-105.2	-94.5
Net loan debt[2]	**4 011.1**	**4 508.3**	**4 849.4**	**5 190.8**	**5 513.4**
As percentage of GDP:					
Gross loan debt	*68.0%*	*71.4%*	*70.8%*	*70.4%*	*70.0%*
Net loan debt	*63.8%*	*67.8%*	*68.7%*	*69.0%*	*68.8%*

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

Gross loan debt is expected to increase from R4.75 trillion in 2022/23 to R5.61 trillion in 2025/26. The key drivers of this increase remain the budget balance and fluctuations in the interest, inflation and exchange rates. Gross loan debt as a share of GDP is projected to stabilise at 71.4 per cent in 2022/23.

Eskom debt relief programme

To ensure Eskom's long-term financial viability, government plans to take over a portion of the utility's R400 billion debt. This will allow Eskom to implement planned capital investment and critical maintenance, and ensure that the company no longer relies on government bailouts.

Debt relief alone will not solve Eskom's problems. It is therefore part of a comprehensive approach. While the utility has made progress in unbundling, which remains critical to its long-term sustainability, several underlying challenges must be addressed.

The National Treasury is leading a process to finalise a debt relief programme designed to restore Eskom to efficiency and financial sustainability. The specifics of the programme, including the selection of the relevant debt instruments and the method of effecting the relief, are still being finalised.

The programme will include strict conditions required of Eskom and other stakeholders before and during the debt transfer. These conditions will address Eskom's structural challenges by managing its costs, addressing arrears due to the utility, and providing greater clarity and transparency in tariff pricing. In addition, the conditions will be informed by an independent review of Eskom's operations. Further details of the programme, which will be finalised following consultations with all relevant stakeholders, will be announced in the 2023 Budget.

Compared with the 2022 Budget estimate, debt-service costs will increase by R5.9 billion to R307.7 billion in 2022/23. These costs will reach R380.7 billion, or 4.8 per cent of GDP, by 2025/26. As a share of main budget expenditure, debt-service costs will increase from 15.2 per cent in 2022/23 to 16.8 per cent in 2025/26.

Risks to the fiscal outlook

The materialisation of various fiscal risks could negatively affect the fiscal position and government's effort to stabilise the public finances. Major short- to medium-term risks to the outlook include:

- A slowdown in global economic growth, which would negatively affect domestic growth and revenue collection, worsening the fiscal position.
- Continuous electricity supply constraints, which would decelerate economic growth.
- Higher-than-budgeted public-service wage costs would strain fiscal resources. Additional fiscal measures or reductions in headcounts would be required to contain overall compensation spending.
- The materialisation of contingent liabilities and the weak financial position of several state-owned companies that rely on government support to operate might require additional fiscal resources.
- New, unfunded spending pressures could result in a faster accumulation of debt and negatively affect the public finances. Any large permanent increases in spending must be matched by permanent increases in revenue or reductions in spending elsewhere, including suspending or closing down programmes.

Government continues to enforce minimum criteria before guaranteeing the debt of state-owned companies. Over the past year, no guarantee requests that met the criteria were received. 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 long-term risks to government's forecasts and the public finances.

Conclusion

The fiscal position has improved since the 2022 Budget as a result of better-than-expected revenue collection. Government will use this revenue to increase spending in health, education and local government free basic services, infrastructure, and security and safety. At the same time, it will narrow the budget deficit, and address fiscal and economic risks posed by Denel, SANRAL and Transnet. Government remains committed to returning the public finances to a sustainable position.