3

Fiscal policy

In brief

- The public finances remain under severe strain, but faster-than-expected revenue growth enables government to support the economy and the health sector, while narrowing the deficit more rapidly than projected in October 2020.
- Over the medium term, continued expenditure restraint is required for fiscal sustainability, defined as stabilisation of the debt-to-GDP ratio. Efforts to narrow the budget deficit and improve the composition of spending – primarily through restraining wage bill growth – remain on course.
- Tax revenue estimates have been revised up strongly in the current year, and by smaller amounts over the medium term. No additional tax revenue is raised.
- The consolidated deficit is projected to narrow from 14 per cent of GDP in the current year to 6.3 per cent in 2023/24. Gross national debt is projected to stabilise at a lower level of 88.9 per cent of GDP in 2025/26.
- Large risks remain. The global and domestic recovery remains highly uncertain, while spending pressures from state-owned companies continue to exert upward pressure on the expenditure ceiling. During 2021, a new round of public-service wage negotiations will take place.

Overview

Since the 2020 *Budget Review*, the budget deficit has doubled and the in-year revenue shortfall is estimated at R213.2 billion. These changes reflect the impact of the COVID-19 pandemic, as well as government's response, which prioritised relief for households and businesses, alongside a major effort to protect public health. The consolidated deficit in the current year – estimated at 14 per cent of GDP – is the largest on record. Gross national debt is projected to rise from 80.3 per cent of GDP in 2020/21 to 87.3 per cent of GDP by 2023/24, with debt-service costs reaching R338.6 billion in that year.

In recent months, as the economy has started to reopen, the outlook has improved somewhat. Revenue estimates are higher than projected in the 2020 *Medium Term Budget Policy Statement* (MTBPS), enabling government to provide immediate support for urgent public health and social needs, while improving the debt-to-GDP outlook. Returning the public finances to a sustainable position will require ongoing restraint in expenditure growth and implementation of structural reforms to support economic growth. In this context, the fiscal strategy aims to:

- Narrow the deficit and stabilise the debt-to-GDP ratio, primarily by controlling non-interest expenditure growth.
- Provide continued support to the economy and public health services in the short term, without adding to long-term spending pressures.
- Improve the composition of spending, by reducing growth in compensation while protecting capital investment.

Given the continuing pandemic, the fiscal framework provides short-term support to low-income households and funding for the health policy response. Changes since the 2020 MTBPS include three-month extensions of the *special COVID-19 social relief of distress grant* and the Unemployment Insurance Fund’s Temporary Employer/Employee Relief Scheme, and funding for the public employment initiative and for provincial hospitals in 2021/22. Up to R10.3 billion is provided for vaccine rollout for the current year and over the next two years. Given uncertainty around vaccination campaign costs, the contingency reserve has been increased from R5 billion to R12 billion in 2021/22. These interventions do not add to longer-term expenditure.

Efforts to reduce growth in the public-service wage bill remain on course, with the Labour Appeal Court of South Africa confirming that the National Treasury must certify the affordability and sustainability of wage agreements prior to their implementation.

The consolidated deficit is projected to narrow from 14 per cent of GDP in 2020/21 to 6.3 per cent of GDP by 2023/24. Gross debt-to-GDP is now projected to stabilise at 88.9 per cent of GDP in 2025/26.

Significant risks remain. The global outlook is highly uncertain, with the economic recovery largely dependent on responses to COVID-19. Several state-owned companies are requesting additional funding. Negotiations on a new public-service wage agreement are set to take place this year.

Table 3.1 Macroeconomic performance and projections

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Percentage change		**Actual**		**Estimate**		**Forecast**	
Real GDP growth	1.3	0.6	0.2	-8.3	5.4	1.9	1.6
Nominal GDP growth	6.3	4.8	4.6	-4.4	8.8	5.9	5.8
CPI inflation	4.7	4.6	4.2	3.0	4.2	4.2	4.4
GDP at current prices (R billion)	**4 698.7**	**4 924.0**	**5 148.9**	**4 921.0**	**5 352.2**	**5 666.3**	**5 997.2**

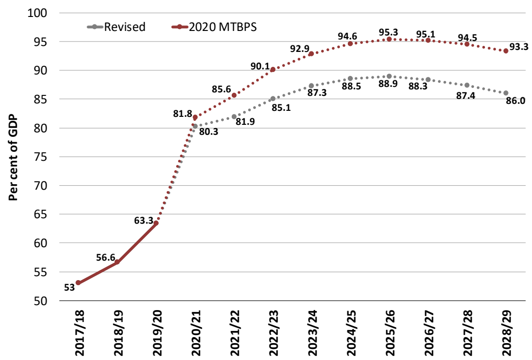
Source: National Treasury

Fiscal outlook

South Africa’s fiscal challenge is to balance the immediate need for support to the economy during the pandemic with ongoing efforts to close a large, pre-existing budget deficit. Prior to the outbreak of COVID-19, economic growth had slowed to less than 1 per cent per year and the consolidated deficit was approaching 7 per cent of GDP. Gross national debt was projected to grow continuously over the longer term, despite 2020 Budget proposals to reduce expenditure growth.

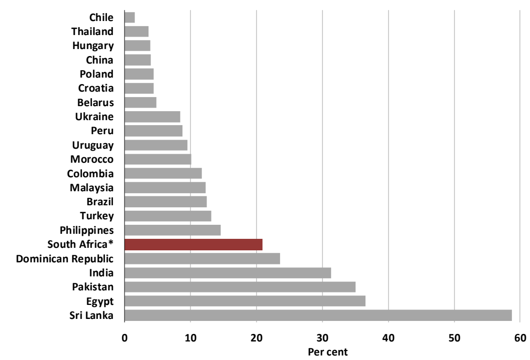
The pandemic and associated lockdowns led to a severe contraction in GDP and tax revenue. In response, the June 2020 special adjustments budget and the 2020 MTBPS proposed a combination of short-term measures to support the economy, while stabilising the debt-to-GDP ratio through reductions to expenditure. The majority of these reductions applied to compensation budgets.

Figure 3.1 Gross debt-to-GDP outlook



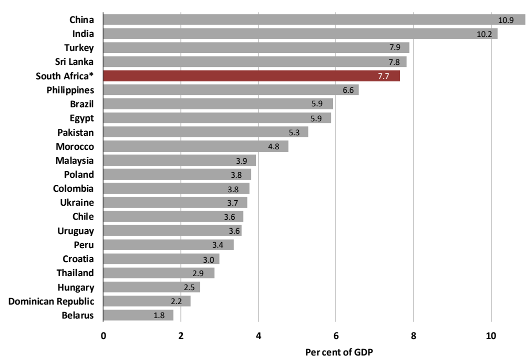
Source: National Treasury

Figure 3.2 Average debt-service costs as a share of revenue, 2021–2023



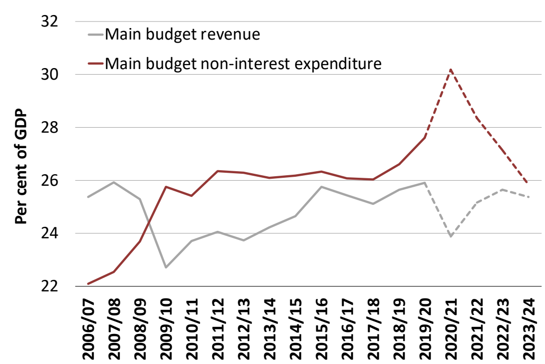
**South African data reported in fiscal years*
Source: IMF World Economic Outlook, October 2020

Figure 3.3 Average budget deficit, 2021–2023



**South African data reported in fiscal years*
Source: IMF World Economic Outlook, October 2020

Figure 3.4 Main budget revenue and expenditure*



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

Over the medium term, debt-service costs are expected to average 20.9 per cent of gross tax revenue. This is twice as large as the median for South Africa's peer group over the period. Similarly, South Africa's borrowing remains large by developing-country standards, and debt is projected to grow by 7 per cent of GDP over the next three years.

Reversing these trends will require continued restraint in expenditure growth, supported by measures to raise economic growth. In the short term, funding for the vaccine rollout will play a crucial role in controlling the pandemic, while supporting increased economic activity. The *special COVID-19 social relief of distress grant* and the Temporary Employer/Employee Relief Scheme, which were respectively initiated to provide short-term support for low-income households and unemployed workers in 2020, will be extended through the end of April 2021. At the same time, fiscal policy will remain focused on stabilising the public finances over the longer term, thereby contributing to economic stability and sustainable growth.

Government's fiscal strategy is supported by an improved growth and revenue outlook. Relative to the 2020 MTBPS projection, the deficit is expected to narrow at a slightly faster pace, while improved cash balances reduce the borrowing requirement and debt issuance over the medium term. Debt is projected to stabilise at 88.9 per cent of GDP in 2025/26.

Implications of the fiscal strategy for expenditure growth

Over the past decade, government spending excluding interest on debt has grown sharply in real terms, primarily because of increases in public-service compensation. The current fiscal measures aim to correct this imbalance by reducing growth in the compensation bill and reducing the share of spending on public-service wages over the medium term, while sustaining small real spending increases on other items. These measures will improve the composition of spending by reallocating resources towards growth-enhancing infrastructure investment.

Table 3.2 Real consolidated non-interest expenditure

Real consolidated non-interest expenditure by function	2011/12	2020/21[1]	2023/24	Change 2011/12 to 2020/21	Change 2020/21 to 2023/24	Percentage change 2020/21 to 2023/24	Average annual change 2020/21 to 2023/24
Learning and culture	310.4	389.8	366.8	79.3	-22.9	-5.9%	-2.0%
Health	176.3	227.7	216.1	51.3	-11.6	-5.1%	-1.7%
Social development	211.6	280.4	286.8	68.8	6.4	2.3%	0.8%
Community development	186.6	204.2	212.2	17.5	8.1	4.0%	1.3%
Economic development	189.8	187.7	191.5	-2.1	3.8	2.0%	0.7%
Peace and security	210.5	214.0	188.2	3.5	-25.8	-12.1%	-4.2%
General public services	67.7	62.4	61.0	-5.4	-1.4	-2.3%	-0.8%
Contingency reserve	–	–	4.4	–	4.4		
Consolidated non-interest expenditure	**1 353.1**	**1 566.1**	**1 527.1**	**213.0**	**-39.0**	**-2.5%**	**-0.8%**
Including state-owned companies and reserves	1 357.8	1 662.7	1 557.9	304.9	-104.8	-6.3%	-2.1%
Consolidated non-interest expenditure excluding compensation of employees	**814.5**	**935.5**	**945.7**	**121.0**	**10.3**	**1.1%**	**0.4%**

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

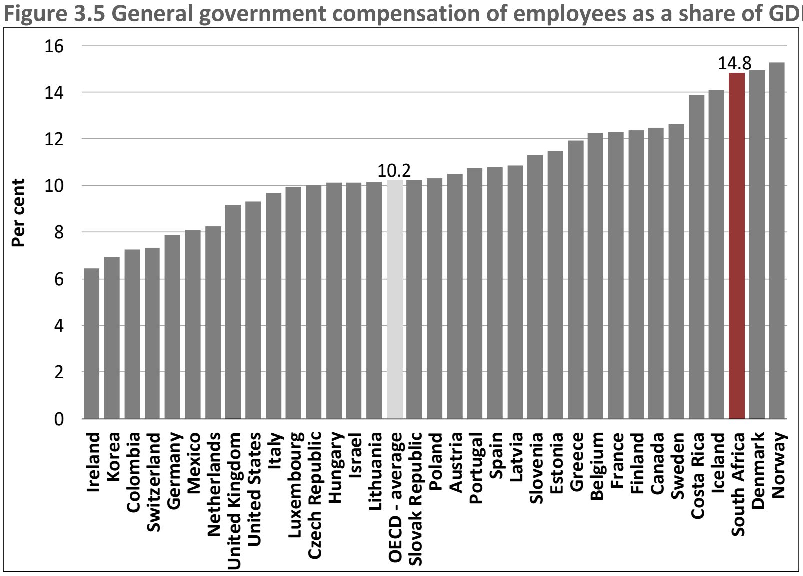
Table 3.2 shows the effect of these trends, excluding the impact of COVID-19 allocations in the current year. Between 2011/12 and 2020/21, real annual non-interest spending rose by R213 billion, and compensation accounted for almost half of this increase. Over the next three years, total consolidated non-interest expenditure is projected to decline in real terms by 0.8 per cent per year. Excluding compensation, however, real non-interest spending continues to grow by 0.4 per cent over the period. Functions where compensation accounts for very large proportions of spending – for example, teacher and other salaries make up over 70 per cent of learning and culture spending – see the largest real declines in expenditure.

Ensuring an affordable public-service wage bill

The sustainability of the public finances will depend heavily on government's ability to reduce growth in the public-service wage bill.

Compensation accounted for about 34 per cent of consolidated spending in 2019/20. Between 2006/07 and 2019/20, compensation was one of the fastest-growing spending items, increasing faster than GDP growth. As outlined in previous editions of the *Budget Review* and MTBPS, by 2019/20 rising compensation spending had become unaffordable and was the main expenditure risk to the sustainability of the public finances. At the general government level (which includes municipalities), South Africa's wage bill as a share of output is approximately 5 percentage points higher than the Organisation for Economic Co-operation and Development average – and on par with Iceland and Denmark.

Figure 3.5 General government compensation of employees as a share of GDP



Source: OECD

The 2020 Budget proposed compensation reductions totalling R160.2 billion for 2020/21 to 2022/23, relative to the pre-Budget baseline. The 2020 MTBPS proposed further downward adjustments to compensation, amounting to R143.2 billion for 2021/22 to 2023/24.

Including COVID-19 adjustments, compensation at the consolidated budget level is projected to grow by 2.1 per cent in the current year and 1.2 per cent per year over the medium term. These growth rates can be achieved through, for example, doing away with annual cost-of-living adjustment in the public service up until 2023/24, together with measures to reduce headcounts – a combination of early retirement and natural attrition, as well as freezing or abolishing of non-critical posts.

In addition, government is exploring measures such as harmonising allowances and benefits, reconsidering pay progression rules and reviewing occupation-specific dispensations. Performance bonuses are already being phased out and careful consideration is being applied to amend or abolish some allowances and benefits.

Wage negotiations will take place in the Public Service Co-ordinating Bargaining Council. Government will negotiate on the basis of fairness, equity and affordability. A pact that exceeds budgeted amounts would present a risk to the fiscal framework. For example, a three-year inflation-linked agreement would raise the total shortfall to R112.9 billion by 2023/24. And an agreement similar to the one achieved in 2018 – 1 percentage point higher than inflation – would create a compensation shortfall of R132.7 billion (or 2.2 per cent of GDP) by 2023/24.

Wage bill court case affirms the National Treasury's constitutional role in safeguarding public finances

In late 2019/20, government did not implement public-service salary increases for 2020/21 – which would have added over R37 billion to the 2020/21 wage bill – and tried to renegotiate terms. No agreement had been reached, however, when a number of unions took government to court to compel implementation of the increase.

Government argued against this application on two main grounds:

- The original agreement was unlawful, because the National Treasury had never written to confirm that funding for its implementation would be provided, as required by the relevant regulations.
- Implementing the agreement, even if valid, would require reducing funding for activities that government is constitutionally obliged to deliver.

Ultimately, the court accepted the argument that the original agreement was invalid and unlawful, and affirmed the National Treasury's constitutional role in safeguarding the public finances. While government remains committed to collective bargaining and healthy labour relations, this decision helps to maintain an appropriate balance between government's responsibilities as an employer and as a provider of basic services.

Changes in tax revenue and expenditure

Tax revenue

COVID-19 has resulted in elevated levels of uncertainty in economic and fiscal forecasting. This is reflected in large revisions to tax revenue. Relative to the 2020 Budget, gross tax revenue for 2020/21 is R213.2 billion below projections. At the time of the 2020 MTBPS, this shortfall was projected at R312.8 billion. The upward revision reflects improvements in personal and corporate income taxes, value-added tax, fuel levies and customs duties.

Table 3.3 Revised gross tax revenue projections

R million	2019/20	2020/21	2021/22	2022/23	2023/24
Revised estimate	**1 355 766**	**1 212 206**	**1 365 124**	**1 457 653**	**1 548 512**
Buoyancy	*1.16*	*2.39*	*1.44*	*1.15*	*1.07*
2020 MTBPS	**1 355 749**	**1 112 579**	**1 279 528**	**1 392 161**	**1 503 186**
Elasticity	*1.16*	*3.18*	*1.59*	*1.50*	*1.35*
2020 Budget	**1 358 935**	**1 425 418**	**1 512 194**	**1 609 657**	
Elasticity	*1.15*	*0.93*	*1.00*	*1.01*	
Projected improvement against 2020 MTBPS	17	99 627	85 597	65 492	45 326
Projected shortfall against 2020 Budget	-3 168	-213 212	-147 070	-152 004	

Source: National Treasury

The faster-than-expected recovery in the current year implies that revenue is likely to grow more slowly over the medium term. Government will not implement the additional tax revenue measures announced in the 2020 MTBPS – R5 billion for next year, R10 billion per year in the following two years and R15 billion in 2024/25. Overall, tax revenue projections are higher than the 2020 MTBPS estimates by

R85.6 billion in 2021/22, R65.5 billion in 2022/23 and R45.3 billion in 2023/24.

Main budget non-interest expenditure adjustments

Compared with the 2020 Budget, main budget non-interest expenditure increases by R34.6 billion in 2020/21, largely due to net additions made for the COVID-19 fiscal relief package, as discussed in the June 2020 special adjustments budget. New proposed allocations in the 2020 MTBPS were financed through reallocations and baseline reductions. Since the 2020 MTBPS, further projected underspending in national departments has offset spending additions mainly for rollout of COVID-19 vaccines and the extension of the *special COVID-19 social relief of distress grant*.

Table 3.4 Adjustments to main budget non-interest expenditure since 2020 Budget

R million	2021/22	2022/23	2023/24	MTEF total
2020 Budget non-interest expenditure	**1 592 186**	**1 650 080**	**1 722 433**	**4 964 699**
Less: Contingency reserve	*5 000*	*5 000*	*5 000*	*15 000*
Allocated expenditure (2020 Budget)	**1 587 186**	**1 645 080**	**1 717 433**	**4 949 699**
Skills development levy adjustments	-2 772	-2 740	-936	-6 448
Baseline reductions	**-65 349**	**-90 122**	**-152 326**	**-307 797**
Programme baseline reductions and use of reserves	-39 043	-43 983	-80 311	-163 337
Wage bill reductions	-26 306	-46 139	-72 015	-144 460
Baseline allocations	**22 446**	**4 602**	**2 283**	**29 332**
COVID-19 response	15 345	3 000	–	18 345
Other allocations[1]	7 101	1 602	2 283	10 987
Provisional allocations	**11 000**	**1 000**	**1 000**	**13 000**
Allocated in 2021 Budget	**1 552 511**	**1 557 821**	**1 567 455**	**4 677 786**
Plus: Contingency reserve	*12 000*	*5 000*	*5 000*	*22 000*
2021 Budget non-interest expenditure	**1 564 511**	**1 562 821**	**1 572 455**	**4 699 786**
Change in non-interest expenditure since 2020 Budget	*-27 675*	*-87 259*	*-149 978*	*-264 913*

1. Includes the New Development Bank, financial support to state-owned companies and public entities and the rescheduling of some infrastructure reductions introduced in the 2020 MTBPS
Source: National Treasury

Over the medium term, main budget non-interest spending is significantly lower than the 2020 Budget estimates, reflecting large reductions – mainly in compensation – to stabilise the debt-to-GDP ratio. Relative to the 2020 MTBPS, however, spending has been revised up over the next two years, mainly for additional COVID-19-related spending such as vaccine rollout, as well as job creation initiatives.

Net reductions to main budget non-interest spending from the 2020 Budget to the 2021 Budget amount to R264.9 billion over the medium-term expenditure framework (MTEF) period. In aggregate, these measures are expected to narrow the consolidated budget deficit from 14 per cent of GDP in 2020/21 to 6.3 per cent of GDP in 2023/24. Gross national debt is estimated to increase from 80.3 per cent of GDP in 2020/21 to 87.3 per cent of GDP in 2023/24, and to stabilise at 88.9 per cent of GDP in 2025/26.

Table 3.5 Consolidated fiscal framework

R billion/percentage of GDP	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
		Outcome		Revised estimate		Medium-term estimates	
Revenue	**1 350.3**	**1 447.8**	**1 530.5**	**1 362.7**	**1 520.4**	**1 635.4**	**1 717.2**
	28.7%	*29.4%*	*29.7%*	*27.7%*	*28.4%*	*28.9%*	*28.6%*
Expenditure	**1 540.9**	**1 643.6**	**1 822.3**	**2 052.5**	**2 020.4**	**2 049.5**	**2 095.1**
	32.8%	*33.4%*	*35.4%*	*41.7%*	*37.7%*	*36.2%*	*34.9%*
Non-interest expenditure	*1 368.0*	*1 451.5*	*1 608.5*	*1 810.8*	*1 742.0*	*1 733.1*	*1 747.8*
	29.1%	*29.5%*	*31.2%*	*36.8%*	*32.5%*	*30.6%*	*29.1%*
Budget balance	**-190.6**	**-195.7**	**-291.8**	**-689.8**	**-500.0**	**-414.1**	**-377.9**
	-4.1%	*-4.0%*	*-5.7%*	*-14.0%*	*-9.3%*	*-7.3%*	*-6.3%*

Source: National Treasury

Fiscal framework

Between the 2020 Budget and the 2021 Budget, the consolidated budget deficit for 2020/21 doubled. It is now estimated at 14 per cent of GDP, up from 6.8 per cent a year ago – and wider by an average of 2.4 percentage points over the next two years compared with the 2020 estimate. The main drivers of the widening deficits are lower tax revenue and higher estimated deficits for social security funds, partially offset by higher projected surpluses of public entities. The consolidated deficit is projected to narrow from 9.3 per cent of GDP in 2021/22 to 6.3 per cent of GDP in 2023/24.

Table 3.6 Consolidated operating and capital accounts

R billion/percentage of GDP	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
		Outcome		Revised estimate		Medium-term estimates	
OPERATING ACCOUNT							
Current revenue	**1 330.6**	**1 432.0**	**1 511.1**	**1 332.8**	**1 511.0**	**1 629.6**	**1 711.5**
Current payments	**1 370.8**	**1 485.1**	**1 618.9**	**1 825.2**	**1 798.2**	**1 838.3**	**1 877.1**
Compensation of employees	547.9	584.4	623.8	637.0	650.4	656.0	659.3
Goods and services	220.6	233.8	253.2	269.9	279.5	273.4	275.0
Interest payments	172.9	192.0	213.7	241.6	278.3	316.4	347.3
Current transfers and subsidies	429.4	474.8	528.1	676.7	590.0	592.5	595.5
Current balance	**-40.2**	**-53.1**	**-107.7**	**-492.5**	**-287.2**	**-208.8**	**-165.6**
	-0.9%	-1.1%	-2.1%	-10.0%	-5.4%	-3.7%	-2.8%
CAPITAL ACCOUNT							
Capital receipts	0.5	0.6	0.4	0.2	0.3	0.2	0.2
Capital payments	77.5	70.1	62.3	74.8	83.0	92.7	97.4
Capital transfers	72.3	72.6	75.0	64.8	78.9	86.3	90.7
Capital financing requirement	**-149.3**	**-142.1**	**-136.9**	**-139.4**	**-161.7**	**-178.7**	**-187.9**
	-3.2%	-2.9%	-2.7%	-2.8%	-3.0%	-3.2%	-3.1%
Financial transactions[1]	-1.1	-0.5	-47.1	-57.9	-39.1	-21.6	-19.4
Contingency reserve	–	–	–	–	12.0	5.0	5.0
Budget balance	**-190.6**	**-195.7**	**-291.8**	**-689.8**	**-500.0**	**-414.1**	**-377.9**
	-4.1%	-4.0%	-5.7%	-14.0%	-9.3%	-7.3%	-6.3%

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

Over the MTEF period, consolidated non-interest spending will contract at an annual real average rate of 5.2 per cent. Spending on current transfers and subsidies as a share of total current spending increases significantly in 2020/21 in line with government efforts to support vulnerable households.

The composition of spending improves over the three-year period. The current deficit – the gap between revenue and current spending – is projected to narrow from 10 per cent of GDP in 2020/21 to 2.8 per cent of GDP in 2023/24. Over the same time period, capital payments and transfers grow by a nominal annual average of 10.5 per cent, with the capital financing requirement stable at about 3 per cent of GDP.

Elements of the consolidated budget

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

Main budget framework

Spending financed from the National Revenue Fund is summarised in Table 3.7. The 2019/20 main budget deficit reached 6.7 per cent of GDP, compared with the 6.5 per cent projected in the 2020 Budget. In 2020/21, the deficit is expected to deteriorate to 12.3 per cent of GDP before narrowing to 6.5 per cent by 2023/24. Since the 2020 MTBPS, in addition to tax revenue adjustments noted earlier, non-tax revenue estimates have also been revised upwards by R16 billion over the MTEF period, driven by higher mineral and petroleum royalties and interest on investments. The R3.5 billion projected revenue from the sale of non-core assets in 2020/21 has been reversed.

Projections of National Revenue Fund receipts have been lowered over the medium term compared with 2020 MTBPS estimates due to lower expected revaluation profits on foreign-currency transactions. Payments to the Southern African Customs Union (SACU) have been revised upwards by R1.9 billion in 2022/23 and R15.5 billion in 2023/24 mainly due to an improved GDP growth outlook and better performances in customs, specific excise duties and ad-valorem excise duties.

Table 3.7 Main budget framework

R billion/percentage of GDP	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
		Outcome		Revised estimate	Medium-term estimates		
Revenue							
Gross tax revenue after proposals	1 216.5	1 287.7	1 355.8	1 212.2	1 365.1	1 457.7	1 548.5
Non-tax revenue	19.2	23.9	27.6	26.4	27.7	28.6	30.4
SACU[1]	-56.0	-48.3	-50.3	-63.4	-46.0	-33.4	-58.0
National Revenue Fund receipts	16.6	12.0	12.8	25.6	4.9	0.8	1.1
Main budget revenue	**1 196.4**	**1 275.3**	**1 345.9**	**1 200.8**	**1 351.7**	**1 453.7**	**1 522.0**
	25.5%	*25.9%*	*26.1%*	*24.4%*	*25.3%*	*25.7%*	*25.4%*
Expenditure							
National departments	592.6	634.3	749.7	804.5	763.3	736.3	739.0
Provinces	538.6	572.0	613.4	628.3	639.5	643.3	646.8
Local government	111.1	118.5	123.0	138.5	138.1	146.1	148.4
Contingency reserve	–	–	–	–	12.0	5.0	5.0
Provisional allocation not assigned to votes	–	–	–	–	11.6	32.1	33.2
Non-interest expenditure	**1 242.3**	**1 324.8**	**1 486.2**	**1 571.3**	**1 564.5**	**1 562.8**	**1 572.5**
Debt-service costs	162.6	181.8	204.8	232.9	269.7	308.0	338.6
Main budget expenditure	**1 404.9**	**1 506.6**	**1 690.9**	**1 804.2**	**1 834.3**	**1 870.8**	**1 911.0**
	29.9%	*30.6%*	*32.8%*	*36.7%*	*34.3%*	*33.0%*	*31.9%*
Main budget balance	**-208.6**	**-231.3**	**-345.1**	**-603.4**	**-482.6**	**-417.2**	**-389.0**
	-4.4%	*-4.7%*	*-6.7%*	*-12.3%*	*-9.0%*	*-7.4%*	*-6.5%*
Primary balance	**-45.9**	**-49.5**	**-140.3**	**-370.5**	**-212.8**	**-109.2**	**-50.4**
	-1.0%	*-1.0%*	*-2.7%*	*-7.5%*	*-4.0%*	*-1.9%*	*-0.8%*

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

Main budget non-interest expenditure is projected to peak at 31.9 per cent of GDP in 2020/21 due to significantly lower nominal GDP and higher spending for COVID-19 fiscal relief. Real main budget non-interest expenditure is projected to contract in each year of the next three years. As a share of GDP, non-interest expenditure will moderate from 29.2 per cent in 2021/22 to 26.2 per cent by 2023/24.

Table 3.8 shows revisions to the main budget revenue and expenditure estimates since the 2020 Budget. Debt-service costs are higher than the 2020 Budget estimates by R3.6 billion in 2020/21, R11.3 billion in 2021/22 and R17.9 billion in 2022/23. Due to the higher budget deficit, coupled with fluctuations in interest, inflation and exchange rates, debt-service costs will continue to rise over the medium term.

Table 3.8 Revisions to main budget revenue and expenditure estimates

	2020/21		2021/22		2022/23	
R billion/percentage of GDP	**2020 Budget**	**2021 Budget**	**2020 Budget**	**2021 Budget**	**2020 Budget**	**2021 Budget**
Revenue						
Gross tax revenue	1 425.4	1 212.2	1 512.2	1 365.1	1 609.7	1 457.7
Non-tax revenue	30.0	26.4	27.9	27.7	29.3	28.6
SACU[1]	-63.4	-63.4	-60.6	-46.0	-63.4	-33.4
National Revenue Fund receipts	6.0	25.6	4.8	4.9	5.3	0.8
Main budget revenue	**1 398.0**	**1 200.8**	**1 484.3**	**1 351.7**	**1 580.9**	**1 453.7**
	25.8%	*24.4%*	*25.8%*	*25.3%*	*25.8%*	*25.7%*
Expenditure						
Current payments	495.0	490.0	542.4	529.5	583.7	565.6
of which:						
Compensation of employees	*187.7*	*176.7*	*200.1*	*175.0*	*208.7*	*175.4*
Goods and services	*77.9*	*80.2*	*83.6*	*84.6*	*84.6*	*81.9*
Debt-service costs	*229.3*	*232.9*	*258.5*	*269.7*	*290.1*	*308.0*
Transfers and subsidies	1 215.9	1 214.2	1 294.0	1 219.3	1 367.5	1 249.0
Payments for capital assets	15.3	13.4	15.8	15.0	16.5	15.7
Payments for financial assets	42.6	86.5	9.5	46.8	2.4	3.4
Provisional allocation not assigned to votes	-7.8	–	-16.1	11.6	-34.9	32.1
Contingency reserve	5.0	–	5.0	12.0	5.0	5.0
Total expenditure	**1 766.0**	**1 804.2**	**1 850.7**	**1 834.3**	**1 940.2**	**1 870.8**
	32.5%	*36.7%*	*32.1%*	*34.3%*	*31.7%*	*33.0%*

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

Social security funds, public entities and provincial balances

Social security funds are projected to run a large cash deficit in the current year as a result of higher spending by the Unemployment Insurance Fund in response to COVID-19.

Table 3.9 Consolidated budget balances

R billion	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Main budget	-208.6	-231.3	-345.1	-603.4	-482.6	-417.2	-389.0
Social security funds	9.3	8.8	5.3	-89.6	-36.0	-11.9	-4.5
Provinces	0.8	1.0	5.1	-6.8	-0.6	-1.1	-2.6
Public entities	8.1	26.0	43.5	9.9	19.3	16.2	18.2
RDP Fund[1]	-0.3	-0.2	-0.6	0.0	-0.1	-0.1	-0.0
Consolidated budget balance	**-190.6**	**-195.7**	**-291.8**	**-689.8**	**-500.0**	**-414.1**	**-377.9**

1. Reconstruction and Development Programme Fund
Source: National Treasury

Over the medium term, social security funds and provinces are expected to have combined cash deficits, partially offset by public entities. Public entities recorded a cash surplus of R43.5 billion in 2019/20, mainly as a result of higher revenue received by the South African National Roads Agency Limited (SANRAL), the Water Services Trading Entity and the Trans-Caledon Tunnel Authority, as well as lower capital spending by the Passenger Rail Agency of South Africa. SANRAL also spent less than projected on repairs and maintenance on the national road network.

Public-sector borrowing requirement

The public-sector borrowing requirement increased sharply during 2020/21 as a result of the pandemic. In-year borrowing requirements are now projected at R748.9 billion, or 15.2 per cent of GDP. The higher borrowing requirement is mainly the result of the larger main budget deficit. State-owned companies, including Eskom and Transnet, reduced their borrowing plans, as discussed in Chapter 8.

Table 3.10 Public-sector borrowing requirement[1]

	2017/18	2018/19	2019/20	2020/21		2021/22	2022/23	2023/24
		Outcome		Budget	Budget	Medium-term estimates		
R billion/percentage of GDP				2020	2021			
Main budget	208.6	231.3	345.1	368.0	603.4	482.6	417.2	389.0
Social security funds	-9.3	-8.8	-5.3	9.1	89.6	36.0	11.9	4.5
Provinces	-0.8	-1.0	-5.1	0.4	6.8	0.6	1.1	2.6
Public entities	-8.1	-26.0	-43.5	-7.1	-9.9	-19.3	-16.2	-18.2
RDP Fund	0.3	0.2	0.6	0.1	-0.0	0.1	0.1	0.0
Consolidated government	**190.6**	**195.7**	**291.8**	**370.5**	**689.8**	**500.0**	**414.1**	**377.9**
	4.1%	*4.0%*	*5.7%*	*6.8%*	*14.0%*	*9.3%*	*7.3%*	*6.3%*
Local authorities[2]	**6.3**	**5.8**	**7.0**	**10.4**	**11.4**	**13.4**	**13.1**	**13.2**
	0.1%	*0.1%*	*0.1%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*
State-owned companies[3]	**99.4**	**77.1**	**54.1**	**73.2**	**47.7**	**51.2**	**52.5**	**37.0**
	2.1%	*1.6%*	*1.1%*	*1.3%*	*1.0%*	*1.0%*	*0.9%*	*0.6%*
Borrowing requirement	**296.3**	**278.7**	**352.8**	**454.1**	**748.9**	**564.6**	**479.7**	**428.1**
	6.3%	*5.7%*	*6.9%*	*8.4%*	*15.2%*	*10.5%*	*8.5%*	*7.1%*

1. A negative number reflects a surplus and a positive number a deficit
2. 2018/19 is a pre-audit outcome as at 30 June 2019. 2019/20-2021/22 figures are budgeted estimates adjusted in line with historical borrowing outcomes
3. Includes Eskom, South African Airways, Transnet, Airports Company South Africa and Denel
Source: National Treasury

Risks to the fiscal framework

There continue to be significant risks to the fiscal outlook.

- The fiscal framework assumes compensation budgets ceilings are maintained. A departure from this assumption in the forthcoming wage agreement will be unaffordable and compromise debt stabilisation.
- The financial position of public entities and local government remains weak as a consequence of poor financial management.
- The medium-term debt redemptions of state-owned companies total R182.8 billion. Without rapid improvements in financial management and the resolution of longstanding policy disputes – including the user-pay principle – they will continue to put pressure on the public finances.

More detail is provided on the financial position of state-owned companies and other major public entities in Chapter 8.

Conclusion

Government's pro-growth fiscal consolidation aims to narrow the deficit and stabilise debt. These policy objectives are on course, but will require ongoing restraint in spending growth and the implementation of economic reforms.