2022
MTBPS

# MEDIUM TERM BUDGET POLICY STATEMENT

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

# Medium Term

# Budget Policy Statement

# 2022

**National Treasury**

**Republic of South Africa**

26 October 2022

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The *Medium Term Budget Policy Statement* is compiled using the latest available information from departmental and other sources. Some of this information is unaudited or subject to revision.

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# Foreword

South Africa is restoring the health of its public finances just as the world economy is taking a dangerous turn for the worse. As a result of the COVID-19 pandemic and the continuing war in Ukraine, many developing countries face the prospect of sovereign debt crises, currency devaluation and soaring inflation without the benefit of fiscal buffers. South Africa's challenges are significant, but its stable macroeconomic policies and efforts to return the public finances to a sustainable position mean that the country is in a better position to weather the storms that lie ahead.

As a result of determined and disciplined budgeting, supported by high commodity prices, the budget deficit is narrowing. Fiscal consolidation will soon come to a close. The country's debt burden remains substantial, having increased sevenfold from R577 billion in 2007/08 to over R4 trillion in 2021/22. Yet by the end of 2023/24, revenue will exceed non-interest spending for the first time in 15 years. Net government debt will stabilise at 69 per cent of GDP in 2024/25.

These achievements will enable government to begin rebuilding fiscal space and renew real spending growth in key policy areas that support the economy. Medium-term spending increases are targeted to increase the number of teachers and police, retain health workers, and improve critical water, roads and rail infrastructure. These actions will help unblock some of the bottlenecks restricting economic activity, complemented by stable public finances that promote higher investment.

South Africa's economic growth rate is far too low to address its poverty and unemployment challenges. Rapid and decisive action is needed on reforms to lift the economic growth rate. Government's structural reforms are centred on increasing electricity production and removing associated regulatory constraints, building confidence to support increased private investment in infrastructure, and creating the conditions in which small and large businesses can flourish and create many more jobs. Over the medium term, government will also strengthen the capacity of the state, including funding investigative and prosecutorial agencies to root out corruption and bolstering financial management in municipalities.

In a volatile global environment, the medium-term fiscal strategy reduces risks to the economy and the public finances. The contingency reserve will be increased to improve responsiveness to emergencies such as natural disasters. Funds from higher-than-expected revenues will be set aside to reduce the gross borrowing requirement. And in the current year, a portion of higher revenue is used to reduce fiscal and economic risks presented by Denel, the South African National Roads Agency Limited and Transnet.

In addition, government plans to take over a portion of Eskom's R400 billion debt to enable the utility to restructure, applying strict conditions to safeguard public money. Eskom is the biggest known risk to the economy and the public finances. A lower debt burden will enable Eskom to implement a viable unbundling process and make resources available for investment in critical electricity supply and transmission infrastructure.

I would like to thank the President, my colleagues in Cabinet and the Ministers' Committee on the Budget, and the Deputy Minister for their support during this process. My thanks also go to the Acting Director-General and the staff of the National Treasury for their dedicated service and continued commitment to their constitutional duties.

**Enoch Godongwana**
**Minister of Finance**

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# Stabilising the public finances to weather the global storm

**In brief**

- South Africa is restoring the health of its public finances during a global slowdown marked by high levels of economic risk and fiscal distress, particularly for developing countries.
- In 2023/24, a primary budget surplus – revenue exceeding non-interest spending – of 0.7 per cent of GDP is expected. Gross debt is now projected to stabilise at 71.4 per cent of GDP in 2022/23 – more quickly than previously expected.
- Urgent action is required to accelerate growth-enhancing reforms, especially to boost electricity supply. Real GDP growth is forecast to average a moderate 1.6 per cent over the next three years.
- Government will focus on ensuring clear and stable macroeconomic policies, implementing economic reforms and addressing key enablers to growth and state capability.
- Higher-than-anticipated revenues will be used to reduce the gross borrowing requirement, support spending priorities and reduce risks to the fiscal outlook.

## Introduction

The strategy outlined in the 2022 *Medium Term Budget Policy Statement* (MTBPS) reduces fiscal risks in the short term, narrows the budget deficit and stabilises debt, while proposing measures to enhance economic growth and restore funding for infrastructure and service delivery programmes.

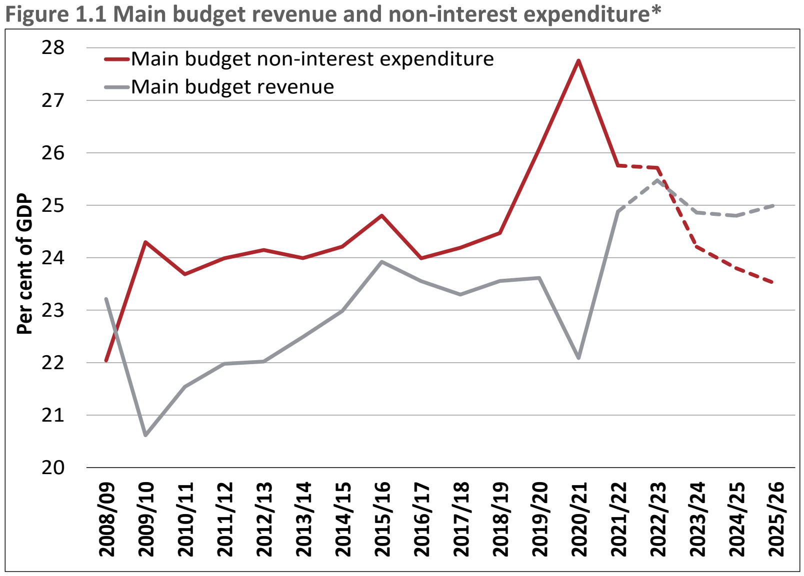
The global economic environment is deteriorating and the risks of distress among developing countries are becoming more acute. In this context, South Africa's fiscal policy is achieving its objective of closing the gap between revenue and non-interest spending. In 2023/24, a primary budget surplus of 0.7 per cent of GDP is projected. Gross loan debt stabilises at 71.4 per cent of GDP in 2022/23 – two years earlier and at a lower level than projected in the 2022 *Budget Review*. Net public debt will stabilise as a percentage of GDP in 2024/25. The improvement in the pace of debt stabilisation is largely a result of higher-than-anticipated inflation and revenue. It will be partly offset by the materialisation of fiscal risks, including a planned takeover of Eskom debt.

Government remains focused on medium- to longer-term economic growth and rebuilding fiscal buffers, which implies prudent restraint in response to short-term spending pressures. A portion of higher-than-anticipated revenue collection will be used to continue reducing the budget deficit.

Stable public finances will underpin economic growth, maintain government's commitment to support vulnerable households and help reduce overall risks to the fiscal outlook. This approach avoids the pitfalls of risky fiscal action that has led to currency depreciation and economic instability in a number of countries.

South Africa's economy is highly dependent on international capital flows and the rand is sensitive to changes in market conditions. High and persistent government debt and deficits can raise lending rates across the economy, make it difficult to attract investors, and raise the cost of machinery and fuel imports. Government's commitment to fiscal stability is reflected in recent credit ratings outlooks that affirmed a stable outlook for South Africa. The fiscal strategy also supports sustainable provision of essential services to low-income households. As the primary balance improves, the real baselines of critical public services can be strengthened.

**Figure 1.1 Main budget revenue and non-interest expenditure***




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

Over the last several years, the public finances responded to a number of anticipated risks – such as the near-collapse of Eskom – and unanticipated shocks such as the COVID-19 pandemic. These events required urgent reallocations of fiscal resources. The medium-term fiscal strategy will proactively manage critical fiscal and economic risks. Government will increase the size of the contingency reserve and set aside funds from higher-than-expected revenues over the medium term. This year, government is allocating funds to key public entities to address fiscal and economic risks.

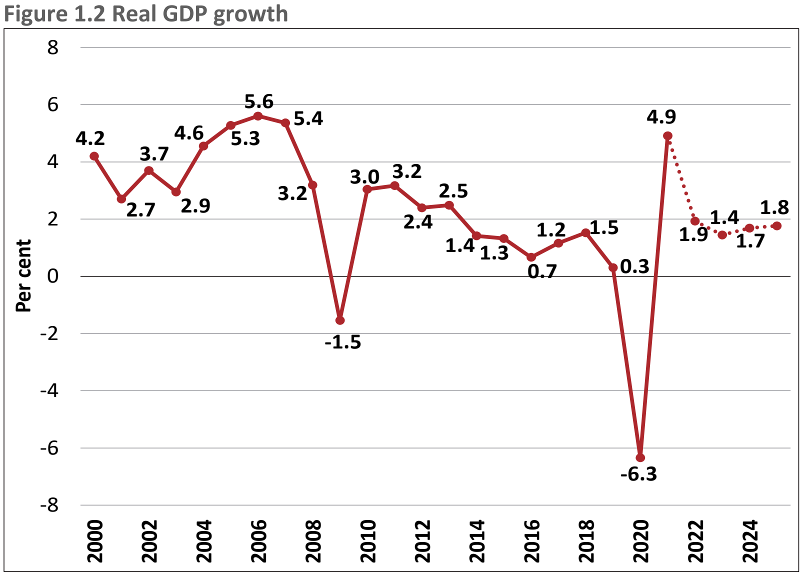
## Addressing South Africa's poor economic performance

Over the past two years, South Africa's broad recovery from the COVID-19-induced crisis of 2020 was supported by higher global commodity prices, which improved export and fiscal revenues. Real GDP growth recovered to 4.9 per cent in 2021 from a low base following a contraction of 6.3 per cent in 2020. Yet recovery has been hampered by slow implementation of economic reforms and a series of shocks, including the domestic riots and looting in July 2021, historic flooding in April 2022 and escalating power cuts. The 2022 Budget projected economic growth of 2.1 per cent this year. This has been revised down to 1.9 per cent. GDP growth is expected to average 1.6 per cent over the medium term.

The global outlook is also becoming less favourable, with a broad slowdown marked by higher levels of volatility. Global inflation has risen sharply as a result of supply chain shortages exacerbated by the Russia-Ukraine war. As central banks take necessary action to combat inflation by raising interest rates, developing countries are experiencing tightening financial conditions, constraining investment and household demand. Slower growth in China is having significant consequences for commodity-exporting economies.

South Africa's economic growth levels remain low and insufficient to tackle high poverty and unemployment.

**Figure 1.2 Real GDP growth**




*Source: National Treasury*

To sustain the gains from prudent fiscal policies and improve resilience to shocks, the economy needs rapid, job-creating growth. Government's growth strategy focuses on:

- Ensuring clear and stable macroeconomic policies that emphasise price stability and sustainable public finances.

- Implementing growth-enhancing reforms, including by addressing the shortage of electricity and dealing with long-running structural constraints in the economy.
- Enhancing key enablers for growth and state capability, such as fighting crime and corruption and improving municipal services. The fiscal framework prioritises additional funding for safety and security, and infrastructure.

As outlined in Chapter 2, the most urgent problem facing the economy is inadequate electricity supply. Load-shedding has been a feature of South African life since 2007. A decade and a half of this binding energy constraint has discouraged investment and weighed on economic growth and job creation. Increasing the supply and reliability of energy is a key part of economic growth reforms, and new measures to achieve this include greater scope for private-sector generation of electricity.

At the same time, government needs to address infrastructure backlogs, accelerate the reconstruction of damaged structures and installations, fight crime and corruption, and improve the education and health systems.

**Disaster relief in response to the April 2022 floods**

Due to a substantial La Niña effect, South Africa experienced above-average rainfalls in late 2021 and in 2022. Heavy rainfall in and around eThekwini metro in early April 2022 caused widespread flooding, sinkholes, mudslides and other destruction. More than 400 people died and thousands were left homeless. Electricity and water supplies were disrupted, and billions of rand in infrastructure damage was caused to ports, rail and roads in KwaZulu-Natal and the Eastern Cape. Government declared a state of disaster on 13 April 2022, providing R1 billion through two disaster relief grants for the affected provinces and municipalities. The 2022/23 Adjustments Budget provides additional funding of R6.1 billion to further support rebuilding and humanitarian efforts. Further resources will be considered over the medium-term expenditure framework (MTEF) period.

**Allocations for disaster relief, 2022/23**

| R thousand | 2022/23 |
|---|---|
| Eastern Cape | 375 509 |
| KwaZulu-Natal | 4 508 918 |
| North West | 111 100 |
| Western Cape | 289 964 |
| SANRAL | 454 000 |
| Provincial disaster response grant | 96 886 |
| Municipal disaster response grant | 247 614 |
| **Total** | **6 083 991** |

*Source: National Treasury*

While it is difficult to ascribe a particular event to climate change, it is clear that South Africa needs to improve its resilience to extreme weather. Poor infrastructure, urban sprawl and lack of proper planning were major contributors to the devastation in KwaZulu-Natal. Many private dwellings are built with poor materials, and drainage systems in both rural and urban areas need urgent attention to ensure that they can cope with extreme weather patterns.

### Climate change

In line with South Africa's global commitments, fiscal policy will continue playing its part to shift economic incentives towards cleaner forms of energy. As announced in the 2022 Budget, the carbon tax rates will be increased significantly from 2023 onwards. A paper on the design options for tax-free allowances under the carbon tax will be published in 2023 for public comment and consultation. Support for climate change mitigation and adaptation measures will increasingly feature in budget policy in the period ahead.

## Consolidating the public finances and reducing risk

The medium-term fiscal strategy has three objectives:

- Reduce the budget deficit and stabilise debt as a percentage of GDP.
- Support economic growth by maintaining a prudent fiscal stance and directing resources towards infrastructure and the fight against crime and corruption.
- Reduce fiscal and economic risks, including by using higher-than-anticipated revenues to address contingent liabilities and develop buffers to deal with disaster risks.

Global events since February have had a profound inflationary impact. Gross loan debt is now expected to stabilise at 71.4 per cent of GDP in 2022/23. This is mainly driven by higher nominal GDP projections, resulting from higher inflation, and an improved primary balance given better-than-expected revenue estimates. These factors outweigh the adverse impact of higher interest rates and a weaker exchange rate. Net loan debt – which is gross loan debt less cash balances – will stabilise at 69 per cent of GDP in 2024/25.

The consolidated budget deficit will narrow from 4.9 per cent of GDP in 2022/23 to 3.2 per cent of GDP in 2025/26. This will reduce the need to issue new debt and allow government to better manage the spike in debt redemptions, rein in debt-service costs and gradually restore growth in the baselines of key service delivery and infrastructure programmes. Moreover, slower growth in debt and interest payments will encourage private investment, because high debt and interest payments raise borrowing costs, making it difficult for businesses and households to access finance.

**Figure 1.3 Main budget primary balance**

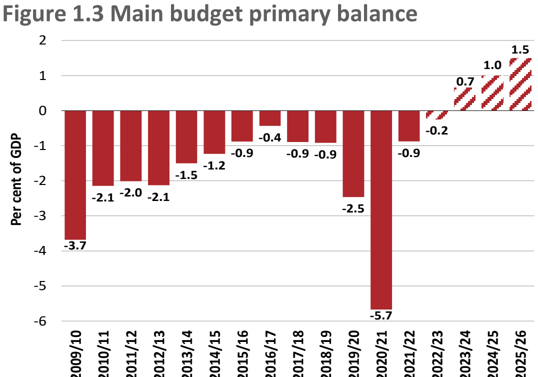
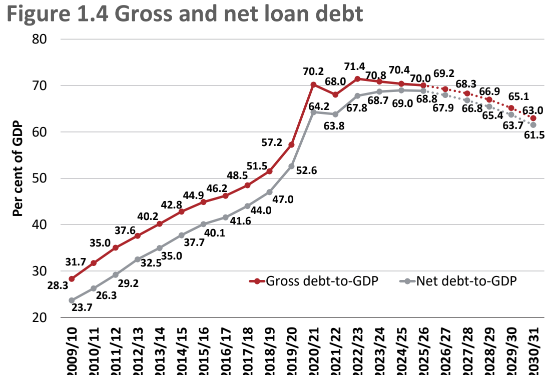



**Figure 1.4 Gross and net loan debt**




*Source: National Treasury*

Fiscal policy also supports economic growth through investment in public infrastructure. Over the medium term, government consolidated spending on buildings and fixed structures will increase from R66.7 billion in 2022/23 to R112.5 billion in 2025/26. At the same time, government recognises that the infrastructure challenge is not only a matter of money, but of efficiency and capacity. The 2023 Budget will propose funding to support project preparation.

High levels of crime and corruption undermine public safety, social cohesion, infrastructure investment and economic growth. The 2022 Budget provided additional funding of R8.7 billion for the Department of Police. The 2023 Budget will provide further allocations to support safety and security. To improve the fight against corruption and advance the recommendations of the State Capture Commission, the 2023 Budget will also add to the budgets of the National Prosecuting Authority, the Special Investigating Unit, the Financial Intelligence Centre and the South African Revenue Service. These resources will help the institutions to identify sophisticated financial crimes, prosecute offenders, and recover money and assets that are the proceeds of fraud and corruption.

Maintaining the integrity of South Africa's financial system is critical to long-term growth. Government is addressing deficiencies in the anti-money laundering framework identified by the Financial Action Task Force. These changes are intended to reduce the risk and incidence of financial crime and corruption, and to avoid greylisting. Over the 2023 MTEF period, functions critical to the anti-money laundering regime, particularly in the law enforcement agencies and the Financial Intelligence Centre, will receive additional resources to carry out this work.

**Cash position and risk reduction**

Higher-than-anticipated revenues have improved government’s short-term cash position, but most of the windfall tax receipts from higher commodity prices are expected to fall away over the next two years. Government will not rely on transitory revenue gains to fund permanent spending increases, but will instead use these funds to reduce some of the risks and contingent liabilities outlined in Annexure A. Two sets of risks have been identified for action in the near to medium term:

- Government will use a portion of the revenue improvement to reduce the annual budget deficit and risks relating to the debt burden.
- As the gross debt burden declines, government will repair the broader public-sector balance sheet by reducing risks posed by public entities.

Government is allocating R30 billion to Denel, the South African National Roads Agency Limited (SANRAL) and Transnet in the current year. All three companies are important enablers of economic growth but face near-term challenges that require immediate injections of funds. Denel is allocated funding to pay off government-guaranteed debt and complete its turnaround plan, making it a viable entity. SANRAL receives funds to pay off government-guaranteed debt, conditional on a solution to phase 1 of the Gauteng Freeway Improvement Project. And Transnet receives funds to repair infrastructure severely damaged by the April 2022 floods and increase locomotive capacity, both of which will support economic growth.

Additional calls for government guarantees or funds will continue to be evaluated against the minimum criteria for consideration of requests outlined in the 2021 Budget.

Government also plans to provide debt relief to Eskom as part of a comprehensive approach to address the utility’s challenges. Eskom does not generate sufficient revenues or control its costs. Nevertheless, a new

Eskom board has been appointed to improve leadership and expertise, and its unbundling into three separate companies is under way. Reducing its debt will ease financial pressure on the utility, enabling it to implement a viable unbundling process and freeing resources for investment in critical electricity supply. Government will apply strict conditions to this debt relief, including the timeous execution of measures to address the sustainability of newly unbundled businesses. Further details will be provided in the 2023 Budget.

### Social protection

The *COVID-19 social relief of distress grant* was originally introduced in May 2020 as a temporary measure to support low-income households during the pandemic lockdowns. At present, 7.4 million people receive this grant. In the 2022 Budget, government extended the grant for one year until March 2023. As noted then, the introduction of a new grant in the fiscal framework is a permanent spending increase. To be sustainable, it needs to be financed with permanent increases in revenue, spending reprioritisation, or a combination of the two.

Discussions are still under way to consider options for a replacement for this temporary grant. No final decision has been made about a replacement or how it would be financed. As a result, the temporary grant will be extended for one year until March 2024.

## Overview of the 2022 MTBPS

### Economic outlook

Chapter 2 provides a review of the near-term economic outlook and medium-term prospects. GDP growth forecasts have declined in 2022 and over the medium term, in part due to slowing global growth and rising inflation.

**Table 1.1 Macroeconomic projections**

| Calendar year | 2021<br>Actual | 2022<br>Estimate | 2023 | 2024<br>Forecast | 2025 |
|---|---|---|---|---|---|
| *Percentage change unless otherwise indicated* | | | | | |
| Household consumption | 5.6 | 2.9 | 1.6 | 1.7 | 1.8 |
| Gross fixed-capital formation | 0.2 | 4.0 | 1.9 | 3.6 | 3.8 |
| **Real GDP growth** | **4.9** | **1.9** | **1.4** | **1.7** | **1.8** |
| **GDP at current prices (R billion)** | **6 192** | **6 572** | **6 956** | **7 406** | **7 884** |
| CPI inflation | 4.5 | 6.7 | 5.1 | 4.6 | 4.6 |
| Current account balance (% of GDP) | 3.7 | 0.2 | -0.9 | -1.1 | -1.2 |

*Source: Reserve Bank and National Treasury*

### Fiscal policy

Chapter 3 outlines government's medium-term fiscal policy stance, which focuses on repairing the public finances. The consolidated budget deficit will be reduced to 4.1 per cent of GDP in 2023/24, with the main budget primary balance reaching a surplus of 1.5 per cent of GDP in 2025/26.

**Table 1.2 Consolidated government fiscal framework**

| R billion/percentage of GDP | 2021/22 Outcome | 2022/23 Revised | 2023/24 | 2024/25 Medium-term estimates | 2025/26 |
|---|---|---|---|---|---|
| **Revenue** | **1 750.4** | **1 882.2** | **1 952.8** | **2 072.2** | **2 218.7** |
| | *27.8%* | *28.3%* | *27.7%* | *27.5%* | *27.7%* |
| **Expenditure** | **2 047.0** | **2 205.3** | **2 241.7** | **2 364.1** | **2 477.7** |
| | *32.6%* | *33.2%* | *31.7%* | *31.4%* | *30.9%* |
| **Budget balance** | **-296.7** | **-323.1** | **-288.9** | **-291.9** | **-259.0** |
| | *-4.7%* | *-4.9%* | *-4.1%* | *-3.9%* | *-3.2%* |
| **Total gross loan debt** | **4 277.5** | **4 752.0** | **5 002.2** | **5 296.1** | **5 607.8** |
| | *68.0%* | *71.4%* | *70.8%* | *70.4%* | *70.0%* |

*Source: National Treasury*

### Expenditure priorities

Chapter 4 presents government's proposed allocations in broad terms, including adjustments in the current financial year.

**Table 1.3 Consolidated government expenditure**

| R billion | 2022/23 Revised | 2023/24 | 2024/25 Medium-term estimates | 2025/26 | Average annual growth 2022/23 – 2025/26 |
|---|---|---|---|---|---|
| Learning and culture | 447.4 | 455.6 | 473.4 | 496.5 | 3.5% |
| Health | 258.4 | 256.1 | 267.5 | 279.4 | 2.6% |
| Social development | 365.6 | 370.9 | 350.2 | 340.3 | -2.4% |
| Community development | 236.7 | 258.7 | 274.9 | 291.7 | 7.2% |
| Economic development | 222.9 | 237.6 | 262.4 | 280.8 | 8.0% |
| Peace and security | 227.6 | 226.4 | 235.4 | 246.5 | 2.7% |
| General public services | 71.4 | 73.1 | 74.8 | 78.0 | 3.0% |
| Payments for financial assets | 62.6 | 25.2 | 25.4 | 26.5 | – |
| **Total expenditure by function** | **1 892.6** | **1 903.5** | **1 963.9** | **2 039.7** | **2.5%** |
| Debt-service costs | 307.7 | 332.2 | 352.9 | 380.7 | 7.3% |
| Unallocated reserve | – | – | 41.3 | 47.3 | – |
| Contingency reserve | 5.0 | 6.0 | 6.0 | 10.0 | – |
| **Total expenditure** | **2 205.3** | **2 241.7** | **2 364.1** | **2 477.7** | **4.0%** |

*Source: National Treasury*

### Additional information

The 2022 MTBPS includes several annexures:

- Annexure A contains the fiscal risk statement.
- Annexure B analyses trends in the employment and compensation of public-sector employees.
- Annexure C provides technical information and data.
- Annexure D is the glossary.

The Public Finance Management Act (1999), read together with the Money Bills and Related Matters Act (2009), empowers the Minister of Finance to table an adjustments budget in the National Assembly. An adjustments budget is being tabled with the MTBPS, and it will include funding in response to recent natural disasters.

## Conclusion

The 2022 MTBPS presents a strategy to continue stabilising the public finances while supporting economic growth in a highly volatile global economy. Fiscal consolidation is achieving the objectives of the strategy originally outlined in the 2020 MTBPS. Lifted by better-than-expected revenues, the fiscal position is stronger. At the same time, increased funding for safety and security, fighting corruption and delivering infrastructure will support longer-term growth prospects.

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# 2

# Economic outlook

**In brief**

- Since the 2022 *Budget Review*, global and domestic risks to the economic outlook have materialised, including slower global growth, higher levels of inflation, accelerating interest rate increases and intensified power supply interruptions.
- Real GDP is projected to grow by 1.9 per cent in 2022, compared with 2.1 per cent estimated in the 2022 Budget, and average 1.6 per cent from 2023 to 2025.
- Investment and employment levels remain lower than before the COVID-19 pandemic and lag behind the recovery in real GDP. Households are under increasing pressure from higher inflation and interest rates.
- A sustained improvement in growth and employment outcomes requires rapid and decisive implementation of economic reforms, supported by South Africa's clear and stable macroeconomic framework – and improved state capacity.

## Introduction

South Africa's economic growth is expected to slow to 1.9 per cent in 2022, after reaching 4.9 per cent in 2021. The supportive external environment and commodity price levels that contributed to a faster-than-expected recovery from COVID-19 lows are dissipating.

Simultaneously, after a strong start to 2022, the impact of historic flooding focused in KwaZulu-Natal, the domestic electricity crisis and persistent constraints in network industries such as transport have severely affected economic activity, while high inflation and unemployment have weighed on private consumption. In addition, some of the risks outlined in the 2022 Budget have materialised, including slower global growth from supply chain disruptions and stringent lockdown restrictions in China, surging inflation and tighter monetary policy stances.

South Africa's structural economic constraints – including unreliable electricity supply, high levels of market concentration, inefficiencies in network industries and a high cost of doing business – limit the rate at which the economy can grow and create jobs. These longstanding impediments to growth have been aggravated by recent shocks, threatening to move the economy further away from the goals of the

National Development Plan. Recent events underline the importance of rapidly implementing the economic recovery plan, including through Operation Vulindlela, to narrow the gap between South Africa's poor economic outcomes and its aspirations.

The National Treasury has been conducting a review of macroeconomic policy since the 2008 global financial crisis. The draft review underscores the importance of a clear and stable macroeconomic framework – including a flexible exchange rate, low and stable inflation, and sustainable fiscal policy – as a foundation for a growing economy.

Building on this foundation, rapid implementation of economic reforms is required to boost economic growth. Since the 2022 *Budget Review*, progress has been made on important reforms that are expected to support investment and job creation:

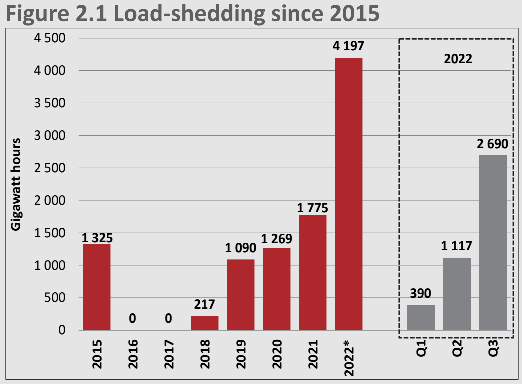
- In **transport**, the Transnet National Ports Authority has been corporatised, an important first step in raising the competitiveness of South Africa's ports. Third-party access to the freight rail network is being pursued. Private-sector partnerships are being developed for the Durban Pier 2 and Ngqura container terminals. The White Paper on the National Rail Policy was gazetted in May 2022, with a focus on measures to raise competitiveness, lower logistics costs and encourage investment.
- In **telecommunications**, the auction of broadband high-value spectrum has been completed. Draft by-laws for the deployment of electronic communications and facilities at municipal level have been published for public comment – a key step towards facilitating the provision of electronic communications infrastructure at the local level.
- Several **visa reforms** have been completed. These include reviewing the policy framework and processes for work visas. The eVisa system has been implemented in 14 countries, including key trading partners China, India, Kenya and Nigeria. A revised **critical skills list** has been published to help address the country's skills deficit.

Government plays an important role in ensuring that the regulatory environment and the provision of critical public goods and services support inclusive and sustainable growth. To do this, the state requires capacity to prioritise, sequence and coordinate interventions through adaptable policymaking and institutions that are accountable and capable. This includes the ability to make choices where trade-offs arise.

**Emergency measures under way to address costs of electricity crisis**

Unplanned power cuts have increased consistently since 2017. Eskom estimates that the electricity supply shortfall has risen to between 4 000 and 6 000 megawatts (MW), limiting its ability to adequately service electricity demand and undertake required maintenance. Load-shedding imposes an immense economic cost. Policy and legislative delays in the procurement of new electricity generating capacity under the Risk Mitigation Independent Power Producer Procurement Programme and Bid Window 5 of the Renewable Energy Independent Power Producer Procurement Programme have contributed to the power shortage.

**Figure 2.1 Load-shedding since 2015**




**2022 includes data for the first three quarters of the year*
*Source: Eskom and CSIR*

Emergency measures announced by the President in July 2022 prioritise improving the performance of existing power stations and adding new generation capacity to the grid as quickly as possible. Successfully enacted, efforts spearheaded by the National Energy Crisis Committee could add about 14 gigawatts of electricity capacity over the next two years. They include:

- Boosting Eskom's performance by addressing sabotage, theft and fraud; improving the quality and security of coal; procuring new power from existing independent power producers; and increasing imports from the Southern African Power Pool.
- Removing the embedded generation licensing threshold and developing special legislation to ease regulatory hurdles for all energy projects to boost private-sector investment in new generation capacity.
- Expanding and accelerating the procurement of new generation capacity from renewables, gas and battery storage.
- Facilitating investments in rooftop solar by developing a feed-in tariff for small-scale embedded generation projects, and investigating the expansion of tax incentives for commercial installations.

More recently, the amendment to Schedule 2 of the Electricity Regulation Act (2006), removing the licensing threshold for embedded generation projects, has been published for public comment. Key recommendations from an independent review diagnosing problems at power stations have been provided to Eskom. Work is ongoing to increase the capacity related to Bid Window 6, while finalising the procurement of battery storage. Talks are being held to facilitate cross-border power purchases.

Broader reforms under way include transforming the electricity market by restructuring Eskom, establishing an independent transmission company and finalising the Electricity Regulation Amendment Bill.

The Cities Support Programme, which is championing improved service provision in the eight large metropolitan municipalities, supports the effort to build state capacity. A key focus of the programme is boosting cities' resilience in adapting to climate change, an important consideration given the proliferation of extreme weather events such as the recent KwaZulu-Natal floods. Metropolitan municipalities have received support to integrate climate information into city planning systems and processes. All eight metros are being supported to develop reform action plans to improve service delivery outcomes through the subnational ease-of-doing-business project that draws from global best practice, with a number of pilots under way.

Government is formalising its response to the findings of the State Capture Commission. This is a key step in the fight against corruption and graft, including through state procurement, and ensuring the maximum return to citizens from scarce state resources. Over the medium term, government will continue to increase capacity in law enforcement and investigative agencies, including through a combination of reallocations and baseline increases. Additional resources for the National Prosecuting Authority, the Special Investigating Unit and the Financial Intelligence Centre will be outlined in the 2023 Budget.

## Global outlook

Between January and October 2022, the International Monetary Fund (IMF) lowered its expectation for global growth in 2022 from 4.4 per cent to 3.2 per cent, and from 3.8 per cent to 2.7 per cent in 2023. This revision is mainly the result of rising inflation, tightening financial conditions, the Russia-Ukraine war and lingering COVID-19 effects. There are significant risks to the global outlook, which are tilted largely to the downside.

Although the worst of the COVID-19 pandemic shock was concentrated in 2020, global supply-demand imbalances persist and have resulted in continued inflationary pressures. The Russia-Ukraine war and its consequences escalated geopolitical uncertainty, contributing to a sharp increase in food and fuel prices. The IMF projects that global consumer price inflation will reach 8.8 per cent in 2022, before easing to 6.5 per cent in 2023. Inflationary pressures are more pronounced among emerging markets and developing economies, where consumer baskets are heavily weighted towards essential goods including food and transport.

**Table 2.1 Economic growth in selected countries**

| Region/country<br>Percentage | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| | Actual | | Forecast | | |
| **World** | **-3.0** | **6.0** | **3.2** | **2.7** | **3.2** |
| **Advanced economies** | **-4.4** | **5.2** | **2.4** | **1.1** | **1.6** |
| United States | -3.4 | 5.7 | 1.6 | 1.0 | 1.2 |
| Euro area | -6.1 | 5.2 | 3.1 | 0.5 | 1.8 |
| United Kingdom | -9.3 | 7.4 | 3.6 | 0.3 | 0.6 |
| Japan | -4.6 | 1.7 | 1.7 | 1.6 | 1.3 |
| **Emerging and developing countries** | **-1.9** | **6.6** | **3.7** | **3.7** | **4.3** |
| China | 2.2 | 8.1 | 3.2 | 4.4 | 4.5 |
| India | -6.6 | 8.7 | 6.8 | 6.1 | 6.8 |
| Brazil | -3.9 | 4.6 | 2.8 | 1.0 | 1.9 |
| Russia | -2.7 | 4.7 | -3.4 | -2.3 | 1.5 |
| **Sub-Saharan Africa** | **-1.6** | **4.7** | **3.6** | **3.7** | **4.1** |
| Nigeria | -1.8 | 3.6 | 3.2 | 3.0 | 2.9 |
| South Africa[1] | -6.3 | 4.9 | 1.9 | 1.4 | 1.7 |
| **World trade volumes** | **-7.8** | **10.1** | **4.3** | **2.5** | **3.7** |

*1. National Treasury forecasts*
*Source: IMF World Economic Outlook, October 2022*

In response to higher global inflation, central banks initiated a broad tightening of monetary policy, with interest rates rising across major economies and many developing countries. Monetary policy tightening has prompted capital outflows from emerging markets to “safe-haven” assets, leading to a broad strengthening of the US dollar against a wide range of currencies. Between January and September 2022, the rand depreciated by 11.9 per cent against the US dollar.

Global bond yields have trended higher since February and reflect tightening financial conditions. This risk aversion will negatively affect countries that are heavily indebted and reliant on foreign savings, as already seen in emerging market bond yield movements.

**Figure 2.2 Selected real monetary policy rates***

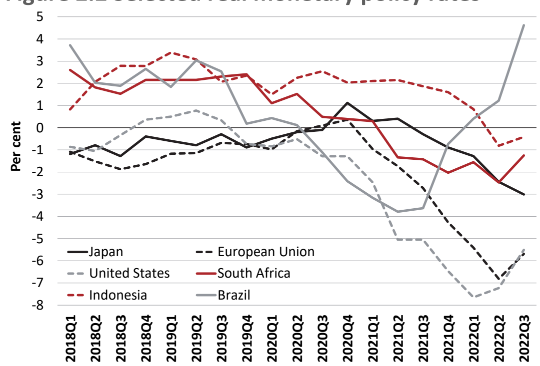



**Figure 2.3 Selected currencies against the US dollar**

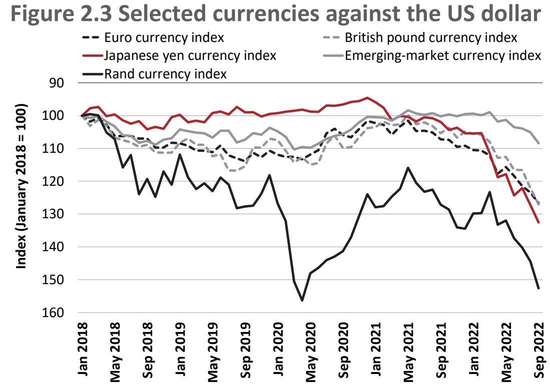



**Figure 2.4 Commodity prices**

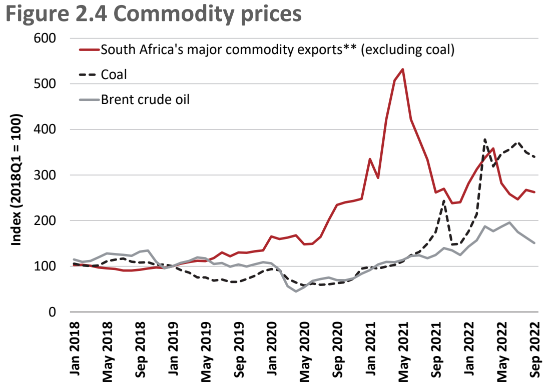
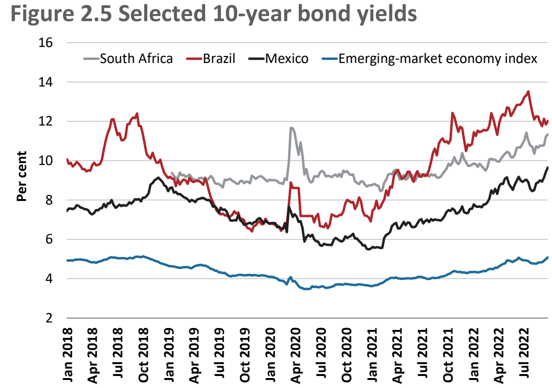



**Figure 2.5 Selected 10-year bond yields**




**The rate that banks charge one another to borrow funds*
***Trade-weighted index includes gold, iron ore, platinum, palladium and rhodium*
*Source: Bloomberg*

Global equity markets have broadly declined in response to global risks and rising interest rates. Commodity prices initially rallied at the onset of the Russia-Ukraine war, which extended price support to commodity exporters. Since March, energy commodity prices have risen due to persistent supply constraints in major exporting countries and trade disruptions associated with the war in Ukraine. Non-energy commodity prices are expected to continue easing in line with slowing global demand and reduced supply constraints.

## Domestic outlook

The National Treasury forecasts real economic growth of 1.9 per cent in 2022, compared with 2.1 per cent projected in the 2022 *Budget Review*, in response to global and domestic shocks. Growth is projected to average 1.6 per cent from 2023 to 2025. Implementing structural reforms, especially in the energy sector, remains crucial to improve the economy's productive capacity and competitiveness.

The recovery in economic activity that began in 2021 was driven by a strong rebound in global economic activity, high commodity prices and easing COVID-19 restrictions. The scarring impact of the pandemic on employment and investment decisions will likely weigh on the recovery over the medium term. Investment remains well below pre-pandemic levels.

The economy grew by 1.4 per cent in the first half of 2022 compared with the first half of 2021. Real GDP grew more than expected in the first quarter of 2022, with output returning to pre-pandemic levels. However, a deteriorating global environment, flooding in KwaZulu-Natal and the Eastern Cape, industrial action in the electricity and mining sectors, and protracted and intense power cuts resulted in a broad-based contraction across most sectors during the second quarter. The third quarter was marked by frequent and prolonged power cuts, which significantly disrupted economic activity.

**Table 2.2 Macroeconomic performance and projections**

| **Calendar year** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** |
|---|---|---|---|---|---|---|---|
| **Percentage change** | | **Actual** | | **Estimate** | | **Forecast** | |
| Final household consumption | 1.2 | -5.9 | 5.6 | 2.9 | 1.6 | 1.7 | 1.8 |
| Final government consumption | 2.1 | 0.8 | 0.6 | 0.8 | -1.8 | -1.0 | 0.2 |
| Gross fixed-capital formation | -2.1 | -14.6 | 0.2 | 4.0 | 1.9 | 3.6 | 3.8 |
| Gross domestic expenditure | 1.4 | -8.0 | 4.8 | 3.6 | 1.2 | 1.6 | 1.8 |
| Exports | -3.4 | -11.9 | 10.0 | 7.4 | 1.9 | 2.8 | 2.9 |
| Imports | 0.4 | -17.4 | 9.5 | 13.8 | 1.0 | 2.3 | 2.9 |
| **Real GDP growth** | **0.3** | **-6.3** | **4.9** | **1.9** | **1.4** | **1.7** | **1.8** |
| GDP inflation | 4.6 | 5.7 | 6.2 | 4.1 | 4.3 | 4.7 | 4.6 |
| **GDP at current prices (R billion)** | **5 614** | **5 557** | **6 192** | **6 572** | **6 956** | **7 406** | **7 884** |
| CPI inflation | 4.1 | 3.3 | 4.5 | 6.7 | 5.1 | 4.6 | 4.6 |
| Current account balance (% of GDP) | -2.6 | 2.0 | 3.7 | 0.2 | -0.9 | -1.1 | -1.2 |

*Source: National Treasury, Reserve Bank and Statistics South Africa*

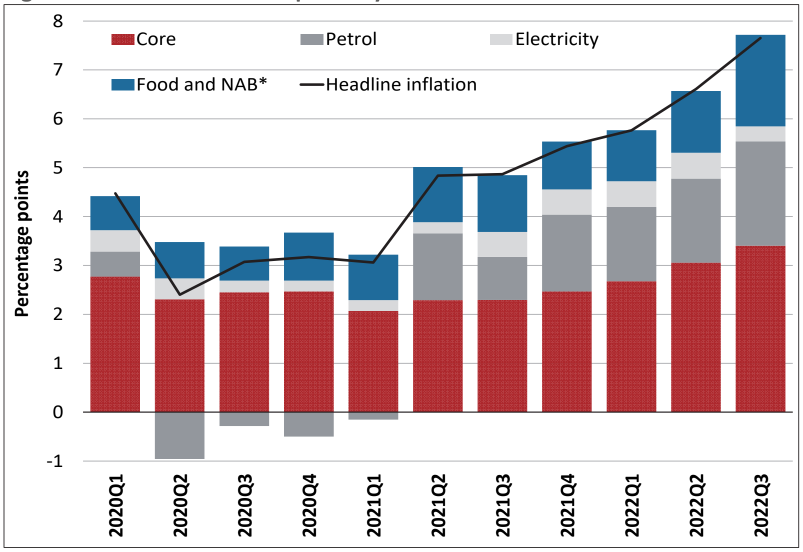
### Employment

In the wake of the COVID-19 pandemic, the recovery in economic growth has outpaced the recovery in employment. A similar relationship was identified during the global financial crisis, although job losses are now more pronounced. At the height of the pandemic, 2.3 million people lost their jobs, and the initial employment recovery was mostly erased in July 2021 by the outbreak of public violence in Gauteng and KwaZulu-Natal and the fourth wave of COVID-19. Halfway through 2022, employment was about 858 000 people below pre-pandemic levels, with the recovery for low- and semi-skilled workers lagging behind high-skilled workers. Pandemic-related job losses are broad-based across sectors and constrain the pace of recovery in demand over the medium term.

### Inflation

Headline inflation of 6.7 per cent is projected for 2022, declining to 5.1 per cent in 2023. High domestic food inflation and elevated fuel prices are key sources of inflationary pressure. Households face broad increases in the cost of living, with headline consumer inflation peaking in July 2022 at 7.8 per cent – the highest in 13 years – before easing in September 2022 to 7.5 per cent. Food inflation has averaged 8.5 per cent in the year to date, driven by rising bread, cereals and meat prices. The Russia-Ukraine war triggered a significant rise in global crude oil prices – well above the levels anticipated in February. Fuel prices have increased by 37.5 per cent in the year to date and are expected to remain well above the 2021 average.

**Figure 2.6 Contributions to quarterly headline inflation**




**NAB is non-alcoholic beverages*
*Source: Statistics South Africa*

Global supply-demand imbalances have triggered an acceleration in the price of raw materials and intermediate inputs, with producer price inflation sharply elevated at 16.6 per cent in August 2022 and averaging 13.9 per cent in the year to date. Higher input costs and reduced profit margins create risks of more persistent increases in consumer prices. In addition, core inflation is expected to contribute to elevated consumer prices in 2023 as increased input costs pass through to prices broadly, even as food and energy inflation pressures ease. Since the 2021 *Medium Term Budget Policy Statement*, the Reserve Bank has increased the repurchase rate by 275 basis points to 6.25 per cent in response to inflationary pressures.

**Household consumption**

A broad-based recovery in household consumption saw growth of 2.4 per cent in the first half of the year compared with the same period in 2021. Household consumption now exceeds pre-pandemic levels and is expected to grow by 2.9 per cent in 2022. The recovery in employment, although subdued, has supported household income, boosted by the extension of the *COVID-19 social relief of distress grant* in 2022/23. This support will now extend to the end of 2023/24. A strong rebound in disposable income was supported by improved real private-sector wages and labour productivity.


Households face an increased cost of living from elevated consumer inflation. With interest rates rising to rein in inflation, household spending is likely to moderate in 2022 and over the medium term. Modest real private-sector wage growth is expected as inflationary pressures ease. Credit extended to households has recovered, but rising borrowing costs will temper credit growth. Persistently high unemployment and weak economic growth will continue to weigh on the household spending recovery.

**Investment**

Gross fixed-capital formation grew by 3.7 per cent in the first half of 2022 compared with the same period last year. Investment remains about R62 billion below pre-pandemic levels, with private investment, the largest component of gross fixed-capital formation, accounting for 87.4 per cent of the shortfall. In 2021, private investment amounted to 9.9 per cent of GDP, and public-sector investment amounted to 4.1 per cent of GDP, well below the National Development Plan targets of 20 per cent and 10 per cent of GDP, respectively, by 2030.

Gross fixed-capital formation is projected to increase by 1.9 per cent in 2023 due to slowing global growth, rising borrowing costs, weaker equity markets and heightened risk aversion. In the near term, business conditions will remain challenging given the slow pace of economic reforms and inadequate electricity supply. Over the medium term, the rollout of energy infrastructure through the independent power producer initiatives and embedded generation projects will support investment.

**Balance of payments**

The trade surplus has continued to weaken as the value of merchandise imports outpaces that of exports. The robust net trade gains that benefited the current account in 2021 are expected to dissipate in 2022. In 2023, weaker external demand, easing of South Africa's export commodity prices, and electricity and logistical constraints will limit export volume growth, while a slowdown in domestic activity will constrain import volume growth. Over the medium term, a recovery in global demand and a gradual easing of domestic constraints will boost export volumes, with modest improvements in domestic demand supporting higher import volumes.

The current account surplus averaged 0.6 per cent of GDP in the first half of the year, narrowing from 3.7 per cent in 2021 as a result of higher-than-anticipated dividend payments made by firms in the second quarter of 2022. The current account is expected to moderate to a narrow deficit of 0.9 per cent of GDP in 2023 and 1.2 per cent of GDP in 2025. The financial account will be vulnerable to capital outflows from global monetary policy tightening and market volatility.

**Macroeconomic assumptions**

The forecast incorporates assumptions outlined in Table 2.3. Compared with the 2022 Budget forecast, the major changes are a higher export commodity price index for 2022, significantly higher crude oil prices in 2022 and higher food prices in the near term. An increased sovereign risk premium in 2022 and 2023 reflects both global and domestic factors, including rising US interest rates and frequent power cuts.

**Table 2.3 Assumptions informing the macroeconomic forecast**

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| **Percentage change** | **Actual** | | **Estimate** | | **Forecast** | |
| **Global demand**[1] | **-3.4** | **6.0** | **3.2** | **2.9** | **3.6** | **3.5** |
| **International commodity prices**[2] | | | | | | |
| Brent crude oil (US$ per barrel) | 41.8 | 70.7 | 101.6 | 87.3 | 80.8 | 76.2 |
| Gold (US$ per ounce) | 1 769.5 | 1 799.8 | 1 802.6 | 1 774.2 | 1 835.0 | 1 880.7 |
| Platinum (US$ per ounce) | 883.2 | 1 090.8 | 937.8 | 889.9 | 914.0 | 939.6 |
| Coal (US$ per ton) | 65.2 | 125.2 | 304.1 | 290.8 | 270.4 | 259.2 |
| Iron ore (US$ per ton) | 108.1 | 158.2 | 122.4 | 101.9 | 95.3 | 89.2 |
| Palladium (US$ per ounce) | 2 192.7 | 2 398.2 | 2 138.3 | 2 076.3 | 2 080.9 | 2 084.8 |
| **Food inflation** | **4.5** | **6.1** | **8.5** | **5.4** | **4.4** | **4.5** |
| **Sovereign risk premium (percentage point)** | **4.9** | **3.5** | **4.1** | **3.9** | **3.5** | **3.4** |
| **Public corporation investment** | **-22.7** | **10.7** | **9.3** | **7.3** | **6.6** | **6.9** |

*1. Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, October 2022)*
*2. Source: Bloomberg futures prices as at 16 September 2022*
*Source: National Treasury*

### Risks to the domestic growth outlook

Risks to the global and domestic outlook remain elevated. Unresolved structural constraints and scarring from COVID-19 leave the economy vulnerable to new shocks:

- Global growth could slow further if the Russia-Ukraine war escalates, with associated effects on global supply chains and inflationary consequences for food and energy prices. More severe disruptions of gas supplies from Russia to Europe could trigger energy rationing, with implications for global energy prices and energy-intensive industries.
- The pace and scale of monetary policy tightening could negatively affect economic output, while a further decline in Chinese economic growth could slow global demand and add pressure to global supply chains.
- Increased power cuts will compromise an already fragile and recovering economy. Conversely, accelerating the implementation of energy reforms could mitigate the adverse effects of load-shedding and support higher business confidence and investment. Industrial action in the ports and rail sector could constrain economic activity and reduce South Africa’s competitiveness.
- A deterioration of the fiscal outlook due to unfunded spending pressures or the materialisation of contingent liabilities could increase borrowing costs, and crowd out both private and public investment.

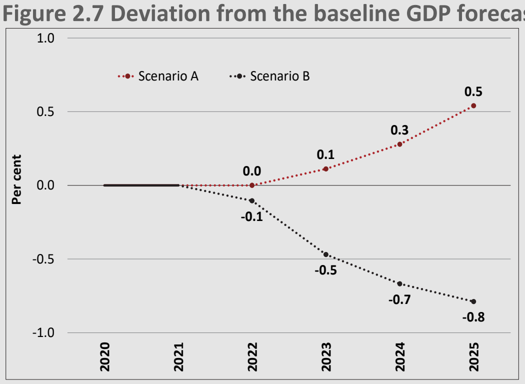
**Alternative scenarios**

The National Treasury has modelled two scenarios to the baseline economic forecast.

The upside **Scenario A** assumes that major public entities successfully scale up capital expenditure over the medium to long term, boosting overall fixed investment in the economy. The additional capital spending, as a result of efficiency improvements, allows these entities to rehabilitate eroded infrastructure, thereby improving their ability to provide core services (and goods) in line with their mandates. This supports a conducive business climate, enhancing private-sector participation and boosting the productive capacity of the economy. Business confidence levels improve, growth constraints are eased and economic activity is stimulated. Improved spending by public entities supports the economy mainly through improved spending on gross fixed-capital formation. Real GDP growth is estimated to be 0.5 percentage points higher, and investment is estimated to be 5.4 percentage points higher, than the baseline forecast for 2025. Furthermore, improvement in the operations and balance sheets of these entities should support their longer-term profitability and sustainability.

In the downside **Scenario B**, an appreciable slowdown in global growth is accompanied by persistently high inflation, particularly in 2023. Energy-related commodity prices trend higher owing to energy rationing in Europe and the switching from gas to oil for power generation. Higher global inflation triggers aggressive monetary policy tightening, leading to an even sharper slowdown in global growth, particularly in China, Europe, the United Kingdom and the United States. Due to growing risk aversion, South Africa's risk premium and borrowing costs rise. Private investment declines and consumer purchasing power is eroded. Sluggish global growth lowers the demand for both exports and non-energy related commodities, putting downward pressure on export commodities. Growth slows, measuring 0.8 percentage points below the baseline forecast in 2025.

**Figure 2.7 Deviation from the baseline GDP forecast**




*Source: National Treasury*

## Sector performance and outlook

### Agriculture

The agriculture sector contracted by 13.3 per cent in the first half of 2022 compared with the first half of 2021. While a contraction is expected for 2022 overall, this represents a return to more normal output following two years of standout growth, rather than a poor performance. Agriculture exports grew despite logistics constraints and disease-related trade bans. Risks to the sector are decidedly to the downside, and include uncertainty surrounding the Russia-Ukraine war, which has inflated input costs, especially for fertiliser and animal feeds, and the effects of the strike at Transnet, particularly on perishable exports.

### Mining

Despite elevated commodity prices, the mining sector contracted by 7.3 per cent in the six months to June 2022 compared with the same period in 2021. Operational constraints weighed on the sector, including safety stoppages and logistics disruptions, while electricity supply disruptions, persistent rail constraints and labour action further dampened production.

The Transnet strike could weigh on the mining sector in the fourth quarter, with major mineral export harbours having operated at significantly lower capacity.

**Manufacturing**

Gross value added in the manufacturing sector was 1.3 per cent lower in the six months to June 2022 compared with the same period in 2021, reflecting intense electricity outages and input cost pressures, as well as the impact of the April 2022 floods. Production is yet to return to pre-pandemic levels, with the anticipated slowdown in global demand reinforcing the weak outlook for manufacturing exports.

**Construction**

The construction sector contracted 6.1 per cent in the first half of 2022 compared with the first half of 2021, mainly due to declining residential and non-residential buildings works, while a number of projects were halted or cancelled in the wake of the April floods. Sector activity may improve in the short term as these projects resume and damaged infrastructure is repaired. Conversely, building material shortages, delays in tender processes in the public sector, and the increased prevalence of illegal disruptions and damages to construction sites will depress growth going forward.

**Utilities**

Gross value added in the electricity, gas and water sector was 1 per cent lower in the first half of 2022 compared to the same period in 2021. Structural impediments, including high tariffs, illegal connections and ageing infrastructure, will continue to constrain the sector in the near term, with Eskom's power plants continuing to perform poorly and unreliably. According to Eskom, load-shedding is forecast to persist over the next 18 months. Any challenges preventing independent power producer projects from closing will imply more delays in procuring new capacity and stunt the sector's prospects going forward.

**Transport and communications**

The transport, storage and communication sector grew by 7.6 per cent in the first six months of 2022 compared with the same period in 2021. Along with the Transnet strike, infrastructure deterioration and vandalism, criminal activity and the shortage of locomotives and spare parts are expected to weigh on the transport sector going forward. In addition, delays in digital migration are offsetting the forward momentum of the auction of broadband spectrum that should create significant positive gains for the communications sector.

**Finance and business services**

The finance, real estate and business services sector grew by 3.2 per cent in the first six months of 2022 compared to the same period in 2021. While the sector has remained fairly resilient, the materialisation of the aforementioned risks, including slower global growth and tighter global monetary policy, could test the resilience of South Africa's well-regulated financial sector.

## Conclusion

The supportive global conditions that spurred the economic recovery in 2021 are dissipating, and domestic shocks – particularly power cuts – have lowered economic growth and confidence. A broad slowdown in global growth and high inflation are forecast. Rapid and decisive implementation of structural reforms, especially in the energy sector, supported by a clear and stable macroeconomic framework and improved state capability, remain crucial to improve the economy's productive capacity and international competitiveness.

# 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 –

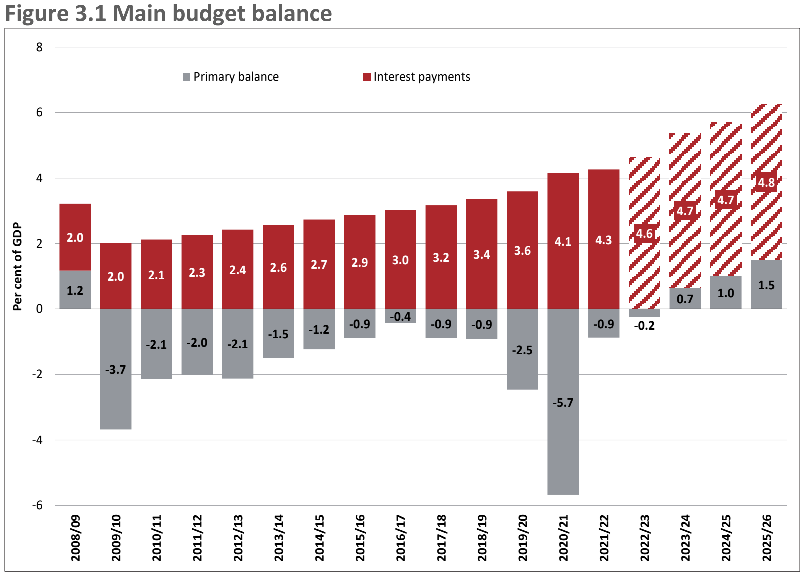
improved. These changes outweigh the adverse effects of higher interest costs and the weaker exchange rate.

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**

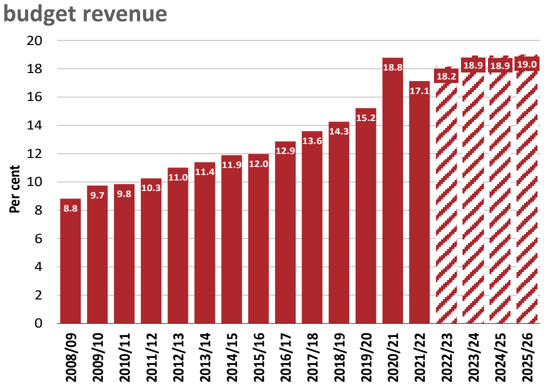



**Figure 3.3 Real growth in non-interest expenditure**

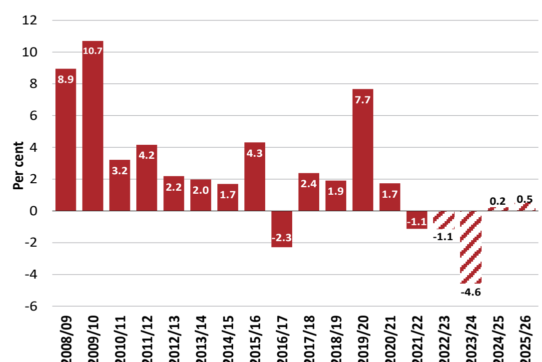



**Figure 3.4 Social wage***

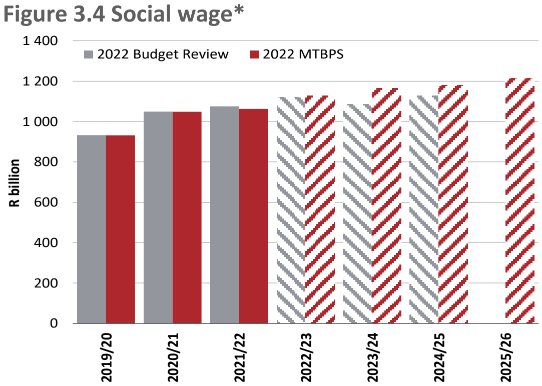
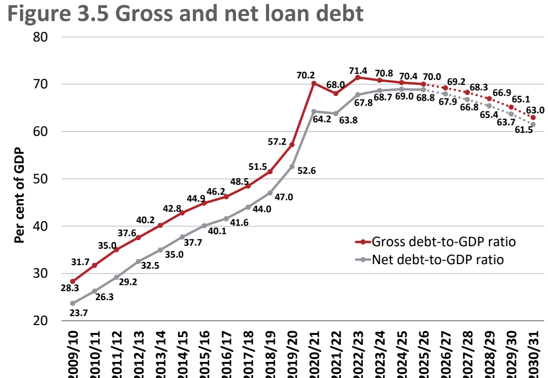



**Figure 3.5 Gross and net loan debt**




**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**

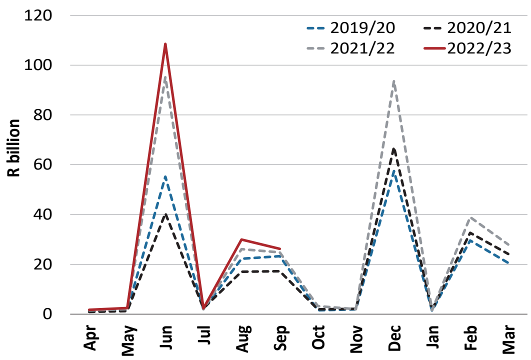
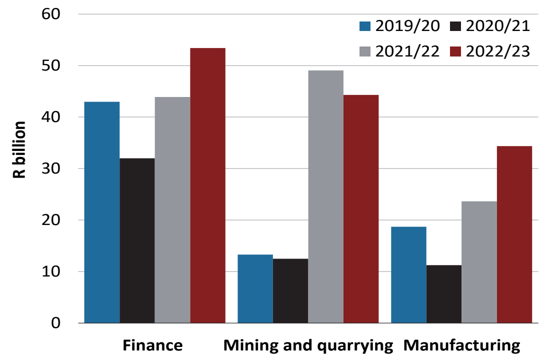



**Figure 3.7 Provisional corporate income tax collections by sector***




**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**

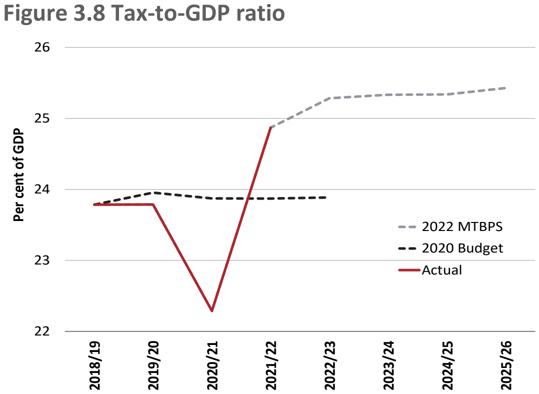
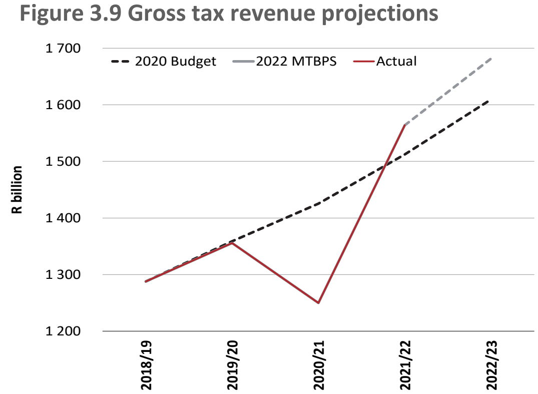



**Figure 3.9 Gross tax revenue projections**




*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**

| R billion | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---|---|---|---|---|---|---|---|
| | | 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**

| R billion | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---|---|---|---|---|---|
| | 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.

# 4

# Expenditure priorities

**In brief**

- Consolidated government spending is expected to increase from R2.21 trillion in 2022/23 to R2.48 trillion in 2025/26, growing by an annual average rate of 4 per cent. The bulk of spending supports the social wage.
- Compared with the 2022 Budget, main budget non-interest spending is increased by a net R52.4 billion in 2023/24 and R58.5 billion in 2024/25. This is mainly to extend the *COVID-19 social relief of distress grant* until March 2024, improve investment in infrastructure, and support safety and security, and education and health services.
- Function groups have also reprioritised and reallocated their budgets to fund cost pressures and urgent policy priorities within departments and entities over the medium-term expenditure framework (MTEF) period.
- Net total in-year adjustments to spending amount to R13 billion, mainly for unforeseen and unavoidable expenditure incurred by the Department of Cooperative Governance and the Department of Transport as a result of the April 2022 floods.

## Introduction

This *Medium Term Budget Policy Statement* sets out additional funding for health, education, safety and security, and infrastructure investment. These allocations will promote sustainable economic growth and greater access to and quality of services. In addition, it includes funding for a one-year extension of the *COVID-19 social relief of distress grant* while government considers options for social support.

The social wage, totalling R3.56 trillion over the next three years, will continue to take up the biggest share of the budget in support of poor households (Table 4.1). The largest allocations are directed to the education, health and social development sectors.

**Table 4.1 Social wage**

| R billion | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---|---|---|---|---|---|---|---|
| | | Outcome | | Revised | | Medium-term estimates | |
| **Community development** | **152.5** | **161.6** | **165.1** | **182.8** | **207.3** | **223.4** | **238.1** |
| Housing development | 28.8 | 23.7 | 27.0 | 25.9 | 27.2 | 29.1 | 30.6 |
| Transport | 25.3 | 25.3 | 29.3 | 34.4 | 40.9 | 45.5 | 49.3 |
| Water services | 4.4 | 4.0 | 4.2 | 4.6 | 7.8 | 8.3 | 11.5 |
| Local government[1] | 93.9 | 108.6 | 104.5 | 117.9 | 131.4 | 140.5 | 146.7 |
| **Employment programmes** | **21.6** | **19.1** | **20.6** | **24.9** | **24.5** | **25.6** | **26.7** |
| **Health** | **205.5** | **222.7** | **228.5** | **232.0** | **231.9** | **242.1** | **253.1** |
| **Basic education** | **239.3** | **247.6** | **262.5** | **276.6** | **283.5** | **288.2** | **302.2** |
| **Fee-free higher education and training** | **44.4** | **44.3** | **55.2** | **61.6** | **63.9** | **68.6** | **73.6** |
| **Social protection** | **217.0** | **247.1** | **253.3** | **270.0** | **276.0** | **252.3** | **263.7** |
| *of which: Social grants* | *190.3* | *218.9* | *222.7* | *242.8* | *248.4* | *223.8* | *233.8* |
| **Social security funds** | **51.9** | **105.7** | **77.5** | **79.8** | **77.8** | **80.5** | **57.2** |
| **Social wage** | **932.2** | **1 048.1** | **1 062.7** | **1 127.7** | **1 164.9** | **1 180.6** | **1 214.5** |
| *Percentage of non-interest spending* | *58.2%* | *60.5%* | *59.7%* | *59.4%* | *61.0%* | *58.7%* | *57.9%* |

*1. Includes local equitable share*

*Source: National Treasury*

In recent years, government has restrained expenditure to return the public finances to a sustainable fiscal position. More needs to be done, however, to improve the efficiency of spending. The findings of some spending reviews are being implemented in the peace and security and general public services functions. In most cases, review findings remain under discussion or will take longer to implement because they require legislative amendments.

## Revisions to expenditure priorities

Medium-term changes to spending are largely driven by government's decision to extend the *COVID-19 social relief of distress grant* by one year until 31 March 2024.

Additional funding will be provided for safety and security to increase the number of police, boost the investigation and prosecution of serious crimes, and safeguard South Africa's borders and seas. It will also support implementation of the State Capture Commission recommendations. Further allocations will address shortfalls in compensation budgets in provincial education, retain additional health workers appointed during the pandemic and support the provision of free municipal basic services. Funds are allocated to rehabilitate damaged municipal infrastructure and address the backlog in the refurbishment of provincial roads.

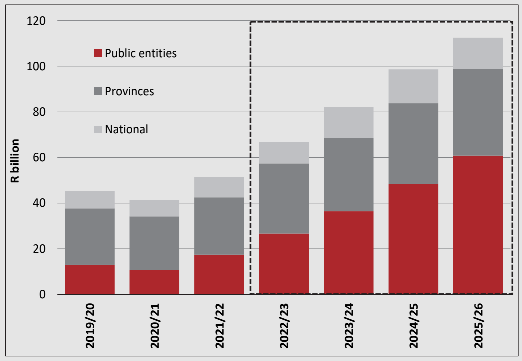
Functions have also reprioritised and reallocated their budgets to fund cost pressures and urgent policy priorities within departments and entities. Chapter 3 and Annexure A highlight a number of short- and medium-term risks to the fiscal outlook. The materialisation of risks such as a public-service wage agreement in excess of available resources would mean reduced funding for other areas of expenditure over the MTEF period.

### Infrastructure spending to support economic growth

Government will increase infrastructure budgets over the MTEF period to support economic growth and development. The Development Bank of Southern Africa, Infrastructure South Africa and the Government Technical Advisory Centre are scaling up efforts to build a viable project pipeline. These efforts are being strengthened by providing resources for project preparation. In addition, reforms are under way to reorganise and streamline functions for expedited planning and procurement for public-private partnerships and blended finance projects.

Spending on building and other fixed structures is projected to increase from R66.7 billion in 2022/23 to R112.5 billion by 2025/26, at an annual average of 19 per cent over the medium term.

**Figure 4.1 Consolidated expenditure on buildings and fixed structures**




*Source: National Treasury*

The projects recommended through the Budget Facility for Infrastructure at the national and provincial level amount to R4.8 billion in 2023/24, R5.8 billion in 2024/25 and R6.4 billion in 2025/26. These include water-related projects totalling R8.1 billion, the second phase of the South Africa Connect project amounting to R3 billion and the Rural Bridges Programme (Phase 2) amounting to R3.7 billion.

Public entities plan to invest R145.8 billion in infrastructure over the MTEF period, including R85.3 billion in the transport sector and R33.3 billion in the water sector. The South African National Roads Agency Limited will spend R61.8 billion to build new roads infrastructure and rehabilitate key transport routes serving the economy, mainly on the non-toll network, where over 85 per cent of roads are beyond their design life. The Passenger Rail Agency of South Africa plans to spend R23.6 billion to rehabilitate vandalised and stolen rail infrastructure and to continue the modernisation programme, which includes renewing the fleet of rolling stock.

The water boards will spend R27.7 billion over the MTEF period to provide bulk infrastructure. This includes the uMkhomazi water project and upgrading the capacity of various pipelines in the Rand Water service area, including the Zuikerbosch system.

## In-year spending adjustments

Net total adjustments to spending included in the 2022 Adjustments Appropriation Bill amount to R13 billion. The largest adjustments (R6.3 billion or 49 per cent) are mainly to the Department of Cooperative Governance and the Department of Transport for disaster management following the April flooding.

Other adjustments include:

- R990.5 million for rollovers
- R1.6 billion for self-financing from the revenue-generating activities of departments to enable them to continue these activities
- R500 million as announced in the 2022 Budget Speech for the Home Affairs digitisation project.

Total declared unspent funds amount to R2 billion, mainly from the Department of Social Development due to a lower-than-expected uptake of the *COVID-19 social relief of distress grant* in 2022/23 as more stringent qualification criteria were introduced.

**Table 4.2 In-year adjustments to the main budget**

| R million | Appropriation (ENE) | Special appropriation | Adjustments appropriation allocations | Adjusted appropriation |
|---|---|---|---|---|
| **Appropriation by vote** | **1 057 029** | **–** | **7 454** | **1 064 483** |
| Unforeseeable and unavoidable expenditure | | | 6 347 | |
| Expenditure earmarked in the 2022 Budget speech for future allocation | | | 500 | |
| Rollovers | | | 990 | |
| Self-financing expenditure | | | 1 580 | |
| Declared unspent funds | | | -1 963 | |
| **Direct charges against the National Revenue Fund** | **902 658** | | **7 238** | **909 896** |
| **Subtotal** | **1 959 687** | **–** | **14 692** | **1 974 379** |
| Provisional allocations not assigned to votes | 1 372 | | 13 380 | 14 752 |
| Infrastructure Fund not assigned to votes | 4 197 | | -4 197 | – |
| Contingency reserve | 10 000 | | -5 000 | 5 000 |
| National government projected underspending | | | -3 917 | -3 917 |
| Local government repayment to the National Revenue Fund | | | -2 000 | -2 000 |
| **Total adjustments expenditure estimate** | **1 975 257** | | **12 957** | **1 988 213** |
| Special Appropriation Bill, 2022 | | 30 014 | | 30 014 |
| **Total** | **1 975 257** | **30 014** | **12 957** | **2 018 228** |

*Source: National Treasury*

## Spending priorities by function group

Consolidated government spending is projected to increase from R2.21 trillion in 2022/23 to R2.48 trillion in 2025/26, growing at an annual rate of 4 per cent. Learning and culture, which is allocated R1.43 trillion over the period, accounts for the largest share of this growth. Spending in the economic development function grows at the fastest rate, averaging 8 per cent per year, followed closely by debt-service costs (7.3 per cent). Over the same period, spending in the social development function will contract by an average of 2.4 per cent as the *COVID-19 social relief of distress grant* will end on 31 March 2024.

Spending on payments for capital assets is the fastest-growing item by economic classification, at an average of 15.2 per cent over the three-year period, mainly due to the additional funding allocated for infrastructure investment in municipalities and provincial transport.

**Table 4.3 Consolidated expenditure by function[1]**

| R billion | 2021/22 Outcome | 2022/23 Revised | 2023/24 | 2024/25 | 2025/26 | Average annual growth 2022/23 – 2025/26 |
|---|---|---|---|---|---|---|
| | | | Medium-term estimates | | | |
| **Learning and culture** | **413.3** | **447.4** | **455.6** | **473.4** | **496.5** | **3.5%** |
| Basic education | 284.3 | 301.8 | 308.4 | 314.1 | 329.4 | 3.0% |
| Post-school education and training | 118.4 | 134.2 | 135.4 | 147.8 | 155.3 | 5.0% |
| Arts, culture, sport and recreation | 10.5 | 11.5 | 11.7 | 11.5 | 11.8 | 1.1% |
| **Health** | **257.4** | **258.4** | **256.1** | **267.5** | **279.4** | **2.6%** |
| **Peace and security** | **217.1** | **227.6** | **226.4** | **235.4** | **246.5** | **2.7%** |
| Defence and state security | 49.0 | 52.5 | 52.3 | 52.4 | 54.5 | 1.3% |
| Police services | 108.4 | 112.3 | 111.9 | 119.2 | 125.5 | 3.8% |
| Law courts and prisons | 49.1 | 51.7 | 51.4 | 53.6 | 55.9 | 2.6% |
| Home affairs | 10.6 | 11.1 | 10.7 | 10.2 | 10.6 | -1.5% |
| **Community development** | **208.9** | **236.7** | **258.7** | **274.9** | **291.7** | **7.2%** |
| **Economic development** | **195.8** | **222.9** | **237.6** | **262.4** | **280.8** | **8.0%** |
| Industrialisation and exports | 40.3 | 41.0 | 41.5 | 42.6 | 43.1 | 1.6% |
| Agriculture and rural development | 27.2 | 29.4 | 29.1 | 30.2 | 31.5 | 2.3% |
| Job creation and labour affairs | 20.6 | 24.9 | 24.5 | 26.2 | 27.3 | 3.1% |
| Economic regulation and infrastructure | 90.9 | 110.2 | 125.0 | 145.1 | 160.1 | 13.3% |
| Innovation, science and technology | 16.7 | 17.4 | 17.5 | 18.2 | 18.8 | 2.6% |
| **General public services** | **67.6** | **71.4** | **73.1** | **74.8** | **78.0** | **3.0%** |
| Executive and legislative organs | 14.0 | 15.3 | 16.9 | 16.4 | 17.2 | 3.8% |
| Public administration and fiscal affairs | 45.7 | 47.4 | 47.9 | 49.3 | 51.5 | 2.8% |
| External affairs | 7.9 | 8.6 | 8.4 | 9.0 | 9.4 | 3.0% |
| **Social development** | **342.8** | **365.6** | **370.9** | **350.2** | **340.3** | **-2.4%** |
| Social protection | 257.4 | 273.6 | 280.0 | 256.4 | 267.9 | -0.7% |
| Social security funds | 85.4 | 92.0 | 90.9 | 93.8 | 72.4 | -7.7% |
| **Payments for financial assets** | **76.1** | **62.6** | **25.2** | **25.4** | **26.5** | |
| **Allocated by function** | **1 779.0** | **1 892.6** | **1 903.5** | **1 963.9** | **2 039.7** | **2.5%** |
| Debt-service costs | 268.1 | 307.7 | 332.2 | 352.9 | 380.7 | 7.3% |
| Unallocated reserve | – | – | – | 41.3 | 47.3 | |
| Contingency reserve | – | 5.0 | 6.0 | 6.0 | 10.0 | |
| **Consolidated expenditure** | **2 047.0** | **2 205.3** | **2 241.7** | **2 364.1** | **2 477.7** | **4.0%** |

*1. Consisting of national and provincial departments, social security funds and public entities*
*Source: National Treasury*

**Table 4.4 Consolidated expenditure by economic classification**[1]

| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | Average annual growth |
|---|---|---|---|---|---|---|
| R billion | Outcome | Revised | Medium-term estimates | | | 2022/23 – 2025/26 |
| **Current payments** | **1 210.3** | **1 305.5** | **1 337.1** | **1 401.0** | **1 478.3** | **4.2%** |
| Compensation of employees | 665.7 | 693.1 | 699.8 | 729.6 | 763.6 | 3.3% |
| Goods and services | 267.2 | 295.6 | 295.8 | 309.2 | 324.9 | 3.2% |
| Interest and rent on land | 277.3 | 316.8 | 341.6 | 362.3 | 389.8 | 7.1% |
| *of which: debt-service costs* | *268.1* | *307.7* | *332.2* | *352.9* | *380.7* | *7.3%* |
| **Transfers and subsidies** | **683.7** | **737.1** | **761.5** | **760.6** | **770.2** | **1.5%** |
| Provinces and municipalities | 149.2 | 168.1 | 182.0 | 192.8 | 205.5 | 6.9% |
| Departmental agencies and accounts | 24.5 | 26.0 | 27.4 | 26.4 | 25.8 | -0.3% |
| Higher education institutions | 50.4 | 53.7 | 51.8 | 58.4 | 59.2 | 3.3% |
| Foreign governments and international organisations | 3.2 | 3.4 | 3.0 | 3.4 | 3.5 | 1.6% |
| Public corporations and private enterprises | 36.0 | 38.6 | 41.5 | 42.1 | 44.1 | 4.5% |
| Non-profit institutions | 41.5 | 41.4 | 42.8 | 41.3 | 43.0 | 1.3% |
| Households | 378.9 | 405.8 | 413.0 | 396.2 | 389.2 | -1.4% |
| **Payments for capital assets** | **77.0** | **95.1** | **111.9** | **129.8** | **145.4** | **15.2%** |
| Buildings and other capital assets | 55.6 | 70.9 | 85.8 | 101.6 | 115.5 | 17.7% |
| Machinery and equipment | 21.4 | 24.2 | 26.1 | 28.3 | 29.9 | 7.3% |
| **Payments for financial assets** | **76.1** | **62.6** | **25.2** | **25.4** | **26.5** | |
| **Total** | **2 047.0** | **2 200.3** | **2 235.7** | **2 316.8** | **2 420.4** | **3.2%** |
| Unallocated reserve | – | – | – | 41.3 | 47.3 | |
| Contingency reserve | – | 5.0 | 6.0 | 6.0 | 10.0 | |
| **Consolidated expenditure** | **2 047.0** | **2 205.3** | **2 241.7** | **2 364.1** | **2 477.7** | **4.0%** |

*1. Consisting of national and provincial departments, social security funds and public entities*
*Source: National Treasury*

### Learning and culture

Learning and culture is made up of the basic and higher education sectors, as well as sports, arts and culture. Over the medium term, provincial education budgets will stabilise as funding is added for compensation of employees to fill teacher vacancies and reduce class sizes, supporting improved learning outcomes. Policy decisions are still required to keep compensation spending in line with resources over the longer term.

To continue providing nutritious meals to 9 million learners each school day, funding will be added to the *national school nutrition programme conditional grant* over the next three years. Following the recent shift of the early childhood development function from social development to basic education, funding is added for the Department of Basic Education to build its oversight and monitoring capacity, and to improve and expand early childhood development services in provinces.

Cabinet received the ministerial task team report on student funding in higher education and training, which recommended more work on a comprehensive funding model. The student bursary for students from families with annual incomes below R350 000 will therefore continue while funding proposals are being developed.

**Health**

The public health sector experienced two years of severe strain from the COVID-19 pandemic and disruptions to routine healthcare services. As the immediate pressure from the pandemic eases, COVID-19 vaccinations are being integrated into general health services from separate vaccination sites. Over the MTEF period, the sector will refocus on other core health services and address accumulated backlogs.

The 2023 Budget will partly reverse the real reduction in provincial health budgets that occurred following the pandemic, although greater efficiency is also needed. Additional funds will be provided to alleviate critical funding pressures in areas such as healthcare personnel, medicine, laboratory services, medical supplies, and critical goods and services. Funds will also be provided to address service backlogs such as for surgery, oncology, antiretroviral treatment and tuberculosis screening and treatment. In addition, funds will be provided to build the new Limpopo Central Hospital in Polokwane. The National Health Insurance Bill is being considered by Parliament.

**Social development**

The function receives the second-largest share of the consolidated budget over the MTEF period. On 1 October 2022, the old age grant, war veterans grant, disability grant and care dependency grant increased by an additional R10 per month from R1 980 (R2 000 for over 75-year-olds and war veterans) to R1 990 (R2 010 for over 75-year-olds and war veterans).

At present, 7.4 million people receive the *COVID-19 social relief of distress grant*. To give government additional time to consider options for working-age people that can replace, complement or adjust the grant, it has been extended for one year until March 2024. Given the large cost of extending this grant, increases to other social grants in 2023/24 will be slightly below inflation and other social welfare priorities may remain unaddressed.

**Community development**

The community development function allocates funds for water and sanitation services, household electrification, low-income housing and upgrading of informal settlements, and public transport. The largest component of spending is the local government equitable share allocation to support municipal operations and the provision of free basic services for poor households. This is the largest component and the fastest-growing spending item in the budget. It increases by an annual average of 7.2 per cent over the next three years, mainly due to above-inflation cost increases in bulk water and electricity.

Over the medium term, water services infrastructure will be upgraded. Additional funding will be allocated through the Budget Facility for Infrastructure for projects in Nelson Mandela Bay Metropolitan Municipality, Sol Plaatje Local Municipality, Drakenstein Local Municipality and the City of Johannesburg. Bulk water supply projects to be implemented by water boards will also receive funding.

**Economic development**

Over the three-year spending period ahead, about 8.8 per cent of this function group's allocation will provide for transfers and subsidies to departmental agencies, public corporations and private enterprises. Medium-term priorities primarily support economic reconstruction and recovery through reindustrialisation, employment protection and creation, greening the economy, agriculture and food security, and investment in infrastructure.

The Department of Agriculture, Land Reform and Rural Development will reprioritise funds over the MTEF period to help contain the spread of foot and mouth disease, while the Department of Small Business Development will work with municipalities to reduce administrative and regulatory burdens for small, medium and micro enterprises and co-operatives.

Government will deepen collaboration with Proudly South African to support over 1 000 informal businesses in 2023/24 and just under 4 000 informal businesses over the MTEF period. It will also provide support to small enterprises in the cannabis industry over the same period.

In the context of a global transition from internal combustion engines to electric vehicles, the Department of Trade, Industry and Competition will reprioritise funds towards the new energy vehicle road map. The associated initiatives will enable South Africa to retain its automotive export markets and employment base. Government will also prioritise large-scale investment in infrastructure and capability to enhance the role of the South African National Space Agency, including to support critical climate data and monitoring services. The Department of Tourism has reprioritised funds towards the pilot phase of the Tourism Equity Fund introduced in 2021.

**Peace and security**

Over the MTEF period, the peace and security function is allocated additional funding to improve safety and security. The South African Police Service will receive additional funding to increase the number of student constables to improve capacity, mainly in police stations.

The Border Management Authority will become a public entity from April 2023 and will manage the movement of people and goods at the country's borders and ports of entry. The departments of Defence and Home Affairs will receive additional funding to enhance border security and territorial integrity. The defence funding also provides for the procurement of equipment and technology that will support operations, and for the repair and maintenance of navy defence systems to improve maritime security. As recommended in the spending review conducted by the National Treasury, funds will be reprioritised over the MTEF period from commuted overtime within the Military Health Support Programme towards the procurement of ambulances, X-ray machines and deployable medical equipment.

The Department of Justice and Constitutional Development has reprioritised funds to the Financial Intelligence Centre to implement recommendations from the State Capture Commission and the Financial Action Task Force. Additional reprioritisation includes funding for court security, replacing computer equipment, procuring vehicles for provinces, and enhanced capacity in the Thuthuzela care centres.

Funding will also be allocated to the National Prosecuting Authority to increase capacity in specialised tax units and the Investigating Directorate, procure specialist prosecution services for complex matters (especially financial crimes), appoint forensic auditors and accountants to deal with high-priority asset forfeiture matters, establish a digital forensic data centre, and finance increased witness protection operational costs. Additional funding will enable the Financial Intelligence Centre to increase its human resource capacity and help the Special Investigating Unit initiate civil litigation following the State Capture Commission recommendations.

**General public services**

This function contributes to building a state that can play a developmental and transformative role. The function has reprioritised funds over the MTEF period from goods and services to cover key policy initiatives and enhance capacity in departments.

As recommended by the National Treasury in the 2020/21 spending review, the Department of International Relations and Cooperation has completed the closure of 10 missions approved by Cabinet in July 2020. The savings realised helped the department to reduce its shortfall on compensation of employees over the MTEF period. In 2023/24, the department will close its missions in Sofia, Bulgaria, and Toronto, Canada.

Funds will be shifted from the Department of Public Works and Infrastructure to the Presidency to increase capacity in the Project Management Office, which supports other government departments to develop programmes that provide work opportunities for youth. The South African Revenue Service will receive additional funds to improve information and communications technology capacity and revenue-collection capabilities, and to report on tax administration digital resilience during the COVID-19 pandemic. Funds have been reprioritised over the medium term for the Government Communication and Information System to prioritise campaigns on gender-based violence and femicide, anti-corruption and the economic recovery plan.

## Division of revenue

Provinces are responsible for basic education and health services, roads, housing, social development and agriculture. Municipalities provide basic services such as water, sanitation, electricity reticulation, roads and community services. Provincial and municipal governments face pressures from rising costs of basic and social services over the medium term as government contains spending growth and weak economic growth affects other sources of funding. Over the next three years, government proposes allocating 48.4 per cent of available non-interest spending to national departments, 41.4 per cent to provinces and 10.1 per cent to local government.

**Table 4.5 Division of revenue framework**

| R billion | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---|---|---|---|---|---|---|---|
| | | Outcome | | Revised | | Medium-term estimates | |
| **Division of available funds** | | | | | | | |
| **National departments** | **749.8** | **790.5** | **823.0** | **857.9** | **817.7** | **822.2** | **859.1** |
| *of which:* | | | | | | | |
| *Provincial indirect grants* | *2.9* | *2.9* | *3.7* | *4.6* | *4.2* | *4.4* | *4.8* |
| *Local indirect grants* | *5.6* | *4.1* | *5.7* | *8.2* | *9.9* | *10.7* | *14.0* |
| **Provinces** | **613.4** | **628.8** | **660.8** | **684.5** | **684.3** | **709.5** | **743.3** |
| Equitable share | 505.6 | 520.7 | 544.8 | 560.8 | 556.4 | 576.5 | 602.9 |
| Conditional grants | 107.9 | 108.1 | 116.0 | 123.7 | 128.0 | 133.0 | 140.4 |
| **Local government** | **123.0** | **137.1** | **135.6** | **154.2** | **164.9** | **174.6** | **183.5** |
| Equitable share | 65.6 | 83.1 | 76.2 | 87.3 | 95.1 | 102.4 | 109.4 |
| General fuel levy sharing with metropolitan municipalities | 13.2 | 14.0 | 14.6 | 15.3 | 15.4 | 16.1 | 16.8 |
| Conditional grants | 44.2 | 40.0 | 44.8 | 51.5 | 54.4 | 56.1 | 57.3 |
| Provisional allocations not assigned to votes[1] | – | – | – | 14.8 | 36.5 | 38.0 | 39.3 |
| Unallocated reserve | – | – | – | – | – | 41.3 | 47.3 |
| Projected underspending | – | – | – | -5.9 | – | – | – |
| **Non-interest allocations** | **1 486.2** | **1 556.4** | **1 619.4** | **1 705.5** | **1 703.4** | **1 785.6** | **1 872.5** |
| Debt-service costs | 204.8 | 232.6 | 268.1 | 307.7 | 332.2 | 352.9 | 380.7 |
| Contingency reserve | – | – | – | 5.0 | 6.0 | 6.0 | 10.0 |
| **Main budget expenditure** | **1 691.0** | **1 789.0** | **1 887.5** | **2 018.2** | **2 041.6** | **2 144.5** | **2 263.2** |
| *Percentage shares* | | | | | | | |
| National departments | 50.4% | 50.8% | 50.8% | 50.6% | 49.1% | 48.2% | 48.1% |
| Provinces | 41.3% | 40.4% | 40.8% | 40.3% | 41.1% | 41.6% | 41.6% |
| Local government | 8.3% | 8.8% | 8.4% | 9.1% | 9.9% | 10.2% | 10.3% |

*1. Includes support to Eskom, amounts for projects approved through Budget Facility for Infrastructure and other provisional allocations*
*Source: National Treasury*

While cost pressures are growing, municipalities are in worsening financial distress. By March 2022, almost 90 per cent of municipalities displayed at least one trigger requiring the support and intervention of national and provincial government. Over the medium term, government is allocating additional funds to support service delivery, stabilising municipalities in immediate distress, and developing longer-run plans to improve capability.

The National Treasury is reviewing the conditional grants system to determine if it is structured in a way that supports efficient service delivery, rollout of infrastructure, building of capacity and provision of operational support. The findings will be used to reform the grant system for greater impact. In light of this review, no large-scale changes will be introduced to existing conditional grants in the 2023 Budget. Preliminary results may inform initial changes to conditional grants in the 2024 Budget.

### The provincial equitable share

The provincial equitable share – the main revenue source for provinces – is made up of six components: education, health, basic, institutional, poverty and economic activity. To ensure fair funding allocations to each province, the formula is updated annually to reflect demographic changes and demand for services based on need. The changes introduced in 2022/23 as a result of the review of the health component will continue to be phased in over 2023/24 and 2024/25. The provincial equitable share task team, made up of representatives from the National Treasury and provincial treasuries, is reviewing the education component in partnership with relevant departments and agencies.

**Table 4.6 Provincial equitable share**

| R million | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---|---|---|---|---|
| Eastern Cape | 72 231 | 71 682 | 74 059 | 77 422 |
| Free State | 31 107 | 30 815 | 31 798 | 33 157 |
| Gauteng | 120 042 | 118 566 | 123 219 | 128 844 |
| KwaZulu-Natal | 114 558 | 113 240 | 116 758 | 121 688 |
| Limpopo | 64 056 | 64 175 | 66 774 | 70 276 |
| Mpumalanga | 45 962 | 45 834 | 47 581 | 49 882 |
| Northern Cape | 14 942 | 14 878 | 15 441 | 16 182 |
| North West | 39 540 | 39 373 | 41 027 | 43 091 |
| Western Cape | 58 367 | 57 822 | 59 844 | 62 359 |
| **Total** | **560 805** | **556 385** | **576 501** | **602 900** |

*Source: National Treasury*

**Changes to the structure of local government allocations**

Over the MTEF period, R523 billion will be transferred to local government, including R167.8 billion in conditional grants. The largest transfer to municipalities is the local government equitable share, which grows by 9 per cent in 2023/24, 7.6 per cent in 2024/25 and 6.8 per cent in 2025/26. These above-inflation increases account for growth in household numbers, and higher bulk water and electricity costs.

The local government equitable share formula has been updated to account for projected household growth and increases in the cost of services. The formula will be refined over the 2023 MTEF period through a review of the cost factors driving basic services, creation of a fire services sub-component and estimates of household growth. This refinement, which is part of the five-year local government reform plans adopted by the Budget Forum in 2021, will be underpinned by high-quality, credible and verifiable data.

**Update on long-term borrowing for municipalities**

In August 2022, Cabinet approved the updated municipal borrowing policy framework. This framework will support the development and growth of an efficient and liquid market for municipal borrowing by:

- Introducing reforms needed to expand the scope of municipal borrowing and attract more investors to municipal debt markets.
- Clarifying the role of development finance institutions to ensure that they do not crowd out the private sector.
- Outlining infrastructure financing mechanisms for municipalities.

The National Treasury will lead consultations with stakeholders such as development finance institutions and commercial banks on how to implement these changes.

To complement the borrowing reforms, Cabinet has also approved the Municipal Fiscal Powers and Functions Amendment Bill for tabling in Parliament. This bill will improve and standardise the regulation of development charges, a source of municipal revenue charged to developers for connecting new developments to municipal services.

**Building capability for service delivery**

Government spent R9.1 billion across 40 state agencies in 2019/20 to help municipalities build capacity and function efficiently. Following the National Treasury's review of this capacity-building system, government is developing a multi-year programme to improve its outcomes and cost-effectiveness. The National Treasury, with the support of the Government Technical Advisory Centre, will finalise the design of a revised programme and agree an integrated approach to local government capability development during 2023.

**Restoring the financial health of the 43 municipalities in crisis**

By the end of the third quarter of 2021/22, 43 municipalities were experiencing financial and service delivery crises as defined in the Municipal Finance Management Act (2003). To date, interventions have been ineffective largely because of poor coordination among stakeholders, reluctance to address dysfunctional councils, ineffective monitoring and implementation of financial recovery plans, and incorrect application of the framework in section 139 of the Constitution.

The National Treasury is strengthening its early warning system and implementing effective remedial actions to assist these and other municipalities to return to financial sustainability. It aims to address municipal performance failures by prioritising six essential components (funded budgets, revenue management, asset management, audit outcomes, supply chain management and the Municipal Standard Chart of Accounts) and strengthening monitoring and enforcement of financial recovery plans. In addition, inductions are under way to educate new councils on the intervention and how it benefits the municipality. To date, 27 of the 43 municipal councils have been inducted. The 2023 Budget will provide more detail on these efforts.

## Conclusion

Over the medium term, additional funding will be provided for health, education, safety and security, and infrastructure investment. Municipalities will receive support to cover cost increases in free basic services. Government is working to improve the efficiency of spending.

# ANNEXURES

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# A

# Fiscal risk statement

## Introduction

This statement sets out the medium- and long-term risks to the public finances, with short-term risks outlined in Chapter 3. Some previously anticipated fiscal risks have started to materialise and are worse than anticipated at the time of the 2022 *Budget Review,* although the fiscal position is expected to improve over the medium term.

The major risk categories discussed in this annexure are summarised in Figure A.1.

**Figure A.1 Fiscal risk framework**

| Risk category | Major issues under each category |
|---|---|
| Macroeconomic risks | ▪ Slowdown in economic growth<br>▪ Higher global interest rates resulting in higher-than-expected debt-service costs<br>▪ Higher debt trajectory |
| Expenditure risks | ▪ Higher-than-budgeted wage bill expenditure<br>▪ Large unfunded social expenditures<br>▪ Subnational government |
| Contingent and accrued liabilities | ▪ Government guarantees<br>▪ Weak financial position of several state-owned companies |

## Macroeconomic risks

Gross tax revenue is now estimated to be an average of R92.6 billion higher over the 2022 medium-term expenditure framework (MTEF) period compared to estimates presented in the 2022 Budget. However, there is significant uncertainty associated with this projection. Revenue projections have changed rapidly before, during and after the COVID-19 pandemic. Any significant downward revisions would place the current fiscal strategy under pressure.

If aggressive global monetary policy tightening results in a protracted slowdown in global growth, South Africa's fiscal outlook could deteriorate as revenue collections falter and debt-service costs increase. Furthermore, a failure to address structural economic constraints would result in economic growth decelerating, placing additional pressure on the fiscal position. This could adversely affect public debt dynamics and would require more robust fiscal measures to stabilise the public finances.

As discussed in chapters 2 and 3, government's policy stance is intended to promote faster economic growth through structural reforms, while fiscal policy is well on course to return the public finances to a sustainable position.

**Scenarios around the baseline economic forecast**

The baseline economic forecast in Chapter 2 underpins the fiscal framework. Deviations from the underlying assumptions can have significant effects on variables such as GDP growth, inflation, interest and exchange rates. To illustrate this, the impact of the two alternative scenarios on the fiscal position has been modelled.

In Scenario A, stronger economic growth results in the primary balance increasing by a total of 0.3 percentage points of GDP over the medium term. As a result, debt-service costs decline to 15.8 per cent as a share of total revenue in 2030/31. Gross loan debt declines at a faster pace, relative to the baseline, and measures 59.4 per cent of GDP in 2030/31.

In Scenario B, debt-service costs increase and economic growth slows due to a more aggressive monetary policy stance, particularly in China, Europe, the United Kingdom and the United States. As a share of total revenue, debt-service costs increase to 17.3 per cent in 2030/31 and stabilisation of gross loan debt is only achieved in 2023/24. Gross loan debt as a share of GDP increases to 65.4 per cent in 2030/31, relative to the baseline.

**Figure A.2 Real GDP scenarios**

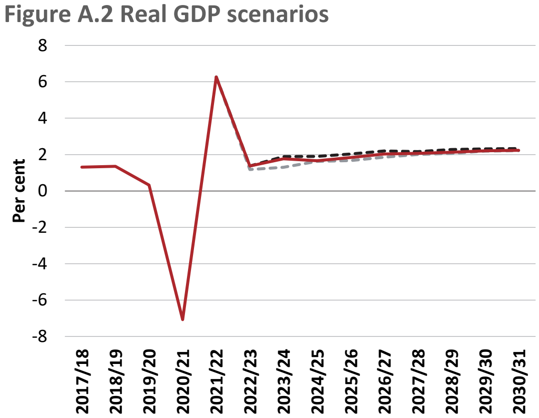
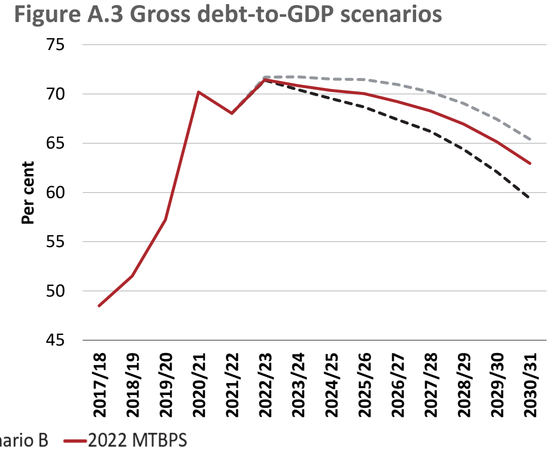



**Figure A.3 Gross debt-to-GDP scenarios**

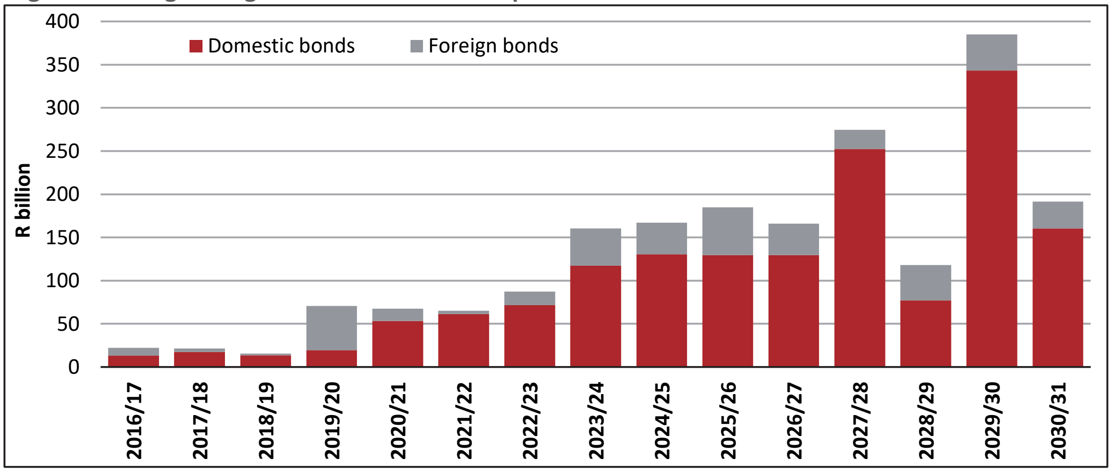



*Source: National Treasury*

**Debt trajectory**

From 2016/17 to 2021/22, redemptions on long-term government debt averaged R43.8 billion per year. In comparison, debt redemptions from 2022/23 to 2030/31 will average R192.8 billion per year. A portion of the maturing debt will have to be refinanced, which places significant pressure on capital markets, raising borrowing costs across the economy. Moreover, higher debt redemptions increase the risk that changes in demand for government bonds, a depreciation of the rand exchange rate and/or higher borrowing rates will override the benefits of a lower budget deficit. To reduce these costs and risks, government is prioritising the stabilisation of debt and narrowing the deficit. In addition, government continues to manage debt in a prudent and sustainable manner, by maintaining a diversified portfolio of funding instruments to mitigate debt-service costs and refinancing risks.

**Figure A.4 Long-term government debt redemptions**




*Source: National Treasury*

## Expenditure risks

### Compensation spending

From an economic classification perspective, public-service compensation is the largest spending item. If a wage agreement is reached in 2022/23 that exceeds the available budget, it would pose a significant risk to the in-year and medium-term fiscal projections. Given that higher-than-anticipated wage increases would have cost implications for each year of the 2023 MTEF period, spending on policy priorities might need to be reallocated to compensation budgets. Government departments would also need to ensure that personnel costs, including any hiring, would remain within their budgeted compensation ceilings.

### Social spending

A permanent extension of the *COVID-19 social relief of distress grant*, or a similar new grant, needs to be matched by a corresponding permanent increase in revenue, decrease in spending or combination of the two. Assuming the current grant value and take-up rate remain constant and it is extended indefinitely, the cost of the grant could grow at an average of 8.8 per cent per year to reach R64.9 billion in 2030/31. Without a permanent source of funding, this would threaten the sustainability of the public finances.

### Subnational government risks

The high level of unpaid bills and accruals in provincial and local government constitutes a significant risk. For provincial government, these are estimated at R24.6 billion in 2021/22, slightly lower than the previous year's R26.5 billion. However, a risk remains that bills and accruals could grow if provincial governments are unable to manage the costs of providing services such as education and health, compensating employees and purchasing goods and services within their budgets.

Provincial health departments continue to face a high level of medico-legal claims. The contingent liability associated with these claims – in other words, the potential loss incurred by the state if all claims are to be paid out – increased from R106.3 billion in 2020/21 to R109 billion in 2021/22, while payment of claims declined from R1.7 billion to R1 billion over the same period. Reforms proposed in the State Liability Amendment Bill would reduce the state's liability for medical claims and create a more sustainable payment model. The National Treasury is reviewing inputs from provincial governments on how the bill will be implemented.

**Figure A.5 Provincial bills and accruals**

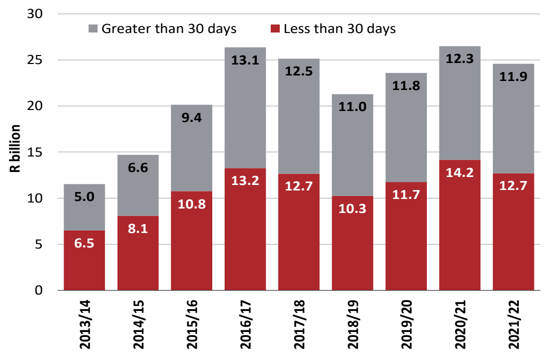
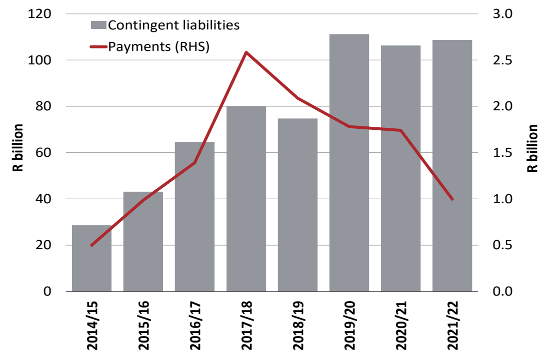



**Figure A.6 Provincial medico-legal contingent liabilities and payments**




*Source: National Treasury*

In general, the financial position of South Africa's 257 municipalities remains weak; 98 municipalities adopted unfunded budgets in 2022/23. By 30 June 2022, creditors were owed R89.7 billion, of which 64.9 per cent or R58.2 billion consisted of debts older than 90 days. Monies owed to Eskom, the Department of Water and Sanitation and the water boards also increased by 24.1 per cent, from R51.2 billion in 2021/22 to R63.5 billion in the current year. Uncollected municipal revenue increased from R232.8 billion at end-June 2021 to R255.4 billion at end-June 2022, of which 86 per cent was for debt older than 90 days. The largest share of this debt (71.2 per cent or R181.8 billion) is owed by households, with government accounting for 6.7 per cent, or R17.1 billion of the total outstanding.

In response to municipalities' financial weakness, the National Treasury is working to strengthen its early warning system to improve oversight and timely assistance. An update on the progress will be provided in the 2023 Budget. Municipalities need to ensure that their costs do not exceed the sum of their transfers and revenues collected.

## Contingent liabilities

Contingent liabilities represent financial commitments that government may have to fulfil in the future if particular outcomes materialise. Most contingent liability risks originate from the poor financial condition of major state-owned companies. Some of these risks have already materialised, requiring resources from the budget. By 2024/25, contingent liabilities are expected to exceed R1 trillion. At this stage, the fiscal risk statement does yet take into account changes related to planned debt relief, as these are tied to conditions that still need to be finalised between the relevant parties.

### Guarantees

Government's guarantee portfolio decreased from R788 billion in March 2021 to R758 billion by March 2022, largely because of a reduction in the guarantees granted to the Trans-Caledon Tunnel Authority and to South African Airways. Guarantee exposure increased from R567 billion in 2020/21 to R594 billion as at 31 March 2022, driven largely by further drawdowns by Eskom, which accounts for 78 per cent of guarantees to state-owned companies. The independent power producer programme guarantee increased from R176.7 billion to R191.2 billion with the signing of additional contracts.

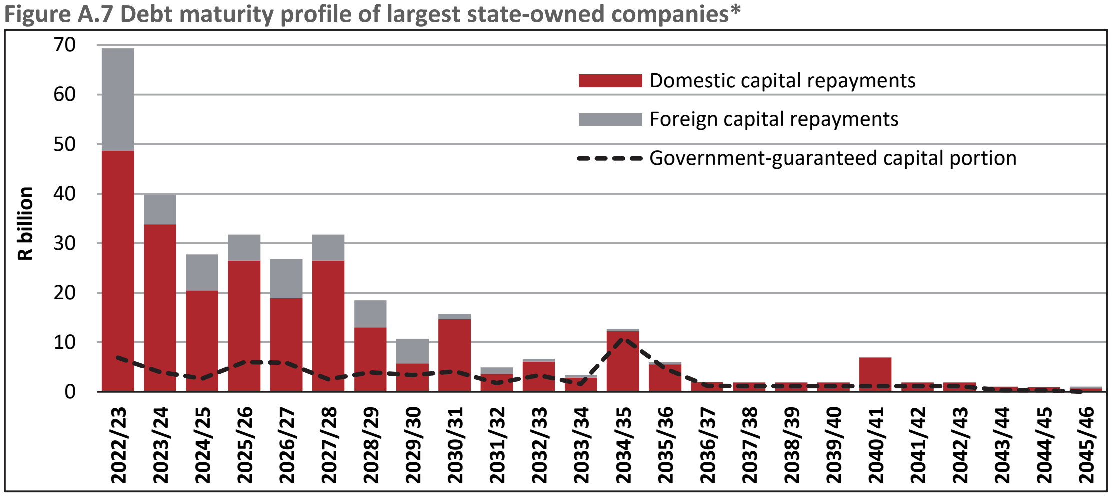
The minimum criteria for the consideration of guarantee requests by the Minister of Finance require state-owned companies to demonstrate their ability to service debt that would be acquired using the guarantee. In 2021/22, no guarantee requests that met the minimum criteria were received, so no new guarantees were issued. As a result, the volume of the exposure declined. However, the quality of the existing exposure is still very poor. Deeper financial, governance and structural reforms are required to sustainably improve performance and operations at major state-owned companies.

### Financial condition of state-owned companies

The financial condition of many state-owned companies remains weak, exacerbated in some cases by the effect of the Russia-Ukraine war and the flooding in April 2022. Some state-owned companies had difficulty meeting their funding requirements because of their low credit quality and, for certain development finance institutions, the prolonged Land Bank default position. Overall investment in infrastructure slowed as entities managed their budgets and operations by cutting costs, enhancing revenue and managing capital. Government has maintained the liquidity support extended to Denel and Eskom and continues to closely monitor implementation of turnaround plans.

Total debt redemptions for state-owned companies will average R33.1 billion a year over the medium term, with foreign debt making up 19 per cent of the total. State-owned companies have reduced their participation in the listed debt capital market in recent years, as reflected on their lower gross issuances relative to all other non-government issuers on the Johannesburg Stock Exchange. Between 2018 and 2021, state-owned companies' gross listed issuances declined from 18 per cent to 8 per cent as a share of total listed issuances. Issuances grew marginally in 2022. However, state-owned companies continue to borrow and refinance at high costs, largely because of poor cash generation, weak revenue performance, poor operating performance, and unsustainable balance sheets and financial metrics.

**Figure A.7 Debt maturity profile of largest state-owned companies***




**Airports Company South Africa, Denel, Development Bank of Southern Africa, Eskom, Industrial Development Corporation, Land Bank, South African Airways, South African National Roads Agency Limited, Trans-Caledon Tunnel Authority and Transnet*
*Source: National Treasury as at 31 March 2022*

### Denel

Denel remains in financial distress and cannot meet its financial obligations as they fall due. Government allocated R3 billion in 2021/22 to cover capital and interest payments on guaranteed debt. In September 2022, as part of clarifying Denel's future role in the economy, Denel and Armscor signed a memorandum of understanding covering defence equipment and operational requirements. Denel is implementing its turnaround plan and has disposed of some non-core assets, which provided funds to partially finance legacy obligations and immediate working capital requirements. Chapter 3 discusses further allocations for Denel to pay off debt and complete implementation of its turnaround plan.

### Eskom

Eskom is the largest long-term risk to the economy, given its high debt levels and unsustainable business model. In 2019, government announced a R230 billion support package for Eskom to remain financially viable. To date, R140 billion of this package has been disbursed. In addition, Eskom had used

R323.9 billion of its R350 billion government guarantee facility as at 30 June 2022. The National Treasury is leading a process to design a debt relief programme that will address the utility's financial challenges, as discussed in Chapter 3. Debt relief will be guided by strict conditions that emphasise progress in significant reforms, such as the unbundling process and financial sustainability.

**Road Accident Fund**

The Road Accident Fund remains a significant contingent liability despite receiving a growing share of fuel tax revenues. It is estimated that the accumulated deficit will grow by an annual average rate of 7.5 per cent, from R385.5 billion in 2021/22 to R479 billion in 2024/25. A change in disbursement strategy could accommodate a larger share of claims if loss of income support is paid as annuities instead of as lump sum payments. This change in strategy could lead to improved cash flow management, which in turn will help manage short- and long-term liabilities.

**South African Airways**

In the 2020 *Budget Review*, R16.4 billion was set aside for South African Airways (SAA) over the 2020 MTEF period to settle government-guaranteed debt and interest costs. The final tranche of this debt was repaid in July 2022, eliminating government-guaranteed debt-related exposure to SAA. Government financial support to repay debt and implement the business rescue plan has resulted in a significant improvement of the airline's balance sheet. SAA exited business rescue on 30 April 2021.

**South African National Roads Agency Limited**

The South African National Roads Agency Limited (SANRAL) remains in limbo given policy uncertainty over government's position on the user-pays principle. As a result, SANRAL cannot collect sufficient cash from its toll portfolio to settle maturing government-guaranteed debt. This balance sheet weakness is affecting SANRAL's ability to maintain the broader road network and as such also presents a medium-term risk to economic growth. Chapter 3 outlines in-year allocations to address this risk.

**Transnet**

Transnet generated a net profit of R5 billion for 2021/22. The state rail and ports operator suffered severe and widespread damage to assets, installations and operations from the heavy rains and flooding in April 2022, resulting in unexpected repair costs and loss of revenue. While the Port of Durban is now operating, major repairs are still required to fully restore Transnet Freight Rail operations in KwaZulu-Natal. Chapter 3 outlines allocations to Transnet to repair rail infrastructure and to increase locomotive capacity, both of which are expected to support economic growth.

**Evaluating the viability of state-owned companies**

Government continues to review the value created by state-owned companies as part of evaluating whether they can be run sustainably. The Presidential State-Owned Enterprises Council has developed a draft framework to guide decisions on disposing of and retaining state-owned companies. To complement this work, the National Treasury has begun developing a state-owned companies funding framework, which will be finalised in 2022/23. A discussion of government's contingent liabilities appears in Chapter 7 of the *Budget Review*.

## Conclusion

Government faces a range of fiscal risks over the medium to longer term. Significant efforts will be required across the entire public sector to prevent these risks from materialising – and to mitigate those that do. As discussed in Chapter 3, government is setting aside a portion of higher-than-anticipated revenues over the medium term to mitigate certain risks.

B

# Compensation and employment data

## Introduction

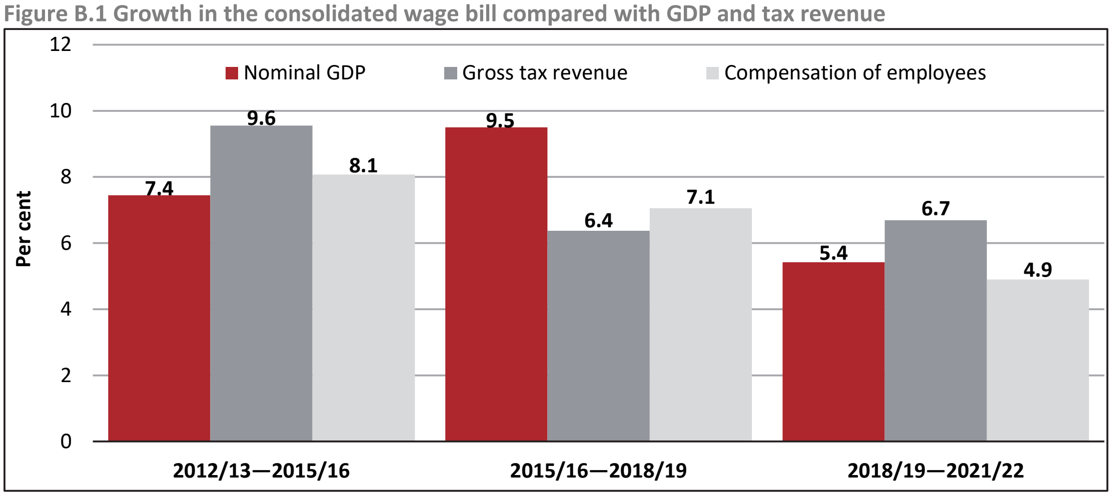
Over the past several years, government has taken steps to contain consolidated compensation costs, which account for 31.4 per cent of consolidated expenditure in 2022/23 – down from 34.5 per cent in 2019/20. Managing the wage bill is critical for ensuring sustainable public finances. The government wage bill in this annexure is presented in three categories:

- **Public service,** the narrowest category, refers to national and provincial departments, including components managed in terms of the Public Service Act (1994) and public-service regulations.
- **Consolidated**, a broader category, includes national public entities along with national and provincial departments.
- **Public sector** is the broadest category; it includes national, provincial and local government, as well as public entities and state-owned companies.

Previous versions of this annexure focused on the wage bill and headcounts in the public service. The annexure is now expanded to cover the public sector to provide more complete compensation and employment trends across government.

Figure B.1 compares the consolidated wage bill with nominal GDP and gross tax revenue growth since 2012/13.

**Figure B.1 Growth in the consolidated wage bill compared with GDP and tax revenue**




*Source: National Treasury*

Over the past 15 years, the consolidated wage bill grew significantly, mostly as a result of above-inflation wage increases. In the context of slow economic growth, the growing wage bill began crowding out spending in other critical areas, including service delivery. Between the 2020 Budget and the 2021 Budget, government reduced the medium-term compensation of employees' baselines by more than R300 billion to stabilise the public finances. The slowdown in compensation growth from these fiscal consolidation measures is reflected in Figure B.1, and aligns with slower growth in revenue and nominal GDP since 2018/19. Future wage negotiations will aim to strike a balance between remuneration increases and the need for additional staff in services such as education, health and police.

**Public-sector remuneration reforms**

Remuneration practices have become misaligned because of a fragmented system. This is reflected in a similarly fragmented collective bargaining process in the public sector. In this regard, there are significant differences between the remuneration of senior managers in the public service and those in municipalities and public entities. The Department of Public Service and Administration, working with the National Treasury and other national departments, is reviewing remuneration policies across government. The aim is for the public sector (excluding state-owned companies) to move towards a single remuneration framework in line with the principles of fair, equitable and sustainable remuneration. This will reduce current remuneration inequality for employees performing similar tasks in different spheres of government.

## International benchmarking

South Africa's public-sector wage bill is substantially higher than that of its peer countries, and one of the highest among emerging markets. Figure B.2 shows that South Africa's public-sector wage bill is about 5 percentage points greater than the Organisation for Economic Co-operation and Development average as a share of GDP. At the same time, public-sector employment as a percentage of total employment is significantly less than in countries such as Norway and Denmark. This suggests that high average compensation levels are mainly responsible for South Africa's high public-sector wage bill rather than headcount growth.

**Figure B.2 Public-sector wage bill as a percentage of GDP, 2021**

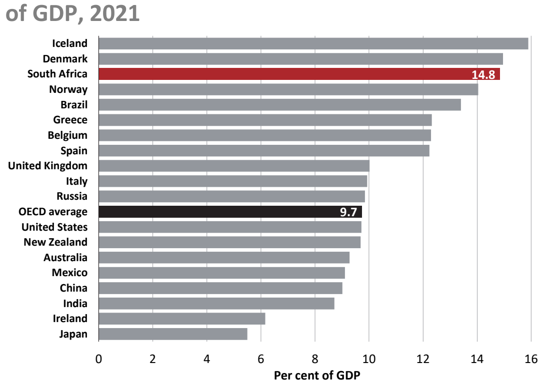
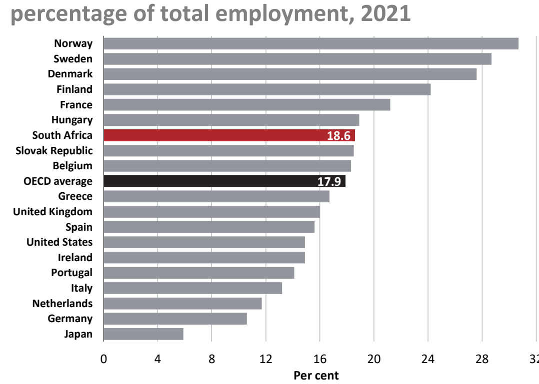



**Figure B.3 Public-sector employment as a percentage of total employment, 2021**




*Source: OECD Data Library, 2021*

## Consolidated wage bill and employment trends (including local government)

The wage bill can be disaggregated into remuneration per person and the number of people employed. Much of the rise in the consolidated wage bill since 2008/09 is a result of large increases in remuneration rather than in the number of people employed. Table B.1 reflects how headcounts have grown across different parts of government relative to salaries and wages since 2015/16. Headcounts have increased by 0.2 per cent on average per year, while salaries and wages have grown on average by 6.2 per cent per year over the same period.

**Table B.1 Consolidated wage bill and headcount trends[1], 2015/16 to 2021/22**

| R million | 2015/16 | 2018/19 Outcome | 2021/22 | Average annual growth 2015/16 – 2021/22 |
|---|---|---|---|---|
| **National departments** | | | | |
| Salaries and wages | 136 387 | 165 433 | 181 628 | 4.9% |
| Headcount | 427 160 | 408 962 | 395 267 | -1.3% |
| **Provinces** | | | | |
| Salaries and wages | 288 910 | 358 278 | 416 458 | 6.3% |
| Headcount | 893 221 | 883 730 | 912 856 | 0.4% |
| **Local government** | | | | |
| Salaries and wages | 81 757 | 105 152 | 130 032 | 8.0% |
| Headcount | 314 446 | 329 918 | 342 048 | 1.4% |
| **National public entities** | | | | |
| Salaries and wages | 44 813 | 56 423 | 62 829 | 5.8% |
| Headcount | 109 285 | 104 377 | 117 619 | 1.2% |
| **Total** | | | | |
| **Salaries and wages** | **551 867** | **685 286** | **790 948** | **6.2%** |
| **Headcount** | **1 744 112** | **1 726 987** | **1 767 790** | **0.2%** |

*1. Includes local government*

*Source: National Treasury, Statistics South Africa*

Headcounts in national departments declined by an annual average rate of 1.3 per cent between 2015/16 and 2021/22, yet spending increased by 4.9 per cent over the same period. Police, defence and correctional services account for the largest share of spending and headcounts in national departments. Provincial headcounts also declined between 2015/16 and 2018/19, but the numbers increased significantly in 2021/22 largely due to COVID-19-related appointments in health and education. Headcounts and spending in both local government and national public entities increased significantly between 2015/16 and 2021/22.

## Public-service wage bill spending and employment trends

The COVID-19 pandemic affected the size and composition of the public service, partly through deliberate choices to increase the health response capacity. The health sector grew by more than 18 500 employees between 2015/16 and 2021/22 as employment in the rest of the public service (excluding the education sector) shrank by about 30 000 employees over the same period.

Table B.2 shows changes in employment by major functions since 2015/16. Education, health, police and defence account for over 80 per cent of total public-service employment. The biggest increase in headcounts over this period occurred in the health sector, followed by education, while other sectors experienced a consolidated decline in headcounts. In some departments this may be attributed to the early retirement dispensation without penalisation that was made available by government in 2019. Although take-up of this measure was lower than government anticipated, about 3 000 personnel have left as a result of this initiative.

**Table B.2 Public-service salaries and wages and headcount[1] by sector, 2015/16 to 2021/22**

| R million | 2015/16 | 2018/19 | 2021/22 | Average annual growth 2015/16 – 2021/22 |
|---|---|---|---|---|
| | | Outcome | | |
| **Education** | | | | |
| Salaries and wages | 151 657 | 190 274 | 215 138 | 6.0% |
| Headcount | 465 098 | 465 343 | 469 390 | 0.2% |
| **Health** | | | | |
| Salaries and wages | 96 586 | 122 755 | 150 070 | 7.6% |
| Headcount | 310 744 | 302 898 | 329 269 | 1.0% |
| **Police** | | | | |
| Salaries and wages | 57 478 | 71 282 | 78 412 | 5.3% |
| Headcount | 192 026 | 189 914 | 178 451 | -1.2% |
| **Defence** | | | | |
| Salaries and wages | 24 788 | 30 012 | 33 722 | 5.3% |
| Headcount | 77 391 | 74 448 | 71 235 | -1.4% |
| **Correctional services** | | | | |
| Salaries and wages | 13 189 | 15 835 | 17 678 | 5.0% |
| Headcount | 39 626 | 39 096 | 39 568 | -0.0% |
| **Other** | | | | |
| Salaries and wages | 81 599 | 93 553 | 103 066 | 4.0% |
| Headcount | 229 839 | 220 889 | 220 211 | -0.7% |
| **Total** | | | | |
| **Salaries and wages** | **425 297** | **523 711** | **598 086** | **5.8%** |
| **Headcount** | **1 314 724** | **1 292 588** | **1 308 123** | **-0.1%** |

*1. Headcount numbers are based on full-time equivalents*
*Source: National Treasury*

Figures B.4 and B.5 show associated expenditure and headcount share by sector and occupation category in 2021/22. Educators remain the single largest occupation category in the public service, both in terms of expenditure and headcount. About 52 per cent of the wage bill is spent on educators, nursing personnel and police officers. Table B.3 shows the salaries and wages expenditure and headcount by salary levels since 2015/16.

**Figure B.4 Share of public-service wage spending and headcounts in 2021/22 by sector**

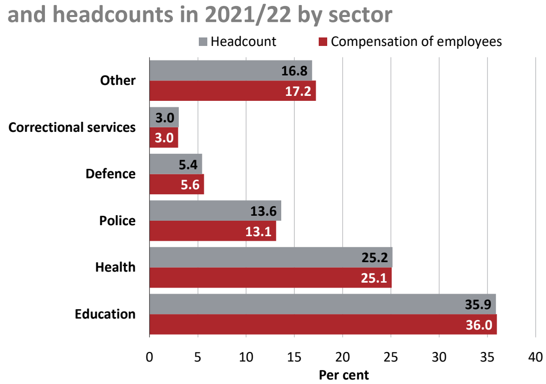
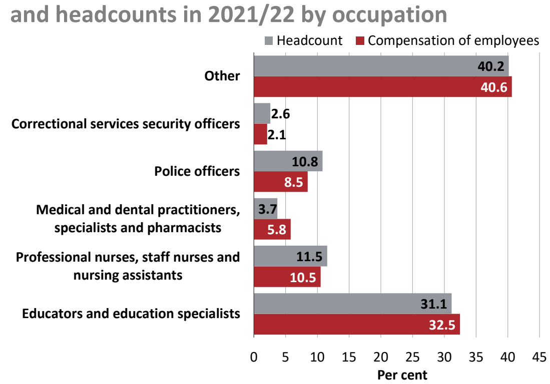



**Figure B.5 Share of public-service wage spending and headcounts in 2021/22 by occupation**




*Source: National Treasury*

**Table B.3 Public-service salaries and wages and headcount[1] by salary band, 2015/16 to 2021/22**

| R million | 2015/16 | 2018/19 | 2021/22 | Average annual growth 2015/16 – 2021/22 |
|---|---|---|---|---|
| | | Outcome | | |
| **Lower skilled (level 1-5)** | | | | |
| Salaries and wages | 78 362 | 93 583 | 100 125 | 4.2% |
| Headcount | 449 455 | 407 753 | 384 211 | -2.6% |
| **Highly skilled production (level 6-8)** | | | | |
| Salaries and wages | 125 026 | 167 278 | 195 726 | 7.8% |
| Headcount | 554 881 | 563 532 | 598 496 | 1.3% |
| **Highly skilled supervision (level 9-12)** | | | | |
| Salaries and wages | 97 738 | 119 700 | 136 604 | 5.7% |
| Headcount | 214 603 | 209 899 | 217 247 | 0.2% |
| **Senior management (level 13-16)** | | | | |
| Salaries and wages | 19 987 | 15 495 | 14 919 | -4.8% |
| Headcount | 17 032 | 11 925 | 11 364 | -6.5% |
| **Other[2]** | | | | |
| Salaries and wages | 104 184 | 127 656 | 150 713 | 6.3% |
| Headcount | 78 753 | 99 479 | 96 805 | 3.5% |
| **Total** | | | | |
| **Salaries and wages** | **425 297** | **523 711** | **598 086** | **5.8%** |
| **Headcount** | **1 314 724** | **1 292 588** | **1 308 123** | **-0.1%** |

*1. Headcount numbers are based on full-time equivalents*
*2. Includes temporary or sessional workers that do not fall within any particular salary level*
*Source: National Treasury*

The bulk of public-service employees are those employed in salary levels 6 to 8. These employees account for about 46 per cent of the total public-service headcount in 2021/22 and about 33 per cent of the public-service wage bill. The number of employees and the wage bill for this salary band grew significantly between 2015/16 and 2021/22. Teachers account for about 47 per cent of total staff within this category and are the main contributors to the growth in headcounts. The number of personnel in salary levels 1 to 5 has declined since 2015/16, mainly due to rank promotions in police. Headcounts and the wage bill for senior management have been decreasing since 2015/16.

Table B.4 reflects the number of professionals in relation to population growth between 2015/16 and 2021/22. Although the number of professionals has grown, the overall population has grown faster. This is particularly evident in the South African Police Service, with the number of police officers declining from 260 per 100 000 residents in 2015/16 to 236 per 100 000 residents in 2021/22. A similar trend is evident among educators and nursing professionals.

Government is focused on increasing capacity in these critical service delivery areas over the medium term. The 2022 Budget included allocations of about R50 billion over the 2022 medium-term expenditure framework (MTEF) period to education, health and the security cluster to respond to spending pressures and changes in headcounts. Additional funding amounting to R43.6 billion over the 2023 MTEF period has been made available to increase headcounts, mainly in education, health and police. The allocation to police will allow the department to recruit nearly 5 000 officers annually over the 2023 MTEF period. Education and health will also be able to increase headcounts.

**Table B.4 Average number of professionals per population, 2015/16 to 2021/22**

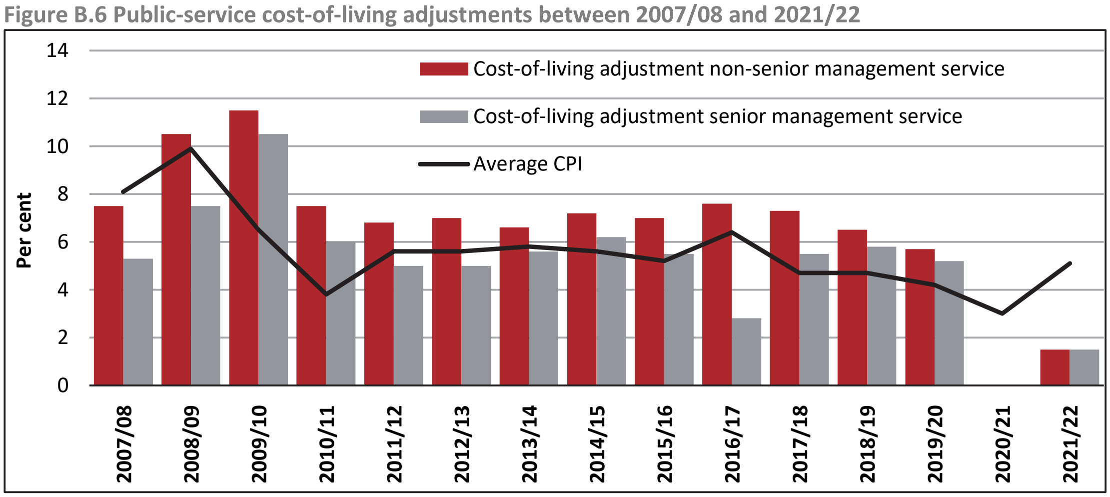
| | 2015/16 | 2018/19 | 2021/22 | Average annual growth 2015/16 – 2021/22 |
|---|---|---|---|---|
| | | Outcome | | |
| **Educators/ teachers** | | | | |
| Headcount | 379 613 | 398 789 | 405 050 | 1.1% |
| Average number of learners per teacher in POS[1] | 32.3 | 30.7 | 31.4 | -0.5% |
| **Professional nurses, staff nurses and nursing assistants** | | | | |
| Headcount | 139 297 | 140 129 | 150 976 | 1.4% |
| Headcount per 100 000 uninsured population | 299 | 287 | 294 | -0.3% |
| **Medical and dental practitioners, specialists and pharmacists** | | | | |
| Headcount | 39 602 | 42 586 | 48 656 | 3.5% |
| Headcount per 100 000 uninsured population | 85 | 87 | 95 | 1.8% |
| **Police officers** | | | | |
| Headcount | 143 634 | 144 939 | 141 633 | -0.2% |
| Headcount per 100 000 total population | 260 | 251 | 236 | -1.6% |

*1. Public ordinary schools*
*Source: Census 2021, School Realities*

### Historical cost-of-living adjustment in the public service

Over the last decade, negotiated annual cost-of-living adjustments have exceeded consumer price index (CPI) inflation by an annual average of 2 per cent. In some financial years, this resulted from wage agreements set well above the prevailing inflation rate. This was particularly noticeable during 2007/08 to 2009/10 when occupation-specific dispensation was introduced and implemented for public-service employees in selected sectors. Figure B.6 reflects the cost-of-living adjustments in comparison to average CPI since 2007/08. The growth of the public-service wage bill is largely driven by cost-of-living adjustments for employees below senior management level. As a result, some occupation-specific dispensation posts have surpassed the remuneration levels for senior management over the years.

**Figure B.6 Public-service cost-of-living adjustments between 2007/08 and 2021/22**




*Source: National Treasury*

### Public-service wage bill projections over the 2023 MTEF period

In estimating the public-service wage bill over the 2023 MTEF period, there are two key cost drivers: remuneration and other employee allowances and benefits, and the number of employees. A once-off payment can skew the wage trend in any particular financial year. For example, the once-off cash gratuity allocated in 2021/22 and 2022/23 in line with the 2021 public-service wage agreement explains the decline in the 2023/24 wage bill baseline for most departments. To avoid pre-empting the wage negotiation process, no provisions have been made for wage increases in 2023/24 although increases will need to remain within the available fiscal resources so as not to compromise other spending priorities.

**Table B.5 Public-service wage bill projections[1] over the 2023 MTEF period by sector**

| R million | 2022/23 Revised baseline | 2023/24 | 2024/25 | 2025/26 | Average annual growth 2022/23 – 2023/24 | 2022/23 – 2025/26 |
|---|---|---|---|---|---|---|
| | | Medium-term estimates | | | | |
| Education | 218 047 | 224 888 | 232 119 | 243 375 | 3.1% | 3.7% |
| Health | 149 566 | 148 421 | 154 990 | 162 085 | -0.8% | 2.7% |
| Police | 79 137 | 78 431 | 84 352 | 89 158 | -0.9% | 4.1% |
| Defence | 30 984 | 29 839 | 30 918 | 32 303 | -3.7% | 1.4% |
| Correctional services | 17 855 | 16 929 | 17 689 | 18 481 | -5.2% | 1.2% |
| Other | 110 121 | 109 608 | 114 065 | 119 123 | -0.5% | 2.7% |
| **Total** | **605 711** | **608 116** | **634 132** | **664 525** | **0.4%** | **3.1%** |

*1. Excludes provisional wage negotiation adjustment allocations*
*Source: National Treasury*

## Conclusion

Government continues to assess trends in employment and compensation across the public sector to ensure sufficient capacity and a fair, equitable and sustainable remuneration policy. Over the medium term, government will focus on increasing capacity in services such as education, health and police and develop a single remuneration policy to guide remuneration decisions across different spheres and entities.

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# C

# Technical annexure

## In-year adjustments to main budget non-interest expenditure

Table C.1 shows in-year adjustments to the main budget non-interest expenditure since the 2022 *Budget Review*.

**Table C.1 In-year adjustments to the main budget non-interest expenditure**

| R million | Appropriation (ENE) 2022 Budget | Adjustments appropriation (AENE) | Special appropriation | Revised |
|---|---|---|---|---|
| **Allocated expenditure** | **1 657 881** | **2 842** | **30 014** | **1 690 737** |
| Provisional allocations not assigned to votes | 1 372 | 13 380 | | 14 752 |
| Contingency reserve | 10 000 | -5 000 | | 5 000 |
| Infrastructure Fund not assigned to votes | 4 197 | -4 197 | | – |
| **Adjustments** | | **10 722** | **30 014** | |
| Special appropriation | | | | |
| Transnet | | | 2 900 | |
| SANRAL | | | 23 736 | |
| Denel | | | 3 378 | |
| Rollovers | | 990 | | |
| Unforeseeable and unavoidable expenditure | | 6 395 | | |
| Expenditure earmarked in the 2022 Budget speech for future allocation | | 500 | | |
| Self-financing expenditure | | 1 580 | | |
| Direct charges adjustments[1] | | | | |
| Land Bank section 70 payment | | 102 | | |
| Denel section 70 payment[2] | | 205 | | |
| Skills development levy | | 619 | | |
| Judges' salaries | | 125 | | |
| National Revenue Fund payments adjustments | | 207 | | |
| **Other adjustments** | | **-7 881** | | |
| Declared unspent funds | | -1 963 | | |
| National government projected underspending | | -3 917 | | |
| Local government repayment to the National Revenue Fund | | -2 000 | | |
| **Main budget non-interest expenditure** | **1 673 450** | **7 024** | **30 014** | **1 710 489** |
| In-year adjustments to the main budget non-interest expenditure since 2022 Budget | | | | 37 039 |

*1. Excludes the unforeseen and unavoidable expenditure allocated through the provincial equitable share*

*2. Payment to settle Denel's guaranteed obligations in respect of its domestic medium-term note programme in terms of section 70 of the Public Finance Management Act (1999)*

*Source: National Treasury*

## Main budget expenditure ceiling

**Table C.2 Adjustments to expenditure ceiling**

| R million | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---|---|---|---|---|---|---|---|
| **Non-interest expenditure** | **1 486 211** | **1 556 386** | **1 619 380** | **1 710 489** | **1 709 403** | **1 791 591** | **1 882 538** |
| **Technical adjustments** | | | | | | | |
| Skills development levy | -18 284 | -12 413 | -19 012 | -21 238 | -23 027 | -24 816 | -26 846 |
| Eskom funding provisions | -49 000 | -56 000 | -31 693 | -21 857 | -21 015 | -22 000 | -23 000 |
| NRF payments | -468 | -588 | -2 173 | -263 | – | – | – |
| International Oil Pollution Compensation Fund | -3 | – | -12 | -12 | -13 | -13 | -14 |
| **Expenditure ceiling** | **1 418 456** | **1 487 385** | **1 566 490** | **1 667 118** | **1 665 349** | **1 744 762** | **1 832 678** |

*Source: National Treasury*

Table C.2 shows technical adjustments to the main budget non-interest expenditure to calculate the expenditure ceiling. The ceiling excludes payments directly financed by dedicated revenue sources and others not subject to policy oversight. These include:

- **Payments for financial assets financed by asset sales in the same financial year:** Revenue from the sale of assets, particularly for equity investments, generally offsets the increases in associated spending levels, so these increases do not require adjustments to departmental allocations. Financial support for Eskom is not included in the expenditure ceiling. This support is viewed as a balance sheet transaction, which could take the form of a loan agreement or large equity investment.
- **Payment transactions linked to the management of debt:** These include premiums paid on new loan issues, bond switches and buy-back transactions, revaluation profits or losses on government's foreign exchange deposits at the Reserve Bank when used to meet government's foreign-currency position commitments, and realised profits and losses on the Gold and Foreign Exchange Contingency Reserve Account. These items relate to debt and currency transactions not financed through main budget appropriations.
- **Direct charges related to specific payments made in terms of legislation that provides for the collection and transfer of such receipts outside of the main budget:** These include skills development levy contributions and the International Oil Pollution Compensation Fund. Skills development levy contributions are paid to the National Skills Fund and the sector education and training authorities. The payment schedule to the National Skills Fund is generally revised to align it directly with anticipated receipts from the levy.

**Table C.3 Main budget expenditure ceiling[1]**

| R million | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---|---|---|---|---|---|---|---|
| 2020 MTBPS | 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 | |
| 2022 Budget Review | | 1 487 399 | 1 575 002 | 1 630 905 | 1 613 671 | 1 686 932 | |
| **2022 MTBPS** | | **1 487 385** | **1 566 490** | **1 667 118** | **1 665 349** | **1 744 762** | **1 832 678** |

*1. The expenditure ceiling differs from main budget non-interest expenditure*
*Source: National Treasury*

## Changes to the main budget framework since the 2022 Budget

Table C.4 summarises the changes to the main budget fiscal framework compared with the 2022 Budget estimates. The budget balances for 2022/23 to 2024/25 have improved, mainly due to higher-than-expected revenue projections. The increases in non-interest expenditure partially offset the lower interest payments and higher revenue projections.

**Table C.4 Revisions to main budget framework since 2022 Budget**

| R million | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|
| **Main budget revenue** | | | |
| Revised | 1 694 492 | 1 755 494 | 1 866 813 |
| 2022 Budget estimates | 1 588 044 | 1 660 223 | 1 774 174 |
| **Difference** | **106 448** | **95 271** | **92 638** |
| **Main budget non-interest expenditure** | | | |
| Revised | 1 710 489 | 1 709 403 | 1 791 591 |
| 2022 Budget estimates | 1 673 450 | 1 657 028 | 1 733 044 |
| **Difference** | **37 039** | **52 376** | **58 546** |
| **Debt-service costs** | | | |
| Revised | 307 739 | 332 157 | 352 905 |
| 2022 Budget estimates | 301 806 | 334 979 | 363 515 |
| **Difference** | **5 933** | **-2 822** | **-10 610** |
| **Main budget primary balance** | | | |
| Revised | -15 997 | 46 091 | 75 222 |
| 2022 Budget estimates | -85 407 | 3 195 | 41 130 |
| **Difference** | **69 410** | **42 896** | **34 092** |
| **Main budget balance** | | | |
| Revised | -323 736 | -286 066 | -277 683 |
| 2022 Budget estimates | -387 213 | -331 784 | -322 385 |
| **Difference** | **63 477** | **45 718** | **44 702** |

*Source: National Treasury*

## Main budget framework and financing requirements

Table C.5 indicates government's financing gap. A detailed discussion of the main budget framework and financing requirements is in Chapter 3.

**Table C.5 Main budget framework and financing requirements**

| **MACROECONOMIC PROJECTIONS** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **R billion/percentage change** | **2019/20** | **2020/21** | **2021/22** | **2022/23** | **2023/24** | **2024/25** | **2025/26** |
| Real GDP growth | 0.3% | -7.1% | 6.3% | 1.4% | 1.8% | 1.7% | 1.8% |
| Nominal GDP growth | 5.3% | -1.6% | 12.1% | 5.8% | 6.2% | 6.6% | 6.4% |
| CPI inflation | 4.2% | 2.9% | 5.2% | 6.8% | 4.7% | 4.6% | 4.6% |
| **GDP at current prices (R billion)** | **5 699.2** | **5 606.7** | **6 287.6** | **6 652.1** | **7 061.3** | **7 527.4** | **8 008.4** |
| **MAIN BUDGET FRAMEWORK** | | | | | | | |
| **R billion/percentage of GDP** | **2019/20** | **2020/21** | **2021/22** | **2022/23** | **2023/24** | **2024/25** | **2025/26** |
| **Revenue** | | | | | | | |
| Personal income tax | 527.6 | 487.0 | 554.0 | 596.1 | 637.1 | 684.8 | 739.1 |
| Corporate income tax | 211.5 | 202.1 | 320.4 | 332.7 | 333.7 | 353.5 | 371.8 |
| Value-added tax | 346.8 | 331.2 | 390.9 | 434.9 | 473.6 | 503.4 | 537.0 |
| Other tax revenue | 163.5 | 146.4 | 186.0 | 185.3 | 207.3 | 220.7 | 234.2 |
| Customs and excise duties | 106.4 | 82.9 | 112.4 | 132.9 | 137.1 | 144.8 | 154.4 |
| SACU transfers | -50.3 | -63.4 | -46.0 | -43.7 | -79.7 | -84.9 | -78.5 |
| Non-tax revenue | 27.6 | 26.3 | 40.5 | 52.3 | 38.5 | 40.0 | 42.3 |
| National Revenue Fund receipts[1] | 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** |
| | *23.6%* | *22.1%* | *24.9%* | *25.5%* | *24.9%* | *24.8%* | *25.0%* |
| **Expenditure** | | | | | | | |
| Expenditure ceiling | 1 418.5 | 1 487.4 | 1 566.5 | 1 667.1 | 1 665.3 | 1 744.8 | 1 832.7 |
| *Baseline and provisional allocations* | *1 418.5* | *1 487.4* | *1 566.5* | *1 662.1* | *1 659.3* | *1 697.4* | *1 775.3* |
| *Contingency reserve* | – | – | – | *5.0* | *6.0* | *6.0* | *10.0* |
| *Unallocated reserve* | – | – | – | – | – | *41.3* | *47.3* |
| Other non-interest expenditure[2] | 67.8 | 69.0 | 52.9 | 43.4 | 44.1 | 46.8 | 49.9 |
| **Non-interest expenditure** | **1 486.2** | **1 556.4** | **1 619.4** | **1 710.5** | **1 709.4** | **1 791.6** | **1 882.5** |
| Debt-service costs | 204.8 | 232.6 | 268.1 | 307.7 | 332.2 | 352.9 | 380.7 |
| **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%* |
| **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%* |
| **BORROWING REQUIREMENT** | | | | | | | |
| Main budget balance | -345.1 | -550.6 | -323.1 | -323.7 | -286.1 | -277.7 | -260.7 |
| Redemptions | -70.7 | -67.6 | -65.3 | -87.5 | -160.6 | -167.0 | -184.9 |
| **Gross borrowing requirement** | **-415.8** | **-618.3** | **-388.4** | **-411.2** | **-446.7** | **-444.7** | **-445.7** |
| | *-7.3%* | *-11.0%* | *-6.2%* | *-6.2%* | *-6.3%* | *-5.9%* | *-5.6%* |
| **GOVERNMENT DEBT** | | | | | | | |
| **Gross loan debt** | **3 261.3** | **3 935.7** | **4 277.5** | **4 752.0** | **5 002.2** | **5 296.1** | **5 607.8** |
| | *57.2%* | *70.2%* | *68.0%* | *71.4%* | *70.8%* | *70.4%* | *70.0%* |
| **Net loan debt** | **2 997.8** | **3 601.8** | **4 011.1** | **4 508.3** | **4 849.4** | **5 190.8** | **5 513.4** |
| | *52.6%* | *64.2%* | *63.8%* | *67.8%* | *68.7%* | *69.0%* | *68.8%* |

*1. Mainly revaluation profits on foreign-currency transactions and premiums on loan transactions*
*2. Technical adjustments explained in Table C.2*
*Source: National Treasury*

## Tax revenue outlook

**Table C.6 Tax revenue and tax bases**

| R million/percentage change | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---|---|---|---|---|---|---|---|
| | | Outcome | | Estimate | | Projections | |
| **Personal income tax** | **527 633** | **487 011** | **553 951** | **596 093** | **637 141** | **684 808** | **739 146** |
| *Wage bill* [1] | *4.3%* | *-2.8%* | *8.0%* | *6.7%* | *6.3%* | *6.8%* | *7.2%* |
| *Buoyancy* | *1.68* | *2.78* | *1.71* | *1.14* | *1.10* | *1.10* | *1.10* |
| **Corporate income tax** | **211 522** | **202 123** | **320 447** | **332 746** | **333 746** | **353 497** | **371 773** |
| *Net operating surplus* | *7.5%* | *0.1%* | *18.8%* | *0.6%* | *5.2%* | *7.0%* | *5.2%* |
| *Buoyancy* | *-0.03* | *-53.33* | *3.11* | *6.29* | *0.06* | *0.84* | *1.00* |
| **Net value-added tax** | **346 761** | **331 197** | **390 895** | **434 859** | **473 631** | **503 421** | **536 989** |
| *Household consumption* | *5.6%* | *-4.9%* | *12.5%* | *8.8%* | *6.8%* | *6.3%* | *6.5%* |
| *Buoyancy* | *1.21* | *0.92* | *1.44* | *1.28* | *1.31* | *0.99* | *1.03* |
| **Domestic VAT** | **399 288** | **392 936** | **448 760** | **488 248** | **521 449** | **554 415** | **590 197** |
| *Household consumption* | *5.6%* | *-4.9%* | *12.5%* | *8.8%* | *6.8%* | *6.3%* | *6.5%* |
| *Buoyancy* | *0.97* | *0.33* | *1.13* | *1.00* | *1.00* | *1.00* | *1.00* |
| **Import VAT** | **179 987** | **166 454** | **204 552** | **246 612** | **246 750** | **259 193** | **276 887** |
| *Nominal imports* | *1.8%* | *-13.0%* | *27.2%* | *24.9%* | *0.1%* | *5.0%* | *6.8%* |
| *Buoyancy* | *1.54* | *0.58* | *0.84* | *0.83* | *1.00* | *1.00* | *1.00* |
| **VAT refunds** | **-232 515** | **-228 193** | **-262 417** | **-300 001** | **-294 567** | **-310 186** | **-330 095** |
| *Nominal exports* | *4.7%* | *1.2%* | *26.8%* | *9.6%* | *0.9%* | *6.0%* | *6.4%* |
| *Buoyancy* | *0.31* | *-1.60* | *0.56* | *1.50* | *-2.12* | *0.89* | *1.00* |
| **Customs duties** | **55 428** | **47 290** | **57 994** | **72 603** | **72 644** | **76 307** | **81 517** |
| *Nominal imports* | *1.8%* | *-13.0%* | *27.2%* | *24.9%* | *0.1%* | *5.0%* | *6.8%* |
| *Buoyancy* | *0.47* | *1.13* | *0.83* | *1.01* | *1.00* | *1.00* | *1.00* |
| **Specific excise duties** | **46 827** | **32 273** | **49 705** | **55 533** | **59 309** | **63 059** | **67 128** |
| *Household consumption* | *5.6%* | *-4.9%* | *12.5%* | *8.8%* | *6.8%* | *6.3%* | *6.5%* |
| *Buoyancy* | *2.61* | *6.39* | *4.31* | *1.34* | *1.00* | *1.00* | *1.00* |
| **Skills development levy** | **18 486** | **12 250** | **19 336** | **21 238** | **23 027** | **24 816** | **26 846** |
| *Private-sector wage bill* | *3.3%* | *-5.8%* | *9.6%* | *7.5%* | *8.4%* | *7.8%* | *8.2%* |
| *Buoyancy* | *1.81* | *5.82* | *6.00* | *1.32* | *1.00* | *1.00* | *1.00* |
| **Fuel levy** | **80 175** | **75 503** | **88 889** | **80 635** | **96 740** | **103 126** | **109 716** |
| *Nominal GDP* | *5.3%* | *-1.6%* | *12.1%* | *5.8%* | *6.2%* | *6.6%* | *6.4%* |
| *Buoyancy* | *1.21* | *3.59* | *1.46* | *-1.60* | *3.25* | *1.00* | *1.00* |
| **Ad valorem excise duties** | **4 124** | **3 386** | **4 725** | **4 807** | **5 103** | **5 440** | **5 787** |
| *Nominal GDP* | *5.3%* | *-1.6%* | *12.1%* | *5.8%* | *6.2%* | *6.6%* | *6.4%* |
| *Buoyancy* | *-0.31* | *11.03* | *3.26* | *0.30* | *1.00* | *1.00* | *1.00* |
| **Other** [2] | **64 810** | **58 678** | **77 812** | **83 403** | **87 544** | **92 808** | **97 589** |
| *Nominal GDP* | *5.3%* | *-1.6%* | *12.1%* | *5.8%* | *6.2%* | *6.6%* | *6.4%* |
| *Buoyancy* | *-0.34* | *5.82* | *2.68* | *1.24* | *0.81* | *0.91* | *0.81* |
| **Gross tax** | **1 355 766** | **1 249 711** | **1 563 754** | **1 681 918** | **1 788 885** | **1 907 282** | **2 036 490** |
| *Nominal GDP* | *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* |

*1. Total remuneration in the formal non-agriculture sector*
*2. Other includes dividends tax, interest on overdue income tax, taxes on property, stamp duties and fees, departure tax, electricity levy, plastic bag levy and all other minor taxes*
*Source: National Treasury*

## Southern African Customs Union revenue pool

Payments to the Southern African Customs Union (SACU) for 2021/22 and 2022/23 remain unchanged from the 2022 Budget estimates. The SACU revenue-sharing formula adjusts for forecast errors with a two-year lag. As a result, the projected 2023/24 SACU payments include the forecast error adjustment for 2021/22 based on the outcomes of the common revenue pool estimates. Compared with the 2022 Budget, SACU payments projections have been revised higher by R13.2 billion in 2023/24 and

R19.4 billion in 2024/25. The revisions to SACU payments are mainly due to higher common revenue pool estimates than projected in the 2022 *Budget Review*.

## Fiscal framework assumptions for long-term main budget baseline

The long-term main budget fiscal framework assumptions that underpin the long-term debt outlook include the following:

- No new revenue measures from 2023/24 onwards.
- The gap between gross tax and main budget revenue averages 0.48 per cent of GDP per year from 2026/27 onwards.
- In real terms, non-interest expenditure (excluding the Infrastructure Fund and Eskom financial support) grows by 1.5 per cent per year from 2026/27 onwards.
- The Infrastructure Fund amounts are R8 billion in 2023/24, R12.6 billion in 2024/25, R10.8 billion in 2025/26, R17 billion in 2026/27, R24 billion in 2027/28 and R24.5 billion in 2028/29. Over a decade from 2019/20, the Infrastructure Fund remains at R100 billion, as announced in the 2019 *Medium Term Budget Policy Statement*. Underspending of R4.2 billion on the Infrastructure Fund allocations in 2022/23 is added back in 2026/27 (R2 billion) and 2027/28 (R2.2 billion).
- Financial support for Eskom amounts to R224.6 billion from 2019/20 until 2025/26.
- Beyond the medium term, real GDP growth averages 2.1 per cent.

## 2021/22 outcomes and 2022/23 mid-year estimates

Table C.7 summarises national and provincial appropriated expenditure outcomes for 2021/22 and estimates for the first half of 2022/23. Tables C.8 and C.9 present additional details.

In 2021/22, national expenditure amounted to R1.89 trillion, which was R18.9 billion lower than the adjusted budget estimate. The underspending was mainly driven by lower spending on goods and services, transfers and subsidies, and capital assets. Goods and services underspending was largely driven by lower spending on consultants (business and advisory services) and agency and outsourced services. The largest drivers of underspending on transfers and subsidies were transfers to households and municipalities. The underspending on payments to capital assets was mainly a result of lower spending on buildings and other fixed structures.

For the first six months of 2022/23, national departments spent R947.2 billion or 47.3 per cent of their adjusted budgets. Provinces spent R281.9 billion or 40.4 per cent of their original budgets for the first five months of the fiscal year. Provinces are primarily responsible for delivering social services, including basic education and health. Compensation of employees is the largest spending item in provincial budgets, accounting for 61.5 per cent of spending in the first five months of 2022/23.

**Table C.7 National and provincial expenditure outcomes and mid-year estimates**

| | 2021/22 | | | 2022/23 | | | | |
|---|---|---|---|---|---|---|---|---|
| R billion | Adjusted appropriation | Audited outcome | Over(-)/ Under(+) | Main budget | Special appropriation[1] | Adjust -ments appropriation[2] | Adjusted appropriation[3] | Actual spending April to September[4] |
| **National appropriation** | **1 050.5** | **1 031.8** | **18.7** | **1 057.0** | **30.0** | **7.5** | **1 094.5** | **501.5** |
| **Direct charges** | **855.8** | **855.6** | **0.2** | **902.7** | **–** | **7.2** | **909.9** | **445.7** |
| Debt-service costs | 268.3 | 268.1 | 0.2 | 301.8 | – | 5.9 | 307.7 | 147.8 |
| Provincial equitable share | 544.8 | 544.8 | – | 560.8 | – | 0.0 | 560.8 | 280.4 |
| Other direct charges | 42.7 | 42.7 | – | 40.1 | – | 1.3 | 41.4 | 17.6 |
| **National votes** | **1 906.4** | **1 887.5** | **18.9** | **1 959.7** | **30.0** | **14.7** | **2 004.4** | **947.2** |
| *of which:* | | | | | | | | |
| *Compensation of employees* | *181.7* | *181.6* | *0.0* | *182.8* | – | *0.6* | *183.4* | *89.9* |
| *Goods and services* | *89.9* | *77.8* | *12.1* | *81.7* | – | *1.7* | *83.4* | *32.2* |
| *Transfers and subsidies* | *1 276.7* | *1 271.4* | *5.3* | *1 352.0* | – | *1.2* | *1 353.2* | *665.3* |
| *Payments for capital assets* | *15.8* | *14.3* | *1.5* | *15.5* | – | *1.4* | *16.9* | *5.0* |
| *Payments for financial assets* | *73.8* | *73.9* | *-0.1* | *25.6* | *30.0* | *3.9* | *59.6* | *6.9* |
| Provisional allocation for contingencies not assigned to votes | – | – | – | 5.6 | – | 9.2 | 14.8 | – |
| Contingency reserve | – | – | – | 10.0 | – | -5.0 | 5.0 | – |
| National government projected underspending | -3.8 | – | -3.8 | – | – | -3.9 | -3.9 | – |
| Local government repayment to the National Revenue Fund | -2.5 | – | -2.5 | – | – | -2.0 | -2.0 | – |
| **Main budget expenditure** | **1 900.1** | **1 887.5** | **12.6** | **1 975.3** | **30.0** | **13.0** | **2 018.2** | **947.2** |
| **Provincial expenditure** | **690.3** | **679.1** | **11.2** | **698.1** | **n/a** | **n/a** | **n/a** | **281.9** |
| *of which:* | | | | | | | | |
| *Compensation of employees* | *417.2* | *416.4* | *0.7* | *422.5* | *n/a* | *n/a* | *n/a* | *173.3* |
| *Goods and services* | *145.5* | *140.3* | *5.2* | *148.9* | *n/a* | *n/a* | *n/a* | *59.4* |
| *Transfers and subsidies* | *90.7* | *88.4* | *2.3* | *88.4* | *n/a* | *n/a* | *n/a* | *38.4* |
| *Payments for capital assets* | *36.9* | *33.7* | *3.1* | *38.4* | *n/a* | *n/a* | *n/a* | *10.9* |

*1. Special Appropriation Bill (2022)*
*2. Adjustments Appropriation Bill (2022)*
*3. Provinces will table an adjusted budget during November 2022*
*4. Provinces' actual expenditure is for April to August 2022*
*Source: National Treasury*

**Table C.8 Expenditure by vote**

| | 2021/22[1] | | | 2022/23 | | | | |
|---|---|---|---|---|---|---|---|---|
| R million | Adjusted appropria-tion | Audited outcome | Over(-)/ Under(+) | Main budget | Special appropria-tion[3] | Adjustments appropria-tion | Adjusted appropria-tion | Actual spending April to September |
| 1 The Presidency | 605 | 518 | 86 | 607 | – | – | 607 | 224 |
| 2 Parliament[2] | 2 144 | 2 144 | – | 2 212 | – | 118 | 2 330 | – |
| 3 Cooperative Governance | 101 260 | 98 443 | 2 817 | 111 365 | – | 3 650 | 115 015 | 42 181 |
| 4 Government Communication and Information System | 757 | 755 | 2 | 720 | – | 1 | 721 | 360 |
| 5 Home Affairs | 9 431 | 9 431 | – | 9 406 | – | 1 298 | 10 704 | 4 479 |
| 6 International Relations and Cooperation | 6 518 | 6 037 | 481 | 6 601 | – | 102 | 6 703 | 3 217 |
| 7 National School of Government | 214 | 208 | 7 | 228 | – | – | 228 | 106 |
| 8 National Treasury | 63 647 | 62 370 | 1 277 | 33 939 | – | -102 | 33 838 | 15 442 |
| 9 Planning, Monitoring and Evaluation | 459 | 397 | 62 | 471 | – | – | 471 | 200 |
| 10 Public Enterprises | 36 275 | 36 027 | 248 | 23 929 | 6 278 | 2 933 | 33 140 | 5 684 |
| 11 Public Service and Administration | 532 | 458 | 74 | 540 | – | – | 540 | 244 |
| 12 Public Service Commission | 286 | 266 | 21 | 288 | – | – | 288 | 130 |
| 13 Public Works and Infrastructure | 8 354 | 8 082 | 272 | 8 547 | – | -410 | 8 137 | 3 931 |
| 14 Statistics South Africa | 4 932 | 4 648 | 283 | 2 759 | – | 194 | 2 953 | 2 216 |
| 15 Traditional Affairs | 173 | 155 | 18 | 177 | – | – | 177 | 80 |
| 16 Basic Education | 28 484 | 28 415 | 69 | 29 560 | – | 117 | 29 677 | 16 736 |
| 17 Higher Education and Training | 97 889 | 97 415 | 474 | 109 515 | – | – | 109 515 | 75 716 |
| 18 Health | 65 909 | 65 137 | 771 | 64 531 | – | – | 64 531 | 30 540 |
| 19 Social Development | 233 727 | 231 865 | 1 862 | 257 001 | – | -5 462 | 251 539 | 115 080 |
| 20 Women, Youth and Persons with Disabilities | 1 196 | 1 164 | 31 | 987 | – | – | 987 | 652 |
| 21 Civilian Secretariat for the Police Service | 151 | 138 | 13 | 152 | – | – | 152 | 76 |
| 22 Correctional Services | 25 943 | 25 694 | 250 | 26 109 | – | 1 | 26 110 | 12 781 |
| 23 Defence | 48 796 | 48 776 | 21 | 49 090 | – | 1 709 | 50 799 | 24 238 |
| 24 Independent Police Investigative Directorate | 354 | 348 | 6 | 357 | – | – | 357 | 160 |
| 25 Justice and Constitutional Development | 19 509 | 19 100 | 408 | 20 022 | – | 90 | 20 112 | 9 056 |
| 26 Military Veterans | 607 | 516 | 92 | 666 | – | – | 666 | 256 |
| 27 Office of the Chief Justice | 1 242 | 1 156 | 86 | 1 266 | – | 27 | 1 292 | 598 |
| 28 Police | 100 474 | 99 595 | 878 | 100 695 | – | -32 | 100 664 | 47 642 |
| 29 Agriculture, Land Reform and Rural Development | 18 023 | 16 931 | 1 092 | 17 288 | – | 141 | 17 429 | 7 125 |
| 30 Communications and Digital Technologies | 3 884 | 3 569 | 315 | 2 717 | – | 200 | 2 917 | 1 621 |
| 31 Employment and Labour | 3 816 | 3 232 | 584 | 3 956 | – | 118 | 4 074 | 1 865 |
| 32 Forestry, Fisheries and the Environment | 9 100 | 7 490 | 1 610 | 8 948 | – | -10 | 8 938 | 4 151 |
| 33 Human Settlements | 31 680 | 30 960 | 720 | 33 025 | – | 442 | 33 467 | 14 137 |
| 34 Mineral Resources and Energy | 9 241 | 8 904 | 338 | 10 346 | – | 73 | 10 419 | 4 060 |
| 35 Science and Innovation | 9 006 | 8 962 | 44 | 9 133 | – | – | 9 133 | 4 562 |
| 36 Small Business Development | 2 637 | 2 613 | 24 | 2 563 | – | -35 | 2 528 | 1 300 |
| 37 Sport, Arts and Culture | 5 747 | 5 644 | 104 | 6 295 | – | – | 6 295 | 2 780 |
| 38 Tourism | 2 545 | 2 538 | 8 | 2 492 | – | – | 2 492 | 1 006 |
| 39 Trade, Industry and Competition | 11 812 | 11 614 | 198 | 10 859 | – | 20 | 10 879 | 5 604 |
| 40 Transport | 65 426 | 64 903 | 522 | 69 126 | 23 736 | 2 256 | 95 118 | 34 254 |
| 41 Water and Sanitation | 17 735 | 15 204 | 2 532 | 18 540 | – | 15 | 18 555 | 7 010 |
| **Total appropriation by vote** | **1 050 521** | **1 031 823** | **18 698** | **1 057 029** | **30 014** | **7 454** | **1 094 497** | **501 499** |

**Table C.8 Expenditure by vote (continued)**

| R million | 2021/22[1] Adjusted appropria-tion | Audited outcome | Over(-)/ Under(+) | 2022/23 Main budget | Special appropria-tion[3] | Adjustments appropria-tion | Adjusted appropria-tion | Actual spending April to September |
|---|---|---|---|---|---|---|---|---|
| **Total appropriation by vote** | **1 050 521** | **1 031 823** | **18 698** | **1 057 029** | **30 014** | **7 454** | **1 094 497** | **501 499** |
| Plus: | | | | | | | | |
| **Direct charges against the National Revenue Fund** | | | | | | | | |
| President and deputy president salaries (The Presidency) | 8 | 6 | 2 | 8 | – | – | 8 | 3 |
| Members' remuneration (Parliament) | 502 | 502 | – | 472 | – | – | 472 | – |
| Debt-service costs (National Treasury) | 268 306 | 268 072 | 235 | 301 806 | – | 5 933 | 307 739 | 147 793 |
| Provincial equitable share (National Treasury) | 544 835 | 544 835 | – | 560 757 | – | 49 | 560 805 | 280 378 |
| General fuel levy sharing with metropolitan municipalities (National Treasury) | 14 617 | 14 617 | – | 15 335 | – | – | 15 335 | 5 112 |
| National Revenue Fund payments (National Treasury) | 2 008 | 2 173 | -165 | 56 | – | 207 | 263 | 263 |
| Auditor-General of South Africa (National Treasury) | 70 | 140 | -70 | 73 | – | – | 73 | 73 |
| Section 70 of the Public Finance Management Act (1999) payment: Land and Agricultural Development Bank of SA (National Treasury) | – | – | – | – | – | 102 | 102 | – |
| Section 70 of the Public Finance Management Act (1999) payment: Denel (Public Enterprises) | 3 036 | 3 031 | 5 | – | – | 205 | 205 | 201 |
| Skills levy and sector education and training authorities (Higher Education and Training) | 18 933 | 19 012 | -79 | 20 619 | – | 619 | 21 238 | 10 150 |
| Magistrates' salaries (Justice and Constitutional Development) | 2 396 | 2 175 | 222 | 2 399 | – | – | 2 399 | 1 185 |
| Judges' salaries (Office of the Chief Justice) | 1 118 | 1 063 | 55 | 1 123 | – | 125 | 1 247 | 577 |
| International Oil Pollution Compensation Fund (Transport) | 12 | 3 | 8 | 12 | – | – | 12 | – |
| **Total direct charges against the National Revenue Fund** | **855 841** | **855 629** | **213** | **902 658** | **–** | **7 238** | **909 896** | **445 735** |
| Provisional allocation not assigned to votes | – | – | – | 1 372 | – | 13 380 | 14 752 | – |
| Infrastructure Fund not assigned to votes | – | – | – | 4 197 | – | -4 197 | – | – |
| Provisional reduction to fund Land Bank allocation | – | – | – | – | – | – | – | – |
| Contingency reserve | – | – | – | 10 000 | – | -5 000 | 5 000 | – |
| National government projected underspending | -3 775 | – | -3 775 | – | – | -3 917 | -3 917 | – |
| Local government repayment to the National Revenue Fund | -2 500 | – | -2 500 | – | – | -2 000 | -2 000 | – |
| **Total** | **1 900 087** | **1 887 451** | **12 636** | **1 975 257** | **30 014** | **12 957** | **2 018 228** | **947 233** |

*1. The 2021/22 financial year numbers were adjusted to include function shifts*

*2. Amendments to Parliament's budget are determined independently of the national government's budget processes in accordance with the Financial Management of Parliament and Provincial Legislatures Act (2009), as amended*

*3. Special Appropriation Bill (2022)*

*Source: National Treasury*

**Table C.9 Expenditure by province**

| | 2021/22 | | | | | 2022/23 | |
|---|---|---|---|---|---|---|---|
| R million | Main budget | Adjusted budget | Audited outcome | Over(-)/ Under(+) | Deviation from adjusted budget | Main budget | Actual spending April to August |
| **Eastern Cape** | **82 608** | **86 130** | **85 525** | **605** | **0.7%** | **86 428** | **37 587** |
| Education | 35 077 | 37 140 | 36 948 | 192 | 0.5% | 38 559 | 16 515 |
| Health | 26 431 | 27 775 | 27 632 | 143 | 0.5% | 27 362 | 12 652 |
| Social development | 3 055 | 3 316 | 3 195 | 121 | 3.7% | 2 788 | 1 220 |
| Other functions | 18 046 | 17 900 | 17 751 | 149 | 0.8% | 17 719 | 7 200 |
| **Free State** | **38 667** | **40 118** | **39 559** | **559** | **1.4%** | **40 981** | **16 317** |
| Education | 15 475 | 16 280 | 16 481 | -202 | -1.2% | 17 293 | 7 288 |
| Health | 12 135 | 12 599 | 12 201 | 398 | 3.2% | 12 711 | 5 232 |
| Social development | 1 442 | 1 534 | 1 508 | 26 | 1.7% | 1 179 | 513 |
| Other functions | 9 614 | 9 705 | 9 369 | 336 | 3.5% | 9 797 | 3 284 |
| **Gauteng** | **142 553** | **149 487** | **144 177** | **5 310** | **3.6%** | **152 985** | **61 378** |
| Education | 53 458 | 56 678 | 56 211 | 467 | 0.8% | 59 736 | 23 749 |
| Health | 56 505 | 59 626 | 57 049 | 2 576 | 4.3% | 59 426 | 25 515 |
| Social development | 5 883 | 6 149 | 6 026 | 123 | 2.0% | 5 537 | 2 247 |
| Other functions | 26 707 | 27 035 | 24 892 | 2 143 | 7.9% | 28 286 | 9 867 |
| **KwaZulu-Natal** | **133 670** | **141 175** | **141 151** | **23** | **0.0%** | **140 375** | **57 517** |
| Education | 53 184 | 57 638 | 58 037 | -398 | -0.7% | 57 481 | 24 719 |
| Health | 48 412 | 50 630 | 50 630 | – | 0.0% | 49 610 | 21 015 |
| Social development | 3 699 | 3 953 | 3 894 | 60 | 1.5% | 3 198 | 1 386 |
| Other functions | 28 375 | 28 953 | 28 591 | 362 | 1.3% | 30 086 | 10 396 |
| **Limpopo** | **68 767** | **75 362** | **73 502** | **1 860** | **2.5%** | **74 230** | **29 585** |
| Education | 32 586 | 35 726 | 35 203 | 523 | 1.5% | 36 445 | 14 856 |
| Health | 21 973 | 23 480 | 22 910 | 571 | 2.4% | 22 726 | 8 930 |
| Social development | 2 016 | 2 308 | 2 236 | 72 | 3.1% | 1 788 | 731 |
| Other functions | 12 191 | 13 848 | 13 154 | 694 | 5.0% | 13 272 | 5 068 |
| **Mpumalanga** | **53 576** | **55 397** | **54 961** | **436** | **0.8%** | **56 443** | **21 942** |
| Education | 22 336 | 23 477 | 23 537 | -60 | -0.3% | 24 273 | 9 845 |
| Health | 16 204 | 16 664 | 16 487 | 178 | 1.1% | 16 825 | 6 318 |
| Social development | 1 841 | 1 854 | 1 801 | 53 | 2.9% | 1 616 | 651 |
| Other functions | 13 195 | 13 401 | 13 137 | 264 | 2.0% | 13 729 | 5 128 |
| **Northern Cape** | **18 995** | **19 901** | **19 686** | **215** | **1.1%** | **19 599** | **7 921** |
| Education | 7 137 | 7 476 | 7 470 | 6 | 0.1% | 7 672 | 3 135 |
| Health | 5 716 | 5 915 | 5 883 | 32 | 0.5% | 5 894 | 2 369 |
| Social development | 969 | 1 004 | 950 | 55 | 5.4% | 909 | 364 |
| Other functions | 5 173 | 5 505 | 5 383 | 122 | 2.2% | 5 124 | 2 054 |
| **North West** | **46 240** | **48 788** | **47 220** | **1 569** | **3.2%** | **49 712** | **19 587** |
| Education | 18 011 | 19 295 | 19 078 | 218 | 1.1% | 20 346 | 7 748 |
| Health | 14 119 | 15 271 | 15 387 | -116 | -0.8% | 15 186 | 6 633 |
| Social development | 1 772 | 1 828 | 1 685 | 142 | 7.8% | 1 654 | 651 |
| Other functions | 12 338 | 12 394 | 11 070 | 1 325 | 10.7% | 12 525 | 4 555 |
| **Western Cape** | **72 397** | **73 933** | **73 335** | **597** | **0.8%** | **77 383** | **30 108** |
| Education | 24 460 | 25 388 | 25 356 | 32 | 0.1% | 28 033 | 10 959 |
| Health | 27 392 | 28 190 | 27 916 | 274 | 1.0% | 29 094 | 11 283 |
| Social development | 2 663 | 2 726 | 2 706 | 20 | 0.7% | 2 285 | 1 008 |
| Other functions | 17 882 | 17 628 | 17 358 | 271 | 1.5% | 17 971 | 6 858 |
| **Total** | **657 473** | **690 291** | **679 117** | **11 174** | **1.6%** | **698 135** | **281 942** |
| Education | 261 724 | 279 099 | 278 319 | 780 | 0.3% | 289 838 | 118 814 |
| Health | 228 888 | 240 151 | 236 095 | 4 056 | 1.7% | 238 834 | 99 946 |
| Social development | 23 341 | 24 671 | 23 999 | 672 | 2.7% | 20 956 | 8 771 |
| Other functions | 143 521 | 146 370 | 140 704 | 5 666 | 3.9% | 148 507 | 54 411 |

*Source: National Treasury*

# Glossary

| | |
|---|---|
| **Accrued liability** | A liability that is not paid in the fiscal year in which it is incurred, and so continues to be owed in the next fiscal year. |
| **Adjustment estimates** | Presentation to Parliament of the amendments to be made to the appropriations voted on in the main budget for the fiscal year. |
| **Administered prices** | Prices set outside ordinary market processes through administrative decisions by government, a public entity or a regulator. |
| **Appropriation** | The approval by Parliament of spending from the National Revenue Fund, or by a provincial legislature from the Provincial Revenue Fund. |
| **Asset price inflation** | An increase in the overall price of assets over a specific period of time. |
| **Balance of payments** | A summary statement of all the transactions of the residents of a country with the rest of the world over a particular time period. |
| **Basel III** | Reforms developed by the Basel Committee on Banking Supervision to strengthen the regulation, supervision and risk management of the banking sector. |
| **Baseline** | The initial allocations used during the budget process, derived from the previous year's forward estimates. |
| **Blended finance** | The combination of public, private, development and multilateral sources of financing to leverage funding for infrastructure projects. |
| **Bond-switch programme** | An auction that aims to ease pressure on targeted areas of the redemption profile by exchanging shorter-term debt for longer-term debt. |
| **Budget balance** | The difference between expenditure and revenue. If expenditure exceeds revenue, the budget is in deficit. If the reverse is true, the budget is in surplus. |
| **Budget Facility for Infrastructure** | A reform to the budget process that establishes specialised structures, procedures and criteria for committing fiscal resources to public infrastructure spending. |
| **Buy-back transaction** | A transaction where government buys debt instruments from investors before their redemption date. |
| **Capital erosion** | The deterioration of capital due to a lack of investment in the economy. |
| **Capital flight** | A large outflow of investments from a country in response to heightened economic, political or policy risk. |
| **Capital flow** | A flow of investments in or out of a country. |
| **Concessionary financing** | Financing or loans that are extended on terms that are more generous than market loans – for example, lower interest rates or grace periods where there is no repayment. |

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| **Conditional grants** | Allocations of money from one sphere of government to another, conditional on certain services being delivered or on compliance with specified requirements. |
| **Consolidated government expenditure** | Total expenditure by national and provincial government, social security funds and selected public entities, including transfers to municipalities or other entities. See also *main budget expenditure*. |
| **Consumer price index (CPI)** | The main measure of inflation, charting changes in the price movements of a basket of consumer goods and services. |
| **Consumption expenditure** | Expenditure on goods and services, including salaries, that are consumed within a short period of time – usually a year. |
| **Contingency reserve** | An amount set aside, but not allocated in advance, to accommodate changes in the economic environment and to meet unforeseen and unavoidable spending pressures. |
| **Contingent liability** | A government obligation, such as a guarantee, that will only result in expenditure if a specific event occurs. See also *government guarantee*. |
| **Core inflation** | A measure of the change in consumer price levels that excludes temporary shocks and represents the long-run trend of changes in the price level. See also *headline inflation*. |
| **Countercyclical fiscal policy** | Policy that has the opposite effect on economic activity to that caused by the business cycle, such as slowing spending growth in a boom period and accelerating spending in a recession. |
| **Credit rating** | An indicator of the risk of default by a borrower or the riskiness of a financial instrument. Rating agencies assign grades signifying the borrower's capacity to meet its financial obligations or the probability that the value of the financial instrument will be realised. See also *rating agency*. |
| **Crowding in** | An increase in private investment or consumption as a result of government spending. |
| **Crowding out** | A fall in private investment or consumption as a result of increased government spending. |
| **Current account (of the balance of payments)** | The difference between total exports and imports, including service payments and receipts, interest, dividends and transfers. This account can be in deficit or surplus. See also *trade balance.* |
| **Current balance** | The difference between revenue and current expenditure, which consists of compensation of employees, goods and services, and interest and rent on land. |
| **Debt redemption** | Repayment of the principal and any outstanding interest on a bond. |
| **Debt-service cost** | The cost of interest on government debt. |
| **Depreciation (capital)** | A reduction in the value of fixed capital as a result of wear and tear or redundancy. |

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| **Depreciation (exchange rate)** | A reduction in the external value of a currency. |
| **Disposable income** | Total income less all taxes and employee contributions. |
| **Division of revenue** | The allocation of funds between national, provincial and local government as required by the Constitution. |
| **Economic growth** | An increase in the total amount of output, income and spending in the economy. |
| **Effective cost of debt** | A measure of the cost of debt that includes non-interest costs, such as penalties and upfront payments, which are often applied to distressed borrowers. |
| **Emerging-market economies** | A name given by international investors to middle-income economies. |
| **Employment tax incentive** | An incentive to encourage the creation of jobs for youth by allowing employers to claim a reduction in employees' tax. |
| **Equitable share** | The allocation of revenue to national, provincial and local government as required by the Constitution. |
| **Expenditure ceiling** | An overall limit on expenditure that enables government to manage departmental spending levels. |
| **External imbalance** | An excessively positive or negative current account balance, reflecting an excess or deficit of domestic investment over domestic savings. |
| **Financial account (of the balance of payments)** | A statement of all financial transactions between a country and the rest of the world, including portfolio and fixed investment flows, and movements in foreign reserves. |
| **Financial and Fiscal Commission** | An independent body established in terms of the Constitution to make recommendations to Parliament and provincial legislatures about financial issues affecting the three spheres of government. |
| **Financial year** | The 12 months according to which companies and organisations budget and account. Government's financial year runs from 1 April to 31 March. |
| **Fiscal consolidation** | Measures to narrow a government's budget deficit and stabilise its debt-to-GDP ratio. |
| **Fiscal multiplier** | A ratio measuring the extent to which national income changes in response to changes in government spending. For example, a fiscal multiplier of 0.5 implies that national income increases by 50 cents for every R1 of additional government spending. |
| **Fiscal policy** | Policy on taxation, spending and borrowing by government. |
| **Fiscal space** | Government's ability to provide additional resources in the budget without jeopardising fiscal sustainability. |
| **Flexible exchange rate** | Determination of currency exchange rates by market forces. |

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| **Floating exchange rate** | An exchange rate regime in which the exchange rate of a country can fluctuate in response to movements in the foreign exchange market. |
| **Foreign direct investment** | The acquisition of long-term business interests in another country, usually involving management, technology and financial participation. |
| **Full-time equivalent** | An indicator measuring the proportion of time for which an employee receives a salary. It enables government to estimate annual personnel costs by aggregating the amount of part-time work to calculate the full-time equivalents. For example, two people working full-time for six months of the year would count as one full-time equivalent. |
| **GDP inflation** | A measure of the total increase in prices in the entire economy. Unlike CPI inflation, GDP inflation includes price increases in goods that are exported and intermediate goods such as machines, but excludes imported goods. |
| **GDP rebasing** | The process of replacing a previous base year used to compile GDP estimates in constant prices (or real/volume terms) with a more recent base year. It is usually done alongside periodic benchmarking and methodological changes that account for changes in the economy, inflation and technological progress. These changes incorporate updated data for more accurate analysis and estimates. |
| **Gini coefficient** | A measure that illustrates inequality in the distribution of income. It is expressed as a number between 0 and 1, with 0 representing perfect equality in income and 1 representing perfect inequality. |
| **Gold and foreign exchange account** | A Reserve Bank account that reflects its losses and profits on holdings of foreign currency and gold reserves, driven by changes in the exchange rate of the rand to the US dollar and the gold price. |
| **Government guarantee** | An assurance made by government to a lender that a financial obligation will be honoured, even if the borrowing government institution is unable to repay the debt. See also *contingent liability*. |
| **Gross domestic product (GDP)** | A measure of total national output, income and expenditure in the economy. |
| **Gross fixed-capital formation** | The addition to a country's fixed-capital stock over a specific period, before providing for depreciation. |
| **Headline inflation** | A measure of the change in the CPI level that includes temporary price shocks to the economy, such as once-off price changes. See also *core inflation*. |
| **Independent power producer** | A private-sector business that generates energy for the national grid. |

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| **Indirect grant** | A grant allowing a national department to perform a function on behalf of a province or municipality. No funds are transferred, but the end product of the grant, such as infrastructure, is generally transferred to the province or municipality. |
| **Inflation** | An increase in the general level of prices. |
| **Inflation targeting** | A monetary policy framework intended to achieve price stability over a certain period of time. The Reserve Bank and government agree on a target rate or range of inflation to be maintained. |
| **Integrated financial management system (IFMS) project** | A project to review, upgrade and integrate government's financial management information technology systems. |
| **Intergenerational equity** | A value based on ensuring that future generations do not have to repay debts taken on today unless they also share in the benefits of assets. |
| **Investment grade** | A credit rating which is regarded as carrying minimal risk to the investors. |
| **Labour force participation** | The ratio of employed and unemployed workers (the labour force) relative to the working-age population. |
| **Liquidity** | The ease with which assets can be bought and sold. |
| **Macroprudential policy** | Policy to protect the stability of the financial sector and guard against systemic risk. |
| **Main budget expenditure** | National government expenditure and transfers to provincial and local government financed from the National Revenue Fund, excluding revenues and spending related to social security funds, extra-budgetary institutions and provincial own-source revenue. See also *consolidated government expenditure.* |
| **Medico-legal claim** | A civil claim of alleged wrongful medical treatment against a health provider. |
| **Medium Term Expenditure Committee (MTEC)** | The technical committee responsible for evaluating the medium-term expenditure framework budget submissions of national departments and making recommendations to the Minister of Finance regarding allocations to national departments. |
| **Medium-term expenditure framework (MTEF)** | The three-year spending plans of national and provincial governments published at the time of the Budget. |
| **Medium-term strategic framework** | The five-year strategy of government coinciding with the electoral term. |
| **Monetary policy** | The actions taken by a country's monetary authority (for example, the Reserve Bank), usually focused on money supply and interest rates. |
| **Money supply** | The total stock of money in an economy. |
| **National budget** | The projected revenue and expenditure flowing through the National Revenue Fund. It does not include spending by provinces or local government from their own revenues. |

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| **National Development Plan (NDP)** | A national strategy to eliminate poverty and reduce inequality. |
| **National health insurance (NHI)** | A healthcare policy that aims to provide access to quality, affordable health services to all South Africans. |
| **National Revenue Fund** | The consolidated account of national government into which departmental revenue and all taxes, fees and charges collected by the South African Revenue Service must be paid. |
| **Net asset position** | The total value of a company's assets minus its liabilities. |
| **Nominal exchange rate** | The current rate of exchange between the rand and foreign currencies. |
| **Nominal wage** | The return, or wage, to employees at the current price level. |
| **Non-interest expenditure** | Total expenditure by government less debt-service costs. |
| **Occupation-specific dispensation (OSD)** | A public-sector initiative aimed at improving government's ability to attract and retain skilled employees in targeted occupations through increased remuneration. |
| **Opportunity cost** | The cost of an alternative forgone to pursue a certain action. |
| **Payroll tax** | Tax that an employer withholds and/or pays on behalf of employees based on their wages or salaries. |
| **Potential growth** | The fastest growth that an economy can sustain without increasing inflation. |
| **Primary deficit/surplus** | The difference between total revenue and non-interest expenditure. When revenue exceeds non-interest expenditure, there is a surplus. |
| **Primary expenditure** | Non-interest expenditure by government. |
| **Primary sector** | The agricultural and mining sectors of the economy. |
| **Private-sector credit extension** | Credit provided to the private sector by banks. This includes all loans, credit card balances and leases. |
| **Productivity** | A measure of the amount of output generated from every unit of input over a period of time. Typically used to measure changes in labour efficiency. |
| **Protectionism** | When a country restricts international trade to protect domestic industries. |
| **Public entities** | Companies, agencies, funds and accounts that are fully or partly owned by government or public authorities and regulated by law. |
| **Public-private partnership** | A contractual arrangement in which a private party performs a government function and assumes the associated risks. In return, the private party receives a fee according to predefined performance criteria. |
| **Public-sector borrowing requirement** | The consolidated cash borrowing requirement of general government and non-financial public enterprises. |
| **Purchasing managers' index (PMI)** | A composite index measuring the change in manufacturing activity compared with the previous month. |

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| **Rating agency** | A company that evaluates the ability of countries or other borrowers to honour their debt obligations. Credit ratings are used by international investors as indications of risk. See also *credit rating.* |
| **Real effective exchange rate** | A measure of the rate of exchange of the rand relative to a trade-weighted average of South Africa's trading partners' currencies, adjusted for inflation. |
| **Real expenditure** | Expenditure measured in constant prices – in other words, adjusted to remove the effects of inflation. |
| **Real interest rate** | The level of interest after removing the effects of inflation. |
| **Recapitalisation** | Injection of funds into a company or entity to aid liquidity, either as a loan or in return for equity. |
| **Redemption** | The return of an investor's principal in a fixed-income security, such as a preferred stock or bond. |
| **Refinancing** | The repayment of debt at a scheduled time using the proceeds of new loans. |
| **Repurchase (repo) rate** | The interest rate at which the Reserve Bank lends to commercial banks. |
| **Reserves (foreign exchange)** | Holdings of foreign exchange, either by the Reserve Bank only or by the Reserve Bank and domestic banking institutions. |
| **Revaluation gain/loss** | The difference in value of an asset, liability or transaction between its original (historical) rate and its current rate. |
| **Risk premium** | A return that compensates for uncertainty. |
| **Rollover** | Funds not spent during a given financial year that flow into the following year's budget. |
| **Seasonally adjusted and annualised** | The process of removing the seasonal volatility (monthly or quarterly) from a time series. This provides a measure of the underlying trend in the data. Once the rate is annualised, it is expressed as if it were applied over one year. |
| **Social grants** | Social benefits available to qualifying individuals, funded wholly or partly by the state. |
| **Southern African Customs Union (SACU) agreement** | An agreement that allows for the unrestricted flow of goods and services, and the sharing of customs and excise revenue, between South Africa, Botswana, eSwatini, Lesotho and Namibia. |
| **Southern African Development Community (SADC)** | A regional intergovernmental organisation that promotes collaboration, economic integration and technical cooperation throughout Southern Africa. |
| **Sovereign debt** | Debt issued by a government. |
| **Special economic zone** | A designated area where infrastructure and incentives are provided to clusters of businesses to encourage private investment and employment growth. |

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| **Structural reforms** | Measures that are put in place to substantially change the economy or the institutional and regulatory framework in which people and businesses operate. |
| **Supply-side constraints** | When a country's productive capacity cannot keep up with rising demand. |
| **Switch (auction)** | Auctions to exchange bonds to manage refinancing risk or improve tradability. |
| **Tax avoidance** | When individuals or businesses legitimately use provisions in the tax law to reduce their tax liability. |
| **Tax buoyancy** | The relationship between total tax revenue collections and economic growth. This measure includes the effects of policy changes on revenue. A value above 1 means that revenues are growing faster than the economy; a value below 1 means they are growing below the rate of GDP growth. |
| **Tax evasion** | When individuals or businesses illegally reduce their tax liability. |
| **Tax-to-GDP ratio** | For public finance comparison purposes, a country's tax burden, or tax-to-GDP ratio, is calculated by taking the total tax payments for a particular fiscal year as a fraction or percentage of the GDP for that year. |
| **Terms of trade** | An index measuring the ratio of export prices to import prices. |
| **Trade balance** | The monetary record of a country's net imports and exports of physical merchandise. See also *current account.* |
| **Transversal term contract** | A fixed-term contract to procure goods or services needed by more than one government department. |
| **Treasury bills** | Short-term government debt instruments that yield no interest but are issued at a discount. Maturities vary from one day to 12 months. |
| **Twin deficit** | The combination of deficits on the budget and the current account. |
| **Twin peaks** | An approach to organising financial sector regulation and supervision involving two regulators. One is responsible for ensuring financial services firms sell their products in an appropriate way. The other is responsible for ensuring financial firms remain financially sound and are generally prudent. |
| **Undercapitalisation** | Lack of sufficient funds (capital) to conduct day-to-day operations. |
| **Unit labour costs** | The cost of labour per unit of output, calculated by dividing average wages by productivity (output per worker per hour). |
| **Unsecured lending** | A loan that is not backed or secured by any type of collateral to reduce the lender's risk. |
| **Yield** | A financial return or interest paid to buyers of government bonds. The yield, or rate of return, on bonds includes the total annual interest payments, the purchase price, the redemption value and the time remaining until maturity. |

2022 MTBPS

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