3

2023 BUDGET REVIEW

FISCAL POLICY

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- Government remains focused on stabilising public debt and ensuring sustainable public finances.
- Government debt is projected to stabilise at 73.6 per cent of GDP in 2025/26. Debt-service costs as a share of revenue are expected to peak in the same year.
- The economic outlook has weakened compared with projections in the 2022 *Medium Term Budget Policy Statement* (MTBPS). Revenue performance and projections, however, exceed 2022 Budget estimates. These funds will be used to strengthen the social wage and infrastructure investment, narrow the budget deficit, and address fiscal and economic risks.
- Government will achieve a main budget primary surplus in 2022/23. Main budget non-interest expenditure will grow slightly above consumer price index (CPI) inflation in the outer two years of the medium-term expenditure framework (MTEF) period. The consolidated budget deficit is expected to narrow from 4 per cent of GDP in 2023/24 to 3.2 per cent of GDP in 2025/26.
- Eskom debt relief amounting to R254 billion will enable the entity to focus on necessary investment and maintenance as part of broader energy sector reforms, but this requires a step change in public debt.

OVERVIEW

In the context of a weak domestic growth outlook, high inflation and an uneven global economic recovery, fiscal policy remains focused on stabilising public debt and ensuring sustainable public finances.

South Africa's public debt remains high. Debt-service costs will mount over the medium term, peaking as a proportion of revenue in 2025/26. In this context, a prudent fiscal policy stance works to reduce the proportion of public resources absorbed by debt-service costs and reallocate these resources to more productive activities over time. This is intended to promote economic growth, reduce risks of fiscal distress and ensure the sustainable provision of essential services in line with policy priorities.

Spending allocations will be targeted towards specific policy priorities rather than broad baseline adjustments. The 2023 Budget proposals direct resources to infrastructure and supporting the social wage – combined public spending on health, education, housing, social protection, transport, employment and local amenities. Government is also reducing fiscal and economic risks through targeted conditional in-year support to key public entities and by providing debt relief to Eskom to promote security of energy supply. The consolidated budget deficit is projected to narrow from 4 per cent of GDP in 2023/24 to 3.2 per cent of GDP in 2025/26.

The Eskom debt-relief arrangement implies a step change in the stock of government debt. Gross government debt is now projected to stabilise three years later and at a higher level (73.6 per cent of GDP) than projected in the 2022 MTBPS. The revised projection is also the result of marginally lower nominal GDP, higher interest costs and a weaker exchange rate.

Nevertheless, South Africa's fiscal position has improved since 2021/22, largely due to consolidation measures, economic recovery and accelerated GDP inflation. A main budget primary surplus – meaning revenue exceeds non-interest expenditure – is expected from the current year onwards. Revenue projections in the current year and total projections over the medium term have been revised up since the 2022 MTBPS. Alongside projected underspending, this improves the primary balance in 2022/23. Over the medium term, higher main budget primary surpluses, relative to the 2022 MTBPS estimates, reflect higher projected revenue and reduced non-interest spending.

Figure 3.1 Nominal GDP growth and CPI inflation estimates

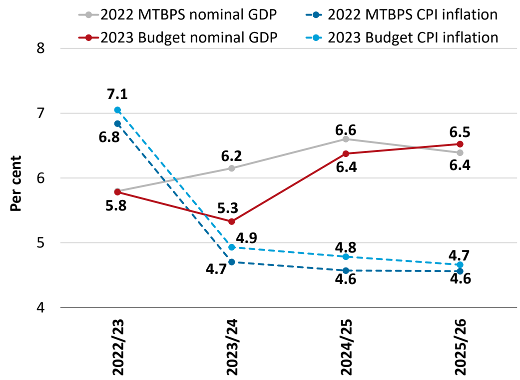


Figure 3.2 Real growth in non-interest expenditure

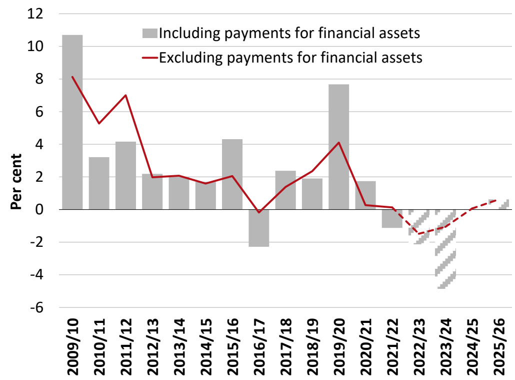


Figure 3.3 Main budget primary balance

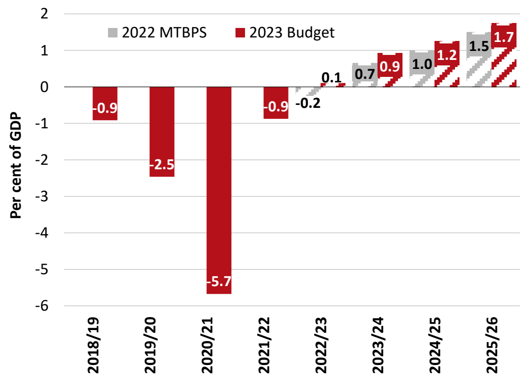
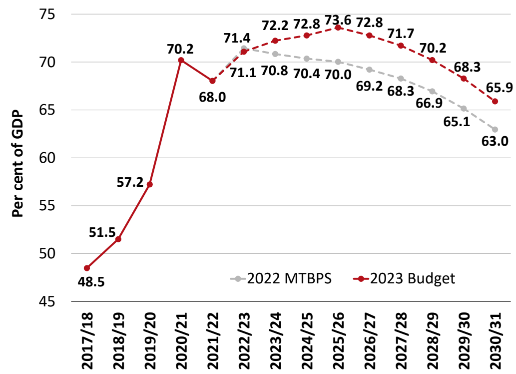


Figure 3.4 Gross debt-to-GDP outlook



Source: National Treasury

The medium-term fiscal strategy prioritises reducing the budget deficit and stabilising debt as a share of GDP, supporting economic growth, and reducing fiscal and economic risks. Risks to the fiscal framework include weaker-than-expected global and domestic economic growth, the introduction of unfunded spending programmes, and higher borrowing costs and public-service wage costs.

PUBLIC FINANCES: OUTCOMES AND PROJECTIONS

Historical fiscal trends

Government spending has exceeded revenue since the 2008 global financial crisis. From 2008/09 to 2021/22, consolidated government spending, on average, consistently grew faster than GDP and consolidated revenue, mainly driven by the public-service wage bill, rising debt-service costs and transfers to households (Figure 3.5). Spending growth was not matched by efficiency gains. The composition of spending also deteriorated, with infrastructure investment declining as a proportion of total expenditure (Figure 3.6). This in turn meant that spending was increasingly oriented to current consumption rather than investment that would support long-term economic growth.

Figure 3.5 Average real growth, 2008/09—2021/22

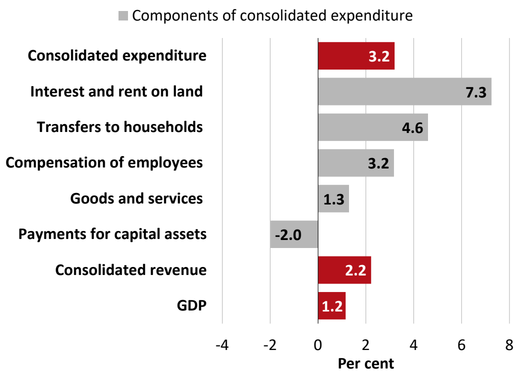
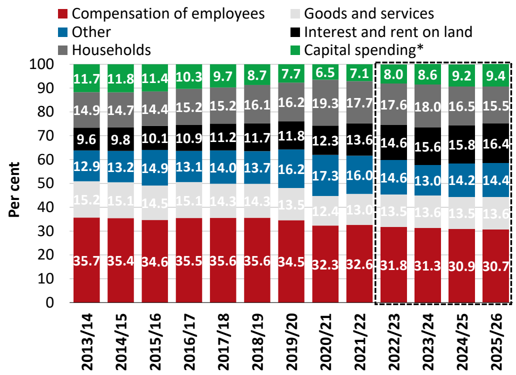


Figure 3.6 Composition of consolidated government spending



**Includes payments for capital assets and capital transfers*
Source: National Treasury

Rising expenditure unmatched by revenue growth has led to primary deficits. Fiscal consolidation efforts succeeded in narrowing the primary deficit to 0.9 per cent of GDP in 2018/19 (Figure 3.7), but this trend reversed during the pandemic. As a percentage of GDP, gross loan debt increased by 44 percentage points between 2009/10 and 2021/22 (Figure 3.8). In other words, government debt increased much faster than the growth of the economy and newly issued debt has become more expensive to service. Interest payments on debt now consume 18 cents of every rand of revenue that government collects.

Figure 3.7 Main budget deficit

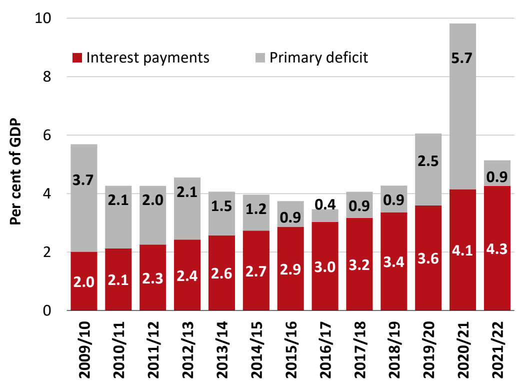
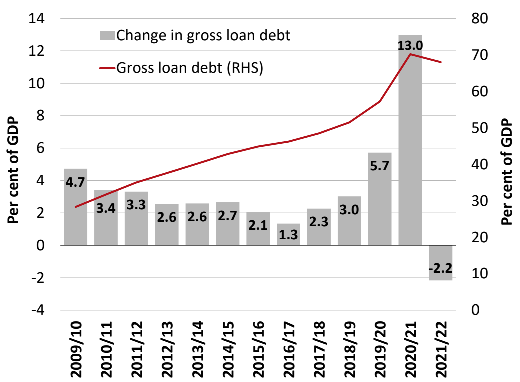


Figure 3.8 Change in gross loan debt-to-GDP ratio



Source: National Treasury

Over the past several years, government's efforts to narrow the deficit and stabilise debt have been interrupted by several shocks that required urgent fiscal intervention, including the COVID-19 pandemic and state-owned company failures. These pressures were managed by reallocating funding within the budget and establishing firm spending ceilings.

Nevertheless, fiscal policy has made some headway in consolidating the public finances. Attaining a primary budget surplus in the current financial year marks a significant achievement. Over time, stabilising debt and reducing debt-service costs will enable government to shift expenditure to policy priorities. It will also reduce the economy-wide cost of borrowing, supporting investment and growth more broadly. However, the size of the debt and elevated borrowing costs in a low-growth, high-inflation environment requires a rising primary surplus over the medium term.

Medium-term fiscal strategy and outlook

The medium-term fiscal strategy aims to:

- Achieve fiscal sustainability by narrowing the budget deficit and stabilising debt.
- Support economic growth by maintaining a sustainable fiscal stance and directing resources towards infrastructure and other policy priorities.
- Reduce fiscal and economic risks, including through building fiscal buffers for future shocks, providing targeted conditional in-year support to key public entities and providing debt relief to Eskom with strict conditions.

Implications of Eskom debt-relief arrangement for the fiscal framework

The 2023 Budget proposes a debt-relief arrangement for Eskom that will enable the utility to conduct the necessary investment and maintenance, and supports structural reform of the electricity sector.

Over a three-year period, government will make available debt relief amounting to R254 billion to cover Eskom's debt obligations. The support will take the form of a loan from the National Revenue Fund to Eskom with strict conditions attached and a direct debt takeover of a portion of Eskom's loan portfolio. Upon complying with the conditions, the loan will be converted to state-owned equity. Government guarantees for Eskom debt will be reduced in line with this transaction.

The transaction will be authorised by special legislation and will be recorded on the balance sheets of both government and Eskom. This implies an increase in government debt. The Eskom funding provision of R66 billion over the MTEF period in the 2022 MTBPS is used to offset the government borrowing requirement and is recorded as part of financing rather than expenditure. The net impact on the fiscal framework is a reduction in non-interest expenditure and an increase in debt-service costs. Additional details appear in Chapter 7 and (online) Annexure W3.

The fiscal strategy also avoids tax rate increases that would overburden households and firms during a slow and uneven economic recovery and makes targeted injections to spending. In this regard, vulnerable households continue to receive support —

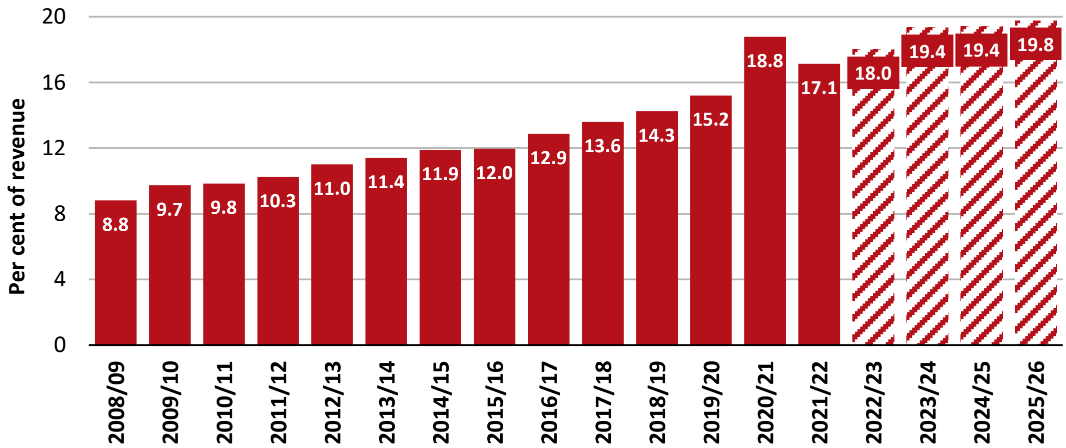
60.2 per cent of consolidated non-interest spending goes to the social wage over the 2023 MTEF period. Key baselines for the delivery of services are gradually being restored, without making unaffordable permanent commitments.

Main budget non-interest expenditure will grow on average by 0.3 per cent in real terms in the outer two years of the MTEF period. The future of the *COVID-19 social relief of distress grant*, which is currently funded until 31 March 2024, remains under discussion. 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.

Over the MTEF period, government will increase infrastructure budgets and improve the composition of spending. Several reforms are under way to strengthen public investment management, including improving operations of the Infrastructure Fund, enhancing infrastructure monitoring and reporting, improving the public-private partnership regulatory framework, and building a strong project pipeline. Additional information appears in Annexure D.

Funding is provided for the carry-through costs of the 2022/23 wage increase. In addition, the Budget provides for pay progression and other benefits. 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. The Department of Public Service and Administration, working with the National Treasury and other national departments, is conducting a review across government to propose a single remuneration framework aligned with the principles of fair, equitable and sustainable remuneration in the public sector, excluding state-owned companies.

Figure 3.9 Debt-service costs as a share of main budget revenue



Source: National Treasury

Debt-service costs as a proportion of main budget revenue are expected to peak in 2025/26 (Figure 3.9) and the budget deficit narrows over the medium term. The debt-to-GDP ratio stabilises in the same year. Over time, debt stabilisation will allow government to reduce the crowding-out of essential services imposed by debt-service costs.

The rising primary budget surplus and the contingency reserve serve as fiscal buffers over the medium term, as does the unallocated reserve in the outer two years of the MTEF period (see Table 3.8).

CHANGES IN REVENUE AND EXPENDITURE

Revenue

Relative to the 2022 MTBPS, gross tax revenue projections for 2022/23 have been revised up by R10.3 billion. This revision mainly reflects improvements in corporate and personal income taxes, dividends tax and customs duties, partially offset by lower net value-added tax estimates. Medium-term revenue projections are R6 billion higher than the 2022 MTBPS estimates. No tax proposals to raise additional revenue are included in the estimates.

Table 3.1 Revised gross tax revenue projections

R billion	2021/22[1]	2022/23	2023/24	2024/25	2025/26
Revised estimate	**1 563.8**	**1 692.2**	**1 787.5**	**1 907.7**	**2 043.5**
Buoyancy	*2.07*	*1.42*	*1.06*	*1.06*	*1.09*
2022 MTBPS	**1 563.8**	**1 681.9**	**1 788.9**	**1 907.3**	**2 036.5**
Buoyancy	*2.07*	*1.30*	*1.03*	*1.00*	*1.06*
2022 Budget	**1 547.1**	**1 598.4**	**1 694.3**	**1 807.6**	
Buoyancy	*1.93*	*1.09*	*1.06*	*1.06*	
Projected improvement against 2022 MTBPS	–	10.3	-1.4	0.4	7.0
Projected improvement against 2022 Budget	16.7	93.7	93.2	100.1	

1. Actual outcome
Source: National Treasury

Since the 2022 MTBPS, medium-term non-tax revenue estimates have been revised up by R4.5 billion, driven by higher departmental receipts partially offset by lower mineral and petroleum royalties. Projections of National Revenue Fund receipts have been revised up by R3.1 billion over the MTEF period due to higher expected revaluation profits on foreign-currency transactions.

Payments to the Southern African Customs Union have been revised up by R1.6 billion per year in 2024/25 and 2025/26 compared with the 2022 MTBPS estimates, mainly due to better performance in customs duties. Compared with 2022 Budget estimates, main budget revenue is projected to improve by R192.9 billion between 2023/24 and 2024/25. This significant increase in revenue collections and projections mainly reflects resilient personal incomes and corporate profitability, as well as revisions to major tax bases.

Table 3.2 Revisions to main budget revenue estimates

R billion/percentage of GDP	2023/24			2024/25			2025/26
	2023 Budget	Deviation from the 2022 MTBPS	Deviation from the 2022 Budget	2023 Budget	Deviation from the 2022 MTBPS	Deviation from the 2022 Budget	2023 Budget[2]
Revenue							
Gross tax revenue	1 787.5	-1.4	93.2	1 907.7	0.4	100.1	2 043.5
Non-tax revenue	40.5	2.1	12.8	41.4	1.4	12.8	43.3
SACU[1]	-79.8	-0.1	-13.3	-86.5	-1.6	-21.1	-80.1
National Revenue Fund receipts	11.1	3.2	6.3	5.5	1.1	2.1	1.1
Main budget revenue	**1 759.2**	**3.7**	**99.0**	**1 868.1**	**1.3**	**93.9**	**2 007.7**
	25.1%			*25.1%*			*25.3%*

1. Southern African Customs Union. Amounts made up of payments and other adjustments
2. The main budget revenue for 2025/26 estimated in the 2023 Budget is R5.2 billion higher when compared to the 2022 MTBPS
Source: National Treasury

The fiscal position is affected by various pressures over the MTEF period. Government debt will continue to increase, largely due to the Eskom debt-relief arrangement. Against this backdrop, it is prudent to allow a portion of higher-than-expected revenue to be used to reduce the fiscal deficit rather than for new spending. Compared with the 2022 Budget, over the next two years 57 per cent of higher-than-expected revenue will be used to reduce the fiscal deficit. As the deficit is reduced, the borrowing requirement of government will be under less pressure due to the higher debt redemptions and Eskom debt relief. This will help to prevent a dramatic increase in debt and debt-service costs or the need for harmful spending cuts, should the revenue projections not materialise.

Expenditure

The projected additional revenue enables government to respond to some immediate spending pressures while continuing to stabilise the public finances. Table 3.3 presents changes to in-year main budget non-interest expenditure since the 2022 Budget. In-year non-interest expenditure increases by a net R23.4 billion as upward adjustments are partially offset by declared unspent funds, projected underspending, shifting of funds between votes and drawdowns of contingency reserve and provisional allocations not assigned to votes. Details appear in the *Estimates of National Expenditure*.

Conditional in-year allocations to Denel, the South African National Roads Agency Limited and Transnet will reduce contingent liabilities and enable these entities to continue supporting economic growth. Further proposed in-year allocations of R1 billion to South African Airways to assist the business rescue process and R2.4 billion to the South African Post Office to implement its turnaround plan will reduce contingent liabilities. The Land Bank remains in financial distress and the process to finalise a solution is ongoing. The R5 billion that was retained in the 2022/23 contingency reserve in the 2022 MTBPS will be allocated to the Land Bank with conditions attached to its use.

Table 3.3 Revisions to 2022/23 non-interest expenditure since 2022 Budget

R million	2022/23
Non-interest expenditure (2022 Budget)	**1 673 450**
Upward expenditure adjustments	**77 419**
2022 MTBPS	54 117
Special appropriation [1]	*30 014*
Other allocations in the AENE [2]	*24 102*
Second adjustments appropriation	23 302
South African Airways	*1 000*
South African Post Office	*2 400*
2022/23 public-service wage increase	*14 602*
Political parties fund	*300*
Land Bank section 6 provision	*5 000*
Downward expenditure adjustments	**-54 039**
Projected underspending	*-19 427*
Other downward adjustments [3]	*-34 613*
Revised non-interest expenditure (2023 Budget)	**1 696 829**
Change in non-interest expenditure from 2022 Budget	**23 379**

1. The entities receiving the allocations are Transnet, SANRAL and Denel

2. 2022 Adjusted Estimates of National Expenditure including self-financing expenditure and expenditure earmarked in the 2022 Budget for future allocation

3. Includes declared unspent funds, shift of funds between votes, and drawdowns to provisional allocations not assigned to votes and contingency reserve

Source: National Treasury

Table 3.4 outlines proposed revisions to main budget non-interest spending over the MTEF period compared with the 2022 Budget. Additional funding amounting to R227 billion will be provided to address a range of spending pressures. These spending additions are partially funded by existing budget resources of R98.6 billion – mainly the reduction in provisional allocations and drawdown of the 2023/24 unallocated reserve. The remaining R128.4 billion is funded by the projected revenue improvement since the 2022 Budget.

Table 3.4 Changes to main budget non-interest expenditure over MTEF period

R million	2023/24	2024/25	2025/26	MTEF total
Non-interest expenditure (2022 Budget)	**1 657 028**	**1 733 044**	**1 820 169**	**5 210 242**
Spending pressures funded in the 2023 Budget	**91 022**	**61 337**	**74 660**	**227 019**
Carry-through of 2022/23 public-service wage increase	14 973	15 198	15 426	45 597
Infrastructure-related spending	11 046	13 830	17 880	42 757
Service delivery[1]	16 095	17 568	20 238	53 902
Security cluster	4 396	4 503	5 474	14 373
COVID-19 social relief of distress grant	36 081	–	–	36 081
Social grants increase with CPI inflation	5 890	9 114	14 572	29 575
Other allocations[2]	2 539	1 124	1 069	4 732
Changes in provisional allocations not assigned to votes[3]	**-29 678**	**-25 686**	**-32 046**	**-87 410**
Change in reserves and other adjustments[4]	**-24 252**	**6 410**	**6 648**	**-11 194**
Revised non-interest expenditure (2023 Budget)	**1 694 120**	**1 775 105**	**1 869 432**	**5 338 656**
Change in non-interest expenditure from 2022 Budget	37 092	42 060	49 263	128 415

1. Health, education and local government free basic services
2. Details are in Table 5.2
3. Includes Infrastructure Fund and SARS provisional allocations, rescheduling of infrastructure projects and other adjustments and removal of Eskom funding provision from expenditure to financing
4. Includes changes in contingency and unallocated reserves, skills development levy and NRF payments adjustments
Source: National Treasury

Table 3.5 Main budget expenditure ceiling

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	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		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
2023 Budget		**1 487 419**	**1 566 498**	**1 653 459**	**1 671 030**	**1 750 276**	**1 842 572**

Source: National Treasury

CONSOLIDATED FISCAL FRAMEWORK

Between the 2022 Budget and 2023 Budget, the consolidated budget deficit expected for 2022/23 declined from 6 per cent to 4.2 per cent of GDP. The deficit is projected to reach 3.2 per cent of GDP in 2025/26, as the main budget deficit narrows and social security funds, provinces and public entities move into a combined cash surplus in the outer year. Over the next three years, consolidated non-interest expenditure will contract at an annual average of 1 per cent in real terms.

Table 3.6 Consolidated fiscal framework

R billion/percentage of GDP	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome			Revised estimate	Medium-term estimates		
Revenue	**1 519.6**	**1 409.2**	**1 750.6**	**1 892.7**	**1 958.9**	**2 077.8**	**2 225.3**
	26.7%	*25.1%*	*27.8%*	*28.5%*	*28.0%*	*27.9%*	*28.0%*
Expenditure	**1 807.1**	**1 964.4**	**2 042.9**	**2 168.8**	**2 242.6**	**2 359.7**	**2 477.4**
	31.7%	*35.0%*	*32.5%*	*32.6%*	*32.0%*	*31.7%*	*31.2%*
Non-interest expenditure	*1 593.1*	*1 723.5*	*1 765.8*	*1 852.8*	*1 893.1*	*1 987.4*	*2 070.4*
	28.0%	*30.7%*	*28.1%*	*27.9%*	*27.0%*	*26.7%*	*26.1%*
Budget balance	**-287.5**	**-555.1**	**-292.3**	**-276.1**	**-283.7**	**-282.0**	**-252.1**
	-5.0%	*-9.9%*	*-4.6%*	*-4.2%*	*-4.0%*	*-3.8%*	*-3.2%*

Source: National Treasury

Over the medium term, the composition of consolidated spending improves, continuing the shift towards capital rather than current spending.

Table 3.7 Consolidated operating and capital accounts

R billion/percentage of GDP	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome			Revised estimate	Medium-term estimates		
OPERATING ACCOUNT							
Current revenue	**1 499.5**	**1 376.6**	**1 735.3**	**1 883.8**	**1 942.9**	**2 066.9**	**2 218.6**
Current payments	**1 601.8**	**1 745.6**	**1 821.7**	**1 949.9**	**2 040.8**	**2 097.8**	**2 191.3**
Compensation of employees	624.2	634.9	666.4	690.4	701.2	728.7	760.6
Goods and services	244.6	243.3	265.0	293.0	305.2	317.6	335.8
Interest payments	214.0	240.9	277.1	316.0	349.5	372.4	407.0
Current transfers and subsidies	519.0	626.6	613.2	650.5	685.0	679.1	687.9
Current balance	**-102.3**	**-369.1**	**-86.4**	**-66.1**	**-97.9**	**-31.0**	**27.3**
	-1.8%	*-6.6%*	*-1.4%*	*-1.0%*	*-1.4%*	*-0.4%*	*0.3%*
CAPITAL ACCOUNT							
Capital receipts	0.3	0.2	0.3	0.2	0.3	0.3	0.3
Capital payments	63.2	62.3	72.9	91.9	110.7	125.2	137.6
Capital transfers	76.0	65.4	71.9	80.7	82.1	92.4	95.0
Capital financing requirement	**-138.9**	**-127.4**	**-144.5**	**-172.4**	**-192.5**	**-217.4**	**-232.4**
	-2.4%	*-2.3%*	*-2.3%*	*-2.6%*	*-2.7%*	*-2.9%*	*-2.9%*
Financial transactions[1]	-46.4	-58.6	-61.4	-37.5	11.6	7.1	2.5
Contingency reserve	–	–	–	–	5.0	5.0	5.0
Unallocated reserve	–	–	–	–	–	35.7	44.5
Budget balance	**-287.5**	**-555.1**	**-292.3**	**-276.1**	**-283.7**	**-282.0**	**-252.1**
	-5.0%	*-9.9%*	*-4.6%*	*-4.2%*	*-4.0%*	*-3.8%*	*-3.2%*

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

As a proportion of the total, compensation of employees and current transfers and subsidies are projected to moderate. Capital spending will increase from 8 per cent of total spending in 2022/23 to 9.4 per cent in 2025/26 (Figure 3.6). Capital payments and transfers grow by a nominal annual average of 10.5 per cent over the next three years.

ELEMENTS OF THE CONSOLIDATED BUDGET

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

Main budget framework

Table 3.8 summarises spending financed from the National Revenue Fund. In 2021/22, the main budget deficit reached 5.1 per cent of GDP compared with 5.5 per cent projected in the 2022 Budget. The 2022/23 main budget deficit is projected at 4.5 per cent of GDP, compared with 6 per cent in the 2022 Budget. Due to higher revenue and lower spending relative to the 2022 MTBPS projections, a main budget primary surplus and improved budget deficit are achieved in 2022/23. The deficit is expected to continue narrowing over the medium term from 3.9 per cent of GDP in 2023/24 to 3.3 per cent by 2025/26.

Table 3.8 Main budget framework

R billion/percentage of GDP	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome			Revised estimate	Medium-term estimates		
Revenue							
Gross tax revenue after proposals	1 355.8	1 249.7	1 563.8	1 692.2	1 787.5	1 907.7	2 043.5
Non-tax revenue	27.6	26.3	40.5	50.5	40.5	41.4	43.3
SACU[1]	-50.3	-63.4	-46.0	-43.7	-79.8	-86.5	-80.1
National Revenue Fund receipts	12.8	25.8	6.1	4.6	11.1	5.5	1.1
Main budget revenue	**1 345.9**	**1 238.4**	**1 564.4**	**1 703.6**	**1 759.2**	**1 868.1**	**2 007.7**
	23.6%	*22.1%*	*24.9%*	*25.6%*	*25.1%*	*25.1%*	*25.3%*
Expenditure							
National departments	749.8	790.5	823.0	854.4	828.6	835.7	877.9
Provinces	613.4	628.8	660.8	694.6	695.1	720.5	754.7
Local government	123.0	137.1	135.6	147.8	164.0	174.4	183.3
Contingency reserve	–	–	–	–	5.0	5.0	5.0
Provisional allocation not assigned to votes	–	–	–	–	1.5	3.9	4.0
Unallocated reserve	–	–	–	–	–	35.7	44.5
Non-interest expenditure	**1 486.2**	**1 556.4**	**1 619.4**	**1 696.8**	**1 694.1**	**1 775.1**	**1 869.4**
Debt-service costs	204.8	232.6	268.1	307.2	340.5	362.8	397.1
Main budget expenditure	**1 691.0**	**1 789.0**	**1 887.5**	**2 004.0**	**2 034.6**	**2 137.9**	**2 266.5**
	29.7%	*31.9%*	*30.0%*	*30.1%*	*29.0%*	*28.7%*	*28.6%*
Main budget balance	**-345.1**	**-550.6**	**-323.1**	**-300.4**	**-275.4**	**-269.9**	**-258.8**
	-6.1%	*-9.8%*	*-5.1%*	*-4.5%*	*-3.9%*	*-3.6%*	*-3.3%*
Primary balance	**-140.4**	**-318.1**	**-55.0**	**6.7**	**65.1**	**93.0**	**138.3**
	-2.5%	*-5.7%*	*-0.9%*	*0.1%*	*0.9%*	*1.2%*	*1.7%*

1. Southern African Customs Union. Amounts made up of payments and other adjustments. The estimates for the next two years include projected forecast error adjustments for 2021/22 and 2022/23, respectively

Source: National Treasury

Social security funds, public entities and provincial balances

Public entities – mainly the South African National Roads Agency Limited (SANRAL), the Water Trading Entity, the Trans-Caledon Tunnel Authority (TCTA), and the Passenger Rail Agency of South Africa (PRASA) – recorded a combined cash surplus of R37.4 billion in 2021/22. Much of this surplus will persist in the current financial year due to the R23.7 billion conditional allocation to SANRAL to settle maturing debt and debt-related obligations. However, a significant increase in infrastructure investments by PRASA, SANRAL and TCTA is projected to result in a deficit in the outer two years.

Social security funds ran cash deficits of R46.7 billion in 2020/21 due to the higher spending by the Unemployment Insurance Fund (UIF) in response to COVID-19. Social security funds are projected to run cash deficits until 2024/25 mainly driven by the UIF and Road Accident Fund. The social security funds are expected to return to a surplus position by 2025/26.

Table 3.9 Consolidated budget balances

R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Main budget	-345.1	-550.6	-323.1	-300.4	-275.4	-269.9	-258.8
Social security funds	11.9	-46.7	-7.8	-11.2	-8.2	-8.5	16.1
Provinces	6.4	3.0	2.1	6.5	-1.0	-0.2	1.4
Public entities	39.9	39.8	37.4	29.0	0.9	-3.4	-10.6
RDP Fund[1]	-0.6	-0.5	-1.0	0.1	0.0	-0.0	-0.1
Consolidated budget balance	**-287.5**	**-555.1**	**-292.3**	**-276.1**	**-283.7**	**-282.0**	**-252.1**

1. Reconstruction and Development Programme Fund
Source: National Treasury

PUBLIC-SECTOR BORROWING REQUIREMENT

In 2021/22, the public-sector borrowing requirement decreased to R314.9 billion or 5 per cent of GDP, reflecting the narrowing of the consolidated budget deficit. Borrowing requirements in 2022/23 are revised down by R113.6 billion to R325.8 billion (4.9 per cent of GDP), compared to the estimates published in the 2022 *Budget Review*. These revisions are largely driven by the lower projected consolidated budget deficit.

Table 3.10 Public-sector borrowing requirement[1]

R billion/percentage of GDP	2019/20	2020/21	2021/22	2022/23			2023/24	2024/25	2025/26
	Outcome			Budget 2022	Budget 2023	Deviation	Medium-term estimates		
Main budget	345.1	550.6	323.1	387.2	300.4	-86.8	275.4	269.9	258.8
Social security funds	-11.9	46.7	7.8	7.1	11.2	4.0	8.2	8.5	-16.1
Provinces	-6.4	-3.0	-2.1	-3.6	-6.5	-2.8	1.0	0.2	-1.4
Public entities	-39.9	-39.8	-37.4	-4.3	-29.0	-24.7	-0.9	3.4	10.6
RDP Fund	0.6	0.5	1.0	0.2	-0.1	-0.3	-0.0	0.0	0.1
Consolidated government	**287.5**	**555.1**	**292.3**	**386.6**	**276.1**	**-110.6**	**283.7**	**282.0**	**252.1**
National borrowing for Eskom debt-relief arrangement	–	–	–	–	–	–	78.0	66.2	110.2
Consolidated borrowing requirement	**287.5**	**555.1**	**292.3**	**386.6**	**276.1**	**-110.6**	**361.7**	**348.1**	**362.3**
	5.0%	*9.9%*	*4.6%*	*6.0%*	*4.2%*		*5.2%*	*4.7%*	*4.6%*
Local authorities[2]	**8.6**	**6.8**	**7.0**	**13.8**	**10.3**	**-3.4**	**13.0**	**13.9**	**13.4**
	0.2%	*0.1%*	*0.1%*	*0.2%*	*0.2%*	–	*0.2%*	*0.2%*	*0.2%*
State-owned companies[3]	**54.1**	**32.9**	**15.6**	**39.0**	**39.4**	**0.4**	**11.3**	**13.3**	**20.6**
	0.9%	*0.6%*	*0.2%*	*0.6%*	*0.6%*	–	*0.2%*	*0.2%*	*0.3%*
Borrowing requirement	**350.1**	**594.8**	**314.9**	**439.4**	**325.8**	**-113.6**	**385.9**	**375.3**	**396.3**
	6.1%	*10.6%*	*5.0%*	*6.8%*	*4.9%*	–	*5.5%*	*5.0%*	*5.0%*

1. A negative number reflects a surplus and a positive number a deficit
2. 2021/22 is an adjusted budget estimate, as the outcome is still being audited
3. Comprises Eskom, South African Airways (SAA), Transnet, Airports Company South Africa (ACSA) and Denel. Eskom, SAA, ACSA and Denel are not projecting to borrow in 2022/23 and over the medium term.
South African National Roads Agency Limited and Trans-Caledon Tunnel Authority are included in consolidated government net borrowing
Source: National Treasury

Over the medium term, however, the borrowing requirement is revised higher due to borrowing for the Eskom debt-relief arrangement. The borrowing requirement projections for 2023/24 and 2024/25 are now estimated to average R380.6 billion, relative to an average of R356.5 billion in the 2022 Budget.

RISKS TO THE FISCAL OUTLOOK

The fiscal position has improved since 2021/22, largely due to consolidation measures, economic recovery and accelerated GDP inflation. However, significant risks to the fiscal outlook include weaker-than-projected GDP growth and higher interest rates, along with:

- Worsening global financial conditions, increased volatility in capital flows and further exchange rate depreciation, which would affect government's ability to borrow additional funds and narrow the budget deficit.
- The weak financial condition of several state-owned companies, which rely on government support to operate.
- A public-service wage agreement that exceeds the rate of growth of the compensation budget, which would require steps to contain overall compensation spending through stricter headcount management.
- Additional spending pressures such as new, unfunded social spending programmes or the realisation of contingent liabilities, which would affect the sustainability of the public finances.

CONCLUSION

Government's fiscal consolidation measures have registered some progress in narrowing the budget deficit. Debt relief for Eskom will increase the debt-to-GDP ratio, but the effect on the fiscal outlook is cushioned by the use of existing allocations to offset the borrowing requirement. Maintaining a prudent fiscal stance and achieving debt stabilisation will, over time, allow government to shift resources from servicing debt to meeting national development objectives.

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