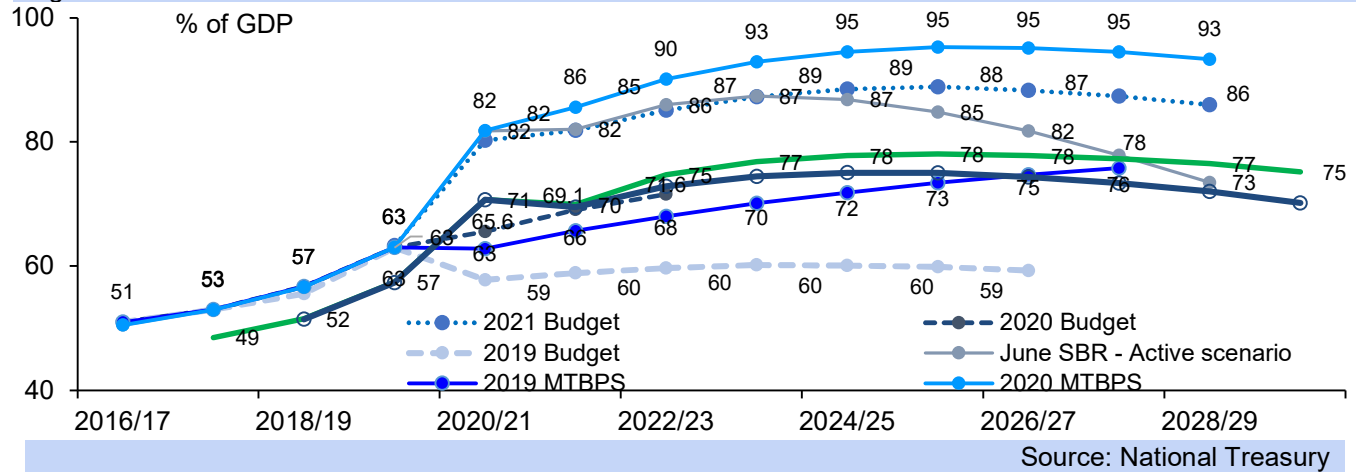




Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

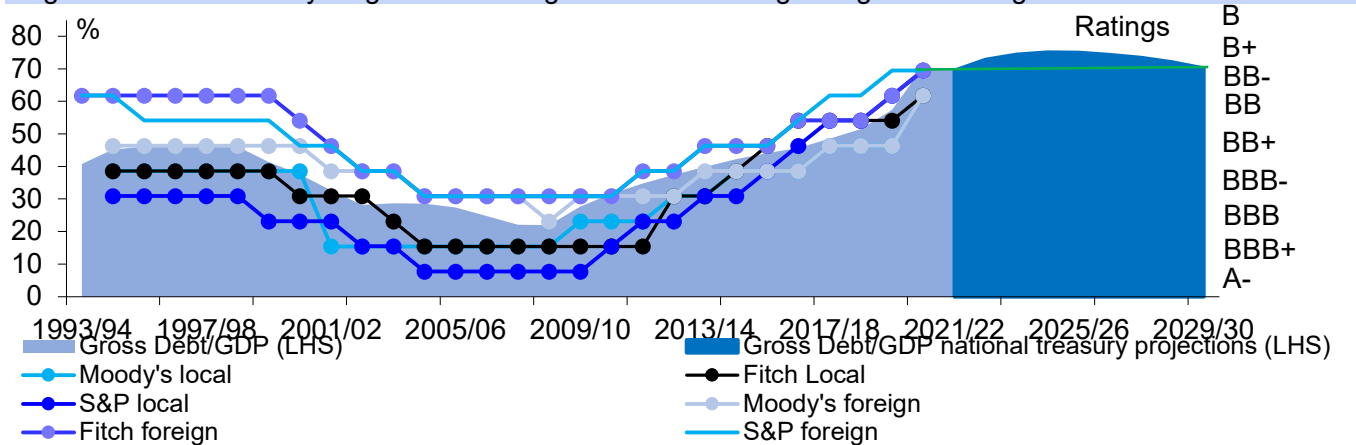
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Figure 1: Gross debt-to-GDP outlook



- 2022's Budget Review saw a significant improvement in government's debt to GDP projections and fiscal deficits. Over the medium-term, gross debt is projected to now stabilise at 75.1% of GDP in 2024/25, (previously the projection peaked at 78.1% in 2025/26), placing SA on a firmer footing to avoid a downgrade from Moody's given its negative outlook, which should now become stable.
- The borrowing requirement has been reduced, by R135.8 billion in 2021/22, and by R131.5 billion over 2021/22 and 2022/23 combined. Fiscal consolidation has clearly been deepened, and the revenue overrun is being used to shore up state finances, avoiding unsustainable expenditure hikes.
- Also as a consequence of the R182bn revenue overrun from the 2021 Budget estimate for this fiscal year, and a R62bn overrun than the 2021 MTBPS estimate for 2021/22's revenue, the estimated budget deficit has dropped sharply to -5.7% y/y for this year (from the MTBPS's -7.8% of GDP), but is still substantially wider than the -3.0% of GDP limit for recognised fiscal health (although preferably below this).
- A primary surplus is envisioned by 2024/25. Minister Godongwana has shown strong fiscal gains with the core message being that government is "on course to close key fiscal imbalances and restore the health of public finances". With debt still to escalate, to R5.4trillion (from R4.8trillion this year), gross debt has not yet peaked as a % of GDP and as such does not signify credit rating upgrades, but not downgrades either the debt ratio returns to the current position by 2029/30 without slipping into B+ territory.

Figure 2: Local currency long-term sovereign debt credit ratings vs. government gross loan debt as % GDP



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)



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Figure 3: Main Budget Framework

R billion/percentage of GDP	2018/19	2019/20 Outcome	2020/21	2021/22 Revised	2022/23	2023/24	2024/25
					Medium-term estimates		
Revenue							
Gross tax revenue	1,287.7	1,355.8	1,249.7	1,547.1	1,598.4	1,694.3	1,807.6
Non-tax revenue	23.9	27.6	26.3	42.6	30.6	27.7	28.6
SACU ¹	-48.3	-50.3	-63.4	-46.0	-43.7	-66.5	-65.5
National Revenue Fund receipts ²	12.0	12.8	25.8	5.3	2.6	4.8	3.4
Main budget revenue	1,275.3	1,345.9	1,238.4	1,549.1	1,588.0	1,660.2	1,774.2
	23.5%	23.7%	22.2%	24.8%	24.7%	24.4%	24.5%
Expenditure							
National departments	634.3	749.8	790.5	831.1	824.7	770.9	805.7
Provinces	572.0	613.5	628.8	661.2	682.5	667.3	690.2
Local government	118.5	123.0	137.1	135.3	150.6	160.5	170.1
Contingency reserve	–	–	–	–	10.0	5.0	5.0
Provisional allocation not assigned to votes ³	–	–	–	–	5.6	28.3	32.1
Unallocated reserve	–	–	–	–	–	25.0	30.0
Non-interest expenditure	1,324.8	1,486.2	1,556.4	1,627.6	1,673.5	1,657.0	1,733.0
Debt-service costs	181.8	204.8	232.6	268.3	301.8	335.0	363.5
Main budget expenditure	1,506.6	1,691.0	1,789.0	1,896.0	1,975.3	1,992.0	2,096.6
	27.8%	29.7%	32.1%	30.3%	30.7%	29.3%	29.0%
Main budget balance	-231.3	-345.1	-550.6	-346.9	-387.2	-331.8	-322.4
	-4.3%	-6.1%	-9.9%	-5.5%	-6.0%	-4.9%	-4.5%
Primary balance	-49.5	-140.3	-318.0	-78.6	-85.4	3.2	41.1
	-0.9%	-2.5%	-5.7%	-1.3%	-1.3%	0.0%	0.6%

Source: National Treasury and Budget 2022

1. Southern African Customs Union, payments, other adjustments. 2 The estimates for the next two years include projected forecast error adjustments for 2020/21 and 2021/22, respectively

Figure 4: Budget Balances

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Budget 2016	-2.8%	-2.4%						
MTBPS 2016	-3.1%	-2.7%	-2.5%					
Budget 2017	-3.1%	-2.8%	-2.6%					
MTBPS 2017	-4.3%	-3.9%	-3.9%	-3.9%				
Budget 2018	-4.3%	-3.6%	-3.6%	-3.5%				
MTBPS 2018	-4.0%	-4.0%	-4.2%	-4.2%	-4.0%			
Budget 2019	-4.0%	-4.2%	-4.5%	-4.3%	-4.0%			
MTBPS 2019	-4.0%	-4.2%	-5.9%	-6.5%	-6.2%	-5.9%		
Budget 2020	-4.1%	-4.0%	-6.3%	-6.8%	-6.2%	-5.7%		
MTBPS 2020	-4.1%	-4.0%	-6.4%	-15.7%	-10.1%	-8.6%	-7.3%	
Budget 2021	-4.1%	-4.1%	-4.0%	-5.7%	-14.0%	-9.3%	-7.3%	-6.3%
MTBPS 2021	-4.1%	-4.3%	-6.1%	-9.9%	-6.6%	-6.0%	-5.3%	-4.9%
Budget 2022		-3.6%	-5.1%	-10.0%	-5.7%	-6.0%	-4.8%	-4.2%

Source: National Treasury



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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Figure 5: Bloomberg survey results for the consolidated budget deficit % GDP

	2021/22	2022/23	2023/24
# of replies	18	18	18
Median	-6.6%	-5.7%	-5.0%
Average	-6.4%	-5.6%	-5.0%
High forecast	-5.2%	-4.1%	-3.7%
Low forecast	-7.7%	-6.7%	-6.4%

Source: Bloomberg

Figure 6: Bloomberg survey results for gross debt % GDP

	2021/22	2022/23	2023/24
# of replies	12	12	12
Median	68.8%	71.9%	73.1%
Average	69.2%	71.8%	73.5%
High forecast	73.1%	76.2%	79.2%
Low forecast	66.8%	64.9%	64.8%

Source: Bloomberg

- The budget deficit for 2022/23 is still forecast at -6.0% of GDP as it was in the MTBPS, but drops to -4.8% of GDP for 2023/24 (-5.3% in the MTBPS) and -4.2% in 2024/25 (MTBPS -4.8%). Debt ratio projections are lower too, from 2021/22's 69.5% (2021's MTBPS projected 69.9%) and for 2022/23 to 2024/25 at 72.8%, 74.4% and 75.1% of GDP (MTBPS projections of 74.7%, 76.8% and 77.8% of GDP).
- South Africa has benefited temporarily from the commodity boom, but longer-term will find fiscal consolidation without a dependable higher state revenue stream more difficult. It would instead require a move away from accelerating current expenditure, and the Minister spoke against permanent social welfare increases, pressure from the public services wage bill and further bailouts for SOE's.
- Substantially higher revenue collections have also been the work of improved efficiencies at SARS, countering criminal and illicit activity in order to collect taxes due which have had particular leakage through the system.
- The rebuilding of SARS includes a multi-year modernization programme, while higher revenue collections have been recorded from personal income and value-added tax, as well as other sectors and other tax instruments.
- As expected, the Minister highlighted that the economy is too weak for higher taxes but made good on the promise to cut the corporate income tax rate, to 27% from 28%. However, this on its own will not stimulate economic growth and employment in the private sector without a gamut of structural reforms

Figure 7: Total government debt, 2020/21-2024/25

As at	2020/21	2021/22	2022/23	2023/24	2024/25
R billion	Outcome	Revised	Medium-term estimates		
MTBPS 2021					
Gross loan debt	3 935.7	4 313.9	4 744.7	5 144.4	5 537.6
Net loan debt	3 601.8	4 089.0	4 519.6	4 935.2	5 342.7
As percentage of GDP:					
Total gross loan debt	70.7%	69.9%	74.7%	76.8%	77.8%
Total net loan debt	64.7%	66.2%	71.2%	73.7%	75.0%

Source: National Treasury

1. Forward estimates are based on National Treasury's projections of exchange and inflation rates.



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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Figure 8: Total government debt, 2020/21-2024/25

As at 31 March	2020/21	2021/22	2022/23	2023/24	2024/25
R billion	Outcome	Revised	Medium-term estimates		
Budget 2022					
Gross loan debt	3,935.7	4,345.7	4,692.2	5,065.6	5,429.3
Net loan debt	3,601.8	4,056.7	4,503.1	4,893.9	5,272.4
As percentage of GDP:					
Total gross loan debt	70.7	69.5	72.8	74.4	75.1
Total net loan debt	64.7	64.9	69.9	71.9	72.9

Source: National Treasury

Figure 9: Bloomberg survey results - will South Africa achieve a primary budget surplus by 2024-25?

Response Count:	18	100%
Yes	12	67%
No	6	33%

Source: Bloomberg

Figure 10: Revised revenue projections

R billion	2021/22	2022/23	2023/24	2024/25
2022 Budget	1,249,711	1,547,071	1,598,447	1,694,259
<i>Buoyancy</i>	3.69	1.93	1.09	1.06
2021 MTBPS	1,249,711	1,485,415	1,527,412	1,608,006
<i>Elasticity</i>	3.69	1.73	0.99	0.97
2021 Budget	1,212,206	1,365,124	1,457,653	1,548,512
<i>Elasticity</i>	2.39	1.44	1.16	1.07

Source: National Treasury

Figure 11: Main budget framework

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
R billion/percentage of GDP		Outcome		Revised	Medium-term estimates		
Main budget revenue	1,275.3 23.5%	1,345.9 23.7%	1,238.4 22.2%	1,549.1 24.8%	1,588.0 24.7%	1,660.2 24.4%	1,774.2 24.5%
Main budget expenditure	1,506.6 27.8%	1,691.0 29.7%	1,789.0 32.1%	1,896.0 30.3%	1,975.3 30.7%	1,992.0 29.3%	2,096.6 29.0%
Non-interest expenditure	1,324.8	1,486.2	1,556.4	1,627.6	1,673.5	1,657.0	1,733.0
Debt-service costs	181.8	204.8	232.6	268.3	301.8	335.0	363.5
Main budget balance	-231.3 -4.3%	-345.1 -6.1%	-550.6 -9.9%	-346.9 -5.5%	-387.2 -6.0%	-331.8 -4.9%	-322.4 -4.5%
Primary balance	-49.5 -0.9%	-140.3 -2.5%	-318.0 -5.7%	-78.6 -1.3%	-85.4 -1.3%	3.2 0.0%	41.1 0.6%

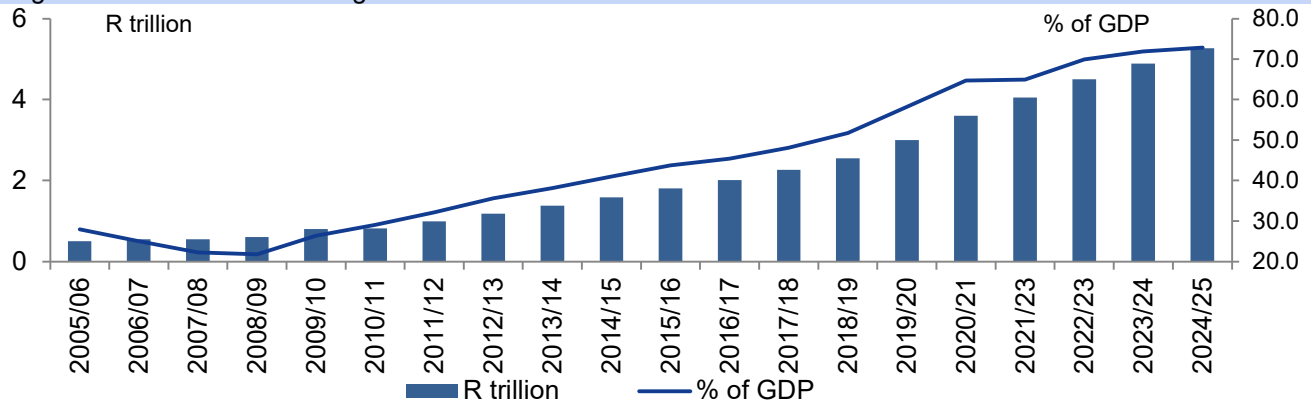
Source: National Treasury



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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Figure 12: South Africa's net government debt: 2005/06 – 2024/25

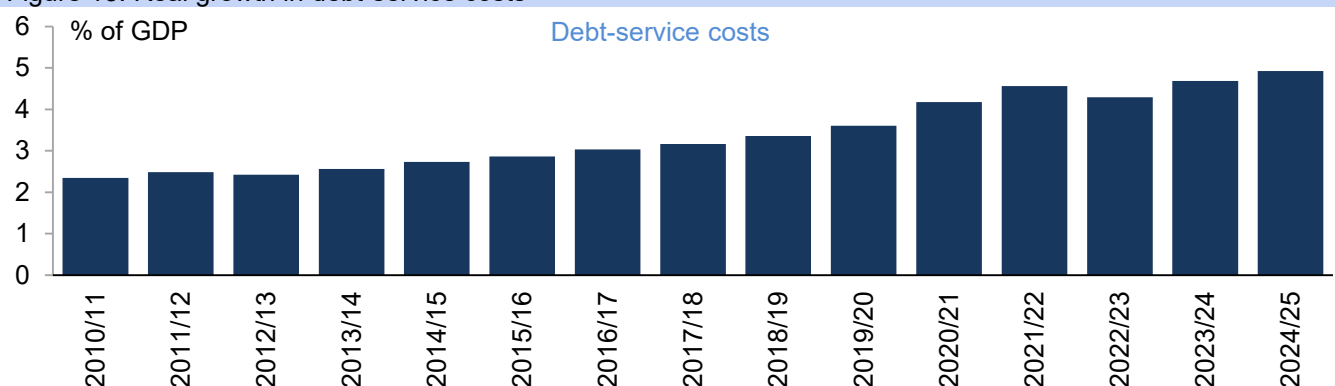


Source: National Treasury

repairing the necessary fundamentals for SA's economy, including sufficient electricity and water supply, a sharply reduced regulatory burden and increased ease of doing business, rail and port operations.

- Government did lift its GDP forecast, to 2.1% y/y from 1.8% y/y for 2022, as the commodity boom and global recovery has aided immediate growth prospects, but left 2023 and 2024 unchanged at 1.6% y/y and 1.7% y/y respectively, appearing to evince little expectation of a major growth impact from structural reform implementation that government outlined in the ERRP. Our growth forecasts in comparison remain above 2.0% y/y over the 2023 to 2026 period and reach 2.5% y/y by 2024 and close to 3.0% y/y by 2026.
- However, the Minister highlighted that “we do not aspire to be a below 2 per cent growth economy. We are capable of so much more. In this regard, we are refining proposals for an expanded reform agenda – to shift our economy towards a higher growth trajectory.” This will likely tie in with the social compact for economic growth announced at the SONA and planned for later this year.
- Helpful to economic growth was the lack of increase in the petrol price, and indeed National Treasury has highlighted that a “combination of regulatory amendments can reduce the petrol price by 103.82 cents/litre, increasing GDP by 0.67 percentage points, by 2028.” This was one of many factors in the budget which will boost confidence, but the budget has been met with a muted reaction from the rand.
- The domestic currency has instead been mired down by the Russian/Ukraine conflict, and news today of worsening tensions, with the potential for further escalation. For SA, which imports its oil instead of using its own, higher oil prices from an escalation in the Russian/Ukraine conflict would push up inflation.

Figure 13: Real growth in debt-service costs



Source: National Treasury

*Excludes Eskom financial support and transactionn in financial assets and liabilities



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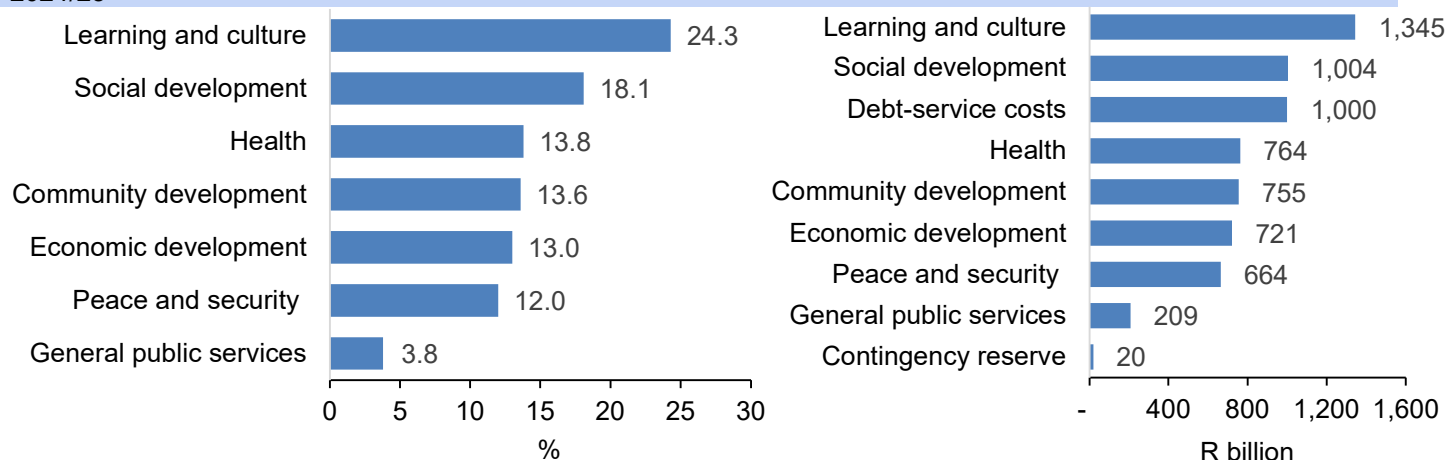
Figure 14: Total national government debt¹

End of period	2020/21	2021/22	2022/23	2023/24	2024/25
R billion	Outcome	Revised	Medium-term estimates		
Domestic loans²	3,543.3	3,852.4	4,158.7	4,496.3	4,815.9
Short-term	456.0	449.2	449.2	489.2	528.2
Long-term	3,087.3	3,403.2	3,709.5	4,007.1	4,287.8
<i>Fixed-rate</i>	2,300.0	2,559.9	2,761.9	3,055.9	3,341.3
<i>Inflation-linked</i>	787.3	843.3	947.6	951.2	946.5
Foreign loans²	392.4	493.3	533.5	569.3	613.4
Gross loan debt	3,935.7	4,345.7	4,692.2	5,065.6	5,429.3
Less: National Revenue Fund bank balances ²	-333.9	-289.0	-189.1	-171.7	-156.9
Net loan debt²	3,601.8	4,056.7	4,503.1	4,893.9	5,272.4
<i>As percentage of GDP:</i>					
<i>Gross loan debt</i>	70.7	69.5	72.8	74.4	75.1
<i>Net loan debt</i>	64.7	64.9	69.9	71.9	72.9

Source: National Treasury

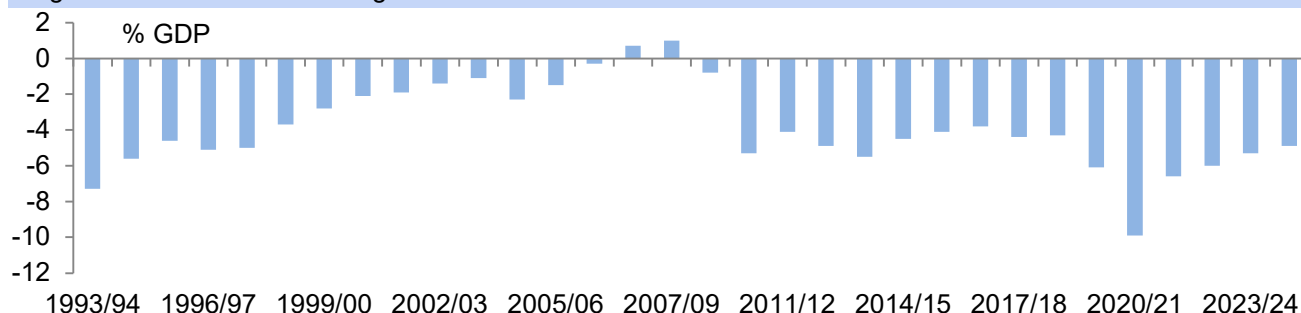
1. Estimates include revaluations based on National Treasury's projections of inflation and exchange rates

Figure 15: Average nominal growth in spending and consolidated government expenditure by function, 2022/23-2024/25



Source: National Treasury

Figure 16: Government's budget balance:



Source: National Treasury and Budget 2022



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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Figure 17: Consolidated government expenditure, 2021/22 -2024/25

R billion	2021/22	2022/23	2023/24	2024/25	Avg annual growth
	Revised	Medium-term estimates			
Learning and culture	421.4	441.5	446.0	458.0	2.8%
Health	256.2	259.0	247.6	257.5	0.2%
Social development	325.7	364.4	317.6	322.2	-3.0%
Community development	212.5	236.3	252.2	266.7	7.9%
Economic development	201.0	227.1	237.4	256.8	8.5%
Peace and security	218.4	220.7	217.0	226.6	1.2%
General public services	71.9	69.2	69.3	70.5	-0.7%
Payments for financial assets	74.6	27.2	24.8	25.0	–
Total expenditure by function	1 808.7	1 845.5	1 811.8	1 883.3	1.4%
Debt-service costs	268.3	301.8	335.0	363.5	10.7%
Unallocated reserve	–	–	25.0	30.0	–
Contingency reserve	–	10.0	5.0	5.0	–
Total expenditure	2 077.0	2 157.3	2 176.8	2 281.8	3.2%

Source: National Treasury

- Debt service costs (interest expenditure) continue to climb and are expected to average R333.4 billion a year over the medium term. However, government has been firm on increases in other forms of current expenditure, including SOE bailouts and higher civil servant remuneration, with the latter two highlighted as significant risks to fiscal sustainability. The Minister highlighted that South Africa needs to “reduce the continual demands on South Africa’s limited public resources from state-owned companies. ... SOCs need to develop and implement sustainable turnaround plans. The future of our state-owned companies is under consideration by the Presidential State-Owned Enterprises Council.”
- “Their future will be informed by the value they create and whether they can be run as sustainable entities without bailouts from the fiscus. Some state-owned companies will be retained, while others will rationalized or consolidated. To reduce their continuing demands on South Africa’s public resources, the National Treasury will outline the criteria for government funding of state-owned companies, during the upcoming financial year.”
- Additional resources to low-income households are included, with higher than previously projected expenditure on the health and social development components of the social wage, but the future extent will depend on revenue growth. Most non-interest spending is directed to the social wage, which includes health, education, housing, social protection, employment programmes and local amenities. An amount of R18.4 billion is allocated in 2022/23 and 2023/24 to support youth employment and the creation of short-term jobs under the presidential employment initiative. Government is allocating an average of 59.4 per cent of consolidated non-interest spending over the medium term to address poverty and unemployment, and to support the economic recovery.

Figure 18: Main budget expenditure ceiling¹

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

Source: National Treasury

1. The expenditure ceiling differs from main budget non-interest expenditure. The precise definition and calculation of the expenditure ceiling is contained in Annexure C



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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Figure 19: Division of revenue

R billion	2021/22	2022/23	2023/24	2024/25	2021/22
National allocations	831.1	824.7	770.9	805.7	831.1
Provincial allocations	661.2	682.5	667.3	690.2	661.2
<i>Equitable share</i>	544.8	560.8	543.1	562.0	544.8
<i>Conditional grants</i>	116.4	121.8	124.2	128.1	116.4
Local government allocations	135.3	150.6	160.5	170.1	135.3
Provisional allocations not	–	5.6	28.3	32.1	–
Total allocations	1,627.6	1,663.5	1,627.0	1,698.0	1,627.6
Percentage shares					
National	51.1%	49.7%	48.2%	48.4%	51.1%
Provincial	40.6%	41.2%	41.7%	41.4%	40.6%
Local government	8.3%	9.1%	10.0%	10.2%	8.3%
Percentage shares	831.1	824.7	770.9	805.7	831.1

Source: National Treasury

Figure 20: Impact of tax proposals on 2022/23 revenue¹

R billion	proposals	Effect on tax
Gross tax revenue (before tax proposals)		1,603,647
Budget 2022/23 proposals		-5 200
Direct taxes		-2,200
Personal income tax		
Increasing brackets by inflation	–	
<i>Revenue if no adjustment is made</i>	13,500	
<i>Increase in brackets and rebates by inflation</i>	-13,500	
Expansion of the employment tax incentive	-2,200	
Corporate income tax		
Reform package	–	
Reduction in corporate income	-2,600	
Restriction of assessed losses	1,100	
Additional interest limitation	1,500	
Indirect taxes		-3,000
Fuel levy		
Not adjusting the general fuel levy	-3,500	
Specific excise duties		
Increase in excise duties on alcohol	400	
Increase in excise duties on tobacco	100	
Gross tax revenue (after tax proposals)		1,598,447

Source: National Treasury

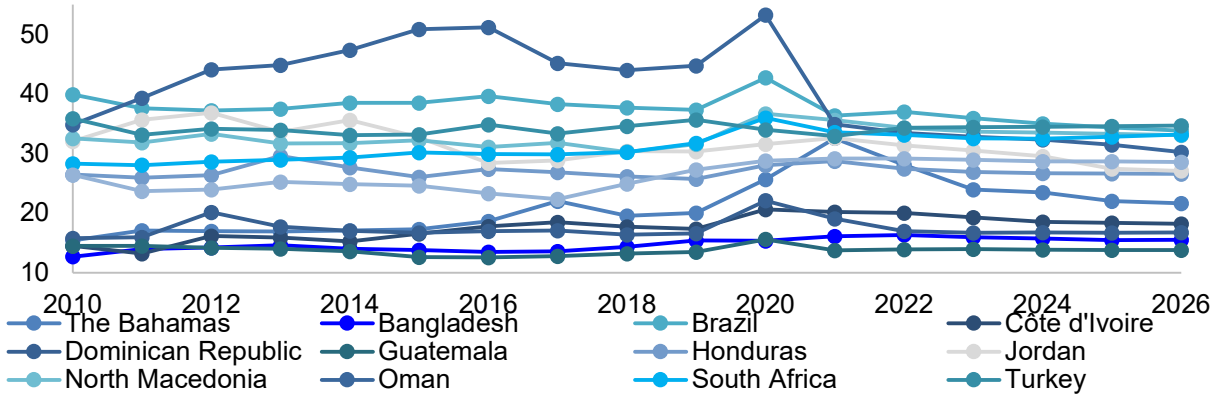
1. Revenue changes are in relation to thresholds that have been fully adjusted



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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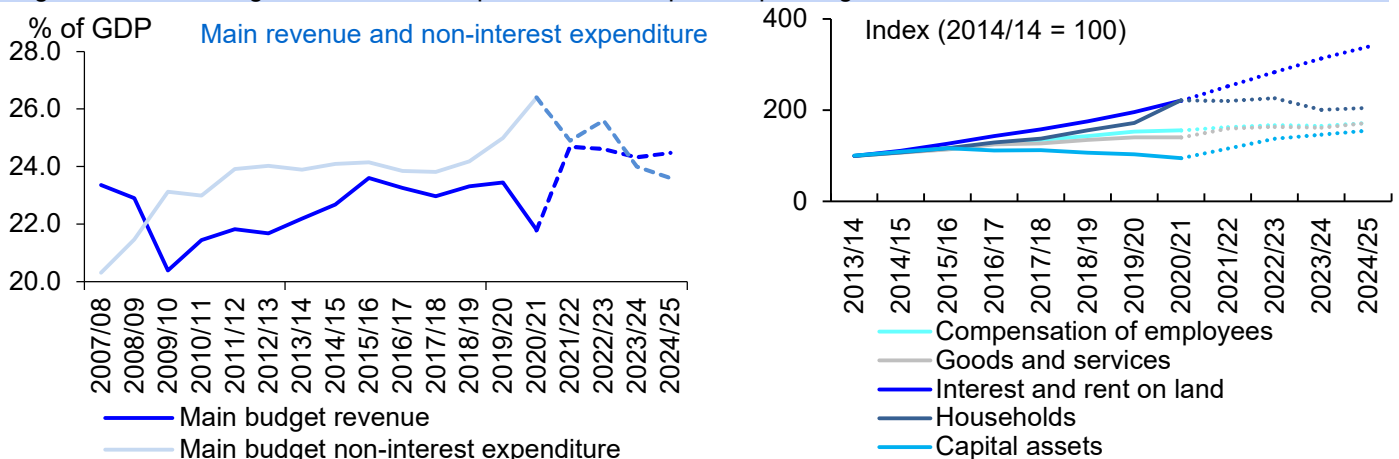
Figure 21: Government total expenditure % GDP– SA's BB- Fitch rated peers



Source: IMF

- Over the next three years, consolidated government spending is expected to grow at an annual average of 3.2 per cent, from R2.08 trillion in 2021/22 to R2.28 trillion in 2024/25.
- South Africa's comprehensive social wage has been significantly augmented in the last two budgets. Spending on the social wage has risen from 58.2 per cent to 59.5 per cent of consolidated non-interest spending between 2019/20 and 2021/22, and nearly half of the population currently receives at least one social grant from the state. At the same time, a key weakness in economic performance has been persistently high joblessness.
- On the civil servants' wage bill, government highlighted its unsustainable growth. Between 2014/15 and 2019/20, public-service compensation grew at an average annual rate of 7.3 per cent. Between 2019/20 and the end of the MTEF period, it will grow at 2.1 per cent per year. Although the 2021 public-service wage agreement was higher than the budgeted amount, it consists of a cash gratuity rather than a permanent adjustment of salaries. As a result, public-service compensation spending increased by R20.5 billion in 2021/22.
- The situation is unsustainable, and government highlights higher-than-budgeted compensation increases, and/or a decision by the Constitutional Court to uphold the appeal related to no implementation of the final leg of the 2018 wage agreement as a key risk.

Figure 22: Main budget revenue and expenditure** and public spending trends



Source: National Treasury



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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Figure 23: Consolidated government expenditure by functions¹

	2021/22	2022/23	2023/24	2024/25	Average annual MTEF growth
	Revised estimate	Medium-term estimates			
R billion					
Learning and culture	421.4	441.5	446.0	458.0	2.8%
Basic education	284.3	298.1	297.3	301.3	2.0%
Post-school education and training	125.9	131.6	137.0	145.1	4.8%
Arts, culture, sport and recreation	11.2	11.8	11.7	11.7	1.5%
Health	256.2	259.0	247.6	257.5	0.2%
Social development	352.7	364.4	317.6	322.2	-3.0%
Social protection	258.9	280.2	244.7	257.2	-0.2%
Social security funds	93.8	84.2	72.9	65.0	-11.5%
Community development	212.5	236.3	252.2	266.7	7.9%
Economic development	201.0	227.1	237.4	256.8	8.5%
Industrialisation and exports	38.6	39.2	37.6	38.9	0.2%
Agriculture and rural development	27.1	27.5	27.4	28.4	1.5%
Job creation and labour affairs	21.6	24.8	25.9	26.5	7.0%
Economic regulation and infrastructure	96.3	117.5	128.6	144.6	14.5%
Innovation, science and technology	17.3	18.1	17.8	18.4	2.0%
Peace and security	218.4	220.7	217.0	226.6	1.2%
Defence and state security	49.0	50.0	48.9	50.3	0.8%
Police services	108.5	110.2	108.6	114.2	1.7%
Law courts and prisons	49.7	50.8	50.0	52.3	1.7%
Home affairs	11.2	9.7	9.6	9.8	-4.3%
General public services	71.9	69.2	69.3	70.5	-0.7%
Executive and legislative organs	15.0	14.8	15.2	15.3	0.6%
Public administration and fiscal affairs	48.4	46.1	45.8	46.3	-1.5%
External affairs	8.5	8.3	8.3	8.9	1.7%
Payments for financial assets	74.6	27.2	24.7	25.0	
Allocated by function	1 808.7	1 845.5	1 811.8	1 883.3	1.4%
Debt-service costs	268.3	301.8	335.0	363.5	10.7%
Contingency reserve	0.0	10.0	5.0	5.0	
Unallocated reserve	0.0	0.0	25.0	30.0	
Consolidated expenditure	2 077.0	2 157.3	2 176.8	2 281.8	3.2%

Source: National Treasury

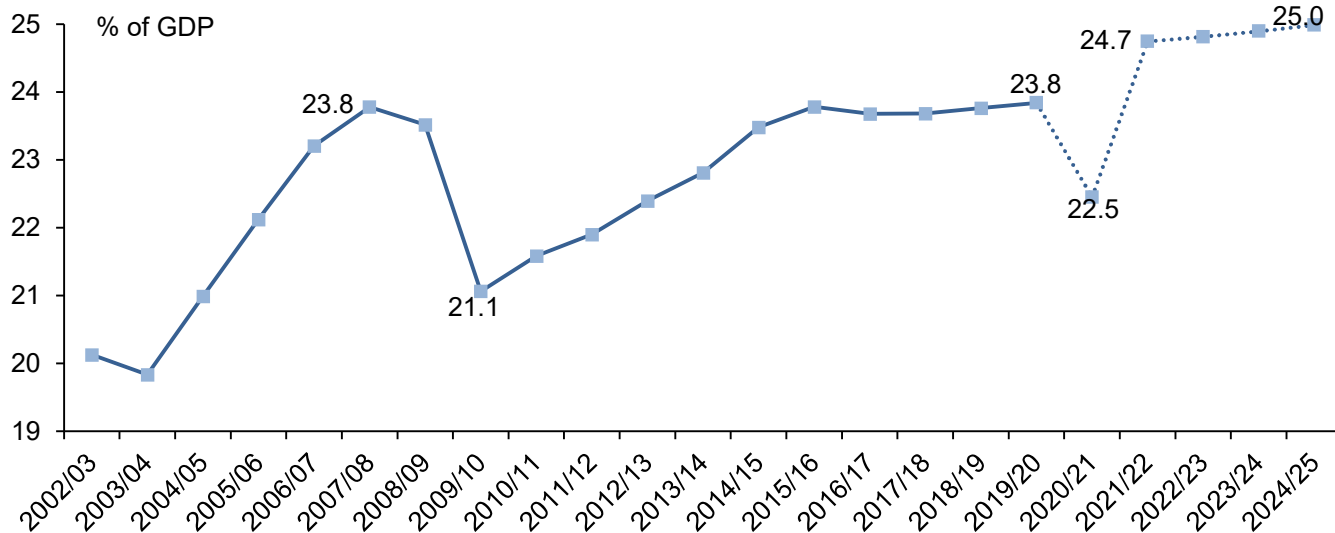
1) Consisting of national and provincial departments, social security funds and public entities financed from own revenue



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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Figure 24: Tax to GDP ratio



Source: National Treasury

- Eskom continues to rely on government to partially finance its operations. To date, Eskom has been provided with R136 billion to pay off its debt with a further R88 billion until 2025/26. Equity support of R31.7 billion was provided to Eskom in 2021/22, with the last tranche of R11.7 billion disbursed on 1 July.
- The total amount for approved guarantees is expected to decrease by R21.5 billion to R560.1 billion by the end of March 2022, with associated exposure estimated to increase by R32.1 billion to R416.8 billion. Eskom accounts for 78.7 per cent of these guarantees.
- Eskom's guarantee exposure increased by R29.6 billion to R327.9 billion due to additional drawdowns. Denel's guarantee facilities declined to R3.4 billion after R2.5 billion lapsed following the cancellation of the Egyptian missile contract and the maturity of R1 billion of its debt. Guarantee exposure for the Land Bank, South African Airways and the Trans-Caledon Tunnel Authority decreased as debts were paid down.
- The South African National Roads Agency Limited's guarantee exposure increased by R11.7 billion due to accrued interest and revaluation of inflation-linked bonds. Government's loan guarantee scheme to support businesses affected by COVID-19 and associated lockdown measures remains at R100 billion, but will decrease to R25 billion in 2022/23. The drawdown amount decreased by R1.5 billion to R12.2 billion.

Figure 25: Consolidated government fiscal framework, 2020/21 – 2024/25

	2020/21	2021/22	2022/23	2023/24	2024/25
R bn/% of GDP	Outcome	Revised	Medium-term estimates		
Revenue	1,406.0	1,721.3	1,770.6	1,853.2	1,977.6
	25.3%	27.5%	27.5%	27.2%	27.3%
Expenditure	1,964.1	2,077.0	2,157.3	2,176.8	2,281.8
	35.3%	33.2%	33.5%	32.0%	31.5%
Budget balance	-558.1	-355.7	-386.6	-323.6	-304.2
	-10.0%	-5.7%	-6.0%	-4.8%	-4.2%
Total gross loan debt	3,935.7	4,345.7	4,692.2	5,065.6	5,429.3
	70.7%	69.5%	72.8%	74.4%	75.1%

Source: National Treasury



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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Figure 26: Consolidated government expenditure by economic classification¹

R million	2021/22 Revised estimate	2022/23 Medium-term estimates	2023/24	2024/25	% of total MTEF	Average annual MTEF
Current payments	1,219,835	1,278,073	1,300,305	1,373,897	60.4%	4.0%
Compensation of employees	665,064	682,495	675,021	701,967	31.5%	1.8%
Goods and services	277,904	284,750	281,579	299,917	13.2%	2.6%
Interest and rent on land	276,867	310,828	343,705	372,013	15.7%	10.3%
<i>of which:</i>						
<i>Debt-service costs</i>	<i>268,306</i>	<i>301,806</i>	<i>334,979</i>	<i>363,515</i>	<i>15.3%</i>	<i>10.7%</i>
Transfers and subsidies	700,391	739,616	712,642	731,726	33.4%	1.5%
Municipalities	148,746	164,229	173,939	184,367	8.0%	7.4%
Departmental agencies and accounts	25,350	25,448	25,686	25,462	1.2%	0.1%
Higher education institutions	49,991	54,667	54,663	56,738	2.5%	4.3%
Foreign governments and international organisations	3,508	2,983	2,985	3,374	0.1%	-1.3%
Public corporations and private enterprises	38,457	42,752	47,357	50,778	2.2%	9.7%
Non-profit institutions	40,099	44,328	44,816	40,075	2.0%	0.0%
Households	394,239	405,211	363,197	370,932	17.4%	-2.0%
Payments for capital assets	82,243	102,397	109,106	116,196	5.0%	12.2%
Buildings and other capital assets	59,786	77,425	83,871	88,622	3.8%	14.0%
Machinery and equipment	22,457	24,972	25,235	27,574	1.2%	7.1%
Payments for financial assets	74,580	27,181	24,750	24,966		
Total	2,077,049	2,147,267	2,146,802	2,246,785	100%	2.7%
Contingency reserve	–	10,000	5,000	5,000		
Unallocated reserve	–	–	25,000	30,000		
Consolidated expenditure	2,077,049	2,157,267	2,176,802	2,281,785		3.2%

Source: National Treasury

1) The main budget and spending by provinces, public entities and social security funds financed from own revenue

Figure 27: Budget estimates and revenue outcomes¹

R billion	Budget ²	2020/21 Outcome	Deviation	Budget ²	2021/22 Revised	Deviation
Persons and individuals	482.1	487.0	4.9	516.0	553.5	37.6
Companies	188.8	202.1	13.3	213.1	318.4	105.3
Value-added tax	324.6	331.2	6.6	370.2	383.7	13.5
Dividends tax	23.0	24.8	1.9	26.2	32.2	6.0
Specific excise duties	24.7	32.3	7.6	43.7	48.2	4.5
Fuel levy	75.2	75.5	0.3	83.1	89.9	6.7
Customs duties	45.2	47.3	2.1	53.1	55.8	2.7
Ad valorem excise duties	3.3	3.4	0.1	3.5	4.3	740
Other	45.6	47.5	1.8	54.0	57.0	3.1
Gross tax revenue	1 212.2	1 249.7	37.5	1 365.1	1 547.1	181.9

Source: National Treasury, Budget 2022

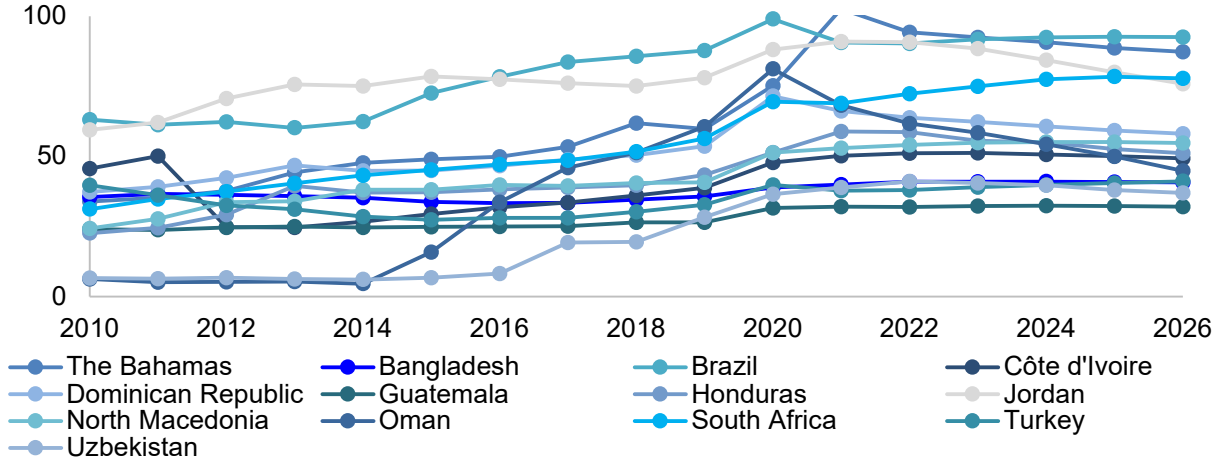
1. 2021 Budget figures



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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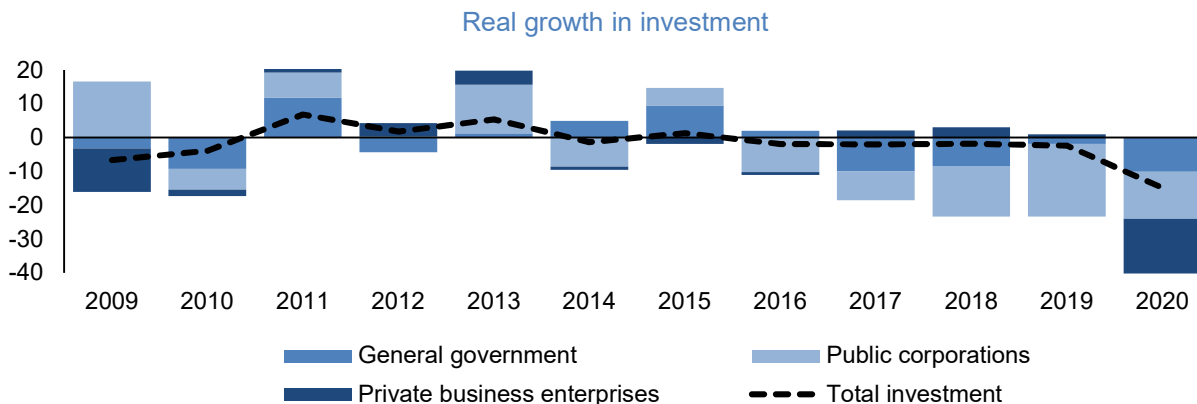
Figure 28: Government gross debt %GDP – SA's BB- Fitch rated peers



Source: IMF

- Contingent liability risks for independent power producers represent a low risk to the fiscus. After signing additional projects in 2021, government has committed to procure up to R208.5 billion in renewable energy from the Renewable Energy Independent Power Producer Procurement (REIPPP) Programme. The value of signed projects, which represents government’s exposure, is expected to amount to R177 billion by 31 March 2022.
- Exposure is expected to decrease to R156.6 billion in 2022/23, R137.8 billion in 2023/24 and R120.8 billion in 2024/25. A government study is exploring alternative support for the REIPPP. This is expected to result in a reduction or elimination of guarantee requirements for the programme, reducing the stock of contingent liabilities.
- In 2021/22, government exposure to public-private partnerships amount to R7.9 billion. It is expected to decrease to R4.3 billion in 2024/25.
- Although the debt trajectory has improved relative to the 2021 Budget for overall state debt, uneven implementation of reforms and high fiscal risks continue to threaten the country’s economic recovery and credit rating.

Figure 29: Real growth in investment



Source: National Treasury

*Excludes Eskom financail support and transactionn in financial assets and liabilities



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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Figure 30: Financing of national government gross borrowing requirement ¹

R million	2020/21 Outcome	Budget	2021/22 Revised	2022/23 Medium-term estimates	2023/24	2024/25
Main budget balance	-550,627	-482,580	-346,886	-387,213	-331,784	-322,385
Redemptions	-67,639	-65,280	-65,137	-97,252	-155,842	-156,936
Domestic long-term loans	-53,223	-60,815	-61,218	-81,292	-113,865	-121,180
Foreign loans	-14,416	-4,465	-3,919	-15,960	-41,977	-35,756
Total	-618,266	-547,860	-412,023	-484,465	-487,626	-479,321
Financing						
Domestic short-term loans	95,325	9,000	-6,806	-	40,000	39,000
Treasury bills (net)	122,610	9,000	-6,806	-	40,000	39,000
Corporation for Public Deposits	-27,285	-	-	-	-	-
Domestic long-term loans	523,418	380,000	285,300	330,400	360,300	353,200
Market loans	523,418	380,000	285,784	330,400	360,300	353,200
Loans issued for switches	-	-	-484	-	-	-
Foreign loans	91,920	46,260	80,632	47,880	65,320	66,800
Market loans	91,920	46,260	80,632	47,880	65,320	66,800
Loans issued for switches	-	-	-	-	-	-
Change in cash and other balances²	-92,397	112,600	52,897	106,185	22,006	20,321
Cash balances	-101,942	107,876	47,591	99,611	15,893	14,137
Other balances ³	9,545	4,724	5,306	6,574	6,113	6,184
Total	618,266	547,860	412,023	484,465	487,626	479,321
Percentage of GDP	11.1%	9.3%	6.6%	7.5%	7.2%	6.6%

Source: National Treasury, Budget 2022

1. A longer time series is presented in Table 1 of the statistical annexure at the back of the Budget Review
2. A positive value indicates that cash is used to finance part of the borrowing requirement
3. Differences between funds requested and actual cash flows of national departments

Figure 31: Consolidated budget balance

R billion	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
		Outcome		Revised	Medium-term estimates		
Main budget	-231.3	-345.1	-550.6	-346.9	-387.2	-331.8	-322.4
Social security funds	8.8	11.9	-45.1	-18.7	-7.1	7.5	19.3
Public entities	26.4	39.6	35.2	4.3	4.3	17	-4.9
Provinces	1.5	6.4	3.0	6.3	3.6	-0.9	3.8
RDP Fund	-0.2	-0.6	-0.5	-0.8	-0.2	-0.1	-0.9
Consolidated budget balance	-194.9	-287.8	-558.1	-355.7	-386.6	-323.6	-304.2

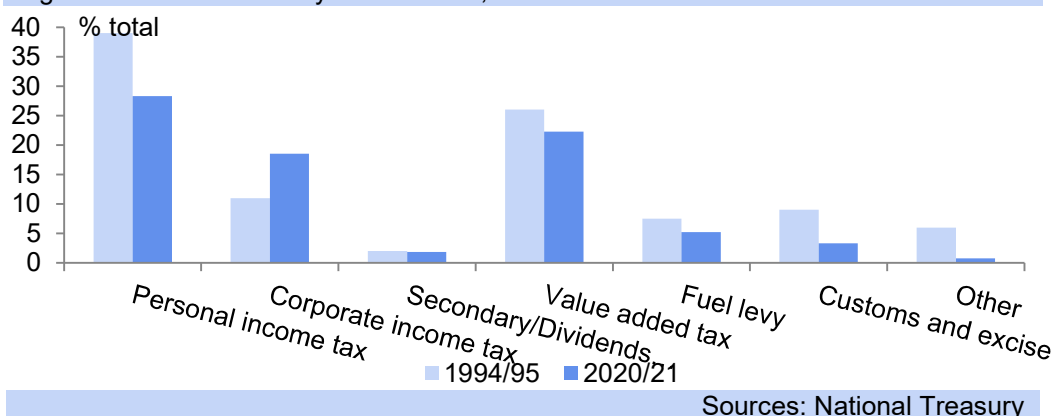
Source: National Treasury



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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Figure 32: Tax revenue by main source, 1994/95 and 2021/22



- Gross debt stock is expected to increase from R4.35 trillion (69.5 per cent of GDP) in 2021/22 to R5.43 trillion in 2024/25. Net loan debt – gross loan debt less cash balances – will increase from R4.06 trillion (64.9 per cent of GDP) to R5.27 trillion (72.9 per cent of GDP) over the same period.
- In line with government's fiscal consolidation, gross loan debt is expected to stabilise at 75.1 per cent of GDP in 2024/25, a year earlier than projected in the 2021 Budget. Contingent liabilities are projected to increase from R1.15 trillion in 2021/22 to R1.23 trillion in 2024/25.
- Government remains committed to restoring South Africa's investment-grade rating by stabilising the debt-to-GDP ratio, narrowing the budget deficit and accelerating long-term economic growth.
- The main risks to the strategy are as follows:
 - Rising inflation and expectations of higher interest rates could increase borrowing costs.
 - Higher interest rates in developed economies could reduce demand for domestic bonds.
 - Further depreciation in the rand exchange rate would raise the cost of outstanding foreign-currency debt.
 - Lower-than-expected GDP growth and materialisation of contingent liabilities at state-owned companies could increase funding costs.

Figure 33: Tax register, 31 March 2016-31 March 2021

Number as at	Individuals ^{1,2}	Companies (CIT) ^{1,3}	Trusts ¹	Employers ¹ (PAYE)	VAT Vendors ¹	Importers	Exporters
31 Mar 2017	19,980,110	3,732,416	345,048	489,445	742,388	301,746	272,951
31 Mar 2018 ⁴	21,104,375	3,202,007	351,564	520,918	773,783	312,241	282,243
31 Mar 2019	22,170,513	2,020,759	357,859	552,611	802,957	319,949	288,604
31 Mar 2020	22,919,701	2,548,975	363,860	582,289	831,821	329,820	297,448
31 Mar 2021	23,850,668	3,112,509	367,540	618,478	880,553	333,204	299,941
Percentage year-on-year growth							
31 Mar 2018	5.6%	-14.2%	1.9%	6.4%	4.2%	3.5%	3.4%
31 Mar 2019	5.1%	-36.9%	1.8%	6.1%	3.8%	2.5%	2.3%
31 Mar 2020	3.4%	26.1%	1.7%	5.4%	3.6%	3.1%	3.1%
31 Mar 2021	4.1%	22.1%	1.0%	6.2%	5.9%	1.0%	0.8%
31 Mar 2018	5.6%	-14.2%	1.9%	6.4%	4.2%	3.5%	3.4%

Source: Tax Statistics 2021

1. Includes Interest on overdue income tax. 2. Dividends Tax (DT) replaced Secondary Tax on Companies (STC) on 1 April 2012. SARS still accounts for residual amounts for STC. 3. Excludes Miscellaneous customs and excise receipts.



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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Figure 34: Corporate taxable income and tax assessed by sector and economic activity, 2020 (actual numbers)

Economic activity ¹	Number of taxpayers	Taxable income Rm	Tax assessed Rm
Primary sector	42 963	-65 347	12 600
Agriculture, forestry and fishing	38 572	-42 289	3 420
Mining and quarrying	4 391	-23 058	9 180
Secondary sector	134 670	-273 096	21 728
Manufacturing ²	61 559	-37 954	16 487
Electricity, gas and water	3 194	-203 665	2 127
Construction	69 917	-31 478	3 115
Tertiary sector	337 931	-178 7740	90 945
Wholesale and retail trade, catering and accommodation ³	85 271	5 789	21 455
Transport, storage and communications	18 019	-50 954	11 939
Financial intermediation, insurance, real estate and business services ⁴	184 570	-7 350	52 329
Community, social and personal services ⁵	50 071	-126 226	5 222
Other⁶	188 572	-205	10
Total	704 136		125 284

Source: SARS, Tax Statistics 2021

1. SARS source of income code is used to classify according to the Standard Classification (SIC) system. SARS source of income code is not fully aligned with the SIC system that Statistics South Africa uses. 2. Includes the following SARS sectors, Bricks, ceramic, glass, cement and similar products; Chemicals and chemical, rubber and plastic product; Clothing and footwear; Coal and petroleum products; Food, drink and tobacco; Leather, leather goods and fur (excl. footwear & clothing); Machinery and related items; Metal (including metal products); Other manufacturing industries; Paper, printing and publishing; Scientific, optical and similar equipment; Textiles; Transport equipment, and Wood, wood products and furniture. 3. Includes the following SARS sectors – Catering and accommodation; Retail trade; Specialised repair services; Vehicles, parts and accessories; and Wholesale trade. 4. Includes the following SARS sectors – Agencies and other services; Financing, insurance, real estate and business services; Long term insurance; and Research and scientific institutes. 5. Includes the following SARS sectors – Educational services; Medical, dental and other health and veterinary services; Personal and household services; Recreation and cultural services; and Social and related community services. 6. Includes where the source of income was indicated as Other (as per SARS source code) or where the source of income was left blank on the return.

Figure 35: Estimates of individuals and taxable income, 2022/23

Taxable bracket R thousand	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief after proposals		Income tax payable after proposals	
	Number	%	R bn	%	R bn	%	Rbn	%	R bn	%
0 – R91 ¹	7 700 135	-	272.9	-						
R91 – R150	1 973 185	26.5	227.5	8.2	15.8	2.6	-1.2	8.7	14.6	2.5
R150 – R250	1 717 760	23.1	338.6	12.2	28.4	4.7	-1.6	12.0	26.8	4.6
R250 – R350	1 231 672	16.5	363.6	13.1	50.2	8.3	-1.9	14.2	48.3	8.2
R350 – R500	1 158 117	15.6	478.2	17.3	86.4	14.4	-2.8	20.5	83.6	14.2
R500 – R750	756 629	10.2	456.7	16.5	107.4	17.9	-2.8	20.5	104.6	17.8
R750 – R1 000	274 963	3.7	237.7	8.6	67.6	11.2	-1.3	9.7	66.3	11.3
R1 000 – R1 500	199 837	2.7	238.1	8.6	76.3	12.7	-1.0	7.3	75.3	12.8
R1 500+	133 230	1.8	425.0	15.4	169.4	28.2	-1.0	7.1	168.4	28.7
Total	7 445 393	100.0	2 765.3	100.0	601.4	100.0	-13.5	100.0	587.9	100.0
Grand total	15 145 528		3 038.3		601.4		-13.5		587.9	

Source: National Treasury

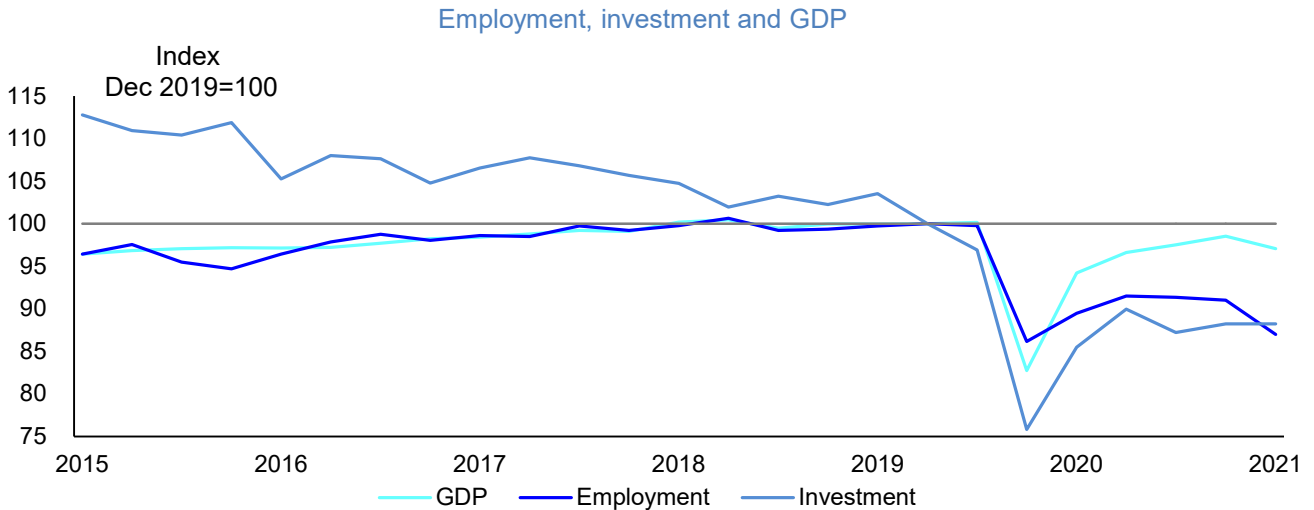
1. Registered individuals with taxable income below the income-tax threshold



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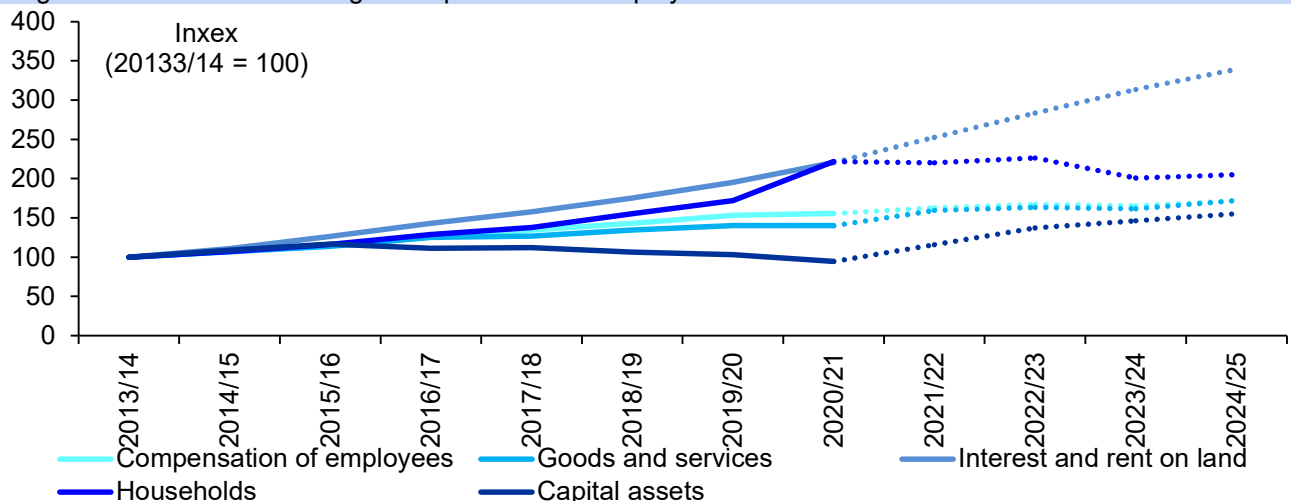
Figure 36: Employment, investment and GDP



Source: National Treasury

- A new business bounce-back scheme will be launched. Small business loan guarantees of R15 billion will be facilitated through participating banks and development finance institutions. This allows access for qualifying non-bank small and medium loan providers.
- Government will partner with loan providers by underwriting the first 20% of losses for banks and other eligible small and medium loan providers. The eligibility criteria, including the requirement for collateral, has been loosened. This mechanism will be launched and operational next month.
- By April this year a business equity-linked loan guarantee support mechanism will be introduced. The total support package through the bounce-back scheme will be R20 billion.
- Over the medium-term, R76 billion is allocated for job creation programmes.

Figure 37: Consolidated budget compensation of employees*



Source: National Treasury

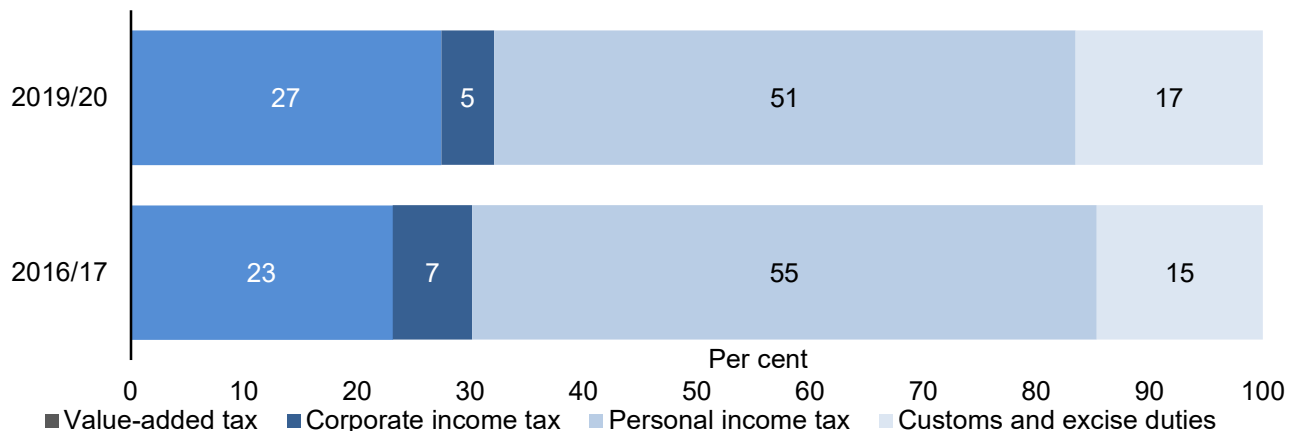
*Excludes public entities



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Figure 38: Share of total tax expenditure per tax type



Source: National Treasury

Figure 39: South Africa's indirect taxes: domestic taxes on goods and services, 2016/17-2020/21

R million	VAT	Fuel levy	Customs duties	Specific duties	excise	Other
2016/17	289,167	62,779	45,579	35,774		29,042
2017/18	297,998	70,949	49,152	37,356		30,271
2018/19	324,766	75,372	54,968	40,830		33,977
2019/20	346,761	80,175	55,428	46,827		33,778
2020/21	331,197	75,503	47,290	32,273		24,161
Percentage of total						
2016/17	25.3%	5.5%	4.0%	3.1%		2.5%
2017/18	24.5%	5.8%	4.0%	3.1%		2.5%
2018/19	25.2%	5.9%	4.3%	3.2%		2.6%
2019/20	25.6%	5.9%	4.1%	3.5%		2.5%
2020/21	26.5%	6.0%	3.8%	2.6%		1.9%
Proportion of GDP						
2016/17	6.0%	1.3%	0.9%	0.7%		0.6%
2017/18	5.8%	1.4%	1.0%	0.7%		0.6%
2018/19	6.0%	1.4%	1.0%	0.8%		0.6%
2019/20	6.1%	1.4%	1.0%	0.8%		0.6%
2020/21	6.0%	1.4%	0.8%	0.6%		0.4%

Source: Tax Statistics 2021

Figure 40: Projected state debt and debt-service costs

R billion/% of GDP	2021/22	2022/23	2023/24	2024/25
Gross loan debt	4,345.7	4,692.2	5,065.6	5,429.3
	69.5%	72.8%	74.4%	75.1%
Debt-service costs	268.3	301.8	335.0	363.5
	4.3%	4.7%	4.9%	5.0%

Source: National Treasury



Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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Figure 41: Macro-economic forecasts, Treasury vs. Investec

	2021	2022	2023	2024
Final household consumption	5.6	2.5	1.8	2.0
Investec	5.7	2.0	2.2	2.3
Final government consumption	0.3	0.4	-2.0	-0.8
Investec	-0.5	-1.4	-2.9	-0.1
Gross fixed capital formation	1.2	3.2	3.8	4.1
Investec	0.4	2.4	4.2	3.3
Gross domestic expenditure	4.6	2.7	1.9	1.9
Investec	4.6	2.1	2.0	2.2
Exports	9.3	2.9	2.8	2.7
Investec	9.4	3.2	4.0	4.4
Imports	8.5	5.4	3.9	3.3
Investec	7.5	3.1	4.0	4.3
Real GDP	4.8	2.1	1.6	1.7
Investec	5.1	1.8	2.1	2.3
CPI Inflation	4.5	4.8	4.4	4.5
Investec	4.5	5.6	4.8	4.8

Source: National Treasury, Investec

- Overall, the budget is solid and pleasing, but there are still multiple risks which could derail it, including political in SA. Tax payers experienced slight relief for fiscal drag, while the focus remained on reducing debt projection and this was positive for the bond market as borrowings ease compared to projections, but on balance the budget is like to be viewed as credit neutral by the rating agencies. The NHI was not mentioned, while alcohol, sugar and tobacco product (sin taxes) rose again.

Figure 42: Macroeconomic performance and projections

	2020	2021	2022	2023	2024
<i>Percentage change unless otherwise indicated</i>	Actual	Estimate		Forecast	
Final household consumption	-6.5	5.6	2.5	1.8	2.0
Gross fixed capital formation	-14.9	1.2	3.2	3.8	4.1
Real GDP growth	-6.4	4.8	2.1	1.6	1.7
GDP at current prices (R billion)	5 521.1	6 172.0	6 395.4	6 712.2	7 127.3
CPI Inflation	3.3	4.5	4.8	4.4	4.5
Current account deficit (% GDP)	2.0	3.8	0.3	-1.2	-1.5

Source: Reserve Bank and National Treasury

Figure 43: Combined financial position of public institutions

	2018/19	2019/20	2020/21 ¹
R billion/% of GDP			
State-owned companies	343.8	352.7	378.7
Development finance institutions	132.5	97.8	125.2
Social security funds	-79.6	-156.5	-221.5
Other public entities ²	724.6	811.2	834.4

Source: National Treasury

- Due to the COVID-19 pandemic, many entities have not released audited financial statements, therefore unaudited financials or last quarter reports were used for 2019/20
- State-owned institutions without a commercial mandate and listed in either schedule 1 or 3 of the PFMA such as the National Library of South Africa

Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)

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Budget Update: debt projections prove better than markets expected, peaking at 75.1% of GDP in 2024/25, instead of 78.1% (2025/26)



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