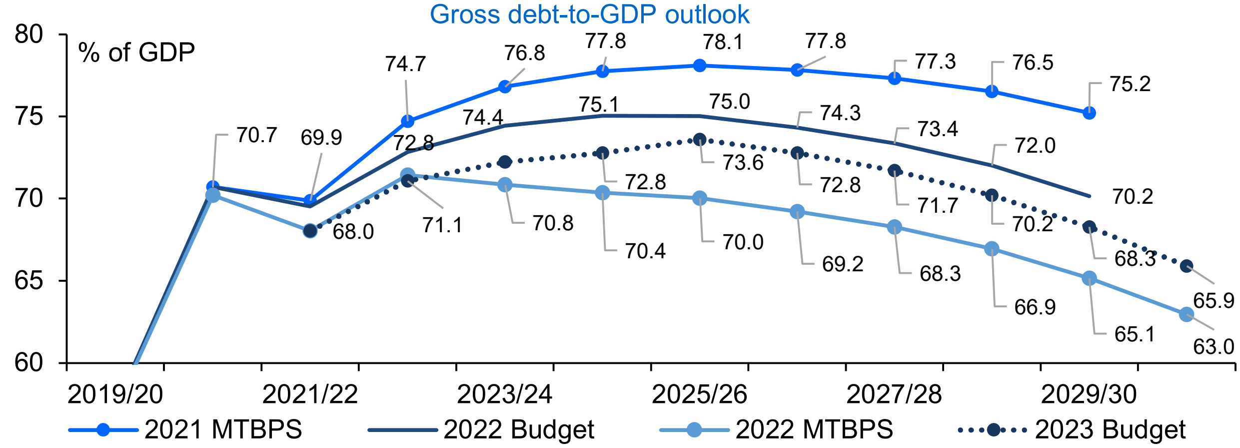
MTBPS Preview: 1st November expected to show fiscal slippage

Tuesday 10 October 2023

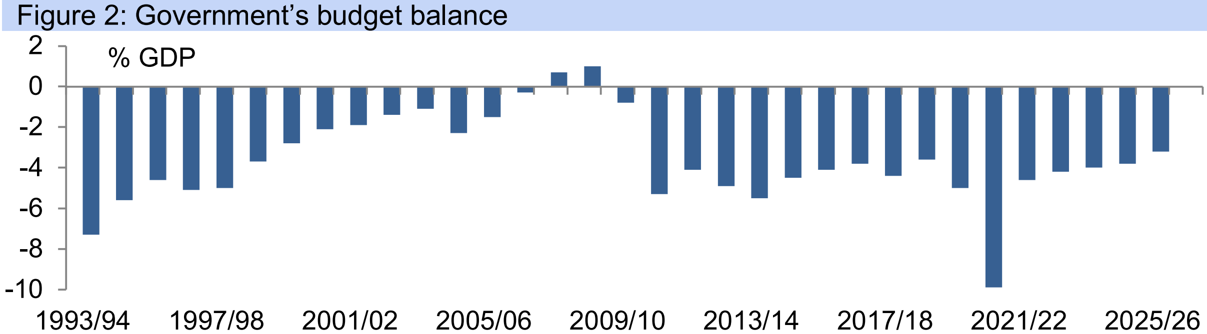
Figure 1: Gross debt-to-GDP outlook and main budget revenue and expenditure



Source: National Treasury, Budget 2023

- The Medium-term Budget Policy Statement (MTBPS) on 1st November is expected to see some deterioration in the fiscal metrics, with Finance Minister Godongwana already having highlighted the need to cut back on expenditure as revenue collections disappoint in a weak economic growth and poor export year. The deterioration in key SOEs' (Transnet and Eskom) performance has damaged SA's economic activity, and the MTBPS is expected to give an update on government's plans for Eskom's and Transnet's debt, with Eskom in line for the concessioning of its power stations.
- Inflation will come out closer to 6.0% y/y for this year versus the 5.3% y/y forecast in February, which would boost nominal GDP somewhat, but both the fiscal debt and deficit outcomes are likely to be higher for the current fiscal year than projected on overspending and revenue underruns.
- The budget deficit for 2023/24 was projected at -4.0% of GDP but we now expect -4.5%, with 2024/25 estimated at -3.8% and 2025/26 at -3.2% (likely -4.0% and -3.4% instead respectively).
- The gross loan debt for the current fiscal year (2023/24) was projected at 72.2% of GDP in the February Budget Review (BR) 2023, and peaking at 73.6% of GDP in 2025/26, with the ratio declining thereafter towards 65% of GDP by 2030/31. However, substantially higher state spending to date risks placing pressure on the debt ratios in an environment of lower revenue collections.
- Consequent urgent action is needed to repair the capacity of both the state logistics and power utilities. Government's collaboration with business on the electricity, freight and crime crises is seeing some traction, but the fiscal debt and deficit ratios will depend on its success in promoting robust growth.

Figure 2: Government's budget balance



Source: National Treasury, Budget 2023

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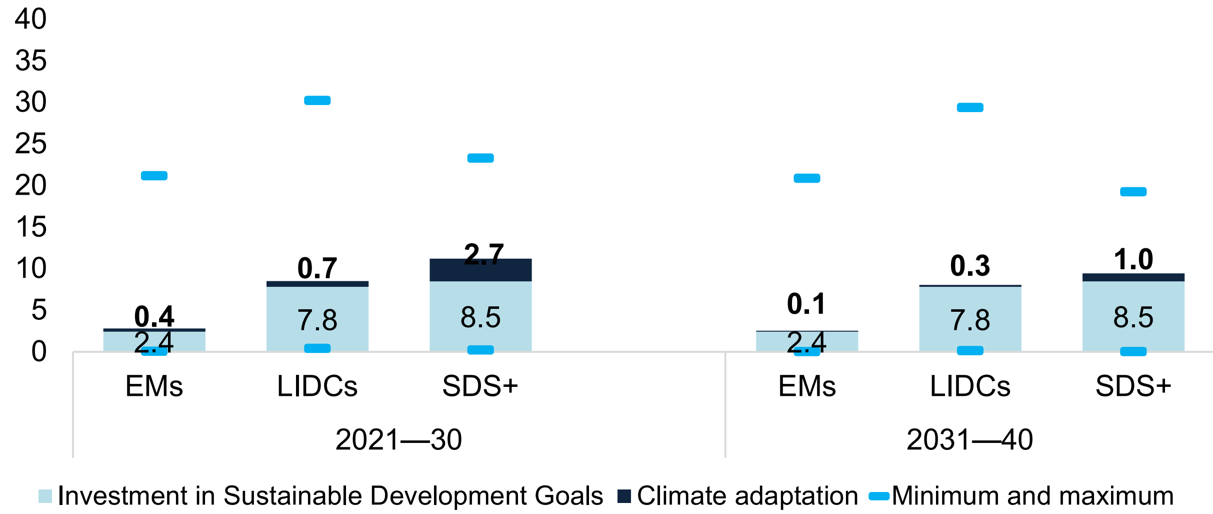
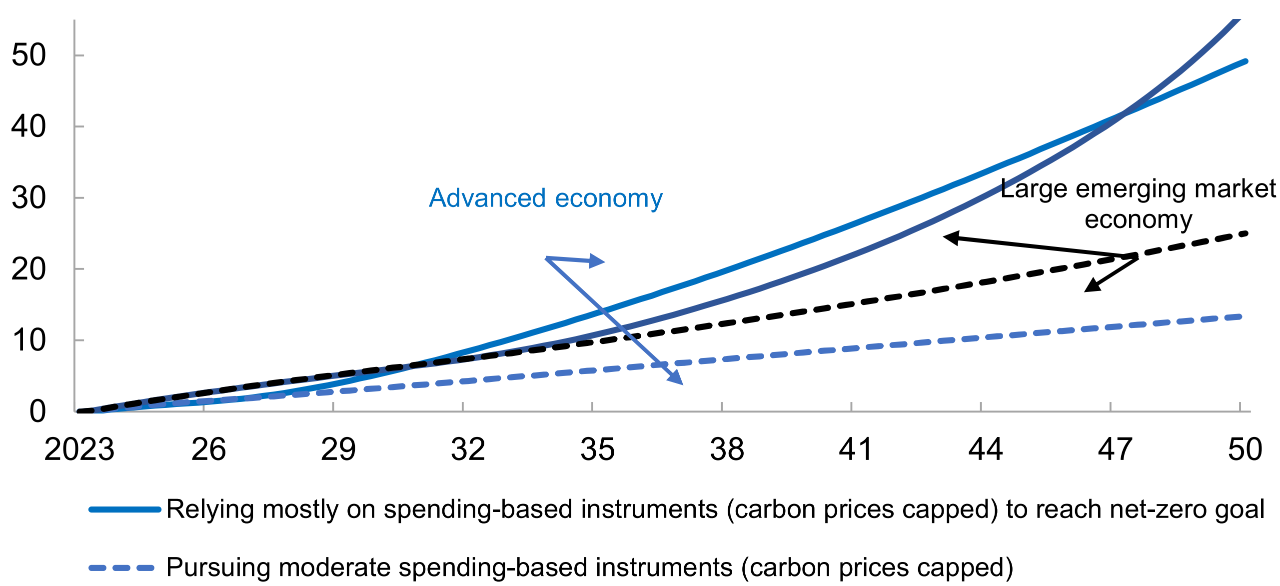
Figure 3: Annual investment needs for climate adaptation and sustainable development goals, 2021-40 (% of GDP)



Source: IMF, Fiscal Monitor October 2023

Note: The figure shows the investment needs across country groups related to additional climate adaptation needs and, for countries that have not done so, achieving the Sustainable Development Goals (SDGs). Lines indicate the minimum and maximum total investment needs. SDGs are assumed to be met by 2040 by spending a constant fraction of GDP each year. Additional climate adaptation needs refer to needs to build resilience. "SDS+" consists of developing small states as well as countries that have adaptation needs larger than 2.5 percent of GDP for 2021–30. EMs = emerging market economies; LIDCs = low-income developing countries.

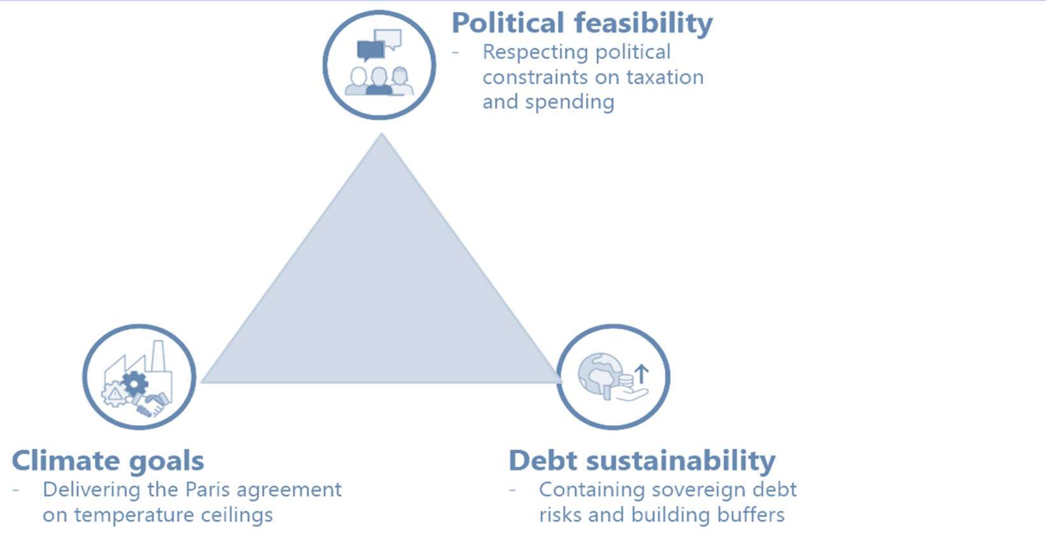
Figure 4: Climate Policies re expanded



Source: IMF, Fiscal Monitor October 2023

Note: The figure shows cumulative change in debt-to-GDP relative to a "business-as-usual" scenario, based on simulations from a dynamic general equilibrium model (see Online Annex 1.2 for details). The lines for the advanced economy (large emerging market economy) cap the carbon price at \$75 (\$45) a ton. The solid lines scale up green public investment and subsidies (at 2 percent of GDP a year on average) to meet the net-zero-emissions target by 2050 (2060 for the emerging market economy), while the dashed lines have the same profile on carbon prices and a moderate rise in investment and subsidies, in line with International Energy Agency estimates.

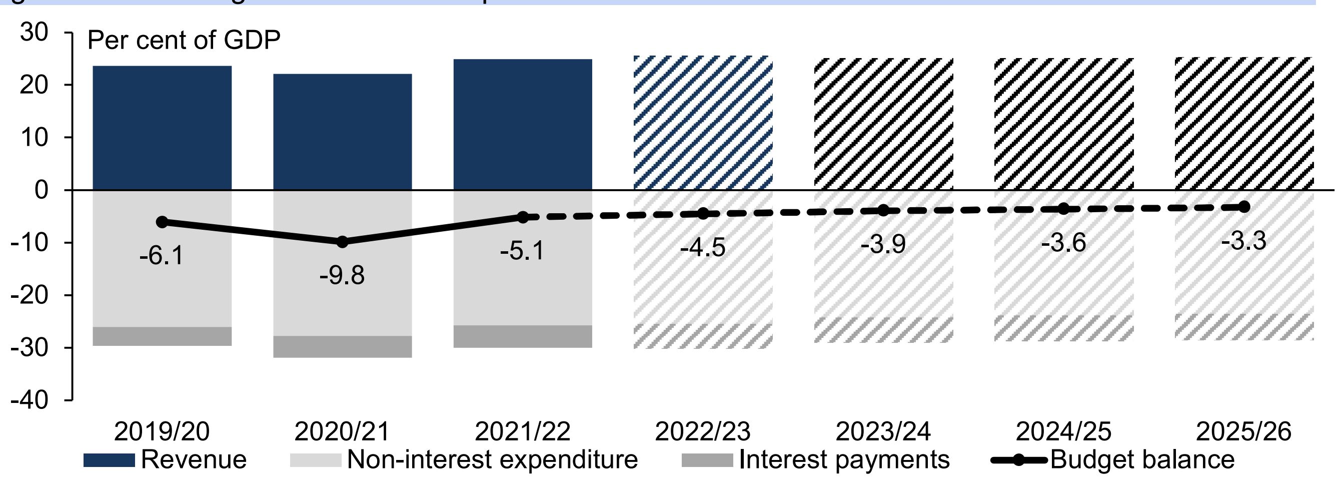
Figure 5: Climate crossroads – tackling the climate change trilemma



Source: IMF, Fiscal Monitor October 2023

Climate change costs will also be of note for the MTBPS, although SA mainly sees focus on bringing in renewable energy. On the electricity front, government recently said that "implementation … across three core priorities – improving the performance of Eskom's existing power stations; adding new generation capacity; and reforming the energy sector – will result in over 12 GW of generation capacity being recovered or added to the system from Eskom and the private sector by the end of 2024." This has been the shortfall around which the country is seeing demand exceed supply and adding 12 000MW to the grid by the end of next year would largely ease load shedding. However, faster economic growth adds to demand side pressure, and next year GDP growth is expected to rise to 1.2% y/y (Investec forecast). Government adds "(t)he deployment of technical support teams to five power stations – Kendal, Kriel, Majuba, Matla, and Tutuka – is on track, in addition to ongoing support

Figure 6: Main budget revenue and expenditure*



Source: National Treasury, Budget 2023

Figure 7: Main Budget Framework

R billion/percentage of GDP	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
		Outcome		Revised	Medium-term estimates		
Revenue							
Gross tax revenue	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[2]	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	613.5	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[3]	–	–	–	–	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%*

Source: National Treasury and Budget 2023

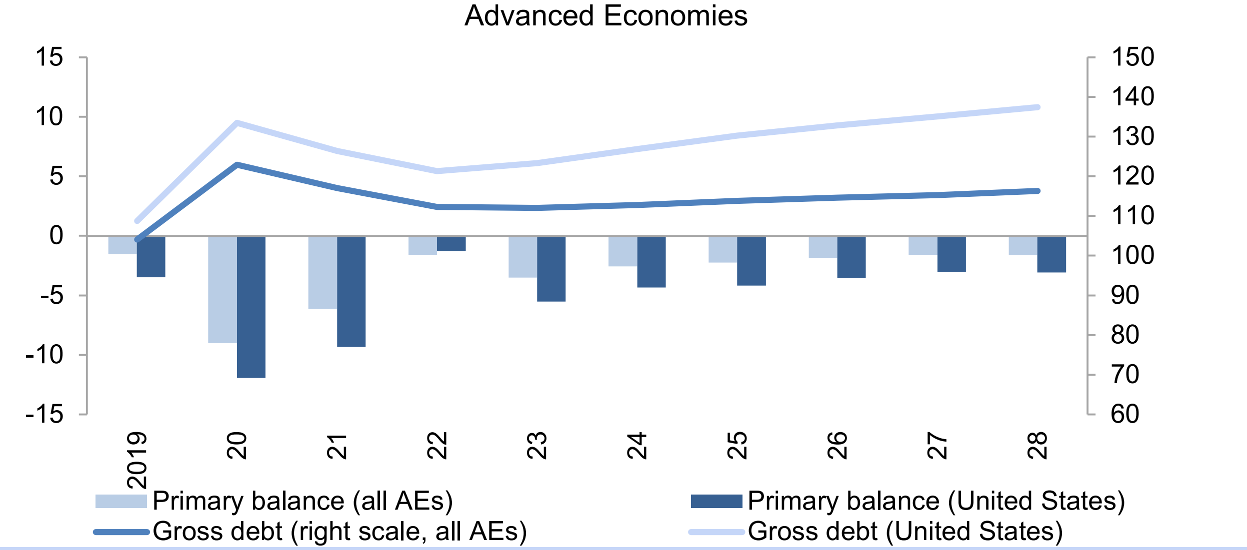
1. Southern African Customs Union, payments, other adjustments. 2 The estimates for the next two years include projected forecast error adjustments for 2021/22 and 2022/23, respectively

Figure 8: Budget Balances

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Budget 2016							
MTBPS 2016	-2.5%						
Budget 2017	-2.6%						
MTBPS 2017	-39%	-3.9%					
Budget 2018	-3.6%	-3.5%					
MTBPS 2018	-4.2%	-4.2%	-4.0%				
Budget 2019	-4.5%	-4.3%	-4.0%				
MTBPS 2019	-5.9%	-6.5%	-6.2%	-5.9%			
Budget 2020	-6.3%	-6.8%	-6.2%	-5.7%			
MTBPS 2020	-6.4%	-15.7%	-10.1%	-8.6%	-7.3%		
Budget 2021	-4.0%	-5.7%	-14.0%	-9.3%	-7.3%	-6.3%	
MTBPS 2021	-6.1%	-9.9%	-6.6%	-6.0%	-5.3%	-4.9%	
Budget 2022	-5.1%	-10.0%	-5.7%	-6.0%	-4.8%	-4.2%	
MTBPS 2022	-6.1%	-9.9%	-5.5%	-6.0%	-4.9%	-4.5%	
Budget 2023	-6.1%	-9.8%	-5.1%	-4.5%	-3.9%	-3.6%	-3.3%

Source: National Treasury, Budget 2023

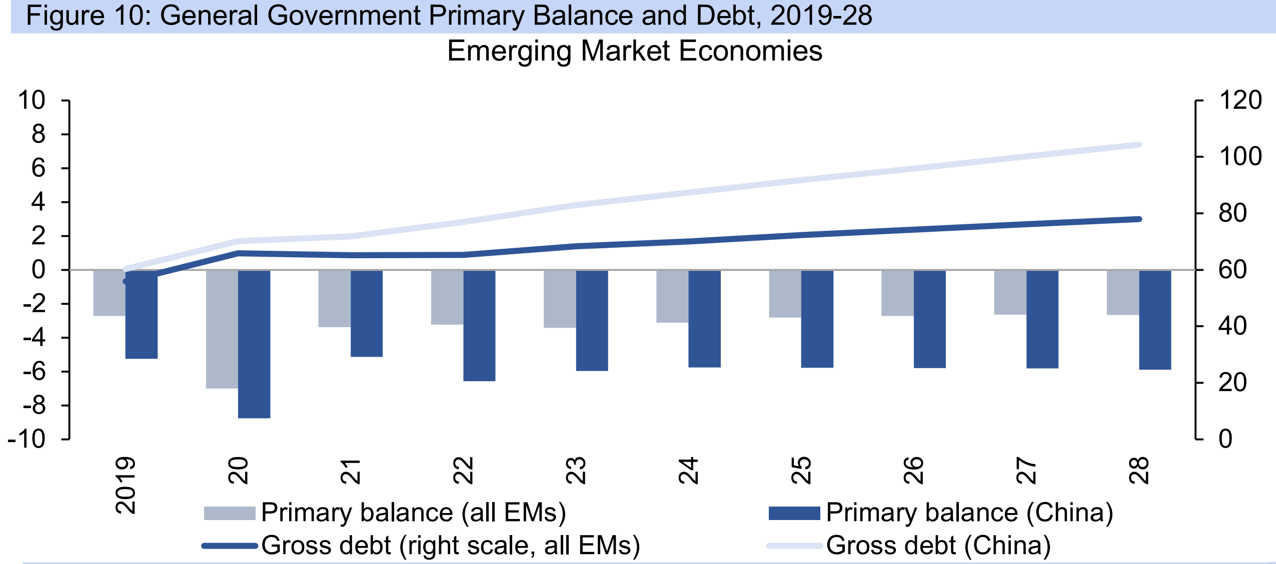
Figure 9: Historic and projected public debt and primary balance, 2019-28 (% of GDP



Source: IMF, Fiscal Monitor October 2023

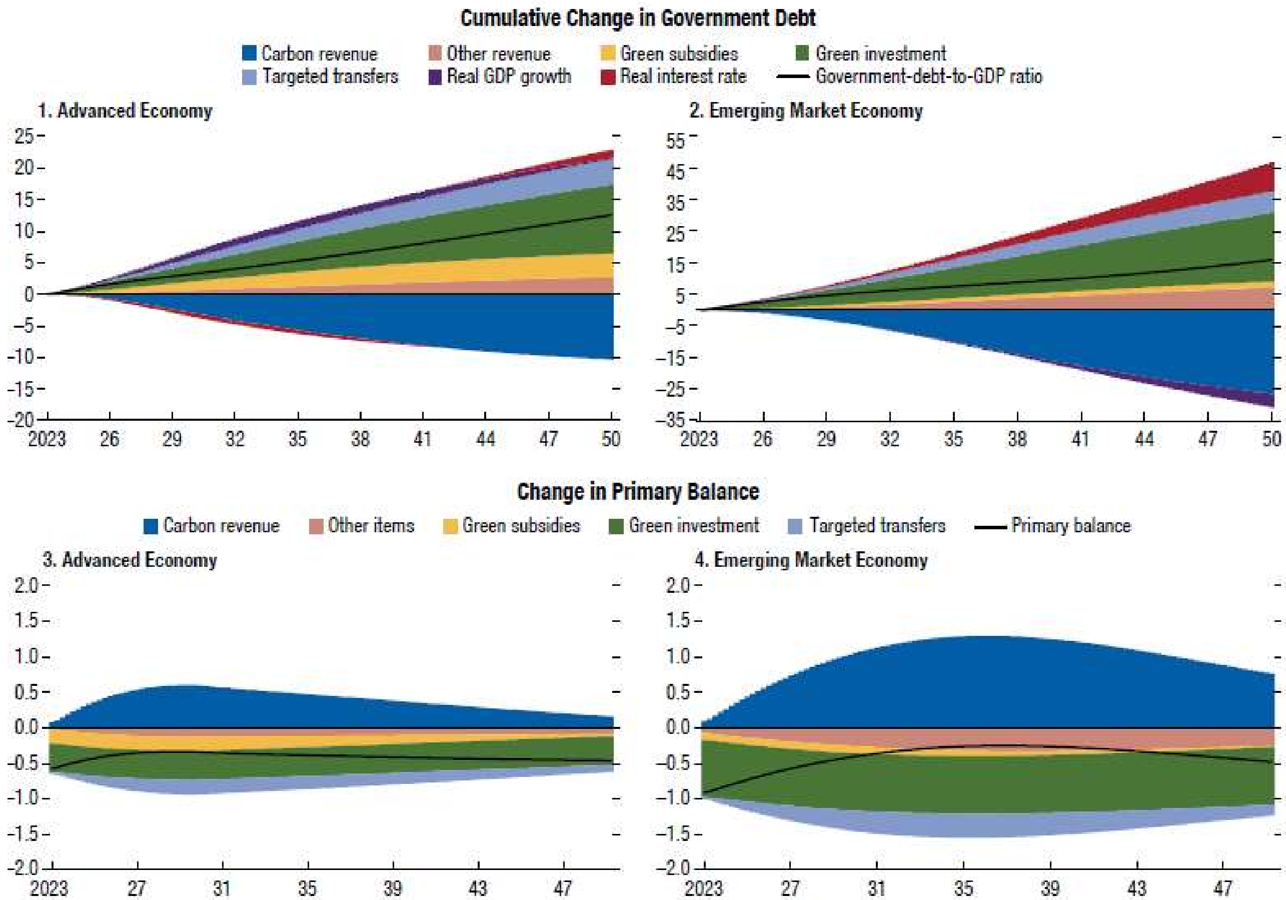
for the return of Kusile Units 1 to 3." This is occurring as "business is mobilising additional capacity and skills to support implementation of the EAP. This includes nearly 130 volunteers from the private sector who are being coordinated through the Energy Council of South Africa to work in partnership with Eskom and government." The reform of the electricity sector is key to move the bulk of electricity production away from coal to renewable energy, and from the state-owned SOE, Eskom, to the private sector. Eskom is being devolved into three sections, production, distribution and transmission. The National Transmission Company of South Africa (NTCSA) has been established, as increasing grid capacity is key too. The bulk of transmission lines are in the east of the country where coal mines tend to be located while the renewable energy prospects are in the west, but transmission lines are sparser.

Figure 10: General Government Primary Balance and Debt, 2019-28



Source: IMF, Fiscal Monitor October 2023

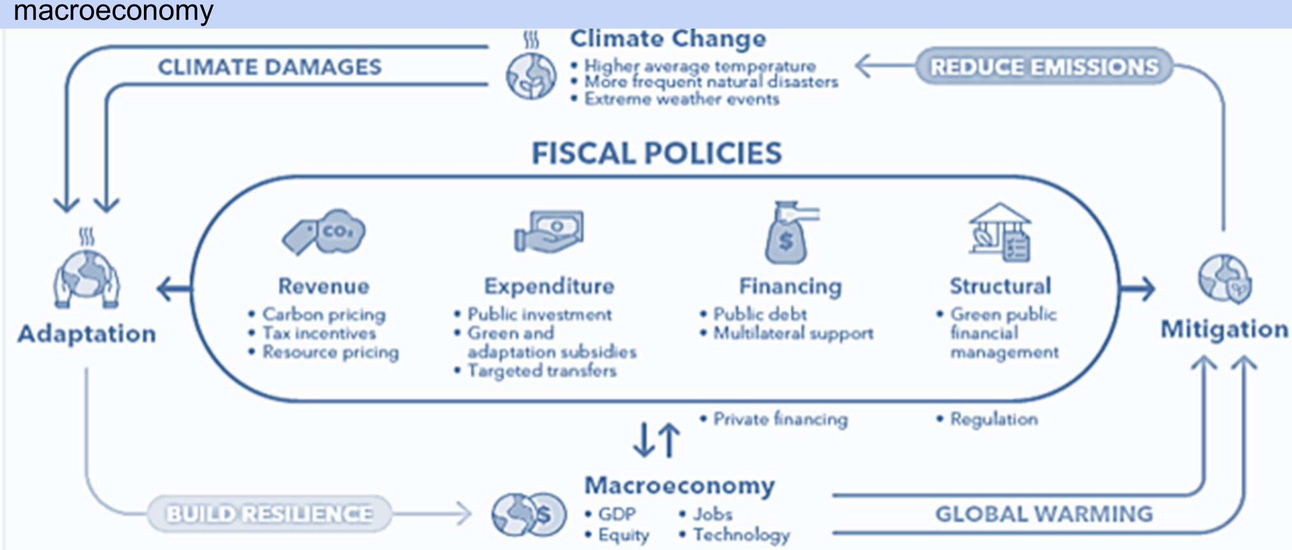
Figure 11: Implications of Net Zero Policy Packages on Debt and Primary Balance, Relative to "Business-as-Usual" Baseline, by Fiscal Component



Source: IMF, Fiscal Monitor October 2023

Note: For advanced economies, parameters and fiscal instruments are calibrated to a representative large advanced economy (that represents the average of data for Group of Seven economies). The policy package is designed to achieve net zero emissions in 2050. The value for public investment is consistent with the upper range of estimates by the International Energy Agency (2022b). Green subsidies are assumed to be front loaded and phased out after 2030, and targeted transfers are assumed to be proportional (at 30 percent) to carbon revenues. Given later emission peaks in emerging market economies, the policy package for those economies is designed to achieve net zero emissions by 2060. "Other revenue" includes taxes from capital, labor, and consumption, which vary owing to endogenous effects from macroeconomic variables even though tax rates are held the same. Parameters and fiscal instruments are calibrated to a representative emerging market economy that is assumed to reflect the weighted average of data for *Argentina*, *Brazil*, *China*, *India*, *Indonesia*, *Mexico*, *South Africa*, and *Türkiye*. The value for public investment is consistent with the upper range of International Energy Agency estimates for emerging market economies. For details, see Online Annex 1.2.

Figure 12: The Green Transition - close interactions among fiscal policies, climate and macroeconomy

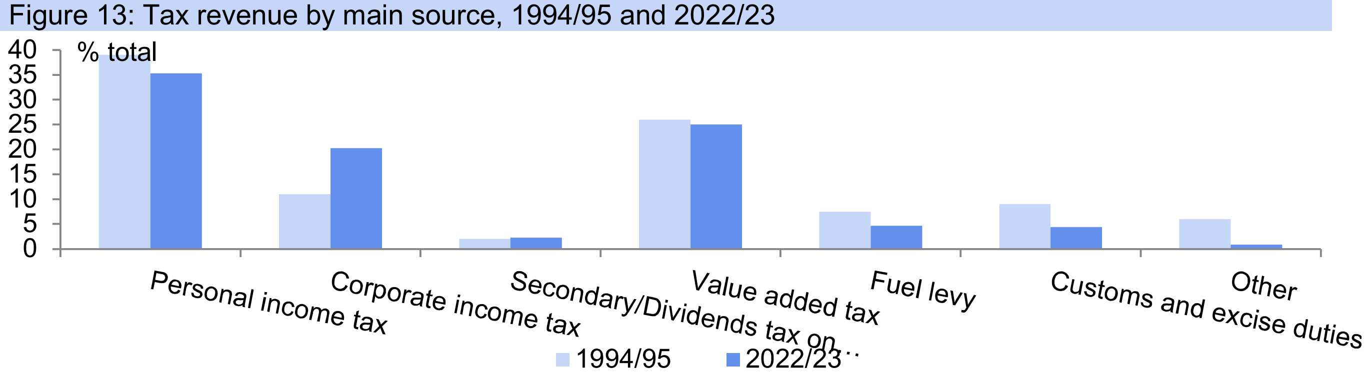


Source: IMF, Fiscal Monitor October 2023

Note: The green transition involves reducing greenhouse gas emissions and building resilience against climate risks. Economic activity emits greenhouse gases, leading to environmental damages, which could pose adverse economic impact. Mitigation policies aim to reduce emissions, while adaptation policies enhance resilience for countries to limit the disruptions to the economy. These point to intertwined linkages between fiscal policies, the macroeconomy, and climate outcomes.

In the logistics space, government plans to finalise the Freight Logistics Roadmap by the end of October 2023, "which will outline a sequenced set of actions to fundamentally reform the logistics system". "Six of the eight work streams of the National Logistics Crisis Committee (NLCC) are now fully operational, while the remaining two will transition from Operation Vulindlela. Interventions to improve the operational performance of the multimodal bulk freight rail network and port system are well underway through the NLCC. Corridor Recovery Teams have been established for five strategic corridors, comprising Transnet managing executives, industry representatives and independent experts, and a delivery plan has been developed with specific actions and timeframes to achieve the targeted increase in freight volumes." "Law enforcement agencies are working to protect rail infrastructure through a range of interventions, including aerial surveillance on the North and Central Corridors as well as the Majuba rail line." While the groundwork is being laid, and the potential for stronger economic performance exists, successful implementation of the many goals of the

Figure 13: Tax revenue by main source, 1994/95 and 2022/23



Sources: National Treasury, Budget 2023

Figure 14: Average monthly social grant values

Rand	2022/23	2023/24	Percentage increase
Old age	1 985	2 085	5.0%
Old age, over 75	2 005	2 105	5.0%
War veterans	2 005	2 105	5.0%
Disability	1 985	2 085	5.0%
Foster care	1 070	1 125	5.1%
Care dependency	1 985	2 085	5.0%
Child support	480	505	5.2%
Grant-in-aid	480	505	5.2%

National Treasury, Budget 2023

Figure 15: Social development expenditure

R million	2022/23 Revised estimate	2023/24	2024/25	2025/26	Percentage of total MTEF	Average annual MTEF
		Medium-term estimates				
Social protection expenditure	**264,363**	**286,173**	**266,037**	**283,014**	**100.0%**	**2.3%**
of which:						
Social grants	*232,985*	*253,842*	*232,923*	*248,408*	*88.0%*	*2.2%*
of which:						
Child support	*77,179*	*81,878*	*87,320*	*93,034*	*31.4%*	*6.4%*
Old age1	*92,067*	*99,104*	*106,489*	*114,013*	*38.3%*	*7.4%*
Disability	*24,807*	*26,801*	*28,278*	*30,002*	*10.2%*	*6.5%*
Foster care	*4,062*	*3,791*	*3,544*	*3,362*	*1.3%*	*-6.1%*
Care dependency	*3,870*	*4,092*	*4,413*	*4,751*	*1.6%*	*7.1%*
Grant-in-aid	*1,896*	*2,107*	*2,473*	*2,822*	*0.9%*	*14.2%*
Social relief of distress	*29,104*	*36,070*	*406*	*424*	*4.4%*	
Provincial social development	21,257	21,386	22,437	23,451	8.1%	3.3%
Women, youth and persons with disabilities	992	1,036	821	858	0.3%	-4.7%
of which:						
Women	*132*	*125*	*131*	*137*	*0.0%*	*1.2%*
Administration and research	*151*	*147*	*155*	*159*	*0.1%*	*1.7%*
Persons with disabilities	*709*	*764*	*535*	*562*	*0.2%*	*-7.5%*
Total	**357,787**	**378,543**	**361,338**	**356,987**	**100.0%**	**-0.1%**
Social grants as percentage of GDP	*3.5%*	*3.6%*	*3.1%*	*3.1%*		
Social grant beneficiary numbers by grant type (thousands)						
Child support	13,283	13,480	13,685	13,897	62.0%	1.5%
Old age[1]	3,872	3,982	4,094	4,212	18.5%	2.8%
Disability	1,051	1,063	1,075	1,088	4.9%	1.1%
Foster care	267	247	229	211	1.0%	-7.5%
Care dependency	159	164	169	174	0.8%	3.0%
COVID-19 SRD grant	7,971	8,496	–	–	12.8%	7,971
Total	**26,604**	**27,432**	**19,252**	**19,582**	**100.0%**	**-9.7%**

Source: National Treasury, Budget 2023

1. Includes war veterans

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Figure 16: Total National debt, 2021/22-2025/26

End of period	2021/22	2022/23	2023/24	2024/25	2025/26
R billion	Outcome	Revised	Medium-term estimates		
MTBPS 2022					
Gross loan debt	**4 277.5**	**4 727.4**	**5 060.2**	**5 423.7**	**5 843.0**
Net loan debt	**4 011.1**	**4 483.0**	**4 912.8**	**5 323.5**	**5 757.0**
As percentage of GDP:					
Total gross loan debt	68.0%	71.1%	72.2%	72.8%	73.6%
Total net loan debt	63.8%	67.4%	70.1%	71.4%	72.5%

Source: National Treasury, Budget 2023

workstreams will be the only way to raise the economic growth itself, as growth depends on the actual availability of supportive factors such as a fully functioning transport network.

Turning to the fiscal numbers in the Budget and National Treasury's forecasts, the acceleration in inflation has the effect of increasing the size of nominal GDP, in turn reducing ratios that are a % of GDP (if the fiscal deficit and debt levels don't change). Nominal GDP is the actual rand value of the economy, as opposed to real GDP which sees inflation removed from the GDP calculation. National Treasury forecast 2023/24's nominal GDP at R7 006bn, and our forecast is only very slightly higher on the lift in inflation, at R7 081bn. Government expected a faster GDP growth rate, at 0.9% y/y in real terms for this year but it is more likely to come out around 0.5% y/y, while inflation will be higher than the SARB forecast. For 2024/25, government's forecast is R7 452bn, and our forecast is slightly higher, at R7 573bn, while for 2025/26 the state estimates R7 936bn and we have a forecast of R8 087bn. The modest rise in the base for the fiscal ratios (% of GDP) will likely not be enough to counteract the anticipated rise in the level of gross loan debt and the fiscal deficits. Revenue collections are proving subdued, and expenditure remains substantially higher year to date, at R883bn versus R809bn for the same period last year, the key deterioration. This means that the fiscal deficit for the year to date is -R238bn, a hefty deficit nearing that projected for the full year. For the full fiscal year, the budget deficit is estimated at -R283.7bn for 2023/24 (the current fiscal year), although this is the consolidated budget. For the main budget the deficit is projected at -R275.4bn for the

Figure 17: Macro-economic forecasts, Treasury vs. Investec

	2023	2024	2025
Final household consumption	1.0	1.5	1.8
Investec	0.8	1.6	1.8
Gross fixed capital formation	1.3	3.8	3.5
Investec	7.2	6.5	4.8
Exports	1.0	2.2	2.9
Investec	3.6	3.0	2.7
Imports	1.1	2.3	2.9
Investec	7.9	3.7	3.8
Real GDP	**0.9**	**1.5**	**1.8**
Investec	**0.5**	**1.1**	**1.4**
CPI Inflation	5.3	4.9	4.7
Investec	5.8	4.6	4.2

Source: National Treasury, Budget 2023 and Investec

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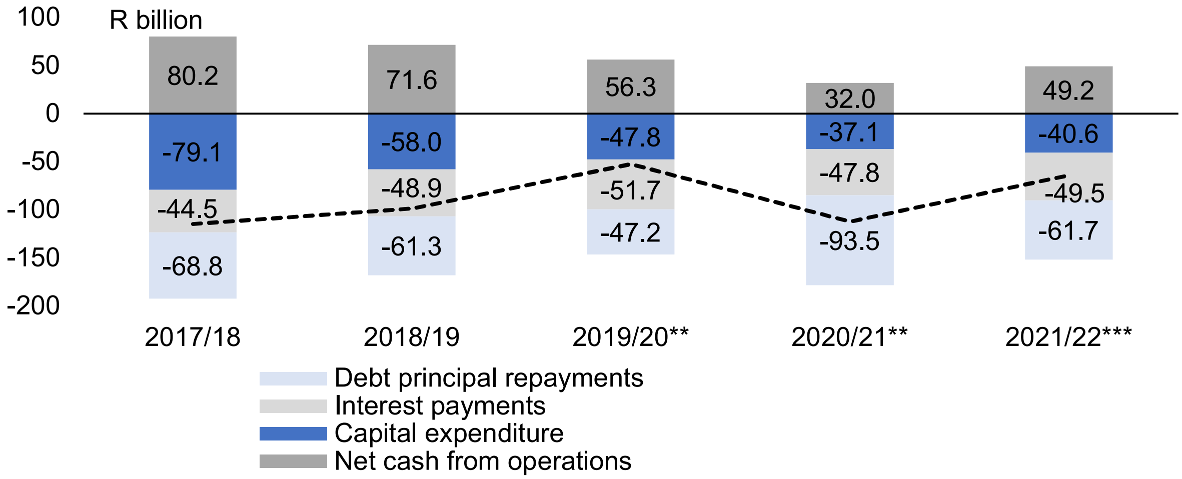
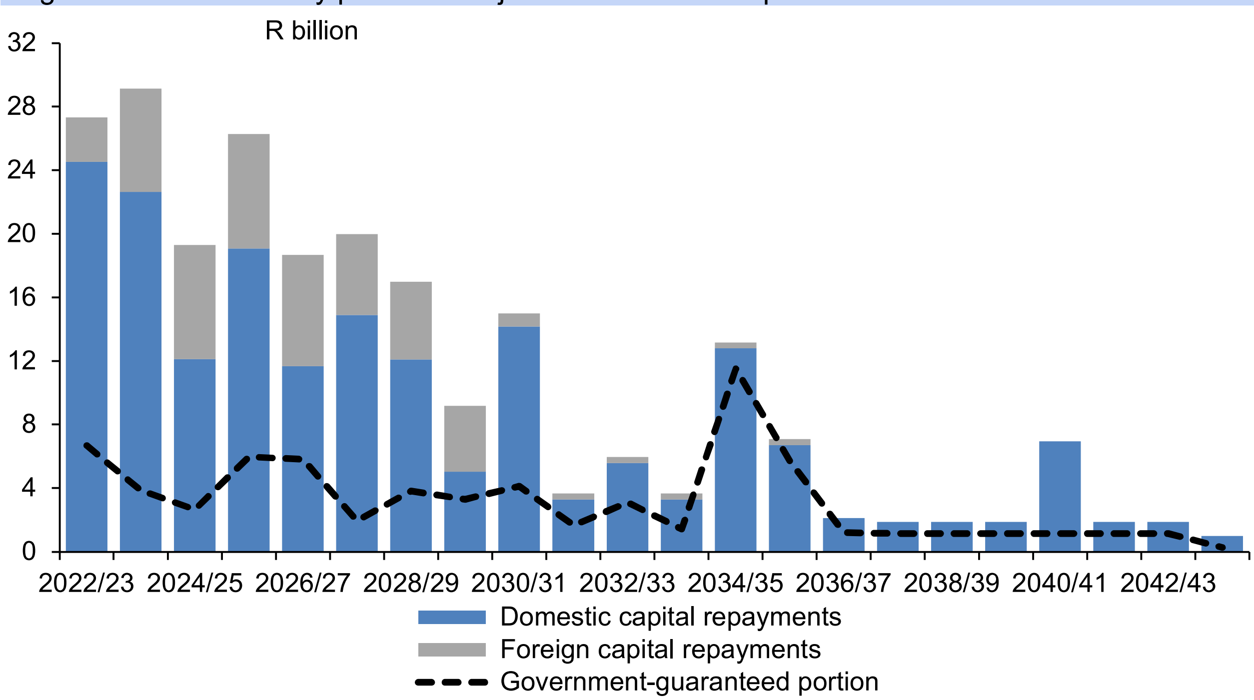
Figure 18: Consolidated cash flows at state-owned companies*



Source: National Treasury, Budget 2023

*State-owned companies listed in PFMA schedule, excluding development finance institutions
**Numbers may differ from earlier publications due to restatement or error
***Delayed release of audited financial statements from

Figure 19: Debt maturity profile of major state-owned companies*



Source: National Treasury, Budget 2023

Airports Company South Africa, Denel, South African National Roads Agency Limited, South African Airways, Transnet and Trans-Caledon Tunnel Authority. Eskom has been excluded because it has not submitted its maturity profile.

Figure 20: Government guarantee exposure[1]

R billion	2020/21 Guarantee	2020/21 Exposure [2]	2021/22 Guarantee	2021/22 Exposure [2]	2022/23 Guarantee	2022/23 Exposure [2]
Public institutions	**581.6**	**384.7**	**559.9**	**395.3**	**478.5**	**396.1**
of which:						
Eskom	*350.0*	*298.3*	*350.0*	*313.0*	*350.0*	*337.8*
SANRAL	*37.9*	*37.4*	*37.9*	*42.0*	*37.9*	*28.6*
Trans-Caledon Tunnel Authority	*43.0*	*13.2*	*25.0*	*9.6*	*25.0*	*8.7*
South African Airways	*19.1*	*6.7*	*19.1*	*2.8*	*19.1*	*0.3*
Land and Agricultural Bank of South Africa	*9.6*	*2.4*	*9.6*	*1.9*	*8.1*	*0.4*
Development Bank of Southern Africa	*10.0*	*4.9*	*9.9*	*5.2*	*9.9*	*5.5*
Transnet	*3.5*	*3.8*	*3.5*	*3.8*	*3.5*	*3.8*
Denel	*6.9*	*3.4*	*3.4*	*3.5*	*3.4*	*0.3*
South African Express	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Industrial Development Corporation	*0.5*	*0.1*	*0.5*	*0.1*	*0.5*	*0.1*
South African Reserve Bank [4]	*100.0*	*13.7*	*100.0*	*12.8*	*20.0*	*10.0*
Independent power producers	**200.2**	**176.7**	**200.2**	**165.7**	**208.5**	**187.1**
Public-private partnerships[3]	**8.0**	**8.0**	**7.9**	**7.9**	**7.1**	**7.1**

Source: National Treasury, Budget 2023

1. A full list of guarantees is given in Table 11 of the statistical annexure in the Budget Review 2. Total amount of borrowing, adjustments to inflation-linked bonds as a result of inflation rate changes and accrued interest 3. In April 2022, the Minister approved the reduction of the loan guarantee scheme to R20 billion 4. These amounts only include national and provincial PPP agreements

current fiscal year. South Africa will need to see a curb on expenditure and higher revenues for the rest of the 2023/24 fiscal year to achieve its fiscal estimates, and markets are wary that in a low growth environment with high, and rising, bond yields this becomes more difficult. South Africa's benchmark (ten-year) bond yield has jumped back above 12.00% in recent weeks, losing ground mainly in H2.23 this year as government finances deteriorated, although higher US (ten-year) treasury yields have also contributed to the weakness. SA's ten-year bond yields above 12.00%, versus 10.30% early in the year, pose a threat to borrowing costs, with South Africa's large debt burden and concomitant high debt servicing costs adding to expenditure pressures in a weak economic growth environment. For example, last year this time we estimated that about 0.9% of GDP was lost to loadshedding, while this

Figure 21: Combined financial position of public institutions

R billion/% of GDP	2019/20[1]	2020/21[1]	2021/22
State-owned companies	352.7	376.7	417.6
Development finance institutions	98.1	127.8	161.5
Social security funds	-156.5	-210.3	-198.8
Other public entities[2]	811.2	834.3	927.5

Source: National Treasury, Budget 2023

1. Due to the COVID-19 pandemic, many entities had not released audited financial statements for the 2019/20 and 2020/21 financial year at the time of the publication and the draft financial statements were used
2. 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

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Figure 22: Borrowing requirement of selected state-owned companies[1]

R billion	2020/21 Budget	2020/21 Outcome	2021/22 Budget	2021/22 Outcome	2022/23 Revised	2023/24	2024/25	2025/26[2]
						Medium-term estimates[3]		
Domestic loans (gross)	**34.0**	**23.6**	**25.8**	**34.9**	**60.0**	**39.7**	**33.8**	**34.0**
Short-term	7.3	11.5	6.0	8.6	–	–	–	–
Long-term	26.7	12.1	19.8	26.3	60.0	39.7	33.8	34.0
Foreign loans (gross)	**22.1**	**14.4**	**24.6**	**4.0**	**34.5**	**4.0**	**8.3**	**3.9**
Long-term	22.1	14.4	24.6	4.0	34.5	4.0	8.3	3.9
Total	**56.1**	**38.0**	**50.4**	**38.9**	**94.5**	**43.7**	**42.1**	**37.9**
Percentage of total:								
Domestic loans	*60.6%*	*62.1%*	*51.2%*	*89.6%*	*63.5%*	*90.8%*	*80.4%*	*89.7%*
Foreign loans	*39.4%*	*37.9%*	*48.8%*	*10.4%*	*36.5%*	*9.2%*	*19.6%*	*10.3%*

Source: National Treasury, Budget 2023

1. ACSA, Eskom, South African National Roads Agency Limited, SAA, Transnet, Trans-Caledon Tunnel Authority and Denel
2. Trans-Caledon Tunnel Authority did not provide forecast for 2025/26
3. ACSA, Eskom, SANRAL, TCTA (except 2025/26) SAA, Transnet and Denel

Figure 23: Estimates of individuals and taxable income, 2023/24

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 – R96[1]	7,545,020	–	292.2	–						
R96 – R150	1,528,990	21.5	182.0	6.2	14.9	2.3	-1.1	5.7	13.8	2.2
R150 – R250	1,505,950	21.1	292.0	9.9	22.0	3.3	-1.4	7.3	20.6	3.2
R250 – R350	1,248,123	17.5	370.1	12.5	48.5	7.4	-2.2	11.3	46.3	7.2
R350 – R500	1,233,846	17.3	516.3	17.4	89.5	13.6	-3.3	16.7	86.2	13.5
R500 – R750	842,653	11.8	506.4	17.1	113.9	17.3	-3.6	18.3	110.3	17.2
R750 – R1 000	354,263	5.0	305.1	10.3	84.3	12.8	-2.2	11.2	82.1	12.8
R1 000 – R1 500	244,586	3.4	294.3	9.9	92.8	14.1	-2.5	12.8	90.3	14.1
R1 500+	163,702	2.3	493.6	16.7	193.9	29.4	-3.3	16.7	190.6	29.8
Total	**7,122,113**	**100.0**	**2,959.9**	**100.0**	**660.0**	**100.0**	**-19.7**	**100.0**	**640.3**	**100.0**
Grand total	**14,667,133**		**3,252.1**		**660.0**		**-19.7**		**640.3**	

Source: National Treasury, Budget 2023

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

Figure 24: Combined financial position of public institutions

R billion/% of GDP	2019/20[1]	2020/21[1]	2021/2[2]
State-owned companies	352.7	376.7	417.6
Development finance institutions	98.1	127.8	161.5
Social security funds	-156.5	-210.3	-198.8
Other public entities[2]	**811.2**	**834.3**	**927.5**

Source: National Treasury, Budget 2023

3. 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
4. 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

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Figure 25: Consolidated government expenditure by function

R billion	2022/23 Revised estimate	2023/24 Budget estimate	Average growth 2022/23-2025/26
Learning and culture	446.7	457.1	3.6%
Health	259.4	259.2	2.7%
Social development	357.8	378.5	-0.1%
Community development	230.0	259.7	8.0%
Economic development	221.8	237.6	7.7%
Peace and security	227.8	227.3	2.8%
General public services	71.7	73.6	2.3%
Payments for financial assets	46.3	4.1	
Allocated expenditure	**1,861.6**	**1,897.1**	**2.9%**
Debt-service costs	307.2	340.5	8.9%
Contingency reserve	–	5.0	
Consolidated expenditure[1]	**2,168.8**	**2,242.6**	**4.5%**

Source: National Treasury, Budget 2023

year it is likely to have been higher. (The number of days loadshedding was implemented across the different stages was calculated using the data from the Eskom se push app. Using Eskom's value for the MW of energy expected to be lost per day for the different stages of loadshedding, and NERSA's 2020 estimate for the cost of unserved energy, i.e. the total cost arising due to an electricity outage for a unit of energy, a value for the total cost of energy lost per day across the different stages of loadshedding is estimated. About 70% of medium to large businesses are assumed to have back up power systems.) Using the same methodology to estimate the value of energy lost per day for the different stages of loadshedding shows about 2.3% will be shaved off GDP y/y growth for 2023 (with stage 2 load shedding for the remainder of the year on average), then taking account of self-generation this could drop to closer to 1.0%.

On a credit rating front, Moody's has said "South Africa's longest-ever stretch of power cuts is credit negative". Adding in February, "(w)e currently do not expect a major widening in the fiscal deficit since the government is likely to reduce its spending commensurately." However, South Africa's government has not reduced expenditure commensurately, and instead is at risk of worsening fiscal ratios. The MTBPS is tabled for the 1st of November, and another set of government finance figures will be published at the end of October, which will give greater insight into the progression of revenue collection this year. Fitch warns "low growth potential … remains a key credit weakness".

Figure 26: Consolidated government fiscal framework, 2022/23 – 2025/26

R bn/% of GDP	2022/23 Revised	2023/24	2024/25 Medium-term estimates	2025/26
Revenue	**1,892.7**	**1,958.9**	**2,077.8**	**2,225.3**
	28.5%	28.0%	27.9%	28.0%
Expenditure	**2,168.8**	**2,242.6**	**2,359.7**	**2,477.4**
	32.6%	32.0%	31.7%	31.2%
Budget balance	**-276.1**	**-283.7**	**-282.0**	**-252.1**
	-4.2%	-4.0%	-3.8%	-3.2%
Total gross loan debt	**4,727.4**	**5,060.2**	**5,423.7**	**5,843.0**
	71.1%	72.2%	72.8%	73.6%

Source: National Treasury, Budget 2023

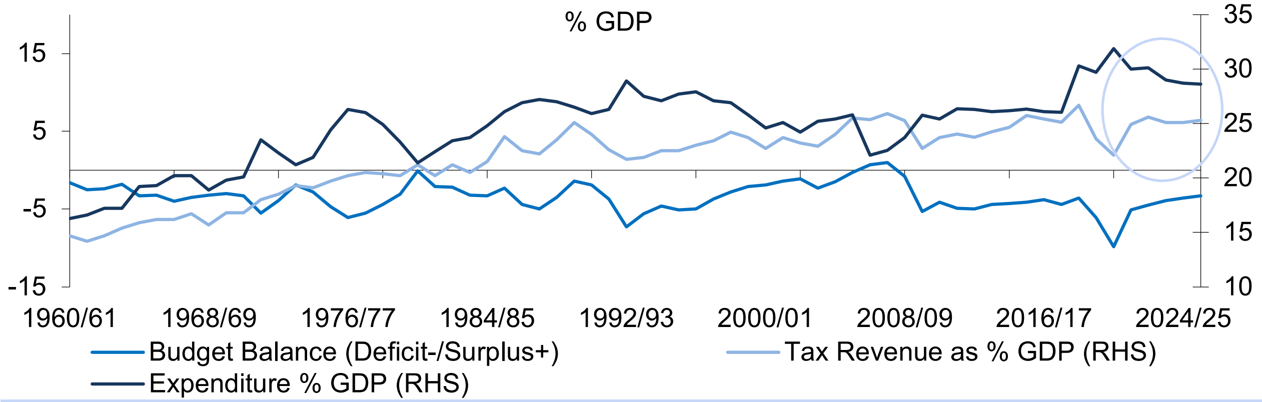
Figure 27: Budget estimates and revenue outcomes[1]

R billion	2021/22			2022/23			
	Budget[2]	Outcome	Deviation	Budget[2]	Revised	Deviation	% change[3]
Taxes on income and profits	**910.11**	**912.87**	**2.76**	**894.30**	**989.88**	**95.58**	**8.4%**
Personal income tax	553.53	553.95	0.42	587.91	601.65	13.74	8.6%
Corporate income tax	318.38	320.45	2.07	269.93	344.94	75.01	7.6%
Dividends tax	32.18	33.43	1.25	30.45	38.51	8.06	15.2%
Other taxes on income and profits[4]	6.01	5.04	(0.97)	6.01	4.77	(1.24)	-5.4%
Skills development levy	**18.93**	**19.34**	**0.40**	**20.62**	**21.24**	**0.62**	**9.8%**
Taxes on property	**19.69**	**22.03**	**2.34**	**20.29**	**22.66**	**2.36**	**2.8%**
Domestic taxes on goods and services	**541.30**	**549.81**	**8.51**	**600.73**	**581.87**	**(18.86)**	**5.8%**
Value-added tax	383.72	390.90	7.17	439.68	426.28	(13.40)	9.1%
Specific excise duties	48.21	49.71	1.49	51.86	55.23	3.36	11.1%
Health promotion levy	2.21	2.18	(0.03)	2.36	2.32	(0.04)	6.3%
Ad valorem excise duties	4.28	4.73	0.45	4.41	4.46	0.06	-5.6%
Fuel levy	89.88	88.89	(0.99)	89.11	79.13	(9.98)	-11.0%
Other domestic taxes on goods and services[5]	12.99	13.41	0.42	13.31	14.45	1.13	7.7%
Taxes on international trade and transactions	**57.04**	**59.72**	**2.68**	**62.51**	**76.54**	**14.03**	**28.2%**
Customs duties	55.82	57.99	2.17	61.10	74.18	13.08	27.9%
Health promotion levy on imports	0.08	0.08	(0.00)	0.09	0.11	0.03	46.4%
Diamond export levy	0.09	0.17	0.08	0.09	0.15	0.06	-11.1%
Export tax	0.30	0.41	0.11	0.47	0.82	0.35	101.0%
Miscellaneous customs and excise receipts	0.75	1.07	0.32	0.76	1.28	0.51	19.2%
Gross tax revenue	**1,547.07**	**1,563.75**	**16.68**	**1,598.45**	**1,692.18**	**93.73**	**8.2%**
Non-tax revenue[6]	47.96	46.60	(1.36)	33.28	55.08	21.80	18.2%
of which:	-	-	-	-	-	-	0.0%
Mineral and petroleum royalties	27.98	28.46	0.48	18.55	25.48	6.93	-10.5%
Less: SACU[7] payments	(45.97)	(45.97)	-	(43.68)	(43.68)	-	-5.0%
Main budget revenue	**1,549.07**	**1,564.39**	**15.32**	**1,588.04**	**1,703.57**	**115.53**	**8.9%**
Provinces, social security funds and selected public entities	172.24	186.21	13.98	182.60	189.18	6.57	1.6%
Consolidated budget revenue	**1,721.30**	**1,750.60**	**29.30**	**1,770.65**	**1,892.75**	**122.10**	**8.1%**

Source: National Treasury, Budget 2023

1. *A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure*
2. *2022 Budget Review estimates*
3. *Percentage change between outcome in 2021/22 and revised estimate in 2022/23*
4. *Includes interest on overdue income tax and interest withholding tax*
5. *Includes turnover tax for micro businesses, air departure tax, plastic bag levy, electricity levy, CO_2 tax on motor vehicle emissions, incandescent light bulb levy, Universal Service Fund, tyre levy, carbon tax and International Oil Pollution Compensation Fund*
6. *Includes mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets*
   Southern African Customs Union. Amounts made up of payments and other adjustments

Figure 28: Expenditure continues to outpace revenue

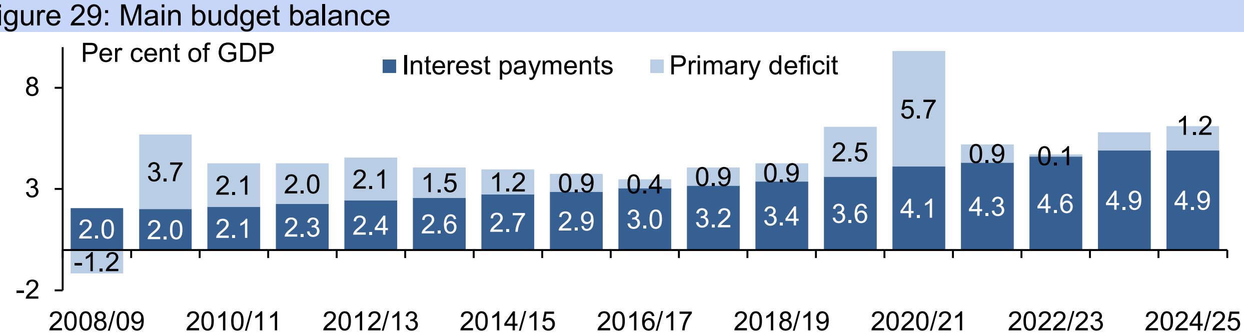


Source: National Treasury, Budget 2023

Moody's added South Africa's "central bank also expects the power cuts to remove 2 percentage points from growth over the next three years against its previous forecast." "South Africa's credit challenges stem from its structurally weak growth because of a decaying infrastructure network and a dysfunctional labour market, among other factors. The stable outlook reflects our expectation that the government's debt burden will likely stabilise over the medium term as fiscal consolidation continues. While risks related to social demands and SOEs persist, we believe the government will be able to re-prioritise spending while remaining committed to fiscal consolidation." Key, after years of larger than budgeted wage settlements, will be the ability of the state to cut expenditure.

Recently National Treasury is reported to have briefed the Presidency about the need to cut back on other areas of expenditure in order to protect state finances, particularly if the R350/month SDR grant is to become permanent. President Ramaphosa had shown support for the permanence of the SDR grant, but National Treasury notes it will come at a cost, potentially higher VAT or reducing the number of government departments, the latter saving an estimated R17bn. The Department of Sport, Arts and Culture could merge with the Department of Basic Education, Tourism with the DTI, Public Works and Infrastructure close, along with the Department of Women, Youth and Persons with Disabilities and the Department of Planning, Monitoring and Evaluation, or some fall into the Presidency. The MTBPS on 1st November will be scrutinised for cost saving measures that will allow the fiscal projections to be met. SA's borrowings are already unsustainable, at well above the EM (emerging market) limit of 60% of GDP, and previously set to rise higher, undermining the rand, and adding to higher borrowing costs, in turn contributing to higher expenditure in a vicious cycle .

Figure 29: Main budget balance



Source: National Treasury, Budget 2023

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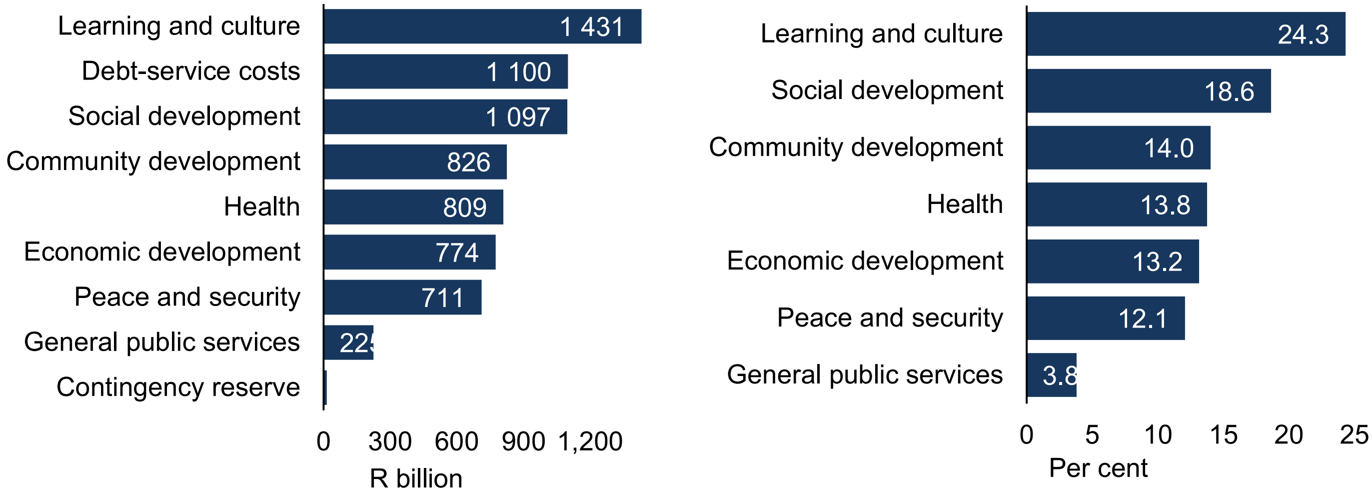
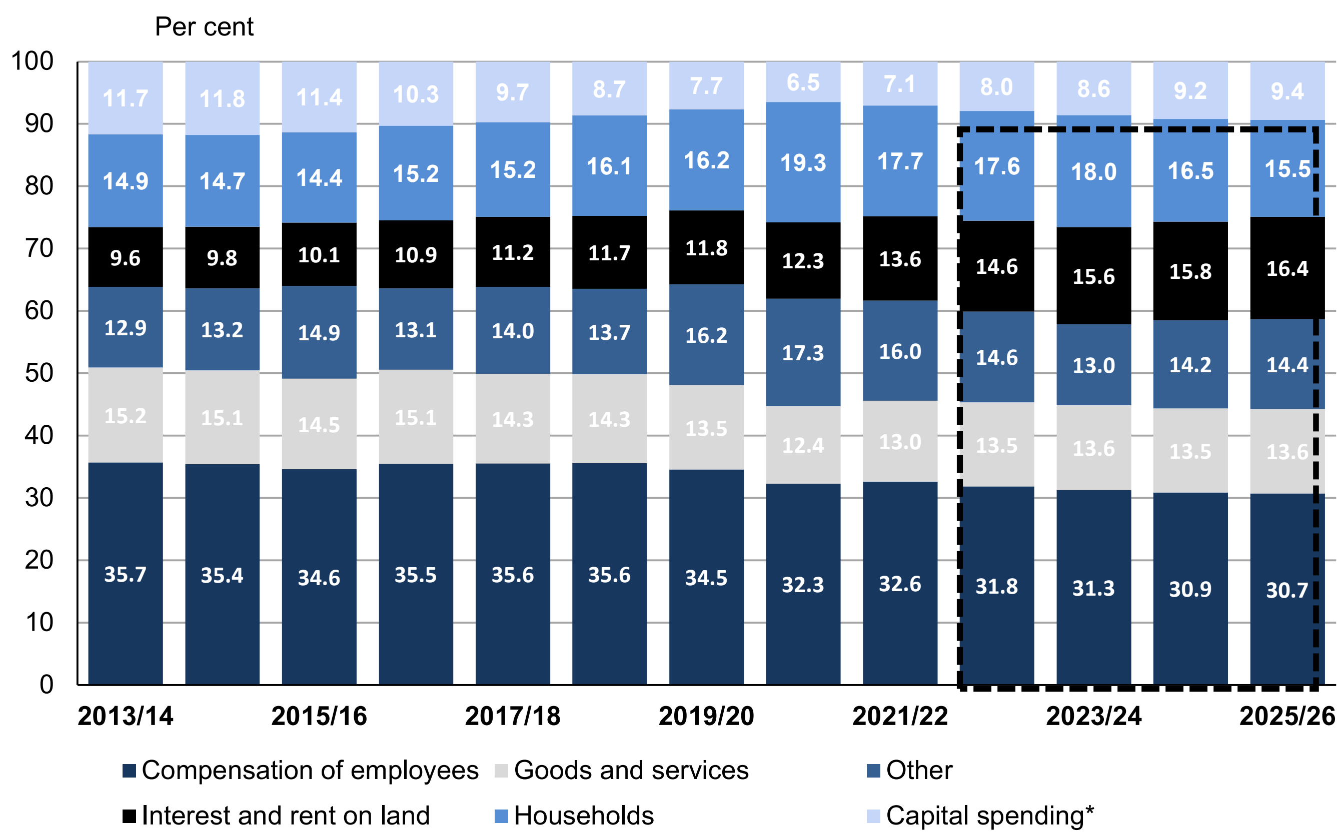
Figure 30: Percentage of total MTEF allocation by function and total consolidated government expenditure, 2023/24-2025/26



Source: National Treasury, Budget 2023

Figure 31: Composition of consolidated government sending



Source: National Treasury, Budget 2023

Figure 32: Consumer Prices, annual variation in %

	2020	2021	2022	2023	2024
World	**2.5**	**4.0**	**8.0**	**6.0**	**4.6**
United States	1.2	4.7	8.0	4.1	2.6
Euro Area	0.3	2.6	8.4	5.6	2.8
China	2.5	0.9	2.0	0.9	1.9
Japan	-0.0	-0.2	2.5	2.9	1.7
Sub-Saharan Africa	**17.1**	**11.7**	**15.3**	**16.4**	**11.5**
Angola	22.3	25.8	21.4	13.0	17.3
Botswana	1.9	6.7	12.2	5.8	4.2
Cameroon	2.4	2.3	6.2	4.8	2.6
Code d'Ivoire	2.4	4.2	5.2	4.0	2.4
DR Congo	11.4	9.0	9.3	15.1	9.4
Ethiopia	20.3	26.8	33.9	30.2	19.5
Ghana	8.7	10.0	31.9	40.1	20.2
Kenya	5.4	6.1	7.7	7.8	6.6
Mozambique	3.6	6.4	10.3	7.8	5.8
Nigeria	13.2	17.0	18.8	24.1	21.1
Rwanda	9.9	-0.4	17.7	19.5	5.9
Senegal	2.5	2.2	9.7	6.3	3.8
South Africa	3.3	4.6	6.9	5.8	4.7
Tanzania	3.3	3.7	4.3	4.2	4.2
Uganda	2.8	2.2	7.2	6.6	4.6
Zambia	15.7	22.0	11.0	10.2	8.8
Zimbabwe	550.9	51.3	75.0	154.9	99.1

Source: Focus Economics October 2023

Figure 33: Fiscal Balance, % of GDP

	2020	2021	2022	2023	2024
World	**-9.3**	**-6.3**	**-3.9**	**-4.4**	**-4.0**
United States	-14.9	-12.3	-5.5	-5.7	-5.6
Euro Area	-7.1	-5.3	-3.6	-3.4	-2.9
China	-6.2	-3.8	-4.7	-4.8	-4.4
Japan	-9.1	-6.2	-6.5	-5.6	-4.2
Sub-Saharan Africa	**-6.9**	**-5.2**	**-4.6**	**-4.3**	**-4.0**
Angola	-1.9	3.8	1.6	0.5	0.9
Botswana	-	-	-	-	-
Cameroon	-3.2	-3.0	-1.2	-1.3	-1.4
Code d'Ivoire	-5.4	-4.8	-6.7	-5.3	-4.5
DR Congo	-1.4	-0.9	-1.6	-1.8	-1.6
Ethiopia	-2.8	-4.2	-3.6	-3.2	-2.7
Ghana	-17.4	-12.1	-9.9	-5.8	-6.0
Kenya	-8.1	-7.1	-6.0	-5.3	-4.7
Mozambique	-5.4	-3.6	-3.4	-3.8	-4.4
Nigeria	-5.6	-6.0	-5.5	-4.8	-4.6
Rwanda	-9.5	-7.0	-6.5	-7.2	-6.2
Senegal	-6.4	-6.3	-6.1	-5.0	-4.1
South Africa	-9.8	-5.1	-4.5	-5.5	-5.4
Tanzania	-2.5	-3.4	-3.3	-3.0	-2.7
Uganda	-7.5	-7.5	-5.8	-4.0	-3.3
Zambia	-13.8	-8.1	-8.4	-6.9	-5.8
Zimbabwe	-	-	-	-	-

Source: Focus Economics October 2023

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