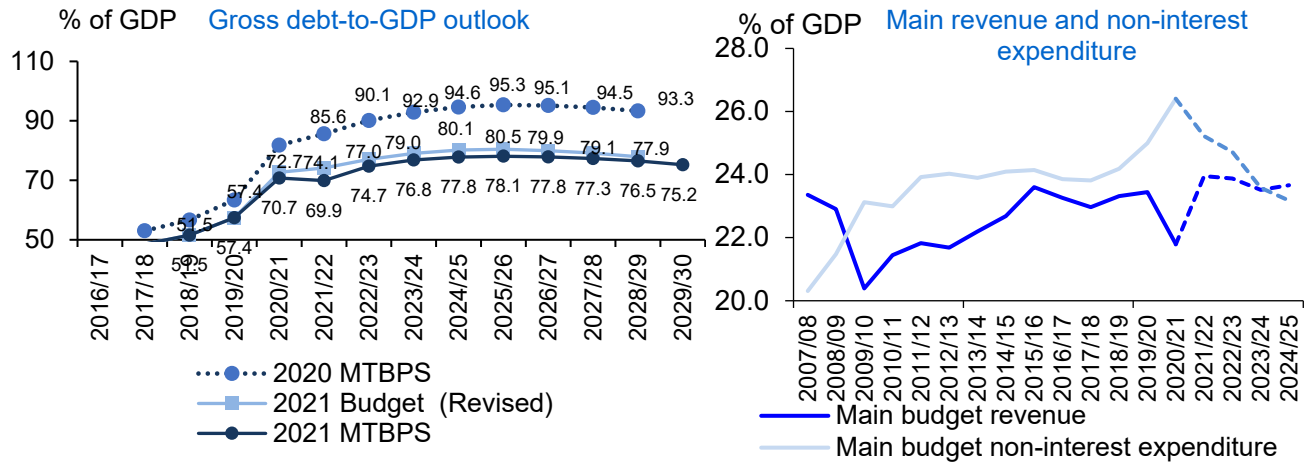


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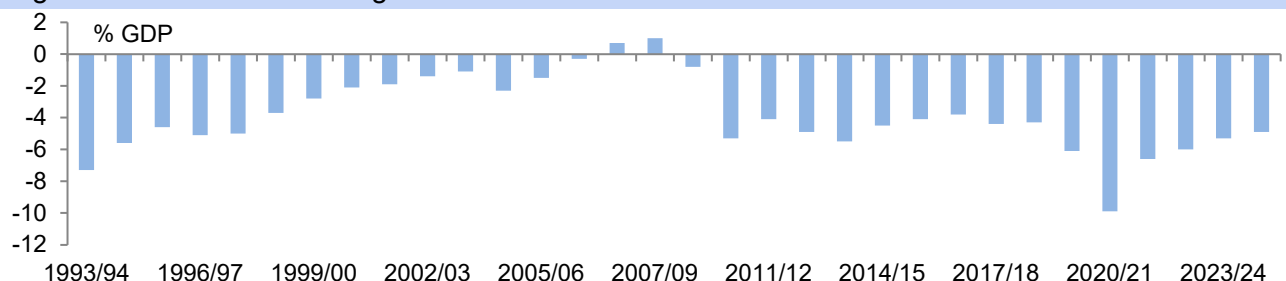
Figure 1: Gross debt-to-GDP outlook and main budget revenue and expenditure*



Source: National Treasury MTBPS 2021

- 2021's Medium-Term Budget Policy Statement (MTBPS) has seen the expected improvement in government's debt to GDP projections and fiscal deficits. Over the medium-term, gross debt is projected to now stabilise at 78.1% of GDP in 2025/26, from 88.9% of GDP in February, with the declining ratio not due to any major drop in borrowings, but instead the upwards revisions to GDP by Stats SA.
- Gross loan debt came out at 70.7% of GDP for 2020/21, versus the 80.3% of GDP projection in February 2021 Budget (BR), lowering the trajectory going forwards.
- The following three medium-term years, of 2022/23 to 2024/25, are projected above our forecasts 73.0%, 74.5% and 75.7% of GDP, at 74.7%, 76.8% and 77.8% of GDP with National Treasury's economic outlook averaging 1.7% growth over 2022 to 2024 versus the consensus of closer to 2.0% and ours of 2.3% y/y, although with the intensification of loadshedding the outlooks are at risk.
- Debt creeps down in rand values, to R5.1trillion by 2023/24, from R5.2 trillion projected in February this year and is lower each year from 2020/21 to 2024/25 than was also projected in February.
- The budget deficit for 2021/22 is forecast at -7.8% of GDP (versus National Treasury's BR projection of -9.3%) and thereafter drops to -6.0% of GDP for 2022/23 (BR -7.3%) and -5.3% in 2023/24 (6.3%).
- It may be enough to avoid sovereign credit rating downgrades from Fitch and S&P in November, who have SA on BB- currently, but Fitch continues to have a negative outlook, as does Moody's at one notch up. We believe while the agencies will not downgrade SA in November, but they will keep close watch.

Figure 2: Government's budget balance:



Source: National Treasury MTBPS 2021

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Figure 3: 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	1,287.7	1,355.8	1,249.7	1,485.4	1,527.4	1,608.0	1,715.3
Non-tax revenue	23.9	27.6	26.3	39.1	32.2	31.5	33.0
SACU ¹	-48.3	-50.3	-63.4	-46.0	-43.7	-64.6	-63.4
National Revenue Fund receipts ²	12.0	12.8	25.8	4.6	1.6	6.4	4.5
Main budget revenue	1,275.3	1,345.9	1,238.4	1,483.2	1,517.5	1,581.3	1,689.4
	23.5%	23.7%	22.2%	24.0%	23.9%	23.6%	23.7%
Expenditure							
National departments	634.3	749.8	790.5	817.4	764.7	743.0	774.4
Provinces	572.0	613.5	628.8	661.2	658.4	647.2	676.1
Local government	118.5	123.0	137.1	137.6	146.3	148.9	155.4
Provisional allocation not assigned to votes ³	–	–	–	11.0	5.3	29.3	33.1
Unallocated reserve	–	–	–	–	15.1	28.8	29.3
Projected underspending	–	–	–	-6.3	–	–	–
Non-interest expenditure	1,324.8	1,486.2	1,556.4	1,623.9	1,594.8	1,602.1	1,673.3
Debt-service costs	181.8	204.8	232.6	269.2	303.1	334.6	365.8
Main budget expenditure	1,506.6	1,691.0	1,789.0	1,893.1	1,897.9	1,936.7	2,039.1
	27.8%	29.7%	32.1%	30.7%	29.9%	28.9%	28.6%
Main budget balance	-231.3	-345.1	-550.6	-409.9	-380.4	-355.4	-349.7
	-4.3%	-6.1%	-9.9%	-6.6%	-6.0%	-5.3%	-4.9%
Primary balance	-49.5	-140.3	-318.0	-140.7	-77.2	-20.8	16.1
	-0.9%	-2.5%	-5.7%	-2.3%	-1.2%	-0.3%	0.2%

Source: National Treasury and MTBPS 2021

1. Southern African Customs Union, payments, other adjustments. 2 Revaluation profits on foreign-currency transactions and premiums on loan transactions 3. Includes support to Eskom, amounts for projects approved through Budget Facility for Infrastructure and other provisional allocations

Figure 4: Budget Balances

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Budget 2015	-2.5%							
MTBPS	-3.2%	-3.0%						
Budget 2016	-2.8%	-2.4%						
MTBPS	-3.1%	-2.7%	-2.5%					
Budget 2017	-3.1%	-2.8%	-2.6%					
MTBPS	-4.3%	-3.9%	-3.9%	-3.9%				
Budget 2018	-4.3%	-3.6%	-3.6%	-3.5%				
MTBPS	-4.0%	-4.0%	-4.2%	-4.2%	-4.0%			
Budget 2019	-4.0%	-4.2%	-4.5%	-4.3%	-4.0%			
MTBPS	-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	-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	-4.1%	-4.3%	-6.1%	-9.9%	-6.6%	-6.0%	-5.3%	-4.9%

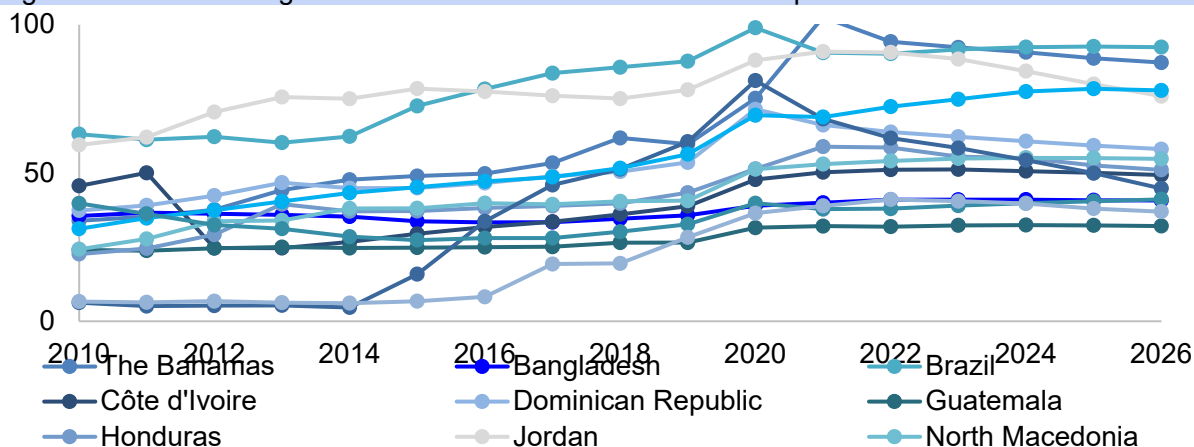
Source: National Treasury

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Figure 5: Government gross debt %GDP – SA's BB- Fitch rated peers



Source: IMF

- The rand has strengthened to R15.19/USD, as SA's credit risk, which is the perceived risk of default, has slightly moderated. The sheer quantum of debt however is still projected to climb further, with 2024/25's R5.5trillion double 2018/19's R2.8trillion.
- This is still a decline in fiscal health as borrowings continue to rise, and this will not allow for any credit rating upgrades, nor likely a removal of the negative outlooks two key agencies have SA on. Debt service costs (interest expenditure) continue to climb, but are fractionally lower than the 2021 Budget projection, projected to peak at 5.4% of GDP in 2025/26 (from 5.3%), as gross debt does at 78.1% (80.5%), with bonds strengthening somewhat.
- The budgeted figures today present an improvement, but all the projections would be at great risk if there are further crises which depress revenue and increase expenditure. Consequently, the MTBPS affirms that over the next three years, spending will remain restrained. Government will avoid permanent increases in departmental or programme baselines, or further bailouts of state-owned companies, which would compromise fiscal sustainability.
- Instead, short-term tax windfalls will be targeted to reduce the budget deficit and fund temporary priorities, such as extended support for poor households and public employment. In line with government's commitment to support vulnerable households, particularly given the impact of COVID-19, additional resources for social relief will be considered if the fiscal situation improves.

Figure 6: 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.

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Figure 7: 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 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.

Figure 8: Revised revenue projections

R billion	2021/22	2022/23	2023/24	2024/25
2021 Budget	1,365.1	1,457.7	1,548.5	
Buoyancy	1.44	1.16	1.07	
Revised estimates	1,485.4	1,527.4	1,608.0	1,715.3
Buoyancy	1.73	0.99	0.97	1.05
Change since 2021 Budget	120.3	69.8	59.5	

Source: National Treasury

Figure 9: 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	1,345.9	1,238.4	1,483.2	1,517.5	1,581.3	1,689.4
	23.5%	23.7%	22.2%	24.0%	23.9%	23.6%	23.7%
Main budget expenditure	1,506.6	1,691.0	1,789.0	1,893.1	1,897.9	1,936.7	2,039.1
	27.8%	29.7%	32.1%	30.7%	29.9%	28.9%	28.6%
Non-interest expenditure	1,324.8	1,486.2	1,556.4	1,623.9	1,594.8	1,602.1	1,673.3
	24.4%	26.1%	28.0%	26.3%	25.1%	23.9%	23.5%
Debt-service costs	181.8	204.8	232.6	269.2	303.1	334.6	365.8
	3.4%	3.6%	4.2%	4.4%	4.8%	5.0%	5.1%
Main budget balance	-231.3	-345.1	-550.6	-409.9	-380.4	-355.4	-349.7
	-4.3%	-6.1%	-9.9%	-6.6%	-6.0%	-5.3%	-4.9%
Primary balance	-49.5	-140.3	-318.0	-140.7	-77.2	-20.8	16.1
	-0.9%	-2.5%	-5.7%	-2.3%	-1.2%	-0.3%	0.2%

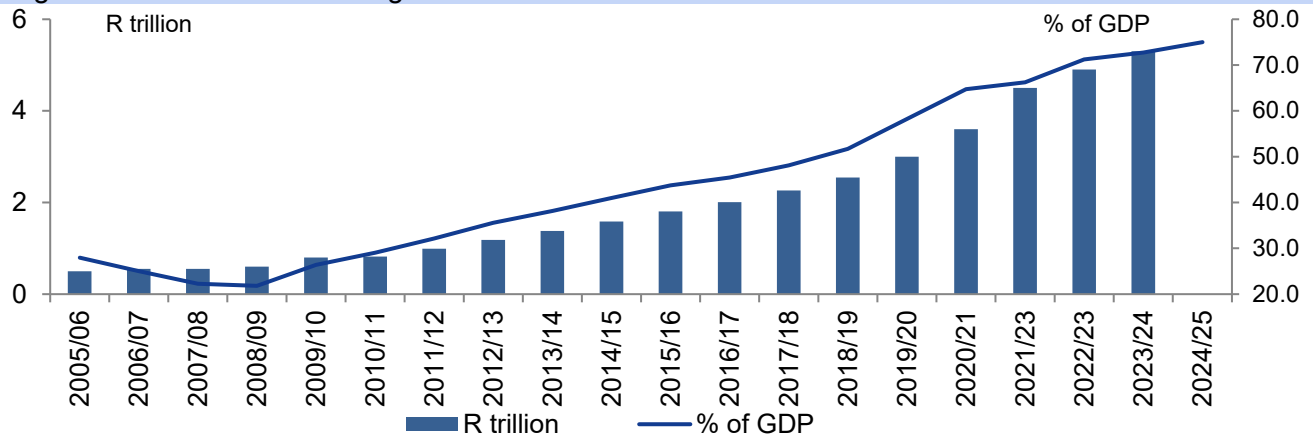
Source: National Treasury

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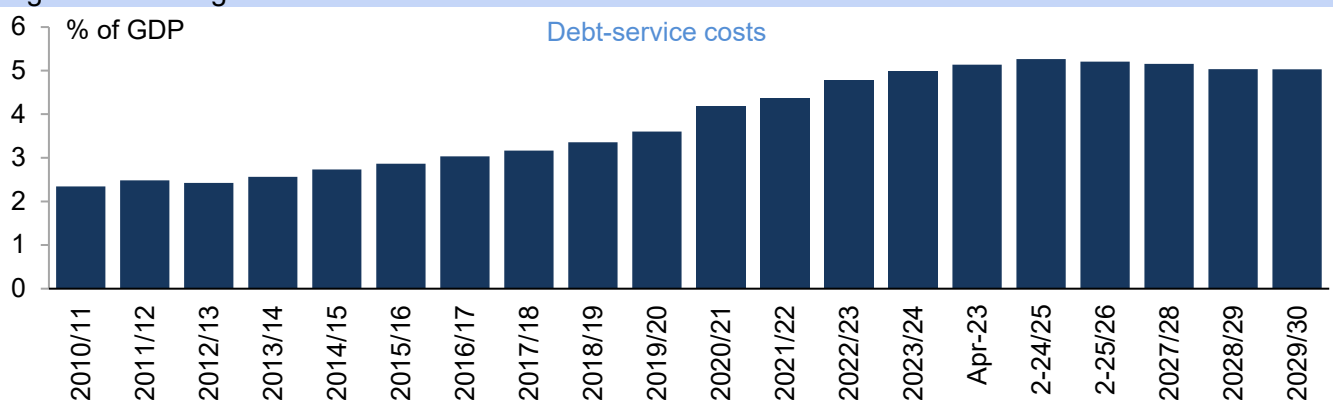
Figure 10: South Africa's net government debt: 2005/06 – 2024/25



Source: National Treasury

- The focus is firmly on fiscal consolidation, as well as economic reforms to drive growth and employment, particularly diversifying energy generation, releasing broadband spectrum, opening third-party access to the freight rail network, the eVisa system rollout reviewing the legal regime governing skilled migration and accelerating infrastructure investment.
- Additional resources to low-income households are also 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. Lowering debt service costs is key, with 21c in every rand collected spent on interest payments.
- Part of the revenue overrun is also being used to cover the above budgeted increase in the recent public-sector wage agreement where a once-off non-pensionable cash gratuity of R1 000 after tax per person per month, which was not budgeted for. This gratuity is expected to cost government R20.5 billion in the current year, with a preliminary carry through of R20.5 billion in 2022/23 if no new agreement is reached. In 2021/22, the gratuity will be largely funded by additional revenue, and will require shifting funds from the Infrastructure Fund, with a provisional allocation of R20.5 billion for 2022/23 included in the fiscal framework. The wage bill itself sees 1.5% growth in the baseline as well.

Figure 11: Real growth in debt-service costs



Source: National Treasury

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

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Figure 12: Total national government debt

End of period	2020/21	2021/22	2022/23	2023/24	2024/25
R billion	Outcome	Revised	Medium-term estimates		
Domestic loans¹	3,543.3	3,843.9	4,220.5	4,580.2	4,929.3
Short-term	456.0	456.0	510.0	563.0	615.0
Long-term	3,087.3	3,387.8	3,710.5	4,017.1	4,314.2
<i>Fixed-rate</i>	2,300.0	2,553.1	2,765.8	3,065.7	3,363.3
<i>Inflation-linked</i>	787.3	834.7	944.6	951.4	951.0
Foreign loans¹	392.4	470.1	524.1	564.3	608.4
Gross loan debt	3,935.7	4,313.9	4,744.7	5,144.4	5,537.6
Less: National Revenue Fund bank balances	-333.9	-224.9	-225.0	-209.2	-194.9
Net loan debt²	3,601.8	4,089.0	4,519.6	4,935.2	5,342.7
<i>As percentage of GDP:</i>					
<i>Gross loan debt</i>	70.7%	69.9%	74.7%	76.8%	77.8%
<i>Net loan debt</i>	64.7%	66.2%	71.2%	73.7%	75.0%

Source: National Treasury

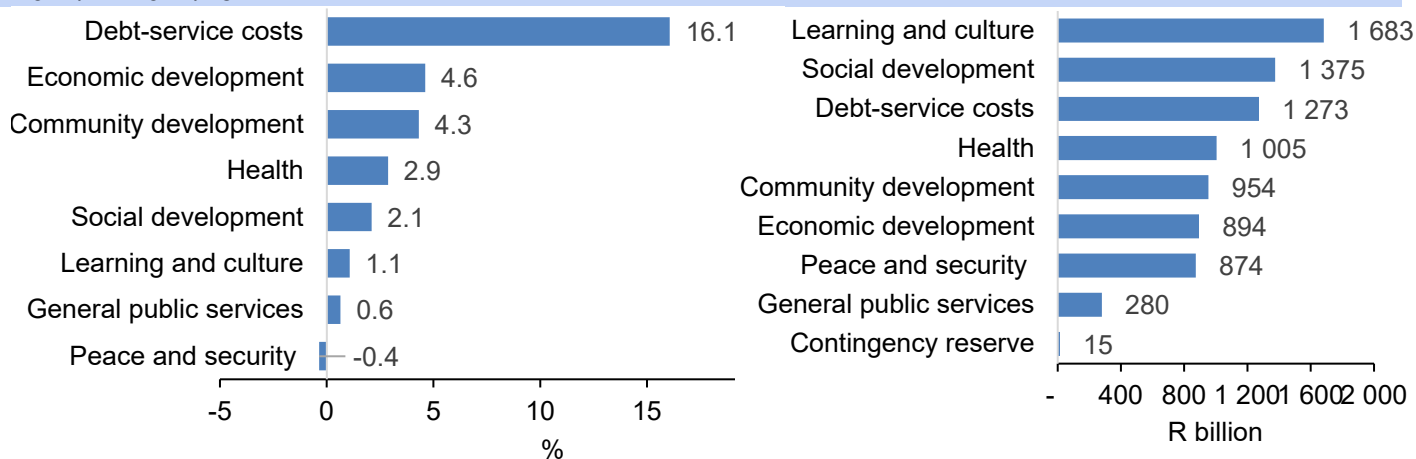
1. Estimates include revaluations based on National Treasury's projections of inflation and exchange rates
2. Net loan debt is gross loan debt minus the bank balances of the National Revenue Fund

Figure 13: Reuters November 2021 forecasts: Budget Poll

Forecast period	2021/22	2022/23	2023/24	2024/25	2025/26
Consolidated Budget Deficit	-6.80	-6.30	-5.60	-4.90	-4.70
Gross Debt to GDP ratio	71.00	73.00	76.45	78.35	82.10
Tax revenue as % of GDP	25.80	25.85	27.20	26.70	27.00

Source: Reuters

Figure 14: Average nominal growth in spending and Consolidated government expenditure by function, 2021/21-2024/25



Source: National Treasury

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Figure 15: Consolidated government expenditure, 2021/22 -2024/25

R billion	2021/22	2022/23	2023/24	2024/25	Avg annual growth 2021/22-2024/25
	Revised	Medium-term estimates			
Learning and culture	417.8	414.3	415.6	434.8	1.3%
Health	259.0	247.8	243.6	254.7	-0.6%
Social development	399.6	321.5	320.4	333.2	-5.9%
Community development	218.0	235.9	243.5	256.2	5.5%
Economic development	206.3	217.8	227.6	241.8	5.4%
Peace and security	219.3	218.2	213.3	222.8	0.5%
General public services	70.8	68.9	68.8	71.0	0.1%
Payments for financial assets	68.4	27.5	25.1	25.2	–
Total expenditure by function	1 859.3	1 751.8	1 758.0	1 839.7	-0.4%
Debt-service costs	269.2	303.1	334.6	365.8	10.8%
Unallocated reserve	–	15.1	28.8	29.3	–
Contingency reserve	–	5.0	5.0	5.0	–
Total expenditure	2 128.5	2 075.0	2 126.3	2 239.8	1.7%

Source: National Treasury MTBPS 2021

- Today's MTBPS highlights "the failure of fiscal expansion to raise GDP growth between 2008/09 and 2018/19, and the increasing crowding-out effect of interest payments". "Government spends far more than it receives in revenue. This unsustainable fiscal position, which began to develop in the wake of the 2008 financial crisis."
- The MTBPS correctly advocates that government must contain expenditure growth to restore the health of public finances and reduce overall indebtedness. By improving South Africa's creditworthiness, fiscal consolidation will bolster investor confidence, lower the cost of doing business, and provide support to households and jobseekers.
- This year, Government's efforts to manage the COVID-19 pandemic and support vulnerable households and firms saw increased spending in the current year. A net addition of R59.4 billion to main budget non-interest spending is proposed, consisting of R77.3 billion in spending increases, partially offset by projected underspending, drawdowns on the contingency reserve and provisional allocations announced in the 2021 Budget. SASRIA has received R3.9bn, while small businesses got R1.3bn, R950million goes to SAPS and SANDF, and R5.3bn for UIF. Further adjustments to in-year spending include R2.3 billion for COVID-19 vaccines and an equity injection of R2.9 billion in Denel.
- This is offset by a portion of the R120.3 billion revenue windfall which occurred this year (over budget).

Figure 16: 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	1,487,388	1,570,890	1,552,268	1,558,725	1,627,154

Source: National Treasury

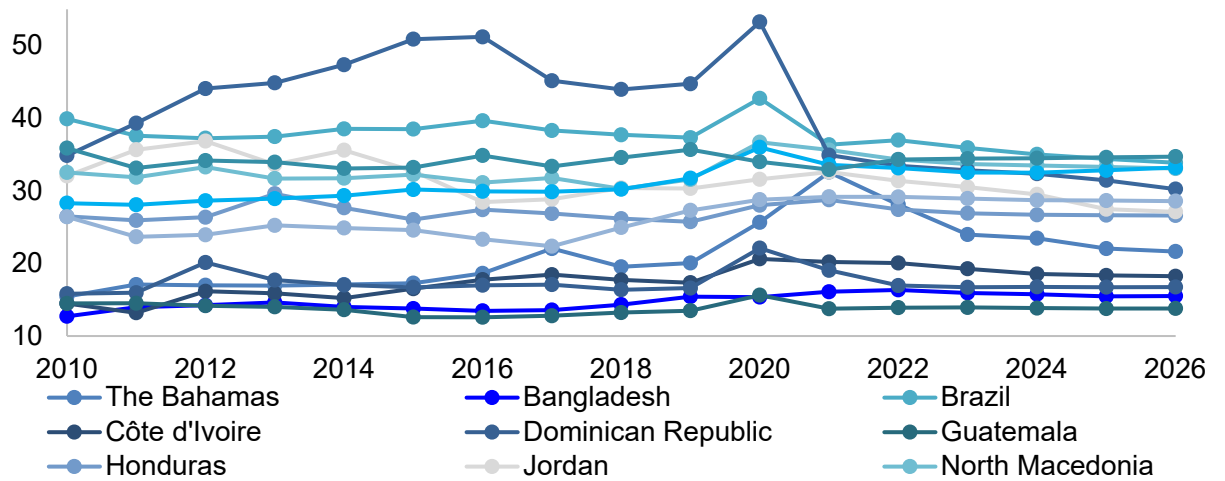
1. The expenditure ceiling differs from main budget non-interest expenditure. The precise definition and calculation of the expenditure ceiling is contained in Annexure C

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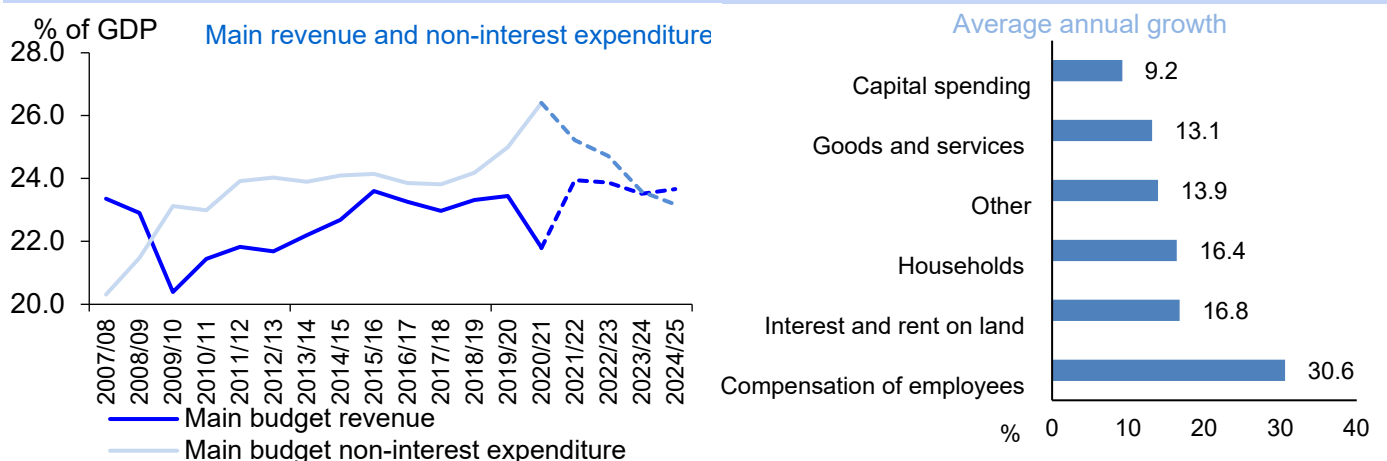
Figure 17: Government total expenditure % GDP– SA's BB- Fitch rated peers



Source: IMF

- Total main budget non-interest expenditure is projected to increase by R31.9 billion in 2022/23 and by R29.6 billion in 2023/24, with details in the February 2022 budget.
- As a share of GDP, non-interest expenditure will moderate from 26.3 per cent in 2021/22 to 23.5 per cent by 2024/25. This includes a contingency reserve of R5 billion per year over the MTEF period. Debt service costs will continue rising over the medium term given the persistent main budget deficit, weaker currency and higher interest rates. In line with government’s consolidation stance, main budget non-interest expenditure is projected to grow in line with consumer price index inflation in 2024/25.
- In the current year, expenditure is expected to breach the 2021 Budget Review ceiling of R1.51 trillion by R56 billion owing to the COVID-19 lockdowns and public violence, as well as wage bill adjustments. The ceiling is raised by R30.5 billion in 2022/23 and R28.1 billion in 2023/24, compared with the 2021 Budget.

Figure 18: Main budget revenue and expenditure** and average nominal spending as a share of total, 2024//25



Source: National Treasury

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Figure 19: Consolidated government expenditure by functions¹

R billion	2020/21	2021/22	2022/23	2023/24	2024/25	Average growth 2021/22– 2024/25
	Outcome	Revised ²	Medium-term estimates			
Learning and culture	384.4	417.8	414.3	415.6	434.8	1.3%
Basic education	268.8	281.8	279.6	279.0	291.7	1.2%
Post-school education and training	106.6	124.7	123.4	125.3	131.5	1.8%
Arts, culture, sport and recreation	9.0	11.2	11.3	11.3	11.7	1.2%
Health	248.2	259.0	247.8	243.6	254.7	-0.6%
Peace and security	212.4	219.3	218.2	213.3	222.8	0.5%
Defence and state security	54.0	49.4	48.9	48.1	50.3	0.6%
Police services	103.4	109.4	109.2	106.2	111.0	0.5%
Law courts and prisons	46.9	49.2	50.4	49.6	51.9	1.8%
Home affairs	8.1	11.3	9.6	9.4	9.7	-5.1%
Community development	203.3	218.0	235.9	243.5	256.2	5.5%
Economic development	170.2	206.3	217.8	227.6	241.8	5.4%
Industrialisation and exports	31.9	39.5	37.6	37.9	39.7	0.2%
Agriculture and rural development	24.4	28.5	28.3	28.2	29.4	1.1%
Job creation and labour affairs	19.4	23.3	24.2	24.3	25.4	3.0%
Economic regulation and infrastructure	79.6	97.7	110.1	119.5	129.0	9.7%
Innovation, science and technology	15.0	17.4	17.7	17.7	18.2	1.6%
General public services	64.1	70.8	68.9	68.8	71.0	0.1%
Executive and legislative organs	15.2	15.3	15.3	15.4	16.1	1.7%
Public administration and fiscal affairs	41.6	46.8	45.3	45.1	46.0	-0.5%
External affairs	7.2	8.7	8.3	8.3	8.9	0.8%
Social development	365.7	399.6	321.5	320.4	333.2	-5.9%
Social protection	251.0	256.8	238.1	240.5	251.3	-0.7%
Social security funds	114.7	142.8	83.3	79.9	81.9	-16.9%
Payments for financial assets	90.9	68.4	27.5	25.1	25.2	-
Allocated by function	1 739.2	1 859.3	1 751.8	1 758.0	1 839.7	-0.4%
Debt-service costs	232.6	269.2	303.1	334.6	365.8	10.8%
Unallocated reserve	-	-	15.1	28.8	29.3	-
Contingency reserve ²	-	-	5.0	5.0	5.0	-
Consolidated expenditure	1 971.8	2 128.5	2 075.0	2 126.3	2 239.8	1.7%

Source: National Treasury MTBPS 2021

1) Consisting of national and provincial departments, social security funds and public entities. 2. Allocated to 2021/22 spending

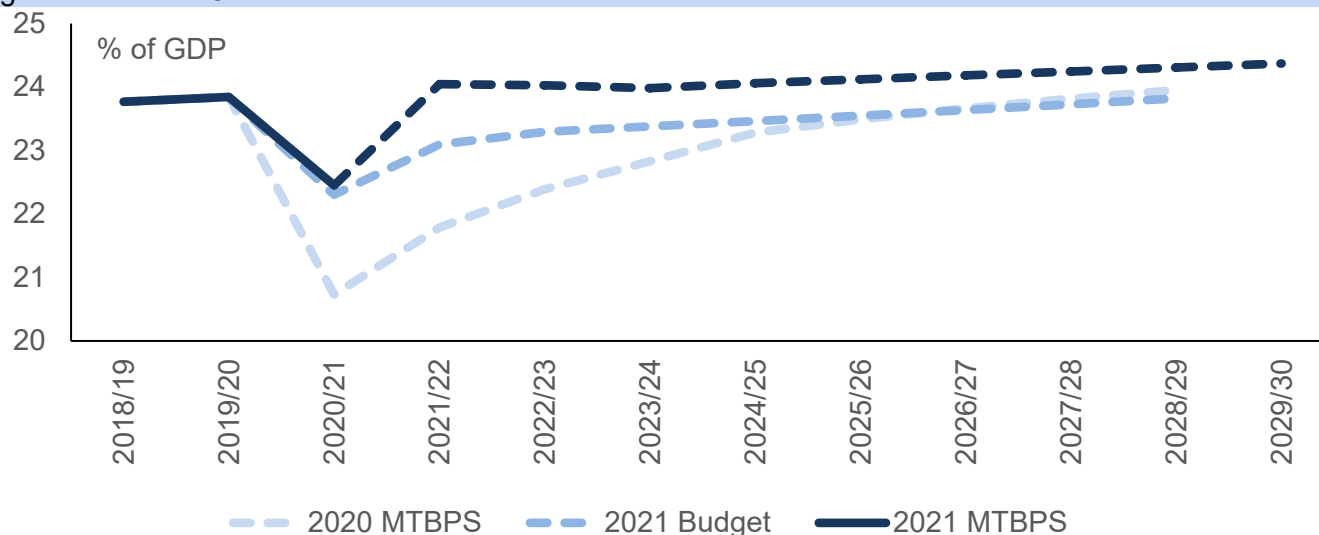
Figure 20: Employment in major government functions (full-time equivalents)

	2006/07	2010/11	2015/16	2019/20	2020/21	Change in 2020/21
Education	446,215	494,244	495,104	500,406	499,440	-966 (-0.2%)
Health	245,584	289,583	312,471	319,213	337,671	18 458 (5.8%)
Police	155,823	186,810	189,466	190,004	184,162	-5 842 (-3.1%)
Defence	79,925	79,040	77,832	74,212	73,713	-500 (-0.7%)
Other	219,538	235,550	250,645	246,287	243,966	-2 321 (-0.9%)

Source: National Treasury



Figure 21: Tax to GDP ratio



Source: National Treasury and South African Reserve Bank

- The gross tax revenue estimate for 2021/22 has been revised up by R120.3 billion compared with the projection in the 2021 Budget on better-than-expected collections in the final quarter of 2020/21, upward revisions to near-term economic growth projections and strong income tax collections, especially from corporates.
- After falling to 22.5 per cent last year, the tax-to-GDP ratio is expected to increase to 24.1 per cent in the current year.
- A primary surplus is expected by 2024/25.
- Non-interest expenditure (excluding Eskom financial support and the Infrastructure Fund) grows in line with CPI inflation in 2025/26. In real terms, non-interest expenditure (excluding the Infrastructure Fund) grows by 1.5 per cent per year from 2026/27 onwards.
- No revenue measures, i.e. additional tax increases, are assumed from 2022/23 onwards.
- Financial support for Eskom is assumed to amount to R224.6 billion from 2019/20 until 2025/26. Beyond the medium term, average real GDP growth is assumed to be 2.1 per cent.

Figure 22: Consolidated government fiscal framework, 2020/21 – 2024/25

	2020/21	2021/22	2022/23	2023/24	2024/25
R bn/% of GDP					
Revenue	1,414.1	1,648.8	1,695.7	1,772.7	1,890.9
	25.4%	26.7%	26.7%	26.5%	26.6%
Expenditure	1,971.8	2,128.5	2,075.0	2,126.3	2,239.8
	35.4%	34.5%	32.7%	31.7%	35.9%
Budget balance	-557.7	-479.7	-379.3	-353.6	-348.9
	-10.0%	-7.8%	-6.0%	-5.3%	-4.9%
Total gross loan debt	3,935.7	4,313.9	4,744.7	5,144.4	5,537.6
	63.3%	69.9%	74.7%	76.8%	77.8%

Source: National Treasury

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Figure 23: Consolidated government expenditure by economic classification¹

	2019/20	2020/21	2021/22	2022/223	2023/24	Average
R billion						
Current payments	1 121.5	1 234.1	1 258.5	1 281.2	1 354.6	3.2%
Compensation of employees	635.4	665.7	665.2	656.0	685.1	1.0%
Goods and services	246.0	290.3	281.4	281.6	294.2	0.4%
Interest and rent on land	240.1	278.1	311.9	343.6	375.3	10.5%
<i>of which: debt-service costs</i>	<i>232.6</i>	<i>269.2</i>	<i>303.1</i>	<i>334.6</i>	<i>365.8</i>	<i>10.8%</i>
Transfers and subsidies	694.3	736.4	669.5	681.1	712.9	-1.1%
Provinces and municipalities	149.1	147.6	159.5	161.5	167.8	4.4%
Departmental agencies and accounts	29.8	25.0	24.0	24.8	24.5	-0.6%
Higher education institutions	46.9	47.2	51.1	51.4	53.5	4.3%
Foreign governments and international organisations	2.4	3.5	3.0	3.0	3.4	-1.4%
Public corporations and private enterprises	30.1	38.7	41.2	45.4	51.8	10.3%
Non-profit institutions	45.4	41.3	42.1	42.7	45.2	3.1%
Households	390.7	433.1	348.7	352.3	366.6	-5.4%
Payments for capital assets	65.0	89.7	99.4	105.1	112.9	8.0%
Buildings and other capital assets	47.2	65.3	75.9	80.0	84.9	9.1%
Machinery and equipment	17.9	24.3	23.5	25.1	28.0	4.8%
Payments for financial assets	90.9	68.4	27.5	25.1	25.2	-
Total	1 971.8	2 128.5	2 055.0	2 092.5	2 205.6	1.2%
Unallocated reserve	-	-	15.1	28.8	29.3	
Contingency reserve ²	-	-	5.0	5.0	5.0	-
Consolidated expenditure	1 971.8	2 128.5	2 075.0	2 126.3	2 239.8	1.7%

Source: National Treasury

1) Consisting of national and provincial departments, social security funds and public entities

2) Allocated to 2021/22 spending

Figure 24: Consolidated budget balance

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
R billion							
		Outcome		Revised	Medium-term estimates		
Main budget	-231.3	-345.1	-550.6	-409.9	-380.4	-355.4	-349.7
Social security funds	8.8	5.3	-49.2	-73.2	-8.9	-0.2	1.8
Public entities	26.2	44.1	39.9	2.8	3.6	3.5	0.6
Provinces	1.0	5.1	2.8	1.2	6.4	-1.4	-1.5
RDP Fund	-0.2	-0.6	-0.5	-0.6	-0.2	-0.1	-0.1
Consolidated budget balance	-195.6	-291.2	-557.7	-479.7	-379.3	-353.6	-348.9
<i>Percentage of GDP</i>	<i>-3.6%</i>	<i>-5.1%</i>	<i>-10.0%</i>	<i>-7.8%</i>	<i>-6.0%</i>	<i>-5.3%</i>	<i>-4.9%</i>

Source: National Treasury

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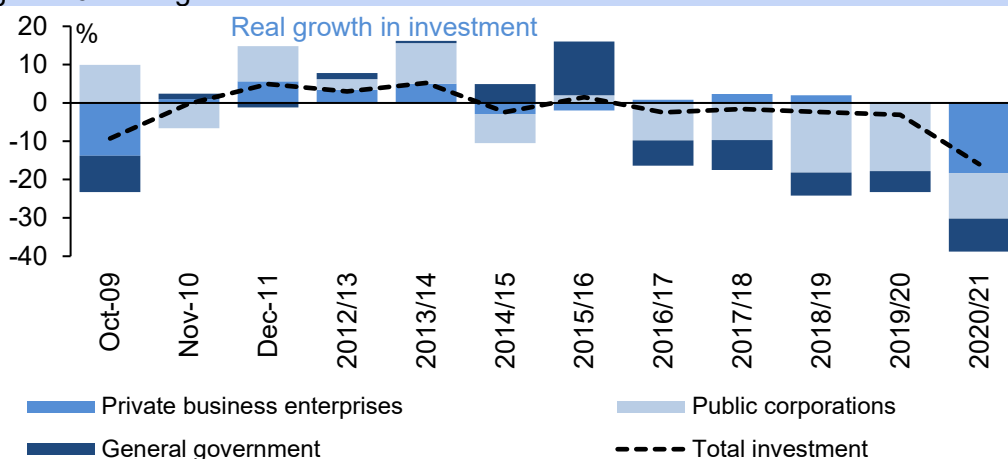
Figure 25: National government gross borrowing requirement and financing

R billion	2020/21 Outcome	2021/22 Revised	2022/23 Medium-term estimates	2023/24 Medium-term estimates	2024/25 Medium-term estimates
Gross borrowing					
Main budget balance	-550.6	-409.9	-380.4	-355.4	-349.7
Redemptions	-67.6	-65.2	-113.0	-154.7	-155.8
Domestic long-term loans	-53.2	-61.3	-97.3	-113.1	-120.4
Foreign loans	-14.4	-3.9	-15.7	-41.6	-35.5
Total	-618.3	-475.1	-493.3	-510.0	-505.5
Financing					
Domestic short-term loans (net)	95.3	–	54.0	53.0	52.0
Domestic long-term loans	523.4	285.3	381.8	373.0	369.4
Foreign loans	91.9	77.6	47.0	64.7	66.2
Change in cash and other balances	-92.4	112.2	10.5	19.3	17.9
Total	618.3	475.1	493.3	510.0	505.5

Source: National Treasury

- Eskom continues to rely on government guarantees to finance its operations. Eskom had used R281.6 billion of its R350 billion government guarantee facility by 31 March 2021, with another R7 billion committed.
- 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.
- To enable Eskom to execute its borrowing plan, the Minister of Finance approved a special dispensation to allow Eskom to access additional guaranteed debt of R42 billion in 2021/22 and R25 billion in 2022/23, which falls within its existing guarantee facility. The utility has made progress in its unbundling plan by establishing a transmission company that is now registered with the Companies and Intellectual Property Commission.

Figure 26: Real growth in investment



Source: National Treasury

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

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Figure 27: Difference in fiscal metrics

Percentage of GDP		2016/17	2017/18	2018/19	2019/20	2020/211	5-year average change
Gross tax revenue	Before rebasing	25.9	25.9	26.2	26.3	25.0	
	After rebasing	23.7	23.7	23.8	23.8	22.5	
	<i>Difference</i>	-2.2	-2.2	-2.4	-2.5	-2.6	-2.4
Tax buoyancy	Before rebasing	0.97	1.00	1.22	1.14	2.57	
	After rebasing	0.94	1.00	1.07	1.07	3.69	
	<i>Difference</i>	-0.03	-0.00	-0.15	-0.07	1.12	0.17
Main budget revenue	Before rebasing	25.7	25.5	25.9	26.1	24.8	
	After rebasing	23.6	23.3	23.5	23.7	22.2	
	<i>Difference</i>	-2.2	-2.2	-2.4	-2.5	-2.5	-2.3
Main budget expenditure	Before rebasing	29.5	29.9	30.6	32.8	35.8	
	After rebasing	27.0	27.4	27.8	29.7	32.1	
	<i>Difference</i>	-2.5	-2.6	-2.8	-3.1	-3.7	-2.9
Budget balance	Before rebasing	-3.8	-4.4	-4.7	-6.7	-11.0	
	After rebasing	-3.5	-4.1	-4.3	-6.1	-9.9	
	<i>Difference</i>	0.3	0.4	0.4	0.6	1.1	0.6
Primary balance	Before rebasing	-0.5	-1.0	-1.0	-2.7	-6.4	
	After rebasing	-0.4	-0.9	-0.9	-2.5	-5.7	
	<i>Difference</i>	0.0	0.1	0.1	0.3	0.7	0.2
Gross loan debt	Before rebasing	50.5	53.0	56.7	63.3	78.8	
	After rebasing	46.2	48.5	51.5	57.4	70.7	
	<i>Difference</i>	-4.3	-4.5	-5.2	-5.9	-8.1	-5.6
Nominal GDP (R billion)	Before rebasing	4,419.4	4,698.7	4,924.0	5,152.3	4,995.7	
	After rebasing	4,831.2	5,136.8	5,418.3	5,686.7	5,566.2	
	<i>Difference</i>	411.8	438.1	494.3	534.3	570.5	489.8

Source: National Treasury

1 Outcomes applied to GDP before and after rebasing



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Figure 28: Consolidated government expenditure by functions¹

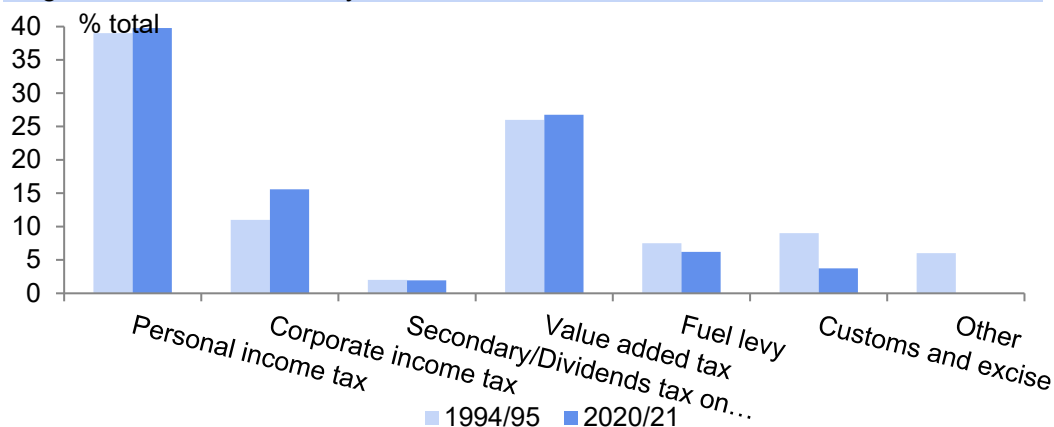
R billion	2020/21			2021/22		
	Budget ¹	Outcome	Deviation	Budget ¹	Revised	Deviation
Persons and individuals	482.1	487.0	4.9	516.0	542.1	26.1
Companies	188.8	202.1	13.3	213.1	288.6	75.5
Value-added tax	324.6	331.2	6.6	370.2	373.6	3.5
Dividends tax	23.0	24.8	1.9	26.2	29.9	3.8
Specific excise duties	24.7	32.3	7.6	43.7	42.3	-1.4
Fuel levy	75.2	75.5	0.3	83.1	89.2	6.1
Customs duties	45.2	47.3	2.1	53.1	54.7	1.6
Ad valorem excise duties	3.3	3.4	0.1	3.5	4.4	0.9
Other	45.3	46.1	0.8	56.1	60.4	4.3
Gross tax revenue	1 212.2	1 249.7	37.5	1 365.1	1 485.4	120.3

Source: National Treasury MTBPS 2021

1. 2021 Budget figures

- Eskom has developed a new corporate structure and allocated debt between its proposed electricity generation, transmission and distribution entities. This proposed restructuring needs to be approved by lenders. The utility has a deadline of 31 December 2021 to complete legal separation of the transmission unit, with the other two units following in the next 12 months.
- Several DENEL repayment obligations have fallen due this year. Government has allocated R2.9 billion in 2021/22 to settle these repayments.
- By 2023/24, contingent liabilities are expected to exceed R1 trillion. They consist of government guarantees to state-owned companies, the Renewable Energy Independent Power Producer Programme, public-private partnerships, and obligations to the Road Accident Fund and other social security funds.
- Over the next three years, redemptions of guaranteed debt will average R19.3 billion, down from R35.6 billion in 2020/21 and R27.5 billion in 2019/20.
- In June 2019, 163 municipalities met at least one of the financial distress metrics. That number has increased during the pandemic, and an update on municipal finances is being prepared. Overdue payments owed by local government increased from R60 billion in 2019/20 to R73.7 billion in 2020/21. Over the same period, uncollected revenues increased from R191.4 billion to R232.8 billion.

Figure 29: Tax revenue by main source, 1994/95 and 2020/21



Sources: National Treasury



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Figure 30: Corporate taxable income and tax assessed by sector and economic activity, 2019 (actual numbers)

Economic activity ¹	Number of taxpayers	Taxable income Rm	Tax assessed Rm
Primary sector	25 095	-53 629	10 285
Agriculture, forestry and fishing	22 277	-27 429	3 435
Mining and quarrying	2 818	-26 200	6 850
Secondary sector	95 523	-205 991	21 444
Manufacturing ²	46 510	-11 331	16 360
Electricity, gas and water	2 566	-169 778	1 537
Construction	46 447	-24 882	3 547
Tertiary sector	270 378	-12 102	90 593
Wholesale and retail trade, catering and accommodation ³	67 112	10 960	21 657
Transport, storage and communications	13 850	-65 831	12 469
Financial intermediation, insurance, real estate and business services ⁴	149 214	42 564	51 792
Community, social and personal services ⁵	40 202	205	4 675
Other⁶	137 491	-72	31
Total	525 487	-72	122 353

Source: SARS, Tax Statistics 2020

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 31: Tax register, 31 March 2016-31 March 2020

Number as at	Individuals ^{1,2}	Companies (CIT) ^{1,3}	Trusts ¹	Employers ¹ (PAYE)	VAT Vendors ¹	Importers	Exporters
31 Mar 2016	19 075 270	3 278 708	340 000	458 048	706 874	289 922	262 162
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
Percentage year-on-year growth							
31 Mar 2016	4.9%	11.7%	2.5%	6.6%	4.1%	3.2%	3.2%
31 Mar 2017	4.7%	13.8%	1.5%	6.9%	5.0%	4.1%	4.1%
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%

Source: Tax Statistics 2020

1. Excludes cases where status is in suspense, estate and address unknown.
2. The tax year for individuals starts on 1 March and ends at the end of February the following year. T
3. The tax year for companies is normally the financial year of the company for financial reporting purposes.
4. Different from Annual Report due to timing difference



Figure 32: Number of companies, taxable income and tax assessed, 2018

Taxable income	Number of taxpayers	Taxable income (R million)	Assessed tax (R million)	Effective rate ¹
Loss	219 730	-1 090 915	599	n/a
R nil	363 794	-	154	n/a
R1-R1 million	160 488	32 159	6 563	20.4%
R1 million-R100 million	35 685	241404	67 433	27.9%
R100 million+	763	481 698	132 255	27.5%
Total	780 460	755 261	207 005	27.4%

Source: SARS, Tax Statistics 2020

1. The Effective rate is calculated as Tax assessed divided by Taxable income

- The National Treasury, working with provincial governments, has begun a series of interventions to stabilise the finances of the 112 municipalities that adopted budgets in 2021/22 that are not fully funded, which will result in an inability to meet all their obligations. Where possible, expenditure will be limited to available funds or revenue collection will be improved.
- A limited costing of the national health insurance policy proposal has shown it would require about R40 billion per year in additional funding in the first five years, and considerably more over time. At present, there is insufficient capacity in the health sector to work substantively on national health insurance.
- The national health insurance indirect grant has been underspent, the National Health Insurance Fund has not yet been established and the National Health Insurance Bill still needs to be passed by Parliament. It is therefore unlikely that national health insurance will be a significant cost pressure in the medium term.
 - Government is working with public service trade unions to find a fair and sustainable approach to remuneration. If the Constitutional Court overturns the Labour Appeal Court's decision that the 2018 wage agreement was unlawful and that government could not be compelled to honour it, the state may be required to implement the agreement retroactively. Such a decision would have significant effects on the fiscal framework. Should this occur, government would have to consider a reduction in the size of the public service and other fiscal adjustments.

Figure 33: Estimates of individuals and taxable income, 2021/22

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 – R80 ¹	7 183 913	-	256.2	-	-	-	-	-	-	-
R80 – R150	1 855 292	26.7	211.1	8.6	15.7	3.0	-1.3	9.4	14.5	2.8
R150 – R250	1 691 889	24.3	329.3	13.4	29.5	5.6	-1.8	13.4	27.7	5.4
R250 – R350	1 283 954	18.4	378.4	15.4	54.5	10.3	-2.3	16.8	52.2	10.1
R350 – R500	981 993	14.1	409.1	16.6	76.6	14.5	-2.6	19.5	74.0	14.3
R500 – R750	612 177	8.8	369.1	15.0	88.4	16.7	-2.4	18.1	86.0	16.7
R750 – R1 000	262 643	3.8	226.2	9.2	65.1	12.3	-1.3	10.0	63.8	12.4
R1 000 – R1 500	159 127	2.3	191.1	7.8	61.9	11.7	-0.8	6.1	61.0	11.8
R1 500+	113 192	1.6	346.3	14.1	137.7	26.0	-0.9	6.6	136.8	26.5
Total	6 960 267	100.0	2 460.7	100.0	529.4	100.0	-13.4	100.0	516.0	100.0
Grand total	14 144 180		2 716.8		529.4		-13.4		516.0	

Source: National Treasury

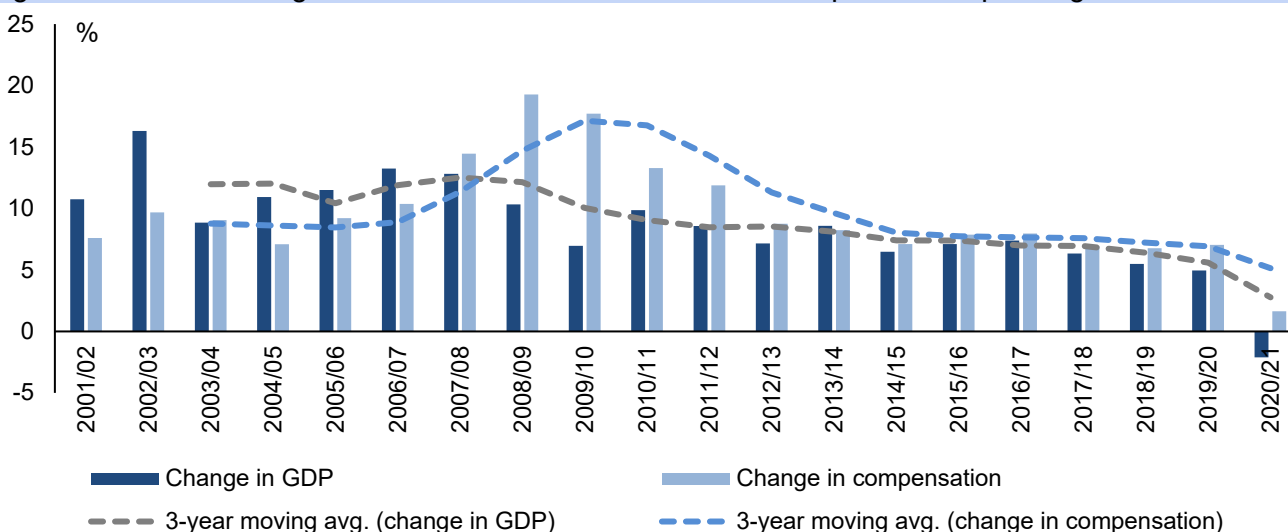
1. Registered individuals with taxable income below the income-tax threshold



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Figure 34: Annual change in nominal GDP and consolidated compensation spending



Source: National Treasury

Figure 35: Indirect taxes: domestic taxes on goods and services, 2015/16-2019/20

R million	VAT	Fuel levy	Customs duties	Specific excise duties	Other
2015/16	281 111	55 607	46 250	35 077	27 779
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	37 902	40 830	51 043
2019/20	346 761	80 175	55 428	55 428	26 802
Percentage of total					
2015/16	26.3%	5.2%	4.3%	3.0%	2.6%
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%	2.9%	3.2%	4.0%
2019/20	25.6%	5.9%	4.1%	4.1%	2.0%
Proportion of GDP					
2015/16	6.8%	1.3%	1.1%	0.9%	0.7%
2016/17	6.5%	1.4%	1.0%	0.8%	0.7%
2017/18	6.3%	1.5%	1.0%	0.8%	0.6%
2018/19	6.6%	1.5%	0.8%	0.8%	1.0%
2019/20	6.7%	1.6%	1.1%	1.1%	0.5%

Source: Tax Statistics 2020

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Figure 36: Macro-economic forecasts, Treasury vs. Investec

	2021	2022	2023	2024
Final household consumption	5.7	2.0	1.9	1.9
Investec	5.6	2.1	2.3	2.5
Final government consumption	0.1	-1.4	-2.9	-0.1
Investec	-0.5	0.4	-1.9	-1.1
Gross fixed capital formation	1.2	3.1	3.4	3.5
Investec	-0.4	2.6	4.4	3.5
Gross domestic expenditure	4.9	2.4	1.9	1.7
Investec	4.5	2.3	2.3	2.4
Exports	10.3	2.9	2.6	2.7
Investec	9.9	3.4	4.2	4.9
Imports	9.5	5.3	4.0	2.6
Investec	7.8	3.5	4.4	4.7
Real GDP	5.1	1.8	1.6	1.7
Investec	5.0	2.0	2.3	2.5
CPI Inflation	4.5	4.2	4.3	4.5
Investec	4.5	5.2	4.7	4.8

Source: National Treasury, Investec

- Overall, the budget is likely the best it could be in the current circumstances, and it is a good news budget from a fiscal consolidation plan, but not in terms of the current state of government finances.
- This is recognised by National Treasury and in particular the lack of capacity to take on further expenditure items, such as the NHI.
- Additionally, Treasury warns of likely job cuts if the courts force through the previous unaffordable wage deal. The buoyant revenue receipts, underpinned by surging commodity prices are temporary as global growth slows, and government has stressed in general that it will not commit to new long-term spending initiatives.
- Moreover, no added funding is afforded to fragile State-Owned Entities over the medium-term period.
- The Budget would be bland if government finances were not in such a precarious position still.
- While there has been some improvement, there is yet still a huge amount of fiscal consolidation needed and so the 2021 MTBPS is credit rating neutral to marginally positive.
- The very modest GDP growth forecast of National Treasury, below our and the market's expectations for the next three years show governments concern over the growth outlook, which is very worrying, given the slow pace of reforms and likely ongoing electricity, and potentially water, shedding.
- Uncertainty is also a large concern, given SA's fragmenting political landscape and lack of understanding from radical political party on the factors causing SA's numerous crises.

Figure 37: Macroeconomic projections

	2020	2021	2022	2023	2024
<i>Percentage change unless otherwise indicated</i>	Actual	Estimate		Forecast	
Final household consumption	-6.5	5.7	2.0	1.9	1.9
Gross fixed capital formation	-14.9	1.2	3.1	3.4	3.5
Real GDP growth	-6.4	5.1	1.8	1.6	1.7
GDP at current prices (R billion)	5,521	6,112	6,304	6,607	7,018
CPI Inflation	3.3	4.5	4.2	4.3	4.5
Current account deficit (% GDP)	2.0	3.8	0.4	-1.5	-1.7

Source: Reserve Bank and National Treasury

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MTBPS Update: the fiscal metrics did not disappoint, revised heavily down on higher GDP, with a low chance of any imminent downgrades

Thursday 11 November 2021



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