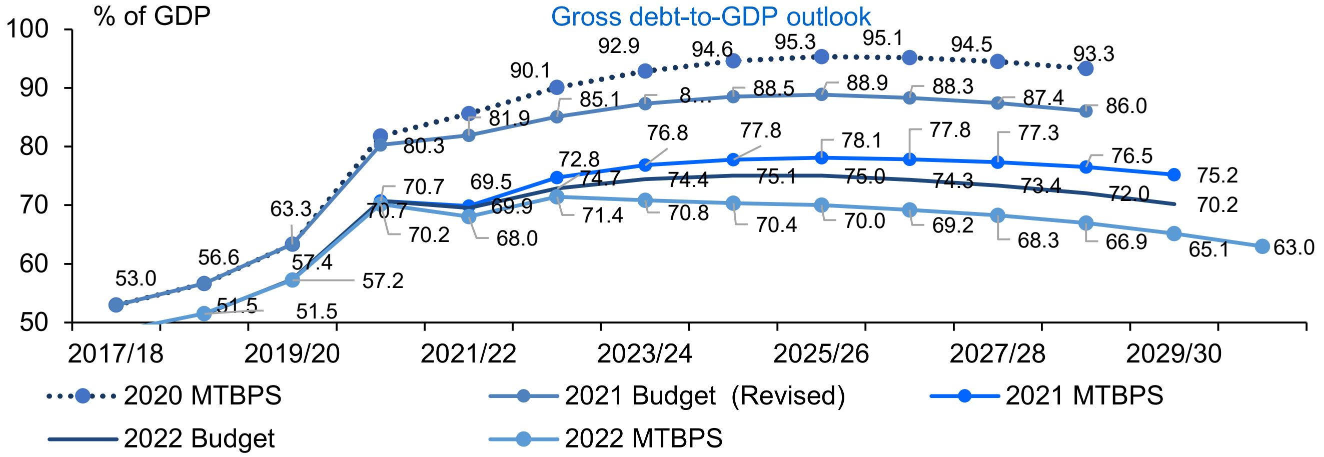
MTBPS: the fiscal metrics did not disappoint, revised down on higher nominal GDP due mainly to high inflation, with some lowering in actual borrowings

Wednesday 26 October 2022

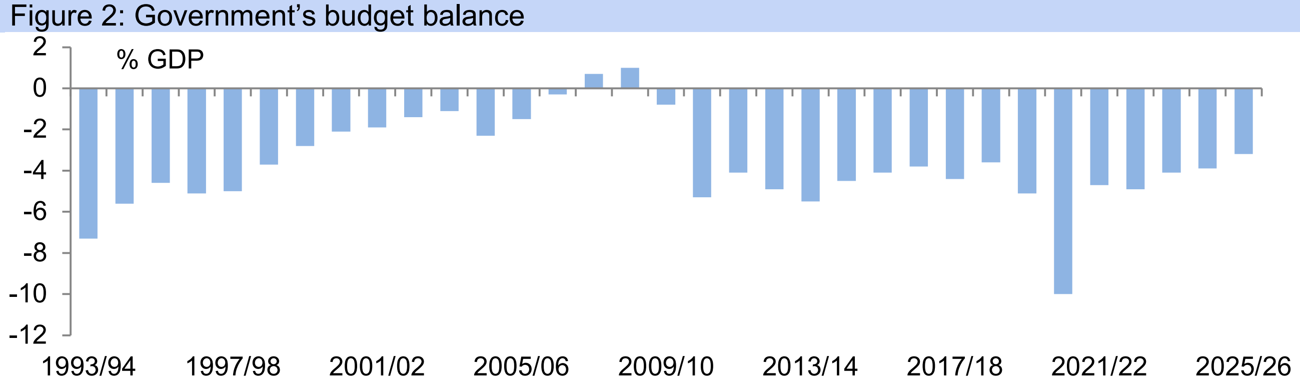
Figure 1: Gross debt-to-GDP outlook and main budget revenue and expenditure



Source: MTBPS October 2022

- 2022's Medium–Term Budget Policy Statement (MTBPS) has seen the expected improvement in government's debt to GDP and fiscal deficit projections. Over the medium-term, gross debt is projected to now peak at 71.4% of GDP in 2022/23, more quickly than the previous peak estimated at 75.1% of GDP in 2024/25. The current fiscal year (2022/23) has seen a substantial boost to nominal (actual) GDP due to high inflation, which has eased both the fiscal debt and deficit projections as a % of GDP.
- The declining ratios are also due to some drop in borrowings and a revenue overun, but key is the upwards revisions to its GDP forecast by National Treasury in order to account for higher inflation, with both the gross loan debt and deficit ratios lower as a % of GDP. The 2022/23 budget deficit is now projected at -4.9% of GDP versus the -6.0% of GDP estimated for this fiscal year in February.
- The following three medium-term years of 2023/24 to 2025/26, see the budget deficit projected at -4.1% of GDP, -3.9% of GDP and -3.2% of GDP versus the February 2022 Budget estimates of -4.8% of GDP and -4.2% of GDP. A significant degree of planned fiscal consolidation is evident.
- That is, the medium-term budget deficit estimate drops to close to -3.0% of GDP, the ratio at which the budget deficit is seen as contributing to sustainable government finances, although for debt the ratio is 60% of GDP, with SA's budget estimate not including that in the medium-term.
- The budget is credit neutral to positive, but no immediate credit rating upgrades are likely as the agencies wait for the details on National Treasury's plans for Eskom's debt.

Figure 2: Government's budget balance



Source: MTBPS October 2022

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MTBPS: the fiscal metrics did not disappoint, revised down on higher nominal GDP due mainly to high inflation, with some lowering in actual borrowings

Wednesday 26 October 2022

Figure 3: Main Budget Framework

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/16
R billion/percentage of GDP		Outcome		Revised		Medium-term estimates	
Revenue							
Gross tax revenue	**1 355.8**	**1 249.7**	**1 563.8**	**1 681.9**	**1 788.9**	**1 907.3**	**2 036.5**
Gross tax revenue growth	5.3%	-7.8%	25.1%	7.6%	6.4%	6.6%	6.8%
Nominal GDP growth	5.3%	-1.6%	12.1%	5.8%	6.2%	6.6%	6.4%
Buoyancy	1.00	4.82	2.07	1.30	1.03	1.00	1.06
Non-tax revenue	27.6	26.3	40.5	52.3	38.5	40.0	42.3
Southern African Customs Union[1]	-50.3	63.4	-46.0	-43.7	-79.7	-84.9	-78.5
National Revenue Fund receipts[2]	12.8	25.8	6.1	3.9	7.9	4.4	2.2
Main budget revenue	**1 345.9**	**1 238.4**	**1 564.3**	**1694.5**	**1 755.5**	**1 866.8**	**2 002.5**
	23.6%	*22.1%*	*24.9%*	*25.5%*	*24.9%*	*24.8%*	*25.0%*
Expenditure							
Main budget expenditure	**1 691.0**	**1 789.0**	**1 887.5**	**2 018.2**	**2 041.6**	**2 144.5**	**2 263.3**
	29.7%	*31.9%*	*30.0%*	*30.3%*	*28.9%*	*28.5%*	*28.3%*
Non-interest expenditure	1 486.2	1 556.4	1 619.4	1 710.5	1 709.4	1 791.6	1 882.5
	26.1%	*27.8%*	*25.8%*	*25.7%*	*24.2%*	*23.8%*	*23.5%*
Debt-service costs	204.8	232.6	268.1	307.7	332.2	352.9	380.7
	3.6%	4.1%	4.3%	4.6%	4.7%	4.7%	4.8%
Main budget balance	**-345.1**	**-550.6**	**-323.1**	**-323.7**	**-286.1**	**-277.7**	**-260.7**
	-6.1%	-9.8%	-5.1%	-4.9%	-4.1%	-3.7%	-3.3%
Primary balance	**-140.3**	**-318.0**	**-55.1**	**-16.0**	**46.1**	**75.2**	**119.9**
	-2.5%	-5.7%	-0.9%	-0.2%	0.7%	1.0%	1.5%

Source: MTBPS October 2022

1. Amount made up of payments and other adjustments
2. Mainly revaluation profits on foreign-currency transactions and premiums on loan transactions.

Figure 4: Budget Balances

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/16
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%	-9.8%	-5.1%	-4.9%	-4.1%	-3.7%	-3.3%

Source: MTBPS October 2022

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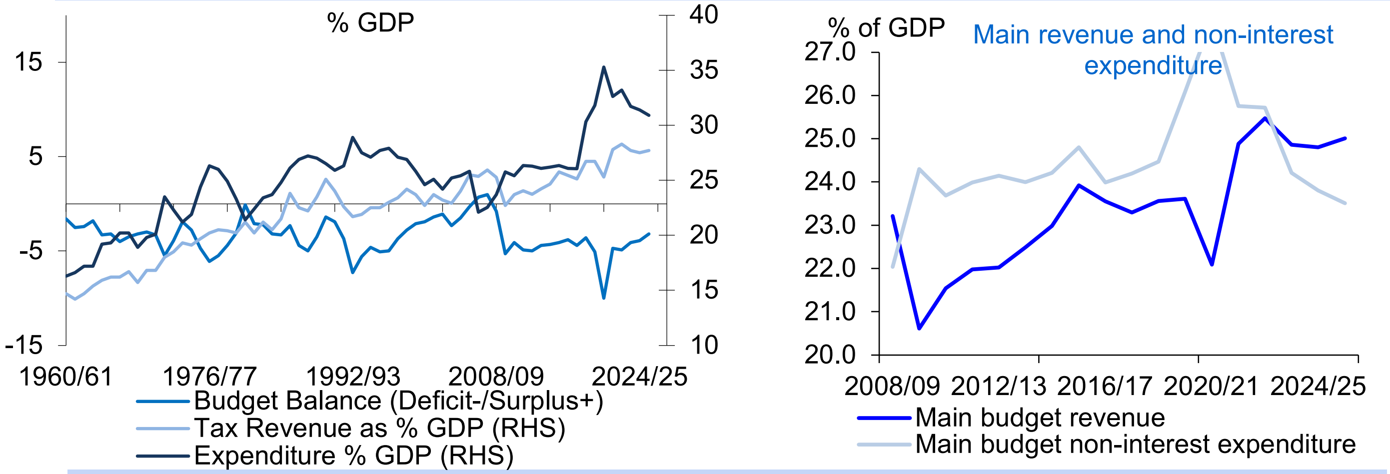
Figure 5: Main budget revenue and expenditure*



Source: MTBPS October 2022

- A rise in SA's debt ratios due to absorbing Eskom's debt is unlikely to be a concern for the credit rating agencies, which have been calculating Eskom's debt as part of government's responsibilities as the state mainly guarantees the repayment of Eskom's debt.
- Little detail was given on absorbing Eskom's debt onto the state balance sheet, other than it will be of the magnitude of one to two thirds of the R400bn and that National Treasury "is leading a process to finalise a debt relief programme designed to restore Eskom to efficiency and financial sustainability. The specifics of the programme, including the selection of the relevant debt instruments and the method of effecting the relief, are still being finalised".
- Taking over Eskom's debt will allow the SOE to enter the markets again to accumulate more debt, although markets would likely be wary, given the parastatal's track record, if it is not state guaranteed, and demand high returns. However, concern centers around government's capacity to absorb Eskom's debt for a second time, and so the states' ability to guarantee a new round of Eskom debt.
- With gross loan debt dropping over the 2023/24 to 2025/26 Medium-Term Framework period, to 70.8% of GDP, then 70.4% of GDP and then 70.0% of GDP, this is also in line with our expectations of close to 70% of GDP. However, we continue to believe government remains wary of absorbing Eskom's (and other SOE) debt it has guarantees over.

Figure 6: 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**	**4,752.0**	**5,002.2**	**5,296.1**	**5,607.8**
Net loan debt	**4,011.1**	**4,508.3**	**4,849.4**	**5,190.8**	**5,513.4**
As percentage of GDP:					
Total gross loan debt	68.0%	71.4%	70.8%	70.4%	70.0%
Total net loan debt	63.8%	67.8%	68.7%	69.0%	68.8%

Source: National Treasury, MTBPS October 2022

Figure 7: Consolidated government expenditure, 2022/23 -2025/26

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

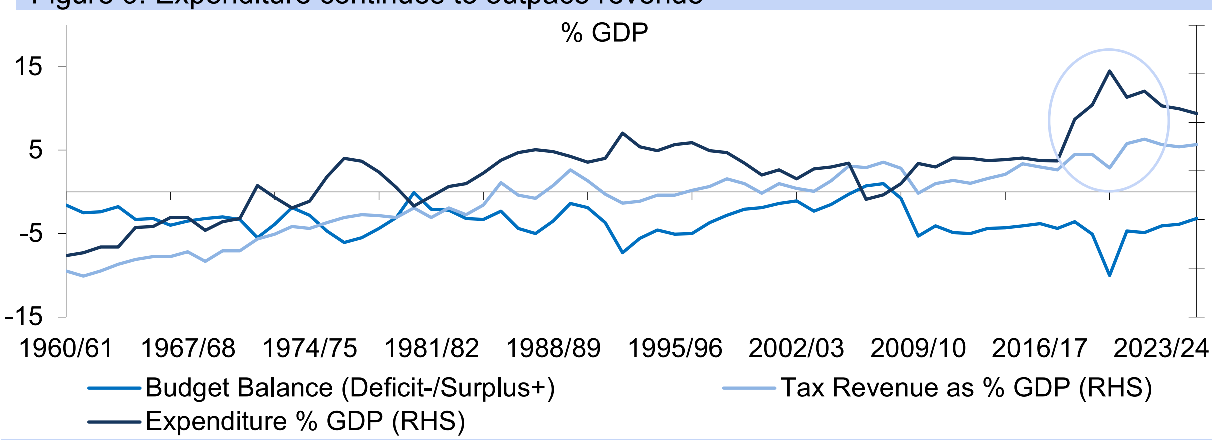
Source: National Treasury, MTBPS October 2022

Figure 8: Consolidated government fiscal framework, 2022/23 – 2025/26

R bn/% of GDP	2022/23 Revised	2023/24 Medium-term estimates	2024/25 Medium-term estimates	2025/26 Medium-term estimates
Revenue	**1,882.2**	**1,952.8**	**2,072.2**	**2,218.7**
	28.3%	27.7%	27.5%	27.7%
Expenditure	**2,205.3**	**2,241.7**	**2,364.1**	**2,477.7**
	33.2%	31.7%	31.4%	30.9%
Non-interest expenditure	**1,800.2**	**1,846.4**	**1,833.1**	**1,908.8**
	28.8%	28.7%	26.9%	26.4%
Budget balance	**-323.1**	**-288.9**	**-291.9**	**-259.0**
	-4.9%	-4.1%	-3.9%	-3.2%
Total gross loan debt	**4,752.0**	**5,002.2**	**5,296.1**	**5,607.8**
	71.4%	70.8%	70.4%	70.0%

Source: National Treasury, MTBPS October 2022

Figure 9: Expenditure continues to outpace revenue



Source: National Treasury, MTBPS October 2022

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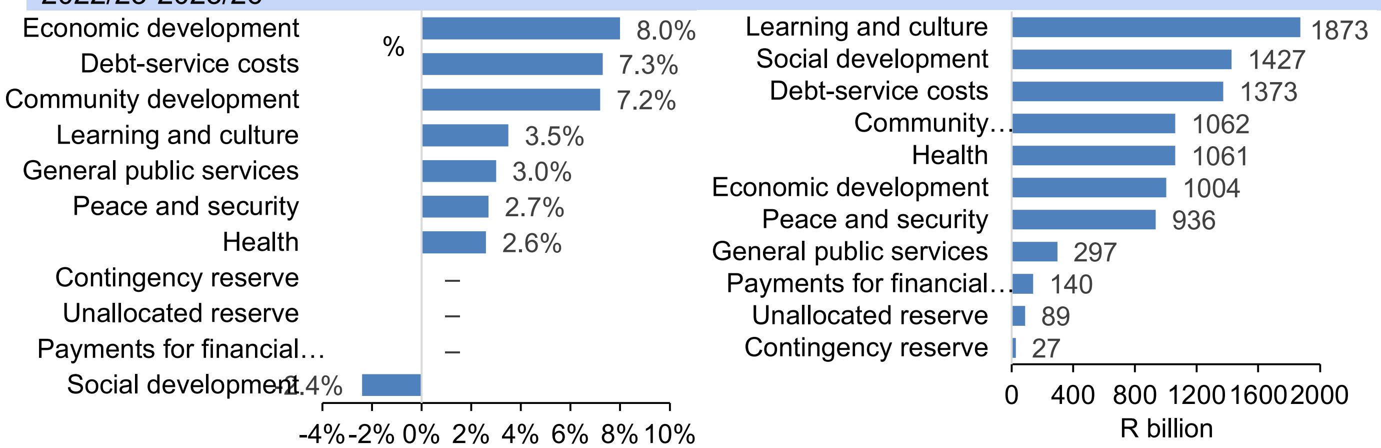
Figure 10: Average nominal growth in spending and consolidated government expenditure by function, 2022/23-2025/26



Source: National Treasury, MTBPS October 2022

- Government highlights that "(d)ebt relief alone will not solve Eskom's problems. It is therefore part of a comprehensive approach. While the utility has made progress in unbundling, which remains critical to its long-term sustainability, several underlying challenges must be addressed. The National Treasury is leading a process to finalise a debt relief programme designed to restore Eskom to efficiency and financial sustainability."
- "The specifics of the programme, including the selection of the relevant debt instruments and the method of effecting the relief, are still being finalised. The programme will include strict conditions required of Eskom and other stakeholders before and during the debt transfer. These conditions will address Eskom's structural challenges by managing its costs, addressing arrears due to the utility, and providing greater clarity and transparency in tariff pricing. In addition, the conditions will be informed by an independent review of Eskom's operations. Further details of the programme, which will be finalised following consultations with all relevant stakeholders, will be announced in the 2023 Budget".

Figure 11: Macro-economic forecasts, Treasury vs. Investec

	2022	2023	2024	2025
Final household consumption	2.9	1.6	1.7	1.8
Investec	3.0	1.9	2.3	2.5
Final government consumption	0.8	-1.8	-1.0	0.2
Investec	0.5	-1.8	-0.8	0.6
Gross fixed capital formation	4.0	1.9	3.6	3.8
Investec	2.3	3.5	4.5	5.3
Gross domestic expenditure	3.6	1.2	1.6	1.8
Investec	3.1	1.6	2.1	2.3
Exports	7.4	1.9	2.8	2.9
Investec	4.5	3.0	3.7	4.0
Imports	13.8	1.0	2.3	2.9
Investec	8.3	3.8	4.6	4.5
Real GDP	**1.9**	**1.4**	**1.7**	**1.8**
Investec	**1.9**	**1.3**	**1.8**	**2.2**
CPI Inflation	6.7	5.1	4.6	4.6
Investec	6.8	5.3	4.7	5.0

Source: National Treasury, Investec

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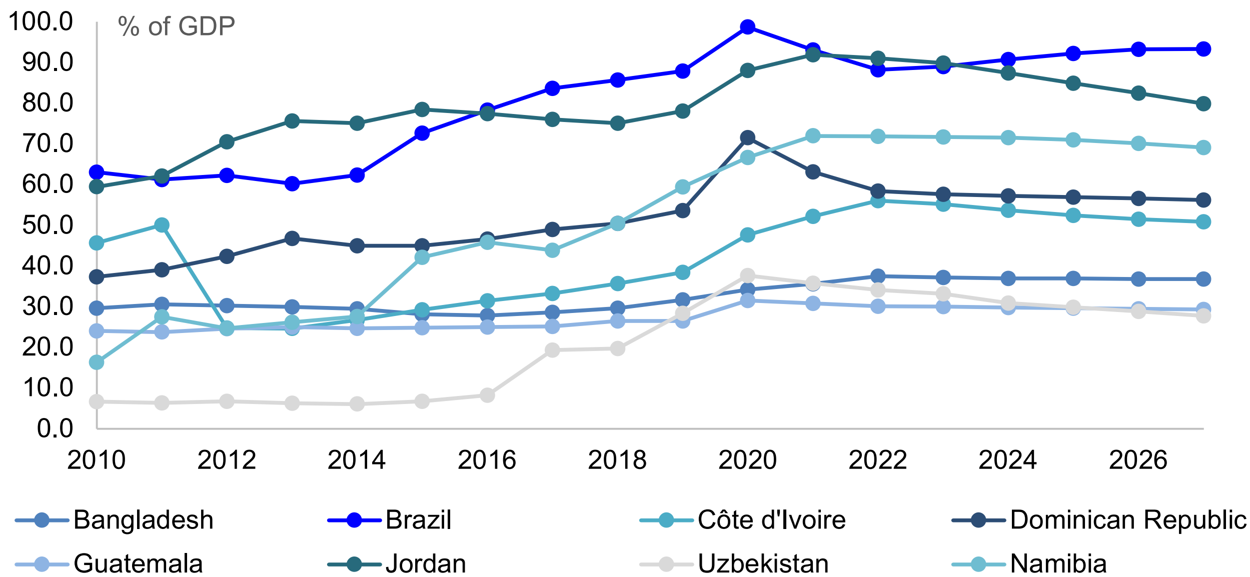
Figure 12: Reuters October 2022 forecasts, Budget Poll

Forecast period	2021/22	2022/23	2023/24	2024/25	2025/26
Consolidated Budget Deficit	-5.30	-4.90	-4.90	-4.35	-4.00
Gross Debt to GDP ratio		69.80	71.80	72.60	73.45

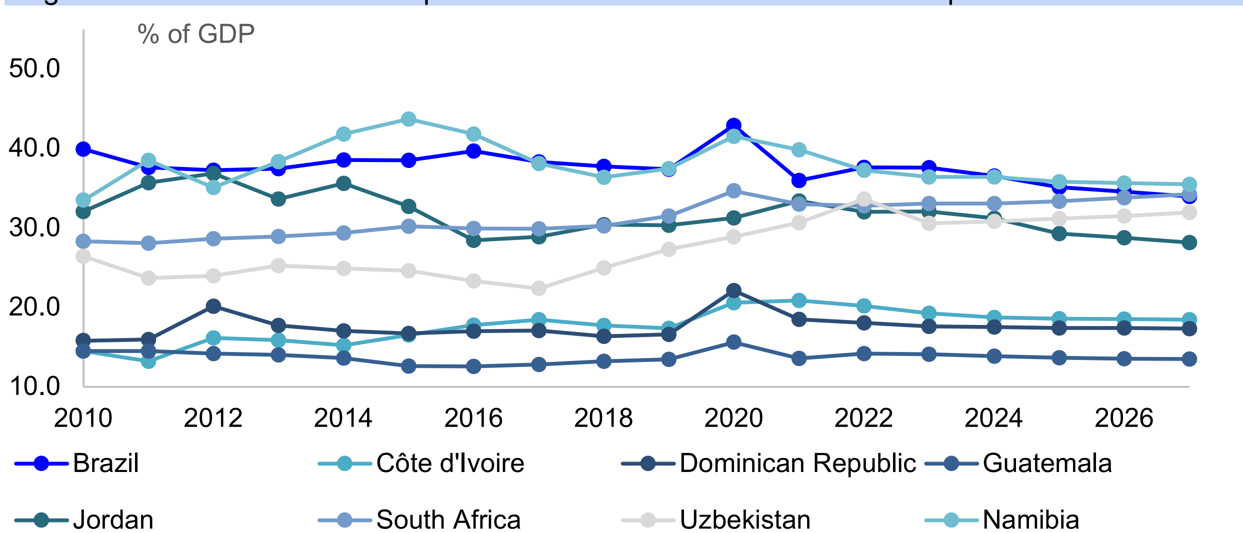
Source: Reuters

Figure 13: Government gross debt %GDP – SA's BB- Fitch rated peers



Source: IMF, Fiscal Monitor October 2022

Figure 14: Government total expenditure % GDP– SA's BB- Fitch rated peers



Source: IMF, Fiscal Monitor October 2022

Figure 15: Consolidated government expenditure by economic classification[1]

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

Source: National Treasury, MTBPS October 2022

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

- The level of estimated gross loan debt rises in 2022/23 in rand value, to R4.8 trillion from February's estimated R4.7 trillion but then in 2023/24 drops to R5.0 trillion from the prior projection of R5.1 trillion and then in 2024/25 drops again to an estimated R5.3 trillion from R5.4trillion in the February estimates.
- Government recognises that "(h)igher-than-anticipated revenues have improved government's short-term cash position, but most of the windfall tax receipts from higher commodity prices are expected to fall away over the next two years. Government will not rely on transitory revenue gains to fund permanent spending increases, but will instead use these funds to reduce some of the risks and contingent liabilities."

Figure 16: Consolidated government fiscal framework, 2020/21 – 2025/256

R bn/% of GDP	2021/22 Outcome	2022/23 Revised	2023/24 Medium-term estimates	2024/25	2025/26
Revenue	**1,750.4**	**1,882.2**	**1,952.8**	**2,027.2**	**2,218.7**
	27.8%	28.3%	27.7%	27.5%	27.7%
Expenditure	**2,047.0**	**2,205.3**	**2,241.7**	**2,364.1**	**2,477.7**
	32.6%	33.2%	31.7%	31.4%	30.9%
Budget balance	**-296.7**	**-323.1**	**-288.9**	**-291.9**	**-259.9**
	-4.7%	-4.9%	-4.1%	-3.9%	-3.2%
Total gross loan debt	**4,277.5**	**4,752.0**	**5,002.2**	**5,296.1**	**5,607.8**
	68.0%	71.4%	70.8%	70.4%	70.0%

Source: National Treasury, MTBPS October 2022

Figure 17: Consolidated budget balance

R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		Outcome		Revised		Medium-term estimates	
Main budget	-345.1	-550.6	-323.1	-323.7	-286.1	-277.7	-260.7
Social security funds	11.9	-45.0	-5.8	-9.8	-6.8	-7.0	17.6
Public entities	39.6	34.9	28.8	3.5	1.4	-10.6	-18.9
Provinces	6.4	3.0	4.5	7.2	2.7	3.5	3.1
RDP Fund	-0.6	-0.5	-1.0	-0.2	-0.1	-0.0	–
Consolidated budget balance	-345.1	-550.6	-323.1	-323.7	-286.1	-277.7	-260.7
Percentage of GDP	*-5.1%*	*-10.0%*	*-4.7%*	*-4.9%*	*-4.1%*	*-3.9%*	*-3.2%*

Source: National Treasury, MTBPS October 2022

Figure 18: National government gross borrowing requirement and financing

R billion	**2021/22 Outcome**	**2022/23 Revised**	**2023/24**	**2024/25**	**2025/26**
				Medium-term estimates	
Gross borrowing					
Main budget balance	**-323.1**	**-323.7**	**-286.1**	**-277.7**	**-260.7**
Redemptions	**-65.3**	**-87.5**	**-160.6**	**-167.0**	**-184.9**
Domestic long-term loans	-61.4	-71.7	-117.4	-130.6	-129.6
Foreign loans	-3.9	-15.8	-43.2	-36.5	-55.4
Total	**-388.4**	**-411.2**	**-446.7**	**-444.7**	**-445.7**
Financing					
Domestic short-term loans (net)	-8.0	-3.4	33.0	36.0	35.0
Domestic long-term loans	289.9	299.4	295.6	323.1	318.4
Foreign loans	31.3	73.8	33.6	34.1	77.9
Change in cash and other balances	75.1	41.4	84.5	51.6	14.4
Total	**388.4**	**411.2**	**446.7**	**444.7**	**445.7**

Source: National Treasury, MTBPS October 2022

Figure 19: Gross tax revenue

R billion	2021/22			2022/23		
	Budget[1]	Outcome	Deviation	Budget[1]	Revised	Deviation
Persons and individuals	553.5	554.0	0.4	587.9	596.1	8.2
Companies	318.4	320.4	2.1	269.9	332.7	62.8
Value-added tax	383.7	390.9	7.2	439.7	434.9	-4.8
Dividends tax	32.2	33.4	1.2	30.5	36.2	5.7
Specific excise duties	48.2	49.7	1.5	51.9	55.5	3.7
Fuel levy	89.9	88.9	-1.0	89.1	80.6	-8.5
Customs duties	55.8	58.0	2.2	61.1	72.6	11.5
Ad valorem excise duties	4.3	4.7	0.4	4.4	4.8	0.4
Other	61.1	63.7	2.7	64.0	68.4	4.4
Gross tax revenue	**1,547.1**	**1,563.8**	**16.7**	**1,598.4**	**1,681.9**	**83.5**

Source: National Treasury, MTBPS October 2022

1. 2021 Budget figures

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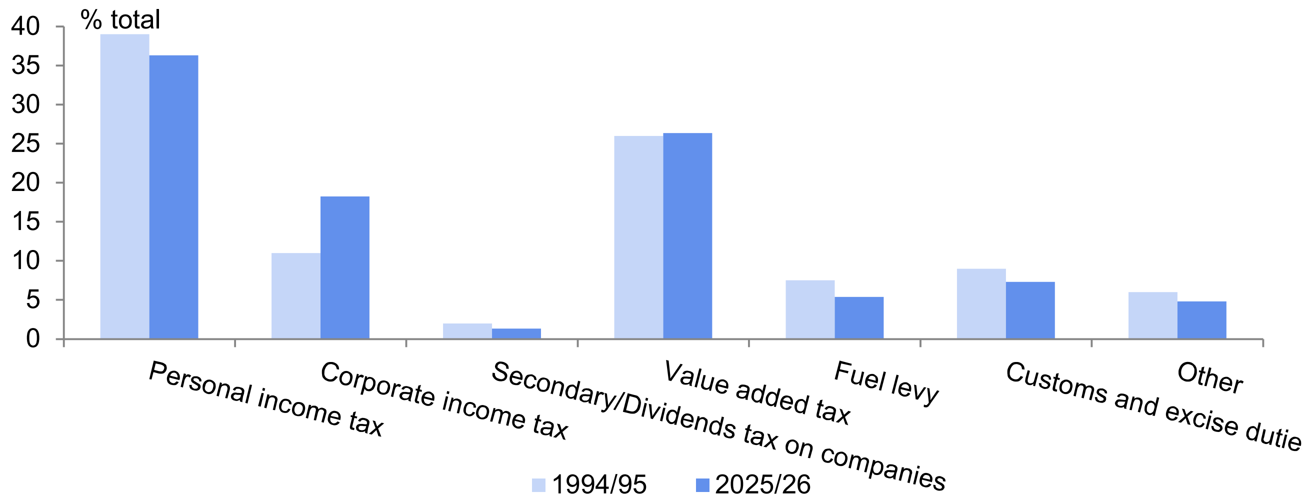
Figure 20: Tax revenue by main source, 1994/25/2025/26



Sources: National Treasury, MTBPS October 2022

- "Government will use a portion of the revenue improvement to reduce the annual budget deficit and risks relating to the debt burden". Furthermore "(it)will increase the size of the contingency reserve and set aside funds from higher-than-expected revenues over the medium term.
- This year, government is allocating funds to key public entities to address fiscal and economic risks."
- "As the gross debt burden declines, government will repair the broader public-sector balance sheet by reducing risks posed by public entities. Government is allocating R30 billion to Denel, the South African National Roads Agency Limited (SANRAL) and Transnet in the current year. SANRAL receives funds to pay off government-guaranteed debt, conditional on a solution to phase 1 of the Gauteng Freeway Improvement Project. And Transnet receives funds to repair infrastructure severely damaged by the April 2022 floods and increase locomotive capacity, both of which will support economic growth".
- The COVID-19 social relief of distress grant. introduced in May 2020 as a temporary measure to support low-income households during the pandemic lockdowns, sees 7.4 million people receive the grant. "Discussions are still under way to consider options for a replacement for this temporary grant. No final decision has been made about a replacement or how it would be financed. As a result, the temporary grant will be extended for one year until March 2024."
- Government will increase infrastructure budgets over the MTEF period to support economic growth and development. Spending on building and other fixed structures is projected to increase from R66.7 billion in 2022/23 to R112.5 billion by 2025/26, at an annual average of 19 per cent over the medium term. The projects amount to R4.8 billion in 2023/24, R5.8 billion in 2024/25 and R6.4 billion in 2025/26.

Figure 16: Main budget expenditure ceiling[1]

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: Macroeconomic projections

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

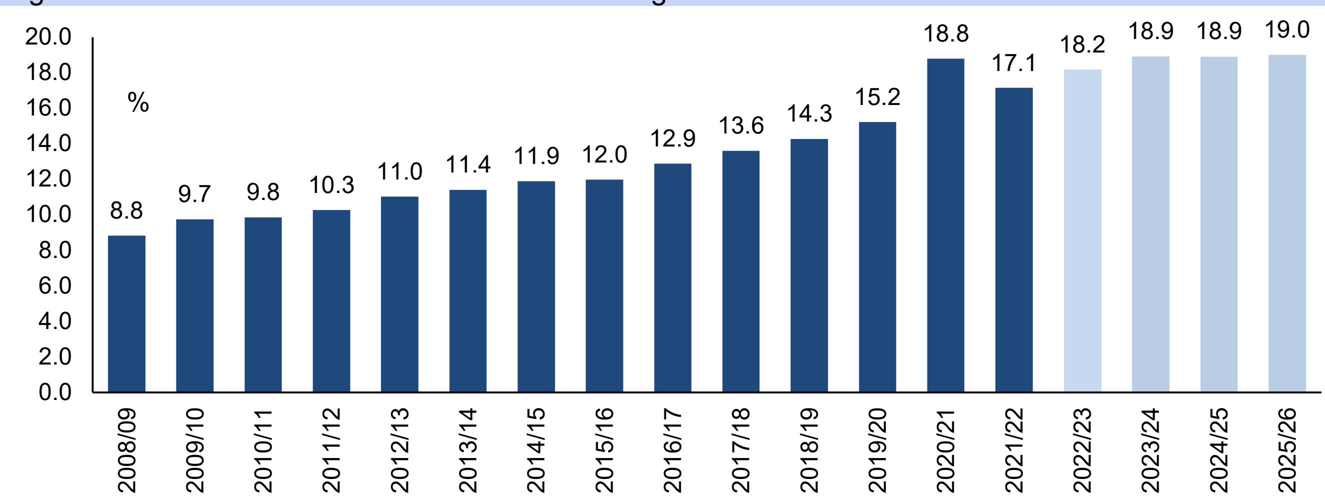
Source: Reserve Bank and National Treasury

Figure 18: Main budget framework

R billion/percentage of GDP	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
		Outcome		**Revised**		**Medium-term estimates**	
Main budget revenue	**1,345.9**	**1,238.4**	**1,564.3**	**1,694.5**	**1,755.5**	**1,866.8**	**2,002.5**
	23.6%	22.1%	24.9%	25.5%	24.9%	24.8%	25.0%
Main budget expenditure	**1,691.0**	**1,789.0**	**1,887.5**	**2,018.2**	**2,041.6**	**2,144.5**	**2,263.2**
	29.7%	31.9%	30.0%	30.3%	28.9%	28.5%	28.3%
Non-interest expenditure	1,486.2	1,556.4	1,619.4	1,710.5	1,709.4	1,791.6	1,882.5
	26.1%	27.8%	25.8%	25.7%	24.2%	23.8%	23.5%
Debt-service costs	204.8	232.6	268.1	307.7	332.2	352.9	380.7
	3.6%	4.1%	4.3%	4.6%	4.7%	4.7%	4.8%
Main budget balance	**-345.1**	**-550.6**	**-323.1**	**-323.7**	**-286.1**	**-277.7**	**-260.7**
	-6.1%	-9.8%	-5.1%	-4.9%	-4.1%	-3.7%	-3.3%
Primary balance	**-140.3**	**-318.0**	**-55.1**	**-16.0**	**46.1**	**75.2**	**119.9**
	-2.5%	-5.7%	-0.9%	-0.2%	0.7%	1.0%	1.5%

Source: National Treasury

Figure 19: Debt service cost as share of main budget revenue



Source: National Treasury

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Figure 20: Total national government debt

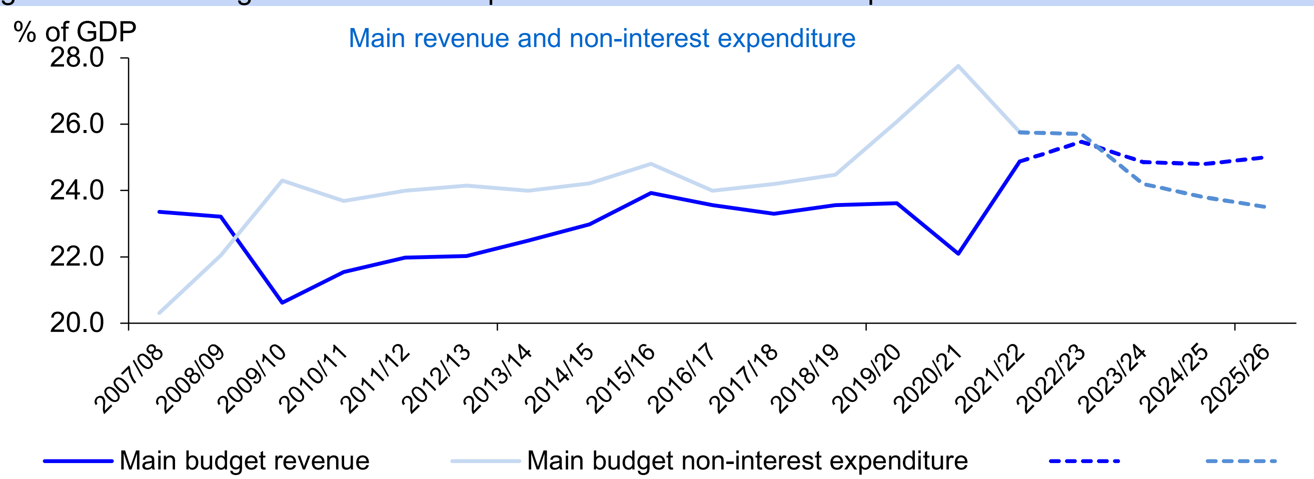
End of period	2021/22	2022/23	2023/24	2024/25	2025/26
R billion	**Outcome**	**Revised**	**Medium-term estimates**		
Domestic loans[1]	**3,865.4**	**4,192.8**	**4,474.7**	**4,763.0**	**5,043.1**
Short-term	448.1	444.9	477.9	513.9	548.9
Long-term	3,417.2	3,747.9	3,996.8	4,249.1	4,494.2
Fixed-rate	2,563.8	2,765.4	3,008.0	3,261.4	3,381.8
Inflation-linked	853.5	982.5	988.8	987.7	1,112.3
Foreign loans[1]	**412.1**	**559.1**	**527.4**	**533.1**	**564.8**
Gross loan debt	**4,277.5**	**4,752.0**	**5,002.2**	**5,296.1**	**5,607.8**
Less: National Revenue Fund bank balances	-266.4	-243.7	-152.7	-105.2	-94.5
Net loan debt[2]	**4,011.1**	**4,508.3**	**4,849.4**	**5,190.8**	**5,513.4**
As percentage of GDP:					
Gross loan debt	68.0%	71.4%	70.8%	70.4%	70.0%
Net loan debt	63.8%	67.8%	68.7%	69.0%	68.8%

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

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

Figure 21: Main budget revenue and expenditure and non interest expenditure as a share of GDP



Source: National Treasury

Figure 22: Consolidated government expenditure by functions[1]

R billion	2021/22 Outcome	2022/23 Revised[2]	2023/24 Medium-term estimates	2024/25	2025/26	Average growth 2021/22–2024/54
Learning and culture	**413.3**	**447.4**	**455.6**	**473.4**	**496.5**	**3.5%**
Basic education	284.3	301.8	308.4	314.1	329.4	3.0%
Post-school education and training	118.4	134.2	135.4	147.8	155.3	5.0%
Arts, culture, sport and recreation	10.5	11.5	11.7	11.5	11.8	1.1%
Health	**257.4**	**258.4**	**256.1**	**267.5**	**279.4**	**2.6%**
Peace and security	**217.1**	**227.6**	**226.4**	**235.4**	**246.5**	**2.7%**
Defence and state security	49.0	52.5	52.3	52.4	54.5	1.3%
Police services	108.4	112.3	111.9	119.2	125.5	3.8%
Law courts and prisons	49.1	51.7	51.4	53.6	55.9	2.6%
Home affairs	10.6	11.1	10.7	10.2	10.6	-1.5%
Community development	**208.9**	**236.7**	**258.7**	**274.9**	**291.7**	**7.2%**
Economic development	**195.8**	**222.9**	**237.6**	**262.4**	**280.8**	**8.0%**
Industrialisation and exports	40.3	41.0	41.5	42.6	43.1	1.6%
Agriculture and rural development	27.2	29.4	29.1	30.2	31.5	2.3%
Job creation and labour affairs	20.6	24.9	24.5	26.2	27.3	3.1%
Economic regulation and infrastructure	90.9	110.2	125.0	145.1	160.1	13.3%
Innovation, science and technology	16.7	17.4	17.5	18.2	18.8	2.6%
General public services	**67.6**	**71.4**	**73.1**	**74.8**	**78.0**	**3.0%**
Executive and legislative organs	14.0	15.3	16.9	16.4	17.2	3.8%
Public administration and fiscal affairs	45.7	47.4	47.9	49.3	51.5	2.8%
External affairs	7.9	8.6	8.4	9.0	9.4	3.0%
Social development	**342.8**	**365.6**	**370.9**	**350.2**	**340.3**	**-2.4%**
Social protection	257.4	273.6	280.0	256.4	267.9	-0.7%
Social security funds	85.4	92.0	90.9	93.8	72.4	-7.7%
Payments for financial assets	**76.1**	**62.6**	**25.2**	**25.4**	**26.5**	
Allocated by function	**1,779.0**	**1,892.6**	**1,903.5**	**1,963.9**	**2,039.7**	**2.5%**
Debt-service costs	268.1	307.7	332.2	352.9	380.7	7.3%
Unallocated reserve	–	–	–	41.3	47.3	
Contingency reserve2	–	5.0	6.0	6.0	10.0	
Consolidated expenditure	**2,047.0**	**2,205.3**	**2,241.7**	**2,364.1**	**2,477.7**	**4.0%**

Source: National Treasury MTBPS 2021

Figure 23: Revised revenue projections

R billion	2022/23	2023/24	2024/25	2025/26
2022 Budget	**1,598.4**	**1,694.3**	**1,807.6**	
Buoyancy	1.09	1.06	1.06	
Revised estimates	**1,681.9**	**1,788.9**	**1,907.3**	**2,036.5**
Buoyancy	1.30	1.03	1.00	1.06
Change since 2022 Budget	**83.5**	**94.6**	**99.7**	

Source: National Treasury

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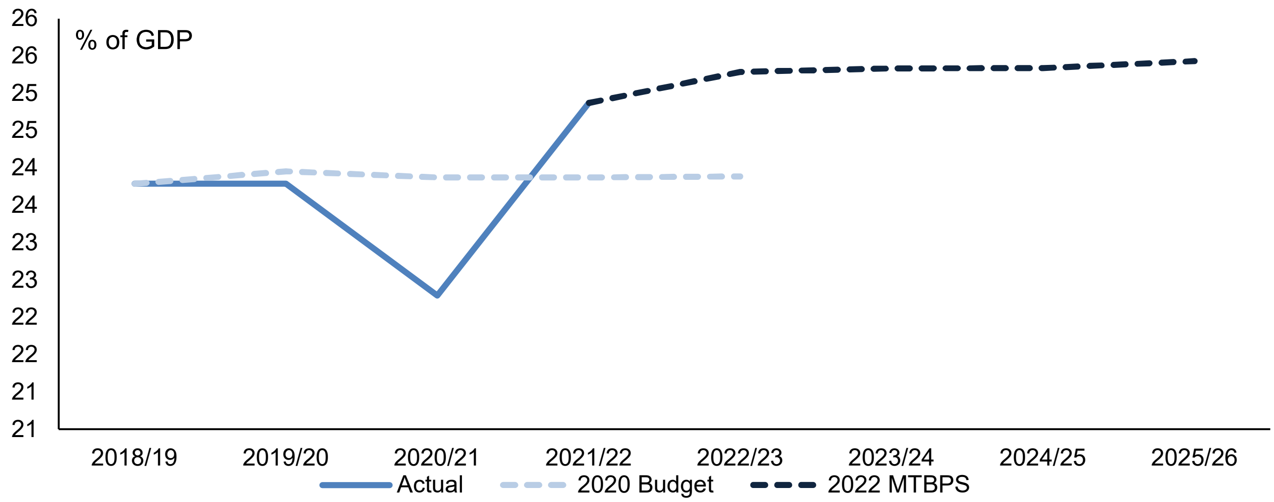
Figure 24: Tax to GDP ratio



Source: National Treasury and South African Reserve Bank

- Compared with the 2022 Budget, the gross tax revenue estimate for 2022/23 has been revised up by R83.5 billion. The higher estimate is largely due to better-than-expected collections in the final quarter of 2021/22, upward revisions to near-term tax base growth projections and strong corporate income tax collections.
- Key factors affecting in-year revenue collection include: Higher profitability in the finance and manufacturing sectors. The mining sector's contribution to corporate tax collections remains high in historical terms. Large import volumes and elevated prices have contributed to strong import value-added tax (VAT) and customs duty collections. Collections from employees in the finance sector benefited from a recovery in earnings and improved bonus payments, although employment growth remains weak. Net VAT collections have been revised down compared to 2022 Budget estimates, as higher VAT refunds more than offset improved domestic VAT receipts. VAT refund payments averaged R25.1 billion per month over the first half of 2022/23, driven by increased capital expenditure in the finance sector and manufactured exports. Lower disposable incomes for households will also weigh on domestic VAT collections. Fuel levy collections are projected to fall short of expectations due to the additional fuel levy relief provided during the first half of 2022/23.

Figure 25: Main budget expenditure ceiling[1]

R million	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
2020 MTBPS	1,418,408	1,502,867	1,479,709	1,516,052	1,529,585		
2021 Budget Review	1,418,399	1,504,656	1,514,934	1,521,721	1,530,664		
2021 MTBPS	1,418,456	1,487,388	1,570,890	1,552,268	1,558,725	1,627,154	
2022 Budget Review		1,487,399	1,575,002	1,630,905	1,613,671	1,686,932	
2022 MTBPS		**1,487,385**	**1,566,490**	**1,667,118**	**1,665,349**	**1,744,762**	**1,832,678**

Source: National Treasury

1. The expenditure ceiling differs from main budget non-interest expenditure.

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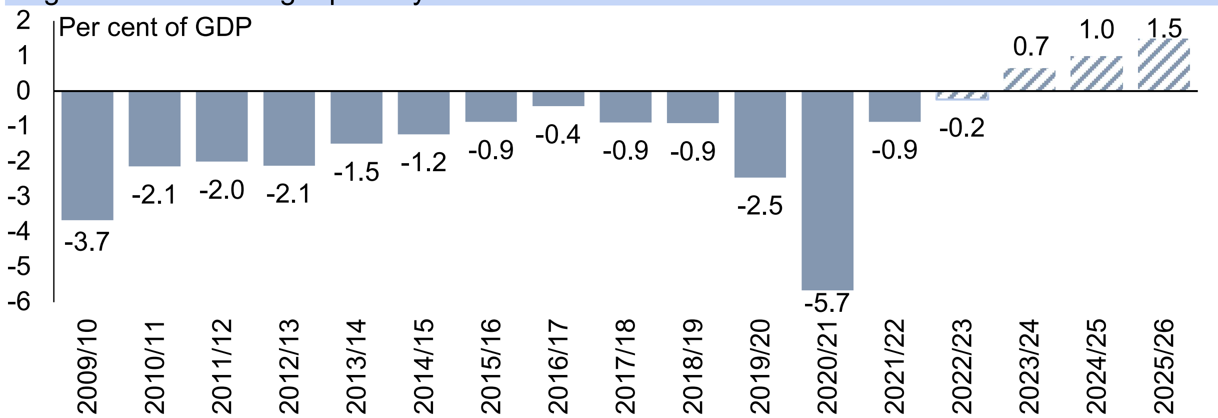
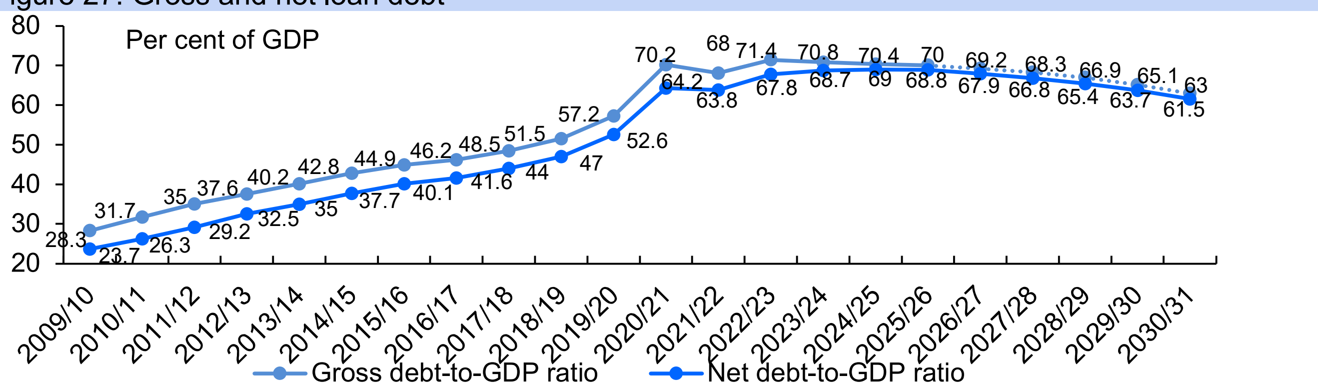
Figure 26: Main budget primary balance



Sources: National Treasury, MTBPS October 2022

- The tax-to-GDP ratio is expected to increase from 24.9 per cent in 2021/22 to 25.3 per cent in 2022/23. Further improvement depends on a durable economic recovery.
- Compared with the 2022 Budget estimates, government proposes a net addition of R37 billion to main budget non-interest spending in 2022/23. This consists of R54.1 billion in spending increases, partially offset by declared unspent funds, projected underspending and contingency reserve drawdowns.
- Main budget non-interest expenditure will increase by a net R52.4 billion in 2023/24 and R58.5 billion in 2024/25 compared with the 2022 Budget. This includes the following proposed additions over the next two years: R66.9 billion for health, education and provision of free basic services by local government, and a one-year extension of the COVID-19 social relief of distress grant. R8.9 billion for safety and security. R11.3 billion for infrastructure investment, including rehabilitating damaged municipal infrastructure and refurbishing provincial roads.
- Compared with the 2022 Budget, the expenditure ceiling has increased by R51.7 billion in 2023/24 and R57.8 billion in 2024/25. In 2023/24, additional allocations amount to R11.7 billion. This amount excludes wage increases in 2023/24 as the next wage negotiation process has not begun. The unallocated reserve is increased by R11.3 billion to R41.3 billion in 2024/25. The contingency reserve has also been increased by R2 billion over the next two years.
- Tax revenues are expected to increase to R2.04 trillion, or 25.4 per cent of GDP, by 2025/26. This strong growth in revenue occurs despite relatively lower overall tax buoyancies over the medium term.

Figure 27: Gross and net loan debt



Sources: National Treasury, MTBPS October 2022

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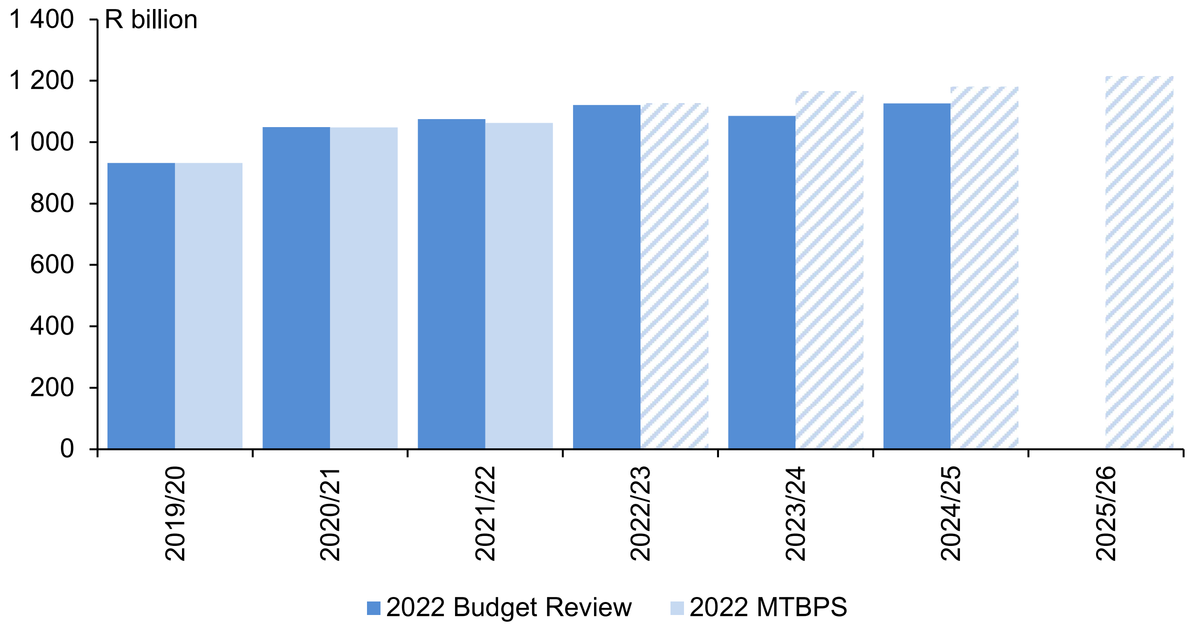
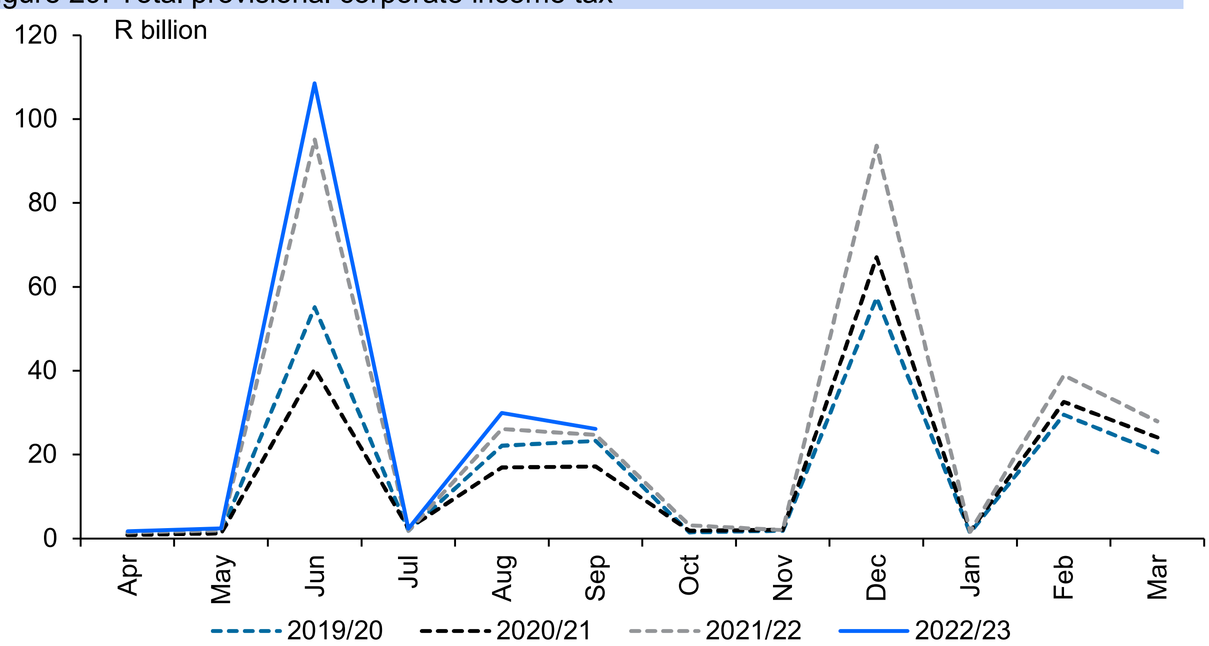
Figure 28: Social wage



Sources: National Treasury, MTBPS October 2022

Figure 29: Total provisional corporate income tax



Sources: National Treasury, MTBPS October 2022

MTBPS: the fiscal metrics did not disappoint, revised down on higher nominal GDP due mainly to high inflation, with some lowering in actual borrowings

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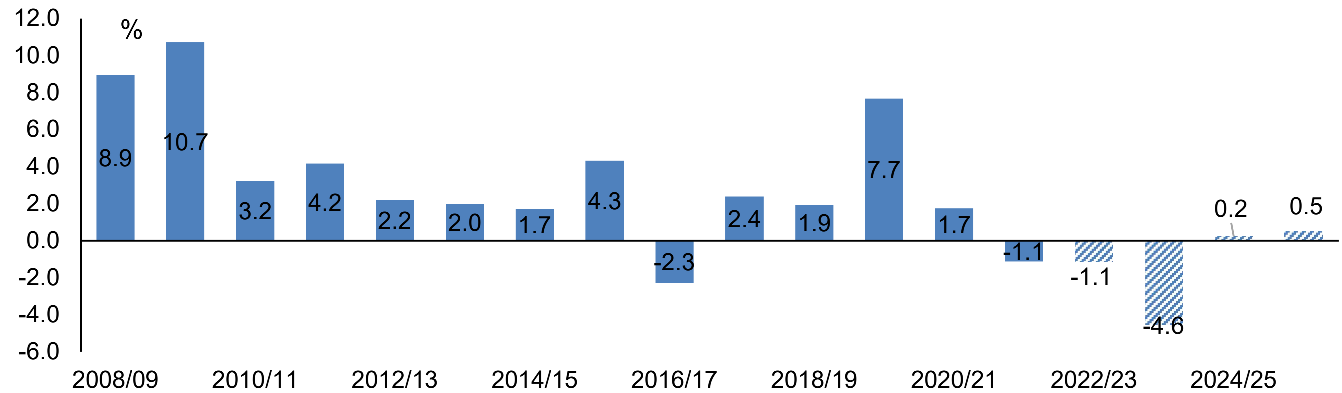
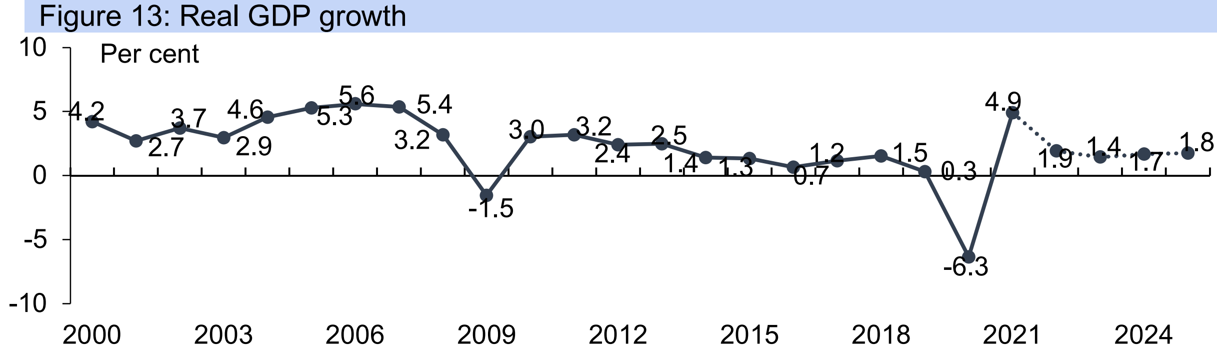
Figure 30: Real growth in non-interest expenditure



Source: National Treasury

- The budget is likely the best it could be in the current circumstances, and it is a good budget from a fiscal consolidation plan, although debt levels are still projected substantially higher than in 2018/19.
- The MTBPS shows support for economic growth by maintaining a prudent fiscal stance and directing resources towards the fight against crime and corruption. Higher-than-anticipated revenues will be used to reduce borrowing, support spending priorities and reduce risks to the fiscal outlook.
- The rand has strengthened to R17.91/USD this afternoon from R18.15/USD this morning but was at R15.19/USD after the February Budget this year, with a severe risk averse environment in global financial markets weakening the rand in the interim. SA's credit risk has subsided somewhat. The sheer quantum of debt still climbs however, with 2025/26's R5.6trillion double 2018/19's R2.8trillion.
- The focus remains firmly on fiscal consolidation, with 2023/24 expected to see a primary budget surplus (where revenue exceeds non-interest spending) of 0.7% of GDP. Economic reforms to drive growth remain in focus too, particularly the need to raise electricity supply to the level demanded by a fast growing economy. The surprise in the budget was the planned reduction in borrowings, and this should be positive for yields, although the global risk off environment, high inflation and rising interest rates dulls the potential for a very sharp improvement.
- Uncertainty is also a large concern, given the high risk of global recession, and SA's unclear future political landscape. The improvement in state finances may not last, particularly if Eskom and Transnet continue to fail to meet the needs of the full economy, while low growth cannot sustain the rapid swell in the youthful population and its needs for jobs.

Figure 13: Real GDP growth



Sources: National Treasury, MTBPS October 2022

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