T W E N T Y

BUDGET 2022

T W E N T Y T W O

SUPPORTING THE RECOVERY AND BUILDING FOR THE FUTURE

FEBRUARY 2022

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE

VACCINATE TO SAVE SOUTH AFRICA

OVERVIEW

- Government allocates an average of 59.4 per cent of consolidated spending to the social wage over the medium term, to address poverty and unemployment and to support the economic recovery. The special COVID-19 social relief of distress grant is extended for 12 months, with additional funding for health, education and the presidential employment initiative.
- A portion of higher-than-anticipated revenues since the 2021 Budget is used to reduce the deficit and the borrowing requirement. As a result, government expects to achieve a primary surplus – where revenue exceeds non-interest spending – by 2023/24, a year earlier than expected. Achieving this goal will represent a major milestone in returning the public finances to a sustainable position.
- Given the revenue improvement, government proposes R5.2 billion in tax relief to help support the economic recovery, provide some respite from fuel tax increases and boost incentives for youth employment.
- Government intends to secure the benefits of a more stable fiscal position by working towards a more effective fiscal anchor in the outer years of the medium-term expenditure framework (MTEF) period.
- The medium-term growth outlook has improved moderately. The National Treasury projects real economic growth of 2.1 per cent in 2022, the year in which the economy is expected to return to pre-pandemic production levels. GDP growth is expected to average 1.8 per cent over the next three years.
- A more rapid implementation of economic reforms, complemented by fiscal consolidation, will ease investor concerns and support faster recovery and higher levels of economic growth over the long term. Significant risks to the economic and fiscal outlook remain.

GLOBAL ECONOMIC OUTLOOK

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Economic growth in selected countries

Region/country Percentage	2020 Actual	2021 Estimate	2022 Forecast	2023
World	**-3.1**	**5.9**	**4.4**	**3.8**
Advanced economies	**-4.5**	**5.0**	**3.9**	**2.6**
United States	-3.4	5.6	4.0	2.6
Euro area	-6.4	5.2	3.9	2.5
United Kingdom	-9.4	7.2	4.7	2.3
Japan	-4.5	1.6	3.3	1.8
Emerging and developing countries	**-2.0**	**6.5**	**4.8**	**4.7**
Brazil	-3.9	4.7	0.3	1.6
Russia	-2.7	4.5	2.8	2.1
India	-7.3	9.0	9.0	7.1
China	2.3	8.1	4.8	5.2
Sub-Saharan Africa	**-1.7**	**4.0**	**3.7**	**4.0**
Nigeria	-1.8	3.0	2.7	2.7
South Africa[1]	-6.4	4.8	2.1	1.6
World trade volumes	**-8.2**	**9.3**	**6.0**	**4.9**

1. National Treasury forecast
Source: IMF World Economic Outlook, January 2022

- New restrictions due to the resurgence of COVID-19 infections towards the end of 2021, along with elevated inflation, earlier withdrawal of monetary accommodation, withdrawal of the US fiscal support package and the consequences of volatility in China’s troubled real-estate sector have reduced growth projections.

- By the end of 2022, developed countries will have returned to pre-pandemic output levels, but developing countries will not have fully recovered.

DOMESTIC ECONOMIC OUTLOOK

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Macroeconomic performance and projections

Percentage change	2018	2019	2020	2021	2022	2023	2024
		Actual		Estimate		Forecast	
Final household consumption	2.4	1.1	-6.5	5.6	2.5	1.8	2.0
Final government consumption	1.0	2.7	1.3	0.3	0.4	-2.0	-0.8
Gross fixed-capital formation	-1.8	-2.4	-14.9	1.2	3.2	3.8	4.1
Gross domestic expenditure	1.6	1.2	-8.0	4.6	2.7	1.9	1.9
Exports	2.8	-3.4	-12.0	9.3	2.9	2.8	2.7
Imports	3.2	0.5	-17.4	8.5	5.4	3.9	3.3
Real GDP growth	**1.5**	**0.1**	**-6.4**	**4.8**	**2.1**	**1.6**	**1.7**
GDP inflation	4.0	4.5	5.3	6.7	1.5	3.3	4.4
GDP at current prices (R billion)	**5 357.6**	**5 605.0**	**5 521.1**	**6 172.0**	**6 395.4**	**6 712.2**	**7 127.3**
CPI inflation	4.6	4.1	3.3	4.5	4.8	4.4	4.5
Current account balance (% of GDP)	-3.0	-2.6	2.0	3.8	0.3	-1.2	-1.5

Sources: National Treasury, Reserve Bank and Statistics South Africa

- The National Treasury projects real economic growth of 4.8 per cent in 2021 and 2.1 per cent in 2022. Real GDP growth averages 1.8 per cent over the medium term.

- In 2021, the economic effects of the pandemic – lost jobs and delayed investments – were exacerbated by public violence and inadequate electricity supply, with the highest levels of load-shedding to date.

- Risks to the domestic outlook include new COVID-19 variants leading to new waves of infection, continued interruptions in power supply, rising inflation and borrowing costs, and sizeable fiscal risks. Faster-than-expected global interest rate increases may also have negative consequences for the economy.

CREATING A DURABLE AND RESILIENT ECONOMY

- In the recent State of the Nation Address, the President noted that "the key task of government is to create the conditions that will enable the private sector – both big and small – to emerge, to grow, to access new markets, to create new products, and to hire more employees".
- Reforms that promote growth and employment are needed to build on the recovery observed over the past year including:
  - Stimulating demand through investment in infrastructure;
  - Employment programmes, tax incentives and social transfers that will boost household consumption;
  - Easing the skills constraint; and
  - Modernising network industries will support an increase in the economy's productive capacity, boost electricity production and reduce the cost of doing business.

- Work is under way to expedite the approvals required to register embedded electricity generation plants, review the policy framework and processes for work visas complete the analogue to digital migration and auction spectrum, and clear the backlog of water-use licences.

PROGRESS ON THE ECONOMIC RECOVERY PLAN

- **Energy security:** Fifth bid window of the REIPPP Programme announced with contracted capacity of 2583 MW; sixth bid window expected to procure additional capacity of 2 600 MW and risk mitigation power projects that are ready to proceed can generate up to 800 MW. Embedded generation projects in the mining sector can produce an estimated 4 000 MW and various municipalities are securing an estimated 1 400 MW of their own power.
- **Aligning with the National Development Plan's infrastructure goals:** Government is prioritising 55 new infrastructure projects with a value of R595. One-third of the 62 strategic integrated projects gazetted in 2020 are under construction or completed. The Infrastructure Fund is collaborating with public agencies to prepare six projects with investment value of R96 billion in higher education accommodation, social housing, telecommunications, water and sanitation, and transport.
- **Promoting industrial growth:** In 2021, the steel, furniture and global business services masterplans were launched. The 2022 State of the Nation Address noted significant industry contributions in the sugar and poultry industries to increase investment, improve productivity and accelerate transformation.
- Transnet has developed partnerships with the private sector to address cable theft and vandalism on the freight rail network through advanced technologies and additional security personnel.
- **Strengthening enabling conditions:** A team tasked with cutting red tape has been set up in the Presidency to identify priority reforms, including mechanisms to ensure government departments pay suppliers within the required 30 days and simplify processes relating to property registration, cross-border trade and construction permits.

FISCAL STRATEGY

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STAY SAFE

- Medium-term fiscal policy is focused on reducing the budget deficit and stabilising the debt-to-GDP ratio. Government will use a portion of higher-than-anticipated tax revenue to narrow the deficit while increasing non-interest expenditure to support economic growth, job creation and social protection.
- Staying the course will bring fiscal consolidation to a close. Government expects to realise a primary surplus by 2023/24, a year earlier than projected in the 2021 MTBPS.
- Over the medium term, restoring fiscal sustainability requires continued restraint in expenditure growth and reforms to raise economic growth. The 2022 Budget proposes:
    - Additional allocations to address immediate spending pressures, including extending the special COVID-19 social relief of distress grant for 12 months until March 2023, and bolstering provincial transfers for health and education.
    - Setting aside a portion of higher-than-expected revenue to narrow the budget deficit. This mitigates the impact of higher interest rates on debt-service costs and improves the longer-term debt outlook.
    - Supporting economic growth through a range of reforms, including the infrastructure build programme, financed through innovative funding mechanisms and supported by improved technical capabilities.
- The fiscal outlook is subject to significant risks. These include weakening of global or domestic economic growth, rising global borrowing costs, the possibility of higher public-service wage costs, and the poor financial condition of several major state-owned companies.
- Any large permanent increases in spending, such as a new social grant, cannot be accommodated without matching permanent increases in revenue. Government will also consider introducing a fiscal anchor to safeguard the public finances.

EVOLUTION OF THE PUBLIC FINANCES

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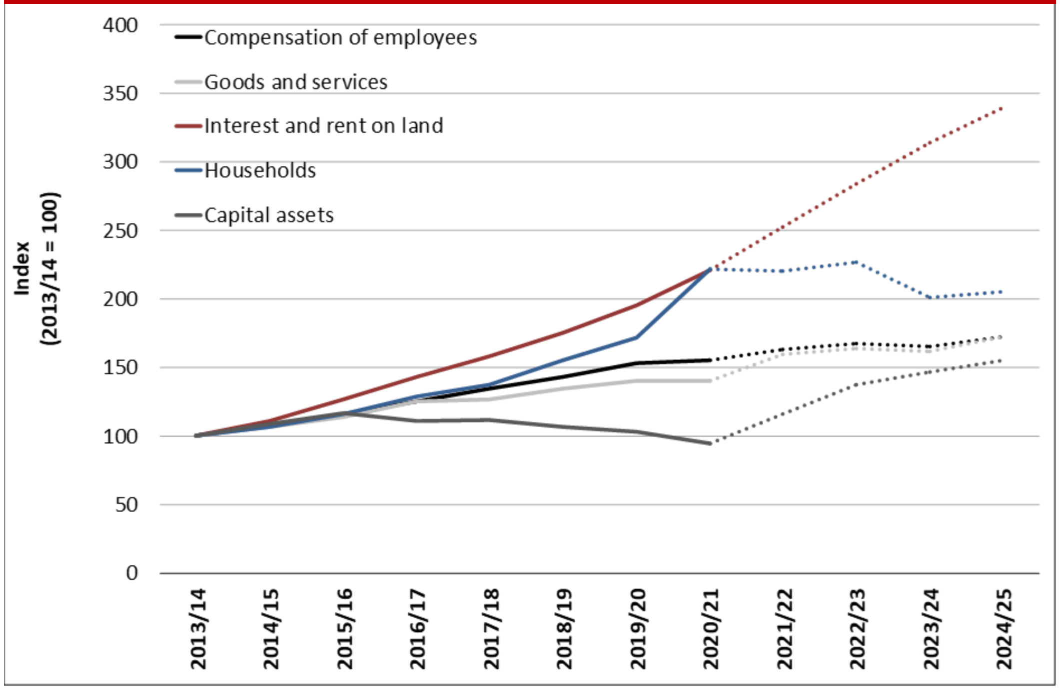
Public spending trends



- The consolidated budget has grown from R712.8 billion in 2008/09 to R2.08 trillion in 2021/22 – an average annual increase of 8.6 per cent that was not matched by gains in efficiency or effectiveness.
- In the 2013 Budget, government initiated a process to slow expenditure growth by reducing baseline budgets and setting ceilings on compensation spending. However, policy decisions to institute fee-free higher education and above-inflation public-service wage increases contributed to a widening gap between revenue and expenditure, increasing pressure on basic service delivery.

- The composition of public spending has also deteriorated: spending that supports long-term growth now accounts for a smaller proportion of the total. Debt-service costs consume an increasing share of GDP and revenue. Over the medium term, debt redemptions increase and debt-service costs are expected to average R333.4 billion a year.

MANAGING THE PUBLIC-SERVICE WAGE BILL

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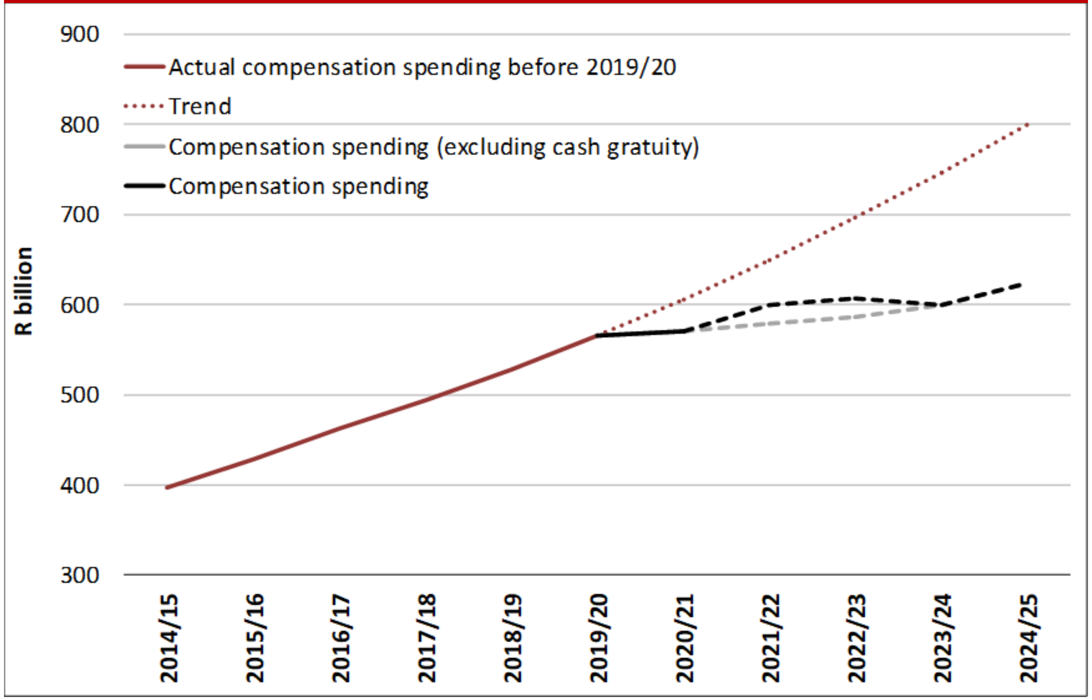
Consolidated budget compensation of employees*



*Excludes public entities

- Compensation spending for national and provincial government grew by 7.3 per cent on average for the period 2014/15 to 2019/20, compared with 6.8 per cent average growth in non-interest expenditure.
- The decision not to implement that final leg of the 2018 wage agreement and other measures to reduce average wage costs have improved the wage trajectory.
- A new round of collective bargaining will begin in March 2022. The National Treasury is working with the Department of Public Service and Administration to keep the compensation baseline within affordable limits.

- The 2021 wage agreement awarded employees a non-pensionable cash gratuity. In absence of a new agreement, the same gratuity will be paid in 2022/23. This is provided for in the 2022 Budget.
- As indicated in the 2020 Budget, compensation baselines will grow at the rate of inflation from 2024/25. Should collective bargaining result in salary adjustments that exceed compensation ceilings, reductions in headcount will be required.

CHANGES IN TAX REVENUE SINCE 2021 BUDGET

- COVID-19 resulted in elevated uncertainty in economic and fiscal forecasting, reflected in large revisions to tax revenue.
- Tax revenue collections for 2021/22 are expected to exceed the 2021 Budget estimate by R181.9 billion and the 2021 MTBPS estimate by R61.7 billion.
- The upward revision reflects improvements in corporate and personal income taxes, value-added tax, fuel levies, customs duties and specific excise duties.
- As signaled in the 2021 MTBPS, the current framework does not include additional tax revenue measures over the MTEF period.

Revised gross tax revenue projections

R million	2020/21	2021/22	2022/23	2023/24	2024/25
Revised estimate	**1 249 711**	**1 547 071**	**1 598 447**	**1 694 259**	**1 807 614**
Buoyancy	*3.69*	*1.93*	*1.09*	*1.06*	*1.06*
2021 MTBPS	**1 249 711**	**1 485 415**	**1 527 412**	**1 608 006**	**1 715 258**
Elasticity	*3.69*	*1.73*	*0.99*	*0.97*	*1.05*
2021 Budget	**1 212 206**	**1 365 124**	**1 457 653**	**1 548 512**	
Elasticity	*2.39*	*1.44*	*1.15*	*1.07*	
Projected improvement against 2021 MTBPS	–	61 656	71 036	86 253	92 356
Projected improvement against 2021 Budget	37 505	181 946	140 795	145 747	

Source: National Treasury

2022/23 TAX PROPOSALS

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Impact of tax proposals on 2022/23 revenue[1]

R million		Effect on tax proposals
Gross tax revenue (before tax proposals)		**1 603 647**
Budget 2022/23 proposals		**-5 200**
Direct taxes		**-2 200**
Personal income tax		
Increasing brackets by inflation		–
Revenue if no adjustment is made	*13 500*	
Increase in brackets and rebates by inflation	*-13 500*	
Expansion of the employment tax incentive	-2 200	
Corporate income tax		
Reform package		–
Reduction in corporate income tax rate to 27 per cent	*-2 600*	
Restriction of assessed losses	*1 100*	
Additional interest limitation	*1 500*	
Indirect taxes		**-3 000**
Fuel levy		
Not adjusting the general fuel levy	-3 500	
Specific excise duties		
Increase in excise duties on alcohol	400	
Increase in excise duties on tobacco	100	
Gross tax revenue (after tax proposals)		**1 598 447**

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

Source: National Treasury

- The 2022 Budget provides R5.2 billion in tax relief to support households and the economy by not adjusting the general fuel levy and the Road Accident Fund levy, while fully adjusting the personal income tax brackets and rebates for inflation.
- The employment tax incentive is expanded to encourage businesses to increase youth employment.
- The corporate income tax rate will reduce to 27 per cent alongside base broadening measures, which will have no impact on revenue

CHANGES IN MAIN BUDGET NON-INTEREST EXPENDITURE

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Revisions to main budget non-interest expenditure over MTEF period

R million	2022/23	2023/24	2024/25	MTEF total
Main budget non-interest expenditure (2021 Budget)	**1 562 821**	**1 572 455**	**1 645 944**	**4 781 219**
Spending pressures funded in 2022 Budget	**110 815**	**60 026**	**56 579**	**227 420**
Social welfare interventions and free basic services	48 227	16 704	22 634	87 565
Health pressures	10 757	4 649	5 682	21 088
Education pressures	16 763	18 838	21 544	57 145
Infrastructure investments and public employment	10 059	13 815	4 000	27 874
Other priorities[1]	25 009	6 020	2 719	33 748
Unallocated reserve 2022 Budget	**–**	**25 000**	**30 000**	**55 000**
NRF payments adjustments	**56**	**–**	**–**	**56**
Technical adjustments to 2021 MTBPS unallocated reserve[2]	**-241**	**-452**	**521**	**-172**
Main budget non-interest expenditure (2022 Budget)	**1 673 450**	**1 657 028**	**1 733 044**	**5 063 522**
Change since 2021 Budget	*110 629*	*84 573*	*87 101*	*282 303*

1. Includes R20.5 billion in 2022/23 allocated to the wage bill in 2021 MTBPS

2. A negative figure shows an increase in the unallocated reserve while a positive figure shows a decrease

Source: National Treasury

- The projected revenue collection provides space for government to respond to some immediate spending pressures while continuing to stabilise the public finances.
- The additional resources in 2021/22 will be used primarily to fund a 12-month extension of the *special COVID-19 social relief of distress grant* until the end of March 2023 and an equity contribution to SASRIA of R7.1 billion.

- Apart from the SRD grant a significant portion of the revisions are for Education and Health, as well as for Infrastructure investment and public employment

FISCAL FRAMEWORK PROTECTS THE VULNERABLE AND PROMOTES GROWTH

- The 2022 Budget extends government's support to poor and vulnerable South Africans, while staying on course to restore the health of the public finances. This approach is supported by economic reforms to bolster investment, growth and employment.
- Most non-interest spending is directed to the social wage, which includes health, education, housing, social protection, employment programmes and local amenities. The social wage amounts to 59.5 per cent of consolidated non-interest spending. Nearly half of the population currently receives at least one social grant from the state.
- A key weakness in economic performance has been persistently high joblessness, which lies at the root of poverty and exacerbates inequality. An amount of R18.4 billion is allocated in 2022/23 and 2023/24 to support youth employment and the creation of short-term jobs under the presidential employment initiative.
- Government and interested parties are working on a sustainable long-term approach to social protection consistent with government's broad development mandate and the need to ensure affordability.
- The combined impact of structural reforms, support for small business and new infrastructure investment will enable higher rates of growth and job creation over the long term. Over the next three years, government will introduce additional measures to improve the delivery of public infrastructure and attract private capital. Public-sector infrastructure spending over the next three years is estimated at R812.5 billion.

THE MAIN BUDGET DEFICIT NARROWS AND DEBT STABILIZES IN 2024/25

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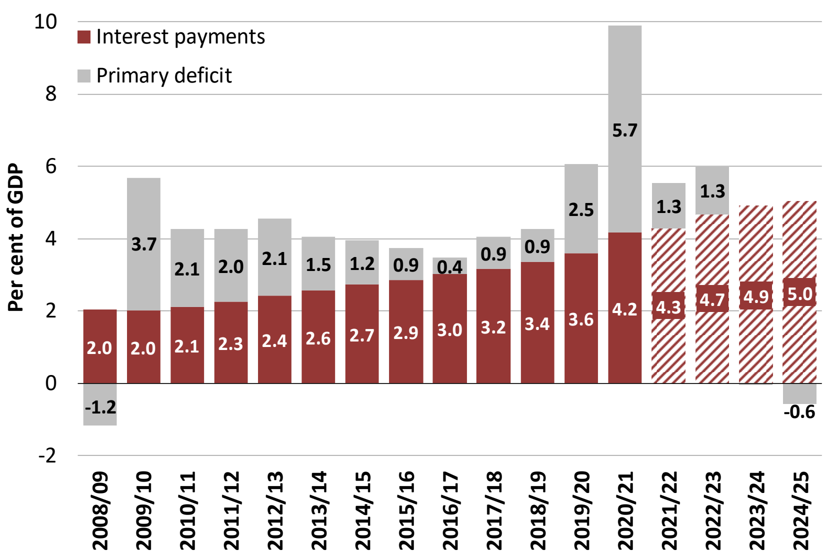
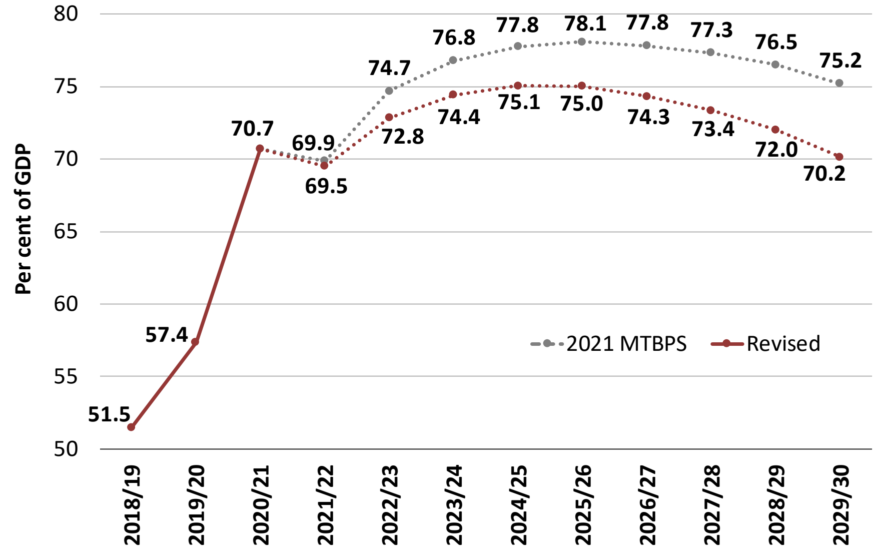
Main budget balance



Debt as percentage of GDP



- Government debt is projected to rise to R4.35 trillion in 2021/22. A portion of revenue improvements will be used to reduce the deficit over the medium-term expenditure framework (MTEF) period. As a result, the debt trajectory improves compared to the 2021 MTBPS. Gross loan debt will stabilise at 75.1 per cent of GDP in 2024/25, a year earlier and at a lower level than projected in the 2021 MTBPS.
- On average, 20 cents of every rand collected in revenue every year will be needed to pay debt-service costs.
- Government expects to realise a primary surplus – where revenue exceeds non-interest expenditure – by 2023/24, a year earlier than projected in the 2021 MTBPS. Achieving this objective will enable government to bring consolidation to a close.

THE CONSOLIDATED DEFICIT NARROWS OVER THE MEDIUM TERM

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- Tax receipts for 2021/22 have exceeded initial expectations and some of the improved revenue collection is expected to continue over the MTEF period.
- Over the next three years, consolidated government spending is expected to grow at an annual average of 3.2 per cent
- A consolidated budget deficit of 6 per cent of GDP is projected for 2022/23, narrowing to 4.2 per cent of GDP in 2024/25. Gross debt is projected to stabilise at 75.1 per cent of GDP in 2024/25.

Consolidated government fiscal framework

R billion/percentage of GDP	2021/22 Revised estimate	2022/23	2023/24	2024/25
		Medium-term estimates		
Revenue	1 721.3	1 770.6	1 853.2	1 977.6
	27.5%	*27.5%*	*27.2%*	*27.3%*
Expenditure	2 077.0	2 157.3	2 176.8	2 281.8
	33.2%	*33.5%*	*32.0%*	*31.5%*
Budget balance	-355.7	-386.6	-323.6	-304.2
	-5.7%	*-6.0%*	*-4.8%*	*-4.2%*

Source: National Treasury

CAPITAL TRANSFERS AND PAYMENTS GROW FASTER

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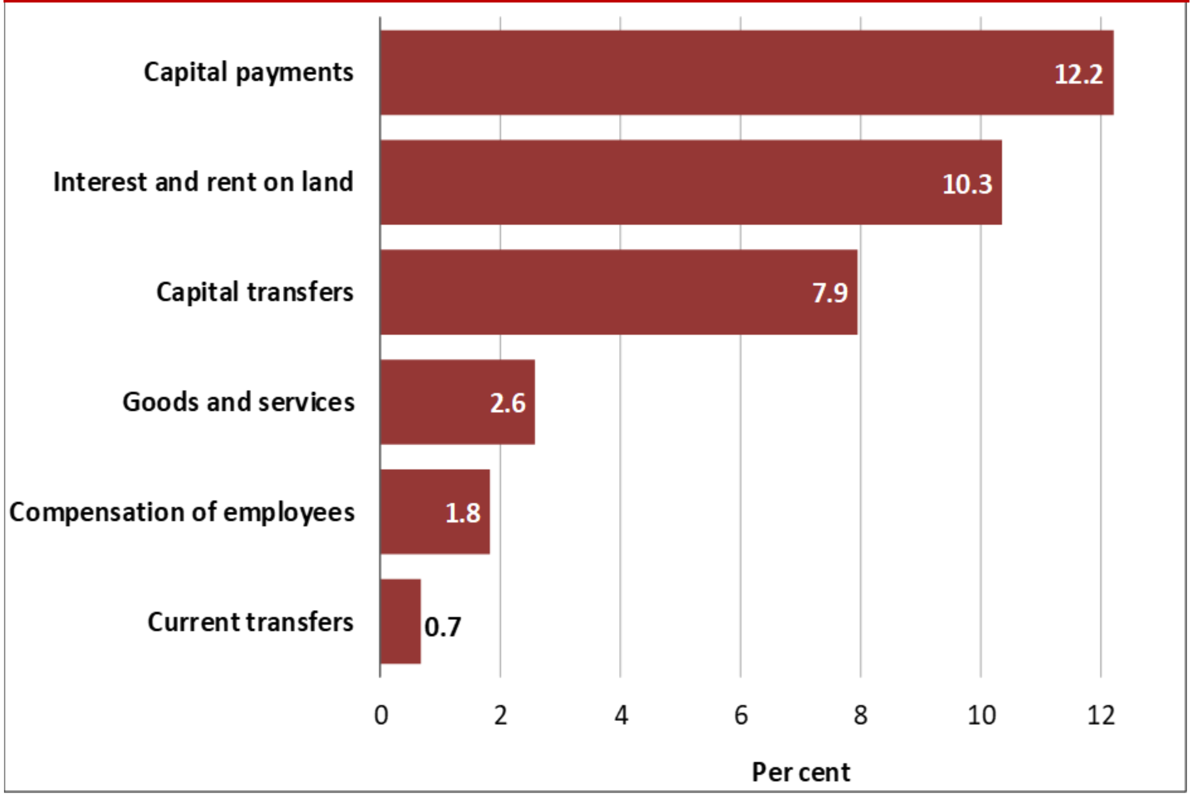
Average spending growth over the MTEF by economic classification, 2022/23 — 2024/25



- Excluding interest payments, capital payments and transfers grow fastest.
- Consolidated wage bill is projected to grow by an annual average of 1.8 per cent over the medium term.

MEDIUM TERM SPENDING PRIORITIES

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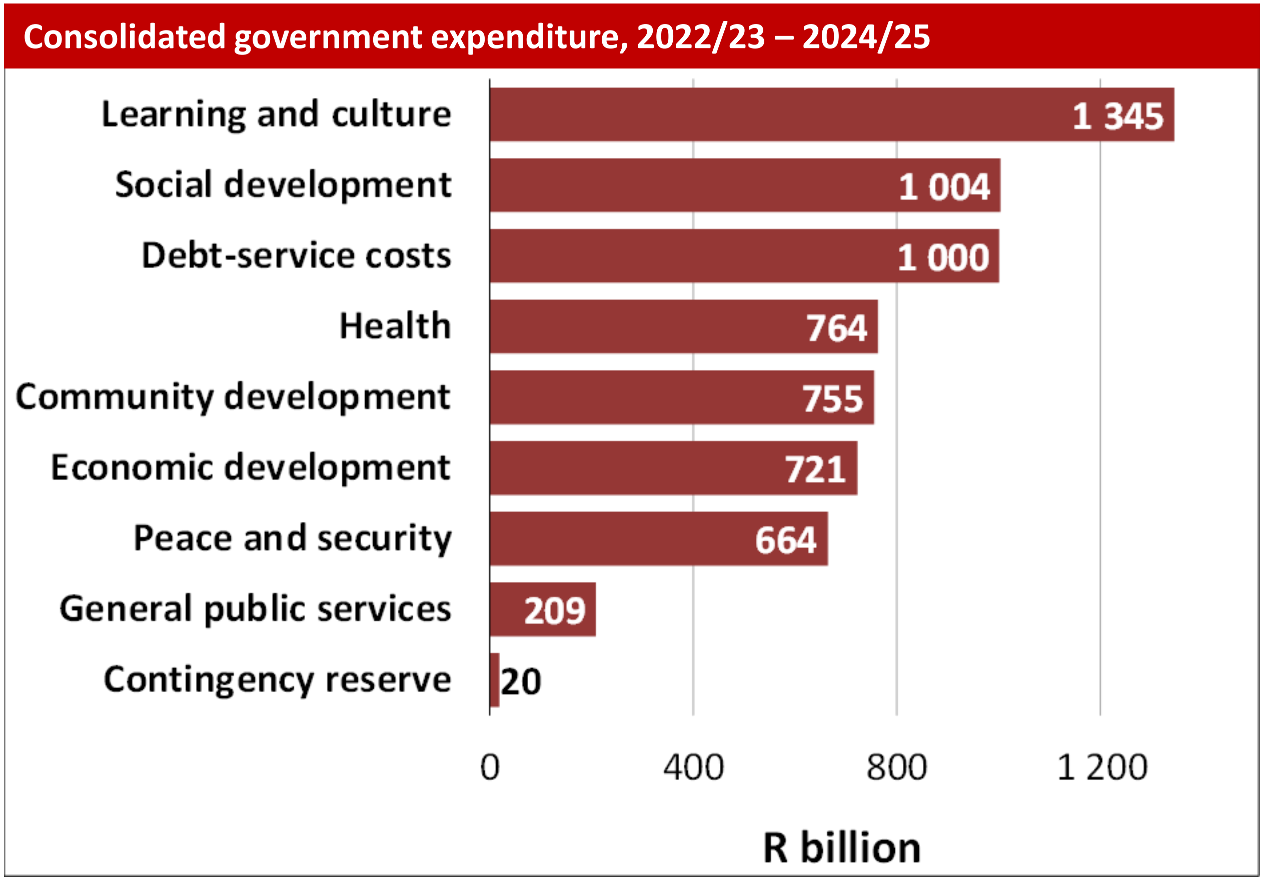

- Spending across functions supports the implementation of new and existing policy priorities. Reprioritisation and reallocation of funds within departments and functions, as well as across functions, remain the key instruments for financing these priorities.

- The bulk of the spending is allocated to learning and culture (R1.3 trillion), social development (R1 trillion) and debt-service costs (R1 trillion) over the MTEF. Economic development and community development grow faster than other functions at 8.5 per cent and 7.9 per cent, respectively.

THE DIVISION OF REVENUE

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Division of revenue

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

Source: National Treasury

- Relative to the 2021 Budget, allocations to provincial and local government will increase to assist with urgent spending pressures.

- Direct provincial allocations will increase by R74.1 billion over the medium term. Local government allocations will be increased by a total of R30.7 billion.

- Over the MTEF period, after budgeting for debt-service costs, the contingency reserve and provisional allocations, 48.8 per cent of nationally raised funds are allocated to national government, 41.4 per cent to provinces and 9.8 per cent to local government.

FINANCIAL POSITION OF PUBLIC-SECTOR INSTITUTIONS

- In 2020/21, state-owned companies made limited progress in their reforms. Eskom registered its transmission business as a subsidiary and plans are being finalised to sell a stake in South African Airways to a strategic equity partner.
- In 2020/21, most of these companies deferred their capital investment projects to preserve cash to meet short-term obligations.
- The financial positions of the Unemployment Insurance Fund and Compensation Fund are strong and set to improve over the medium term, but are more than offset by persistently large liabilities at the Road Accident Fund.

Combined financial position of public institutions

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

1. 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

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

Source: National Treasury

RISKS TO THE FISCAL FRAMEWORK

The largest risk to the recovery in the public finances is a deterioration in GDP growth. Higher-than-expected global inflation could lead to higher global interest rates, affecting debt-service costs and the exchange rate. Other significant risks include:

- The weak financial position of several state-owned companies that rely on government support to operate.
- A public-service wage agreement exceeding the rate of growth of the compensation budget. An adverse decision by the Constitutional Court in the case relating to the 2018 wage agreement could significantly increase compensation costs.
- Additional spending pressures from new spending programmes or the realisation of contingent liabilities would affect the sustainability of the public finances, and could require spending cuts elsewhere.
- Government's debt redemptions over the next five years will average about R150 billion per year. Additional debt financing could increase refinancing risk and result in higher associated costs.

CONCLUSION

- Global uncertainties and an uneven domestic recovery will weigh on the economic outlook over the medium term. While the outlook for 2022 has been revised upward, persistent structural constraints continue to inhibit the pace of the recovery from COVID-19 and longer-term growth.
- Since the 2021 MTBPS, government's fiscal position has improved as a result of higher-than-anticipated revenue collection. This revenue will be used to alleviate short-term spending pressures and reduce the budget deficit. Government remains committed to stabilising the debt-to-GDP ratio by ensuring that spending is prudent and sustainable.
- Government continues to reprioritise, reallocate and review spending to meet policy priorities and improve efficiency.
- Government faces large spending pressures, including the risk of higher-than-budgeted public-service wages, demands for additional funding from financially distressed state-owned companies, and calls for permanent increases in spending that exceed available resources.
- Government is working on a sustainable long-term approach to social protection consistent with government's broad development mandate and the need to ensure affordability. Government continues to monitor the financial health of public entities and manage associated risks.