BUDGET
2023

National Treasury
Response to public hearings

March 2023

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National Treasury
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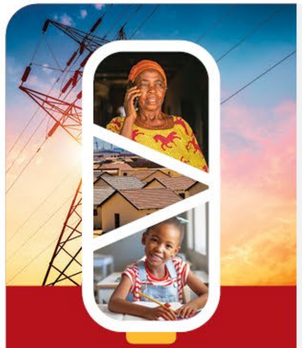
STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA



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SUBMISSIONS RECEIVED

1. Parliamentary Budget Office (PBO)
2. Financial and Fiscal Commission (FFC)
3. South African Institute of Chartered Accountants (SAICA)
4. South African Institute of Taxation (SAIT)
5. South African Sugar Association (SASA)
6. Congress of South African Trade Unions (COSATU)
7. Healthy Living Alliance (HEALA)
8. Institute for Economic Justice (IEJ)
9. Public Economy Project (PEP)
10. Budget Justice Coalition (BJC)
11. Dr. S.M. Muller
12. B. Cronin
13. Fiscal Cliff Study Group
14. PricewaterhouseCoopers (PwC)
15. Amandla.mobi
16. Widows voice

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MAIN RESPONSES

1. Economic strategy
2. Key points on the fiscal stance of the 2023 Budget
3. Tax policy
   - Health promotion levy
   - Renewable energy tax incentives
4. Fiscal policy
   - Historical poor relationship between spending, debt and economic growth
   - The dangers of incrementalism
   - Government needs to take its position on social grants
   - Public sector wage bill remains a risk
5. Treatment of the Eskom debt relief and other SOC support
6. Other matters

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ECONOMIC STRATEGY

- South Africa needs much higher growth to address unemployment and poverty. This requires continued commitment to a macroeconomic framework that encourages investment, accelerated progress on reforms, and improved state capability.
- Macroeconomic policy is an enabler for growth and employment while microeconomic policies drive growth outcomes.
- Prudent macroeconomic policy limits macroeconomic imbalances and provides a buffer for shocks, which creates space for government to focus on socio-economic priorities while supporting investor sentiment. This matters in a small open economy with a low domestic savings rate to attract foreign capital and fund growth enhancing investment.
- Our reform agenda complements the macroeconomic framework and is focused on rebuilding the foundations of a well- functioning economy, the absence of which can undermine competitiveness and other interventions to support growth.
  - Focus is currently on the binding constraints of electricity and logistics which are critical to support economic activity and ensure better provision of services to the public.
  - In addition, there are a suite of interventions both within Operation Vulindlela and broader government through the ERRP which focuses on creating jobs, improving the productive capacity of the economy and thus increasing potential growth.
- Government policy and actions create an enabling environment for growth, as such higher long run growth requires improved state capability.
  - Reforms are underway to strengthen public investment management while increasing the public sector infrastructure budget to R903bn over the medium term
  - Measures to fight corruption and financial crimes are included in the R711bn allocated to peace and security over the medium term – significantly higher than the previous budget.

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KEY POINTS ON THE FISCAL STANCE REFLECTED IN BUDGET 2023

1. The 2023 Budget supports the President's Economic Reconstruction and Recovery Programme. It makes targeted expenditure injections, proposes no spending cuts, does not raise taxes on South Africans, protects the social wage, and controls the growth in debt and debt-service costs.
2. The Budget does not support the damaging practice of incrementalism, and departs from straight-line, CPI-based growth of spending items. NT proposes that the budget process should place greater emphasis on performance, waste, efficiency and strategic trade-offs.
3. The budget is proposing:
   - No tax increases
   - Additional spending of R227 billion for extending the COVID-19 social relief of distress grant until 31 March 2024, increased investment in local and provincial government infrastructure, additional spending on safety and security, education and health services
   - The deficit is not expected to improve to zero and will remain supportive to the economy.
   - Fiscal policy does not target a specific level for the primary surplus.
   - Debt-service costs will rise from R307.2 billion in 2022/23 to R397.1 billion in 2025/26.
   - Gross borrowing requirement is expected to increase from R387.9 billion in 2022/23 to R555 billion in 2025/26.
   - As a result of the Eskom debt-relief arrangement, gross loan debt is expected to increase from R4.73 trillion in 2022/23 to R5.84 trillion in 2025/26.

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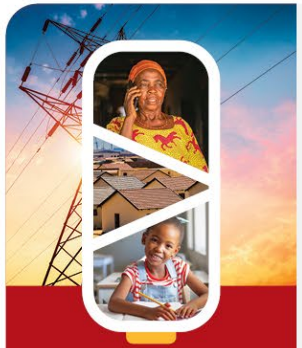

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TAX POLICY – REVENUE AND TAX RATES

- **Tax-to-GDP doesn't align with OECD methodology and no clarity on target of 25%.**
  - Multiple potential methodologies for tax-to-GDP. The *Budget Review* presents the consolidated government account in a transparent format in line with the International Monetary Fund's Government Finance Statistics Manual (2014).
  - Minister of Finance has not mentioned a particular target or limit for the tax-to-GDP ratio, but this and previous budgets have highlighted research showing that tax increases are detrimental to growth, especially during economic downturns. The tax-to-GDP ratio increases marginally over the medium term, aided by improvements in tax administration. The rise in the ratio is limited by tax relief measures implemented.
- **Some commentators felt taxes on upper incomes needed to be increased, while others welcomed that taxes were not increased.**
  - Budget Review states that government would like to avoid tax increases while the economy recovers, as tax increases have a detrimental impact on economic growth (and the impact is larger when growth is weak).

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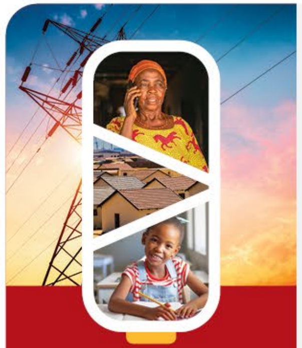

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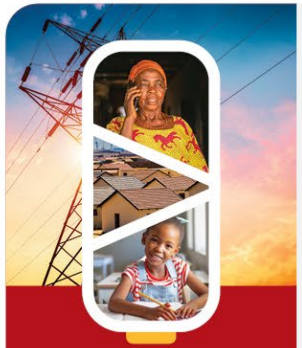
TAX POLICY – HEALTH PROMOTION LEVY

- **Disappointing that the Minister of Finance announced that the HPL will not be increased for the next two fiscal years**. For food policies to work they cannot be enacted and then ignored and undermined. For almost five years there have been no increases to the HPL despite the evidence demonstrating that the HPL has been successful in reducing sugary drink purchasing, incentivizing reformulation, and that it has had a progressive impact on low-income South Africans.
    - The Minister's announcement regarding the postponement of the increase in the HPL recognises the structural reforms needed for the sector and the challenges the industry has recently faced, especially due to floods and the impact of public violence almost two years ago.

TAX POLICY – RENEWABLE ENERGY TAX INCENTIVES

- The incentive for rooftop solar is a good signal. **But why only include solar PV panels and actively excluding batteries and inverters?**
    - The focus on solar PV panels is to get maximise additional generation with limited government funds. While an inverter is required to use solar panels, inverters and batteries can be operated without solar panels – in which case they offer no additional generation to the system and would do little to reduce loadshedding. A tax incentive for households that can afford solar needs to have wider economic benefits that help to ease the energy crisis.



TAX POLICY – RENEWABLE ENERGY TAX INCENTIVES

- **Why was the cap for rooftop solar set at R15 000?**
  - The cap was included due to both the limited fiscal space available and the desire to avoid undermining the progressive nature of the personal income tax system.
- **Why was the incentive for rooftop solar and the expansion of 12B only limited to one and two years respectively?**
  - Given electricity crisis, incentive intended to be temporary to encourage as much immediate investment in renewable electricity generation as possible
- **Wouldn’t a zero rating of the VAT on solar panels be easier and more effective?**
  - Government has no control on the prices faced by consumers after a product is zero-rated. Research on some instances of zero-rating has shown that prices did not adjust after zero-rating, which means that much of the benefit goes to the producers. All the zero-rated items in the current system have been put in place expressly for poverty alleviation, and this would be a significant departure from that principle.

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TAX POLICY – DIESEL REFUNDS

- **Why was the diesel refund only extended to manufacturers of foodstuffs and not retailers?**
    - The diesel refund system is administratively onerous, both for claimants and for SARS. The current refund is available for mining and agriculture and the approach was to extend the refund to the next point on the value chain, which are the manufacturers, to help ease food prices. It would not have been possible to extend it along the entire value chain to every retailer in the country

TAX POLICY – EMPLOYMENT TAX INCENTIVE

- **No credible evidence that the incentive had led to new jobs and continuation undermines evidence-based policymaking.**
    - Two reviews through NEDLAC (2016 and 2018) and independent research found that the incentive was partly successful.
    - Findings of previous review in 2018 was shared with committees, who agreed with NEDLAC partners that the incentive be extended from 2019 to 2029.
    - But further research has been mixed, with some studies showing a postive benefit while others showing no impact. Latest paper states that data and methodologies cannot tell either way.

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TAX POLICY – WIDOWS/ SURVIVORS PENSIONS

- **Why are survivor benefits taxed?**
  - Survivor benefits receive a full income tax deduction on contribution, with no tax on growth, and are then taxed on withdrawal.
  - All income an individual receives is included in gross income, with specific exclusions or thresholds to arrive at taxable income – with higher incomes attracting higher rates. This ensures that people of similar circumstances (i.e. the same level of income, the same age) are taxed similarly
- **This is not fair to widows**
  - Widows with survivor benefits are not the only taxpayers who have multiple sources of income, for example people with two jobs, people with more than one pension fund or people who are “semi-retired” (i.e. receive some remuneration and a pension).
- **What have National Treasury and SARS done to fix these debts?**
  - The PAYE system is meant to help people to spread their tax payments across the year, so that they don’t have to pay everything at the end. If the pension fund is not aware that this is a second income, then they will likely deduct too little tax for PAYE, so a big amount becomes due at the end.
  - To give retirees a way to make sure that the correct amount is withheld from the pension payment right from the start the tax law was changed so that SARS can indicate the correct rate to the retirement fund. This spreads the payment over the year and avoids the build-up of a tax debt.

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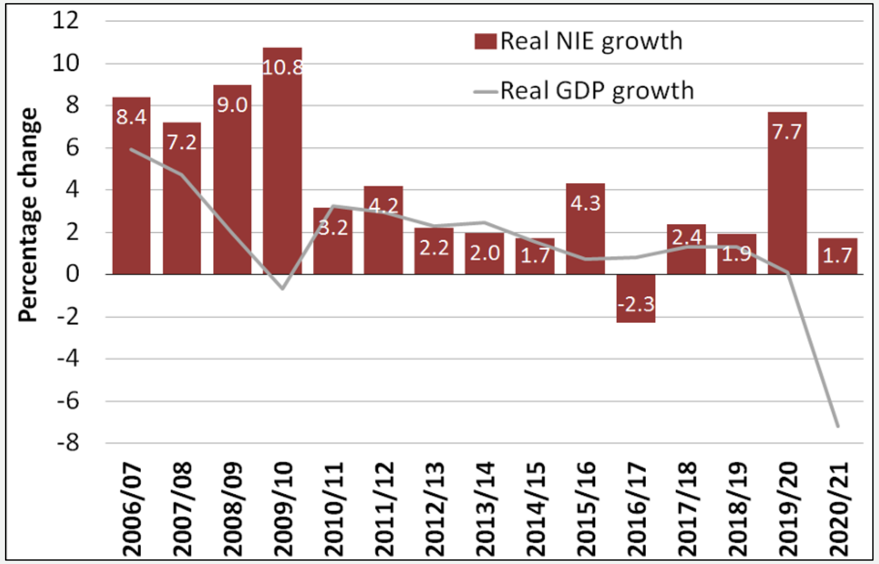
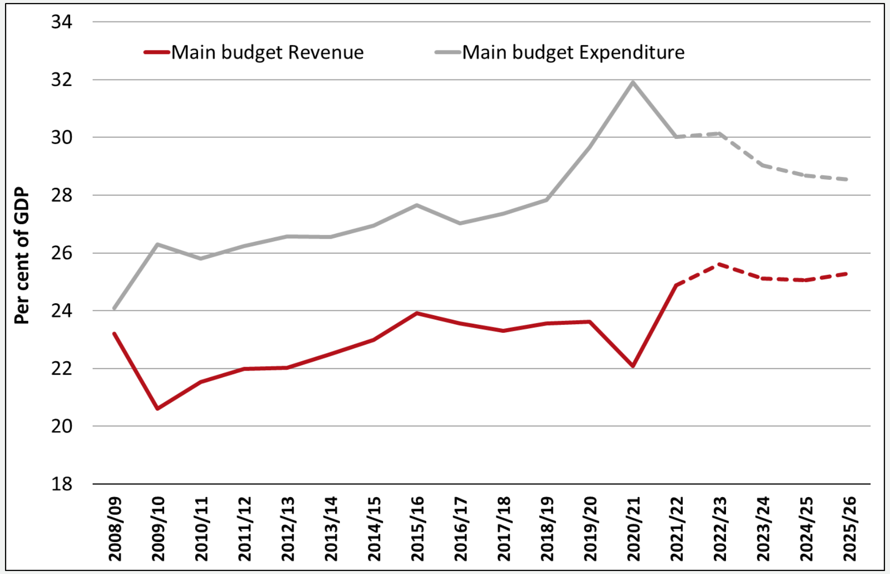
HISTORICALLY POOR RELATIONSHIP BETWEEN SPENDING, DEBT AND ECONOMIC GROWTH

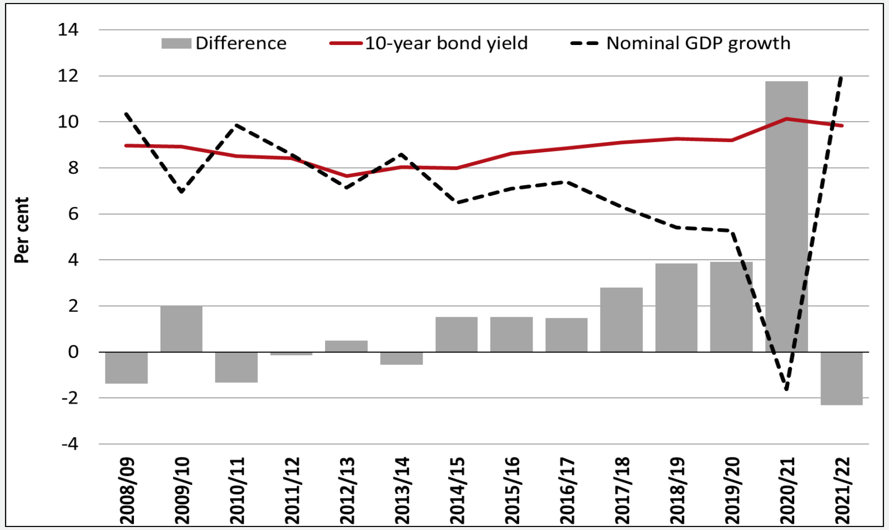
Government spending and the economy



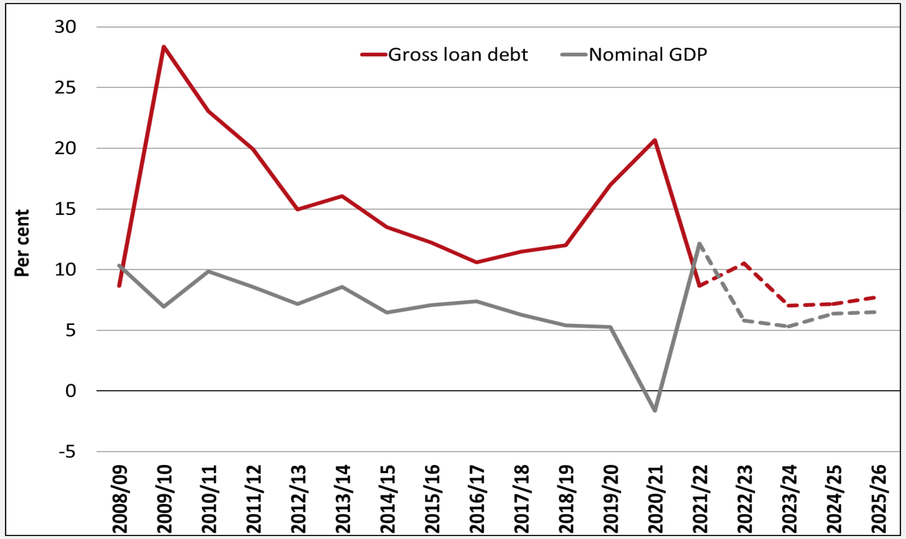
The fiscal deficit is expected to persist



Higher interest rates than GDP growth



Government debt grows faster than GDP



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THE DANGERS OF INCREMENTAL BUDGETING

1) It is a misguided assumption that spending items (including the wage bill) should simply grow by inflation.
2) The 2023 Budget makes “targeted” injections
3) Other considerations when budgeting:
   a) Inability to spend (Government departments underspent their 2021/22 appropriations by R17.9 billion)
   b) Value-for-money:
      a) Poor outcomes
      b) Addressing waste and inefficiency
      c) Corruption and maladministration
      d) Political dysfunction causing crises and poor use of resources in municipalities
   c) Obsolete, non-performing or duplicative programmes embedded within departmental budgets
   d) Strategic trade-offs and prioritisation
4) National Treasury considers that the above should be the most important aspects of the budget process going forward and recommends that hearings on the budget should emphasize the same, rather than indiscriminant incremental, increases across the board.

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SPENDING REVIEWS TO DATE (1)

- National Treasury has integrated spending reviews into the heart of the budget process
- The spending reviews were not intended to result in budget cuts for departments that have identified savings
- Some departments however are not implementing these recommendations because of:
  - the perceived difficulty of the changes required
  - an unwillingness to implement changes
  - weaknesses in managerial capacity
  - the difficulty in retrenching staff in government and changing legislation
  - Political interference
- There are other departments who have been implementing some of these findings and realized efficiency gains. For example:
  - The Defence Force saved R188.2 million from compensation of employees in the Military Health Support programme towards payments for capital assets
  - Department of Higher Education and Training is reviewing the recommendations on TVET exams with a view to streamlining the process and making it more efficient
  - Department of Science and Innovation is in a process of integration of the Technology Innovation Agency into the department

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SPENDING REVIEWS TO DATE (2)

- Savings were achieved on the ARV tender which resulted in lower unit cost for AIDS treatment
- Around 2.5 million people with chronic diseases per annum are receiving around 10 million medicine parcels per annum through the chronic medicine dispensing program. This at a cost of around R50 per parcel dispensed, is far cheaper than a clinic consultation of around R500 per consultation.
- There have been some savings in the area of medico-legal following the recent EC court case. Greater use could be made of periodic payments as opposed to once-off payments and potential use of approved public sector care options.

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UNDERSPENDING IS A CAUSE FOR CONCERN

- Preliminary indication is around R40 billion for 2022/23 budgets compared to main budget allocations
- Inability for departments to spend is caused by several reasons:
  - Procurement difficulties especially with infrastructure projects
  - Non-compliance with legislation
  - Unprocessed and/or disputed invoices
  - Litigations
  - Delays in finalising claims
  - Delays in filling in posts

R billion	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Main budget	964	1 051	1 140	1 217	1 312	1 403	1 498	1 626	1 769	1 811
Adjusted budget	971	1 054	1 140	1 251	1 313	1 419	1 517	1 687	1 808	1 906
Actual	963	1 048	1 132	1 245	1 305	1 407	1 507	1 691	1 789	1 888
Actual (over)/under Adjusted budget	**8,5**	**5,8**	**8,5**	**6,1**	**7,2**	**12,7**	**9,9**	**-4,6**	**19,1**	**17,9**
% (over)/under Adjusted budget	***0,9%***	***0,6%***	***0,7%***	***0,5%***	***0,5%***	***0,9%***	***0,7%***	***-0,3%***	***1,1%***	***0,9%***

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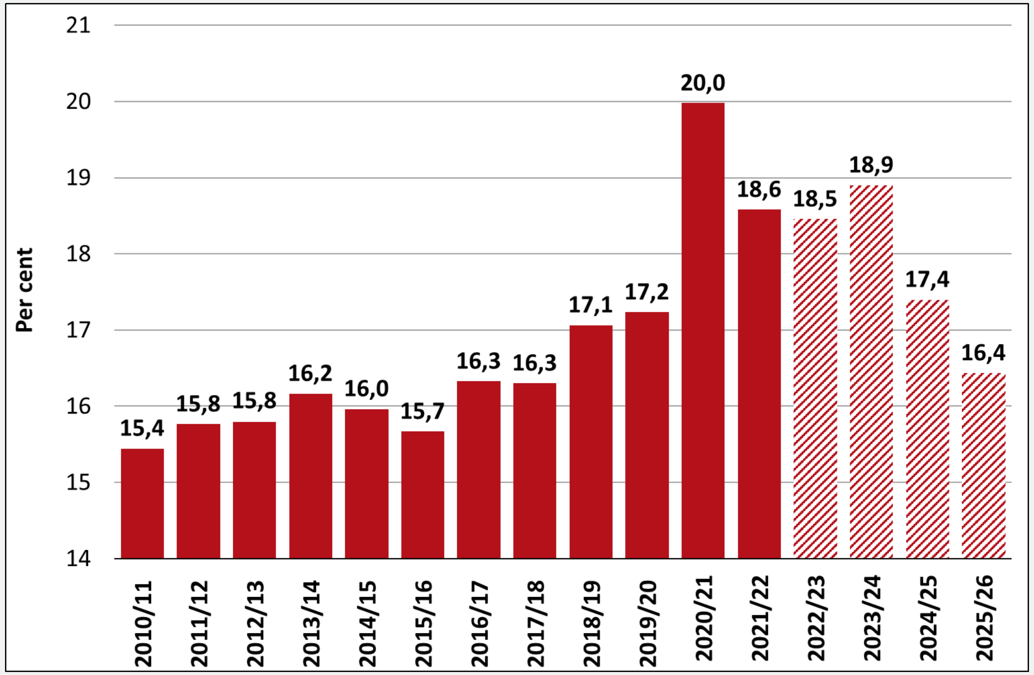
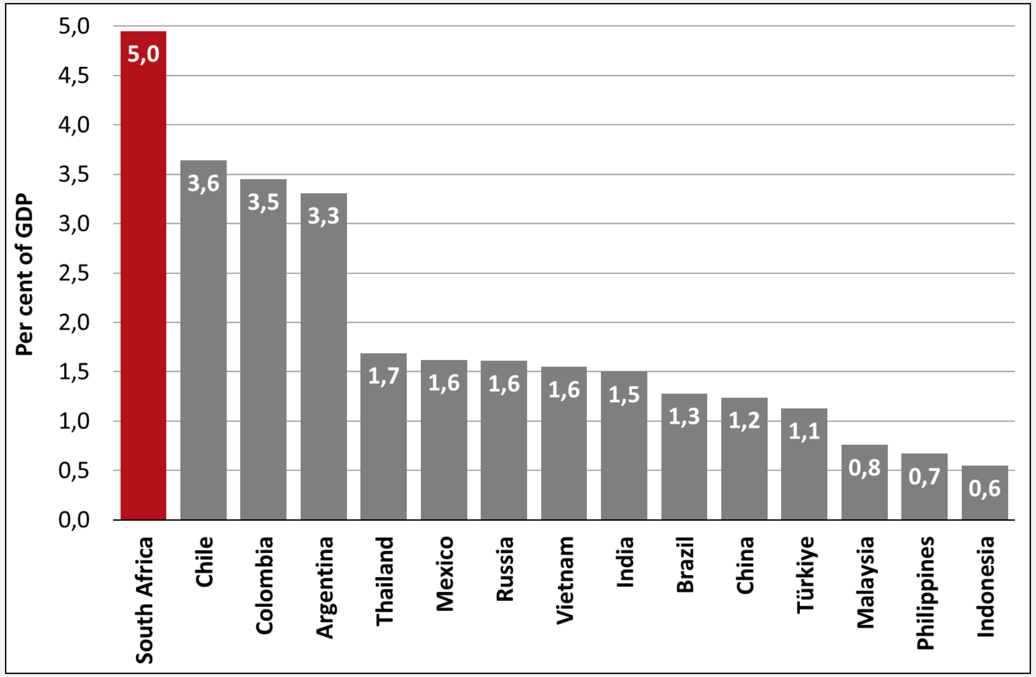
SOUTH AFRICA SOCIAL SPENDING IS VERY SIGNIFICANT

Transfers to households* as a share of total consolidated expenditure



*Includes capital transfers to households, therefore not comparable to Figure 3.6 of the 2023 Budget

Social assistance as a share of GDP country comparison



Source: World Bank, ASPIRE dataset

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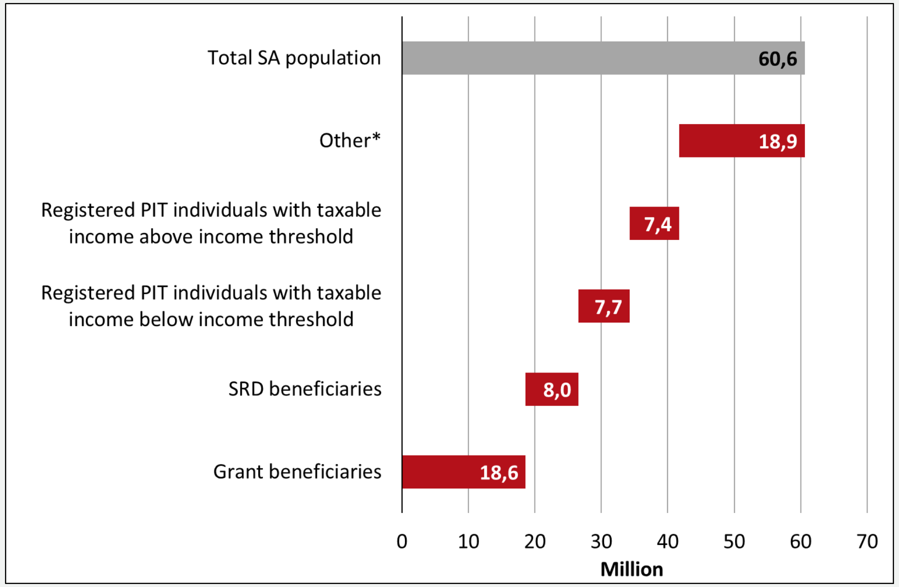
CONSIDERATIONS ON SOCIAL GRANTS ARE A PROFOUND FISCAL ISSUE

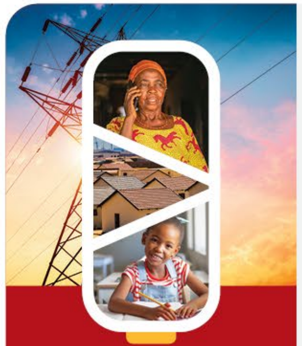
1. SA has a large and growing young population which are experiencing economic hardship
2. The taxpayer to beneficiary ratio is very low (1:4)

Breakdown of taxpayers vs social grant recipients



Source: 2022 Budget, Table 4.5 and 2023 Budget, Table 5.8, StatsSA (mid-year population estimates)
* Includes all non-social grant beneficiaries and individuals not registered for personal income tax

1. Why was the SRD created?
   - The 2020/21 lockdowns and consequent inability to work and earn an income
   - This is no longer the case
2. What would happen if people are forced to pay higher taxes?
3. Therefore,
   - The 2023 Budget makes big investments in infrastructure to help create jobs that young people need.
   - It cannot be the policy of government that this problem will be solved through higher grants rather than job creation.
   - A strategic focus that is predicated mainly on grants is very difficult.



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PUBLIC SECTOR WAGE BILL

- An amount of R45.6 billion is allocated for compensation of employees over the next three years to provide for the carry-through costs of the 2022/23 public-service wage increase. The budget for compensation of employees includes:
    - The 3% increase announced in 2022/23
    - 1.5% pay progression in the following financial years
    - Various other benefits included in budget baselines
- The 2023 Budget also provides additional funding for safety and security, education and health. In health, the funds are to hire new staff, address shortfalls in compensation budgets, and retain additional health workers appointed during the pandemic, as well as to clear the backlog in health services.
- As for the wage negotiations that just commenced, the budget does not pre-empt the outcomes.
- Nevertheless, this and future wage negotiations must strike a balance between fair pay, fiscal sustainability, and the need for additional staff in frontline servicesA public-service wage agreement that exceeds the rate of growth of the compensation budget, which would require steps to contain overall compensation spending through stricter headcount management.
- Perks, salaries and exorbitant remuneration, or public entity executive and managers’ salaries need to be reduced, as well as some staffing establishments. New proposals are being developed and will require a cabinet decision.

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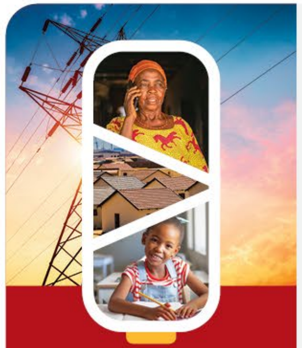
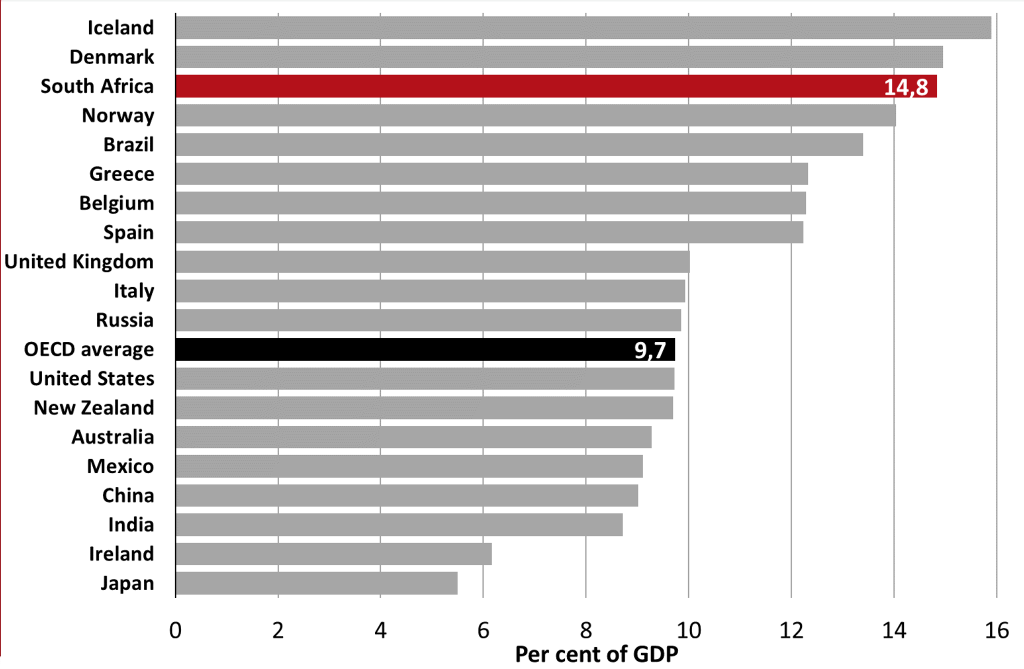


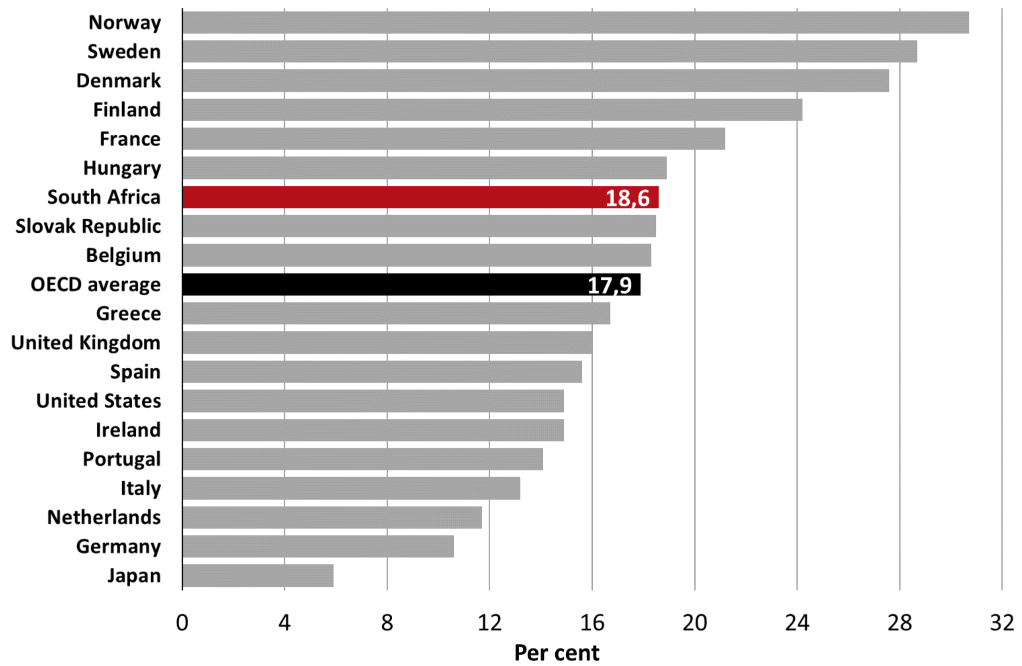
SA's public-sector wage bill is higher than peer countries

- SA's public sector wage bill is one of the highest among emerging markets.
- SA's public-sector wage bill is about 5 percentage points greater than the OECD average as a share of GDP.
- At the same time, public-sector employment as a percentage of total employment is significantly less than in countries such as Norway and Denmark.
- This suggests that high average compensation levels are mainly responsible for South Africa's high public-sector wage bill rather than headcount growth.

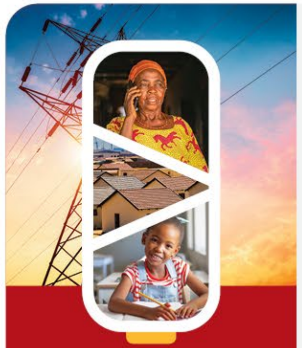
Public-sector wage bill as a percentage of GDP, 2021



Public-sector employment as a percentage of total employment, 2021



Source: OECD Data Library, 2021



ESKOM DEBT RELIEF ARRANGEMENT

- Eskom debt relief arrangement provides R254 billion (about R168 billion in capital and R86 billion in interest) over the next three years. It will take the form of loan advances of R78 billion in 2023/24, R66 billion in 2024/25 and R40 billion in 2025/26 and in 2025/26 a further take-over of R70 billion of Eskom's loan portfolio.
- The ESKOM Debt Relief Bill will give effect to the transaction, as a loan extended from government to Eskom. The loan will remain repayable to government until strict conditions are met. Only upon compliance with these conditions will Eskom be allowed to settle the loan to government in the form of shares, otherwise in the form of cash with interest.
- The loan will not fund operational expenditure, nor will it fund the acquisition of assets. The loan advances will finance capital and interest payments related to Eskom's financing activities, implying that it is a balance sheet transaction.
- The nature of the transaction is different from previous appropriations, which were not limited to financing, but were used by Eskom to pay interest on debt and finance operations.
- The goal is to strengthen the utility's balance sheet, enabling it to restructure and undertake the investment and maintenance needed to support security of electricity supply.
- The debt relief arrangement does not improve the fiscal outlook. It increases the gross borrowing requirement of government as presented in the Budget. It will be financed through the R66 billion MTEF baseline provision that was in the 2022 MTBPS, and R118 billion in additional borrowing over the MTEF period ahead. The full impact of the transaction is included in the financing position of national government.

ESKOM ACCOUNTING TREATMENT AND PROGRESSIVITY OF SUPPORT

- NT considers this a somewhat technical issue from a fiscal perspective, but the treatment is critical for ensuring accountability on the part of ESKOM
- It is untrue that the treatment improves the fiscal outlook and NT has not claimed that it does. The debt outlook, the gross borrowing requirements and debt-service costs are all higher than at the time of MTBPS because of ESKOM debt relief
- It is untrue that the primary surplus is dependent on ESKOM debt relief:
  - Even if one adds the previous Eskom bailout of R66 billion back to non-interest expenditure, there would still be a primary surplus of R44.1 billion in 2023/24, R71 billion in 2024/25 and R115.3 billion in 2025/25.
- Finance bills for debt relief have been tabled and passed by Parliament before
- SANRAL is not being loaned monies by the fiscus, but rather a revenue replacement. ESKOM is receiving a loan, which must be repaid if conditions are not met.
- Developments in the electricity supply industry, including changes in regulation and developments in off-grid technology, imply that the state of ESKOM will inevitably change in the future. It is thus inaccurate and inappropriate to assume that fiscal transfers to the currently-structured utility will continue indefinitely.

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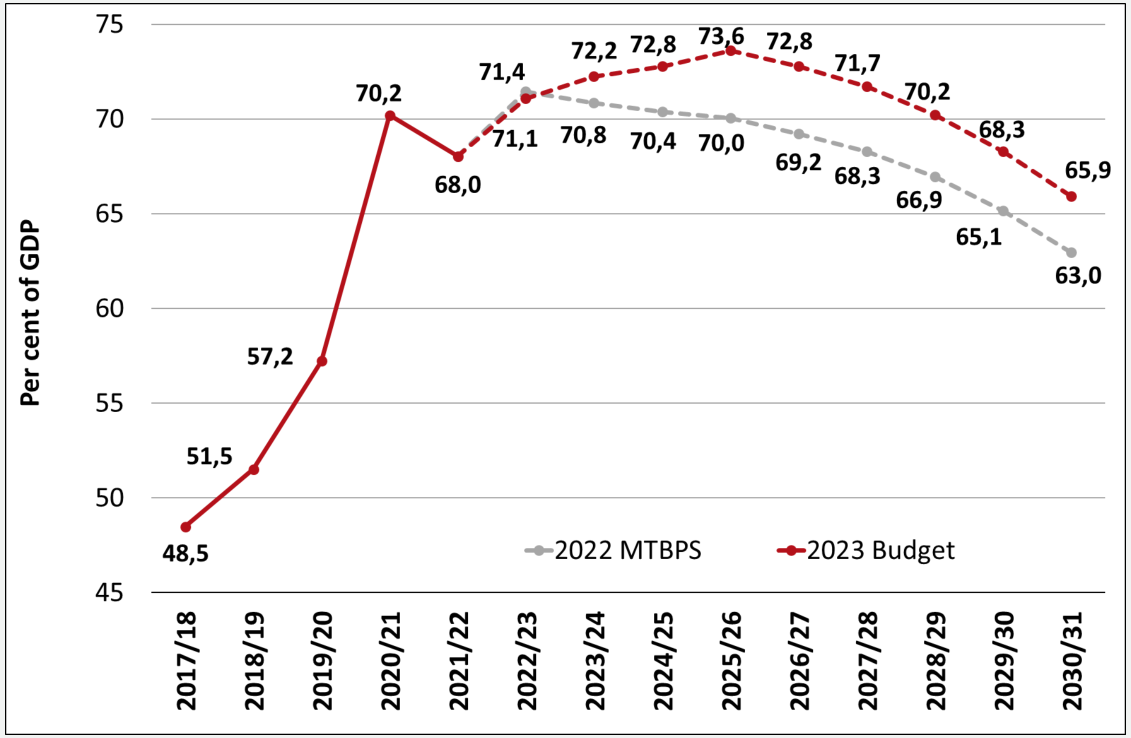
DEBT PATH

- The scale of Eskom debt relief increases government borrowing, resulting in debt stabilising later than projected in the 2022 MTBPS.
- Public debt is now set to stabilise at 73.6 per cent of GDP in 2025/26 – three years later and at a higher level than projected in the 2022 MTBPS.
- South Africa's public debt remains high. Debt-service costs will rise from R307.2 billion in 2022/23 to R397.1 billion in 2025/26.
- The continuing rise in the cost of servicing debt underscores the importance of ensuring that the gap between government spending and revenues does not expand.

Gross debt-to-GDP outlook



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SOC BAILOUT TERMS AND FUNDING OPTIONS

- The approach to SOC bailouts has changed in recent years: pre-conditionality is now included to ensure that conditions are met before any disbursement of funds is authorised.
- A new framework for managing bailouts to state-owned companies is being finalised to reduce fiscal risks and promote long-overdue reforms.
- The preliminary framework will be published in March 2023 for consultation and will thereafter be submitted for Cabinet approval. It aims to link bailouts of these entities to a range of reforms needed to make them sustainable and efficient.

GEPF/PIC funding for SOCs?

- The PIC/GEPF are already heavily invested in government and Eskom debt. The GEPF board has to use its discretion within the investment policy to decide on this after weighing risks and possible returns to additional investments. GEPF invests on behalf of fund members in order to meet retirement obligations.
- The MoF is not empowered (in terms of the GEP Law) to participate in any investment evaluation process in determining the merits or demerits of any transaction. As such, there is no requirement in terms of GEP Law, for the GEPF to consult or obtain concurrence from neither the MoF nor National Treasury in investment decision making process such as investment activities with Eskom.
- The PIC is under direct stewardship of the MoF as an executive authority and does not participate in any processes that involve the PIC's operations and investment activities. The PIC Board is responsible for its operations and investment activities.

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OTHER MATTERS

1. Cabinet has endorsed that a process on GRB should be undertaken, and an interdepartmental steering committee is considering proposals for a framework in this regard.
2. A multi-disciplinary effort under the leadership of the National Treasury is heavily focused on addressing FATF grey listing.
    - Maintaining the integrity of SA's financial system is critical to long-term growth.
    - These intitiatives reduce the risk and incidence of financial crime and corruption, and to address issues that led to grey listing.
    - Over the 2023 MTEF period, functions critical to the anti-money laundering regime, particularly in the law enforcement agencies and the Financial Intelligence Centre, will receive additional resources to carry out this work.
3. The SACU revenue sharing formula is published publicly in the 2002 SACU agreement (Part 7, Article 34). While technical, the formula is transparent to the public and can be explained if needed.
4. The formula for CMA seigniorage payments are published publicly in the Multi-lateral Monetary Agreement (MMA). Article 8 of MMA explicitly outlines how the payments are determined and the components of that formula.
5. There are various platforms for public participation as mentioned in previous response presentations.
6. The issue related to government officials purchasing locally manufactured vehicles will be referred to the DTIC and the Presidency.

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PUBLIC PARTICIPATION

- South Africa remains among the top 2 countries with the most transparent budget processes in the world. We still maintain a reputation as a global leader while strengthening our commitment to a transparent budget system. The global transparency average is 45 out of 100, while South Africa scores the second best with 86 out of 100, a score which reflects South Africa's commitment to transparency.
- Pre-budget public participation :
  - MTEF Budget guidelines are made publicly available
  - Budget tips (dozens of tips received for 2022 MTBPS)
  - Public consultations session on the 2023 MTEF issued 28 July 2022 - South Africa is one of five pilot countries that are participating in the Fiscal Openness Accelerator Project (FOA) that was launched in 2019 by the International Budget Partnership (IBP) and the Global Initiative for Fiscal Transparency (GIFT)
  - Nedlac engagements
- Post-budget public participation:
  - People's Guide to the Budget – presented in 7 languages and circulated in communities
  - Community radio stations engagements – about 21 radio stations across different provinces
  - Budget Outreach Programme
- Other public participation
  - National Treasury Website – All budget information including data sets
  - Vulekamali - an easily accessible online budget data portal
  - Fiscal Openness Accelerator - to support innovation to deepen participation by members of the public in fiscal policy. The initiative aims to improve public participation in the budget process.
- NT is continuously looking at more inclusive public participation mechanisms

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APPENDIX

GROWTH AND INVESTMENT REMAIN CONSTRAINED BY STRUCTURAL IMPEDIMENTS

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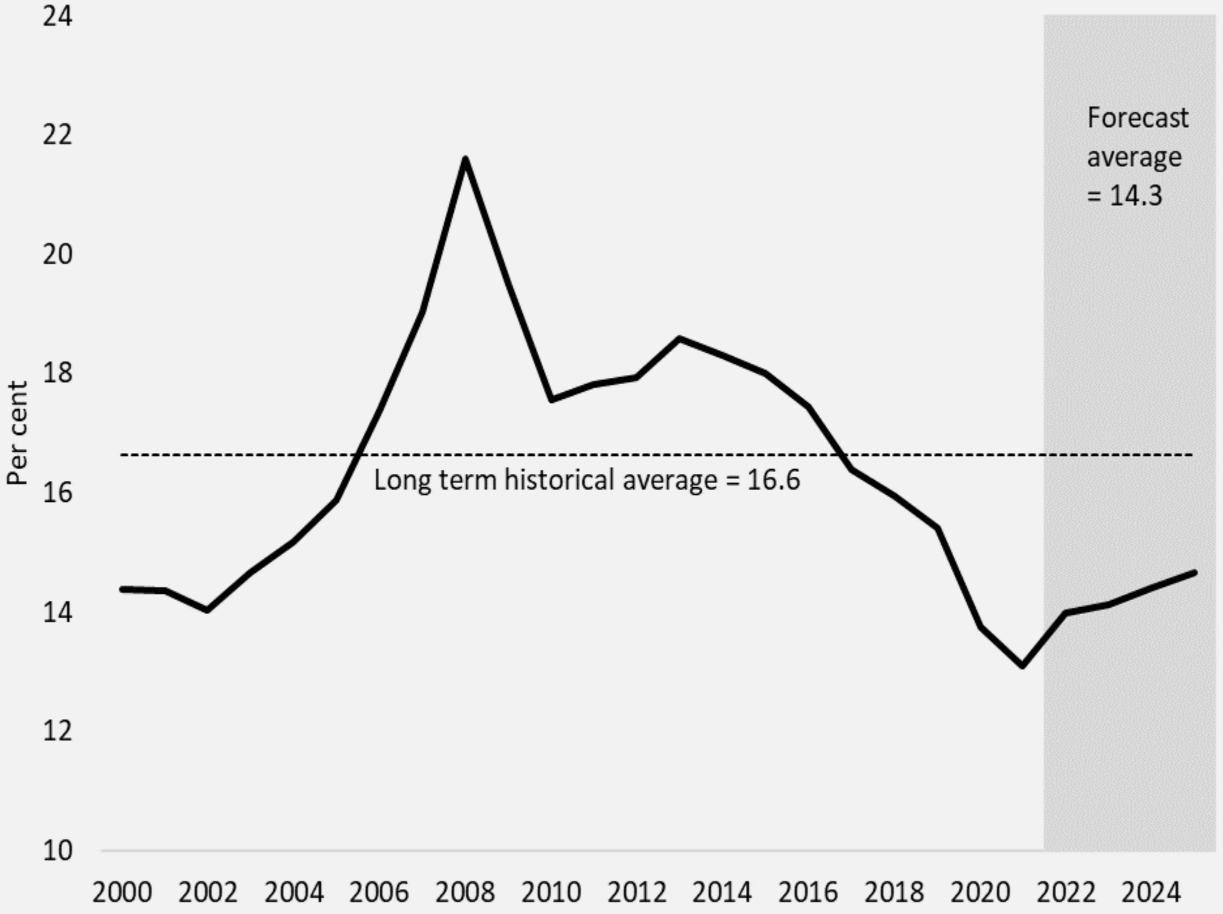
Gross fixed capital formation as a share of GDP



- The domestic economy experienced persistently weak fixed investment and low growth for most of the decade preceding the COVID-19 pandemic.
- Gross fixed capital formation is projected to average 14.3% as a share of GDP over the outlook period, below the historical average of 16.6% and the NDP target of 30% by 2030.
- Combined with recent economic shocks and structural impediments, the country's growth potential is likely to remain constrained over the medium term.
- It is, therefore, imperative to implement the three pillars that support growth to boost investment and employment, which will lift long-term GDP.

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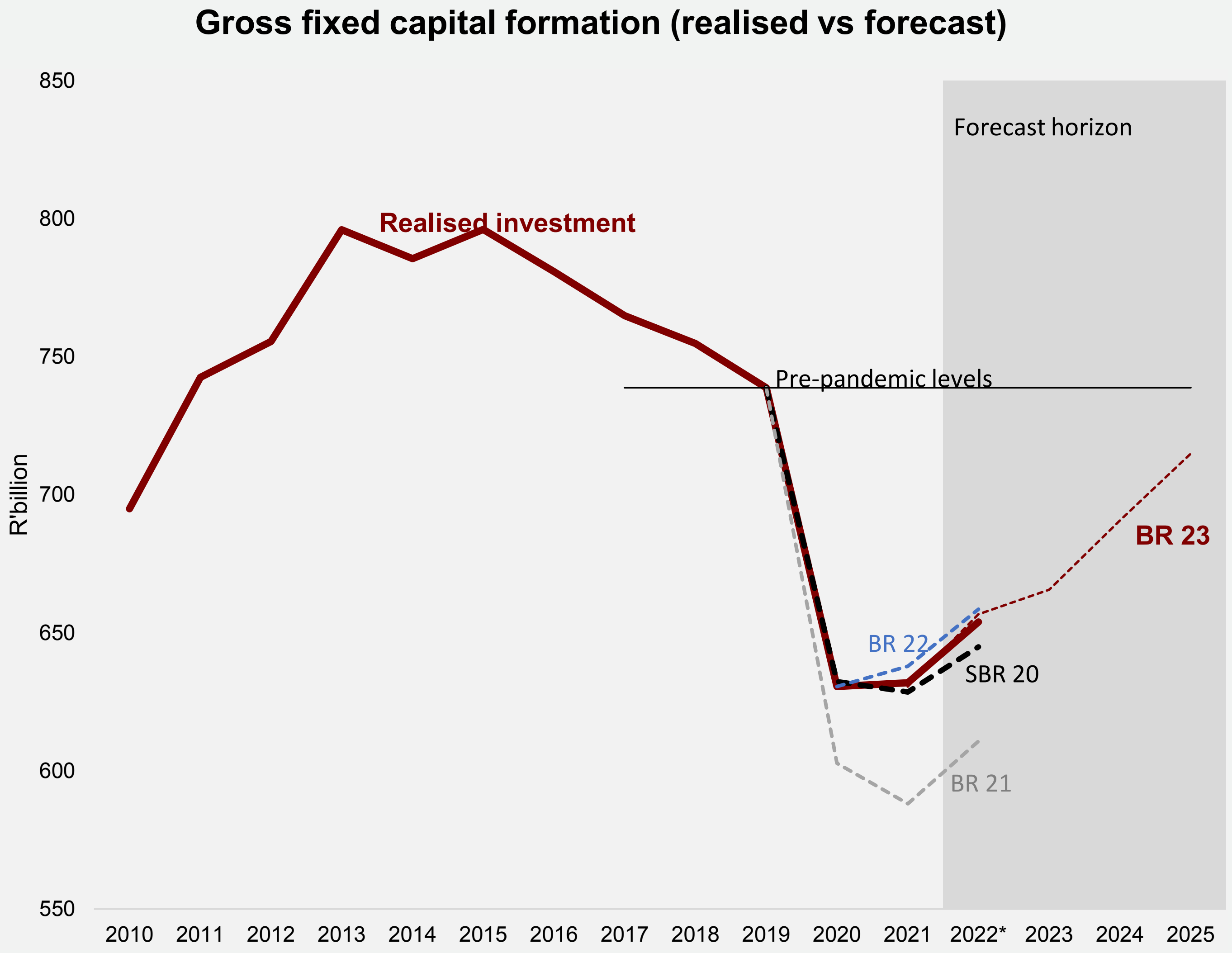
Source: NT and StatsSA

NEAR-TERM INVESTMENT HAS HOWEVER OUTPERFORMED PROJECTIONS



- Buoyed by private sector investment, realised total investment has performed better than recent forecasts.
- For instance, the BR 22 forecasts investment of 3.2% in 2022, meanwhile YTD outcomes are much higher at 4.4%. This implies that 2022 estimate is likely to be closer to the upwardly adjusted 4.2% BR 23 growth estimate.
- Nonetheless, investment continues to reflect scarring of the pandemic, with the level of investment forecast to be 3.2% below pre-pandemic levels by 2025.

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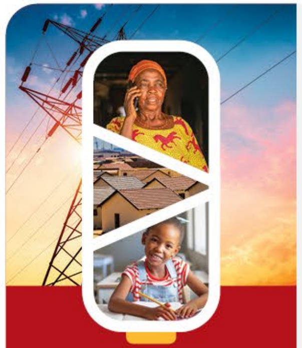
Source: NT and StatsSA. *Denotes YTD for realised investment

2023 BUDGET PRESENTATION



BUDGET 2023

OVERVIEW

- South Africa is prioritising stable and clear policies that promote economic growth and fiscal health in the midst of an uncertain outlook.
- The economy is estimated to have grown by an upwardly revised 2.5 per cent in 2022. However, the growth rate for 2023 is revised downward to 0.9 per cent.
- Government is taking urgent measures to reduce load-shedding in the short term and transform the sector through market reforms to achieve long-term energy security. Other reforms are under way to improve performance in the transport sector, in particular freight rail.
- The 2023 Budget proposes a major debt-relief arrangement for Eskom to address its persistently weak financial position and enable it to conduct the necessary investment and maintenance.
- Fiscal consolidation measures have positioned the public finances to absorb a portion of Eskom debt, maintain support for the economy and the most vulnerable, and make budget additions to fight crime and corruption.
- The fiscal strategy ensures that the social wage is protected and fiscal balance is restored without resorting to unsustainable borrowing and damaging tax increases.
- A primary surplus is achieved in 2022/23 and the consolidated deficit is projected to narrow at a faster rate than previously estimated, to 3.2 per cent of GDP in 2025/26.
- Government debt is projected to stabilise at 73.6 per cent of GDP in 2025/26.

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GLOBAL ECONOMIC OUTLOOK

- Growth in some of the world's largest economies is set to slow in 2023, with Europe and the United States showing signs of weakening activity. China's manufacturing activity was adversely affected by its zero-COVID policy, and the removal will support a gradual rebound in activity this year.
- Many countries are countering the effects of high inflation through increased interest rates and while headline inflation seems to have peaked in many countries, it remains high.
- A number of global risks remain, implying the need for stronger domestic demand to support economic growth.

Economic growth in selected countries

Region/country	2021	2022	2023	2024
Percentage	Actual	Estimate	Forecast	
World	**6,2**	**3,4**	**2,9**	**3,1**
Advanced economies	**5,4**	**2,7**	**1,2**	**1,4**
United States	5,9	2,0	1,4	1,0
Euro area	5,3	3,5	0,7	1,6
United Kingdom	7,6	4,1	-0,6	0,9
Japan	2,1	1,4	1,8	0,9
Emerging and developing countries	**6,7**	**3,9**	**4,0**	**4,2**
Brazil	5,0	3,1	1,2	1,5
Russia	4,7	-2,2	0,3	2,1
India	8,7	6,8	6,1	6,8
China	8,4	3,0	5,2	4,5
Sub-Saharan Africa	**4,7**	**3,8**	**3,8**	**4,1**
Nigeria	3,6	3,0	3,2	2,9
South Africa[1]	4,9	2,5	0,9	1,5
World trade volumes	**10,4**	**5,4**	**2,4**	**3,4**

1. National Treasury forecast

Source: IMF World Economic Outlook, January 2023

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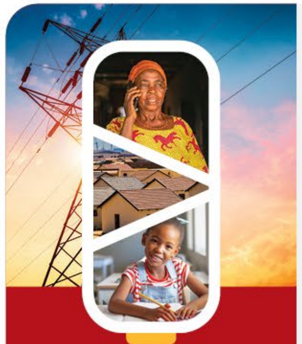
DOMESTIC ECONOMIC OUTLOOK

Macroeconomic performance and projections

Percentage change	2019	2020	2021	2022	2023	2024	2025
	Actual			Estimate	Forecast		
Final household consumption	1,2	-5,9	5,6	2,8	1,0	1,5	1,8
Final government consumption	2,1	0,8	0,6	0,3	-2,2	0,4	0,0
Gross fixed-capital formation	-2,1	-14,6	0,2	4,2	1,3	3,8	3,5
Gross domestic expenditure	1,4	-8,0	4,8	3,8	0,9	1,5	1,8
Exports	-3,4	-11,9	10,0	8,8	1,0	2,2	2,9
Imports	0,4	-17,4	9,5	14,0	1,1	2,3	2,9
Real GDP growth	**0,3**	**-6,3**	**4,9**	**2,5**	**0,9**	**1,5**	**1,8**
GDP inflation	4,6	5,7	6,2	4,0	3,5	4,9	4,6
GDP at current prices (R billion)	**5 613,7**	**5 556,9**	**6 192,5**	**6 597,6**	**6 894,8**	**7 338,3**	**7 814,5**
CPI inflation	4,1	3,3	4,5	6,9	5,3	4,9	4,7
Current account balance (% of GDP)	-2,6	2,0	3,7	-0,4	-1,8	-2,0	-2,1

Sources: National Treasury, Reserve Bank and Statistics South Africa

- South Africa is expected to register better-than-expected GDP growth of 2.5 per cent in 2022, largely due to higher-than-expected agriculture and services sector growth in the third quarter.
- Real GDP growth is now projected to average 1.4 per cent from 2023 to 2025, compared with 1.6 per cent in the 2022 MTBPS, as a result of persistent structural constraints especially power cuts, and a less supportive global environment.
- Although output has recovered to pre-pandemic levels, the persistent scarring impact of the pandemic on employment and investment decisions continues to weigh on the recovery.



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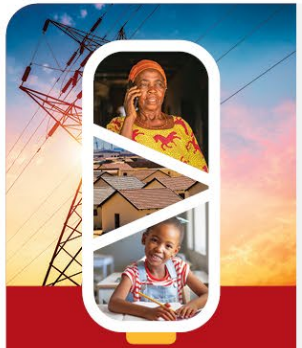
RISKS TO THE ECONOMIC OUTLOOK REMAIN ELEVATED

Risks to the global outlook include:

- Weaker-than-expected global growth, including the effects of monetary policy tightening in major economies.
- Further disruptions to global supply chains, renewed inflationary pressures, and constrained food and energy supplies stemming from the war in Ukraine.
- A sustained period of lower growth and elevated borrowing costs, which poses a threat to highly indebted countries.

The domestic outlook faces a range of risks, and include:

- Continued power cuts and a deterioration in port and rail infrastructure.
- Slow implementation of structural reforms could lower business confidence and deter new investment.
- Widespread criminal activity poses a threat to economic growth and national security.
- A deterioration of the fiscal outlook due to unfunded spending pressures or the materialisation of contingent liabilities could increase borrowing costs, and crowd out both private and public investment.



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ENHANCING ECONOMIC GROWTH

- Higher economic growth and a durable recovery in economic activity require a stable macroeconomic framework, complemented by rapid implementation of economic reforms and improved state capability.
- Government continues to provide a stable macroeconomic policy framework, underpinned by a flexible exchange rate, inflation targeting and sustainable fiscal policy, to encourage investment.
- Numerous reforms under way through Operation Vulindlela and the economic recovery plan. However, the most pressing reforms are required in electricity and freight rail.
- Implementing urgent measures to reduce load-shedding in the short term and transform the sector through market reforms to achieve long-term energy security. NECOM interventions include:
    - Improving Eskom's plant performance.
    - Clearing regulatory obstacles by establishing a one-stop shop to bring electricity onto the grid more rapidly. This will be supported by the Energy Security Bill, which removes regulatory impediments for independent power producers.
    - Supporting the rollout of rooftop solar for households and businesses, including through tax incentives.
    - Implementing a wheeling framework and grid capacity rules to provide certainty to private producers investing in energy projects.

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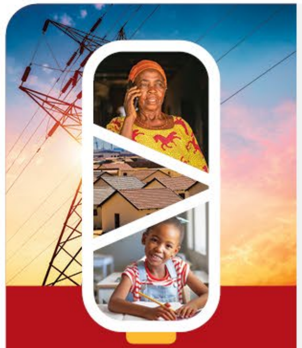

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ENHANCING ECONOMIC GROWTH (CONT.)

- Several reforms are under way to support recovery in the transport sector, arrest the decline and increase the volume of freight rail. These include:
  - The Economic Regulation of Transport Bill, which will establish the transport regulator, has been tabled in Parliament and is now with the National Council of Provinces.
  - Software upgrades to increase efficiency through better signaling.
  - Steps to prevent theft and vandalism and resolving legal challenges in relation to locomotive procurement.
  - Granting third-party access to the rail network.
  - To facilitate competition and improve pricing, the operations and infrastructure management functions of Transnet Freight Rail are due to be separated by October 2023.
- The 2023 Budget makes allocations towards infrastructure as well as crime and corruption, to ensure that public resources are used to lay the foundation for a more resilient economy.

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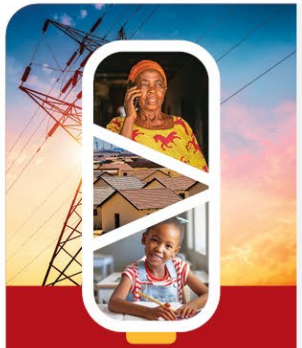


MEDIUM-TERM FISCAL STRATEGY

The medium-term fiscal strategy aims to:

- Achieve fiscal sustainability by narrowing the budget deficit and stabilising debt.
- Support economic growth by maintaining a sustainable fiscal stance and directing resources towards infrastructure and other key policy priorities.
- Reduce fiscal and economic risks, including through building fiscal buffers for future shocks, providing targeted conditional in-year support to key public entities and providing debt relief to Eskom with strict conditions.

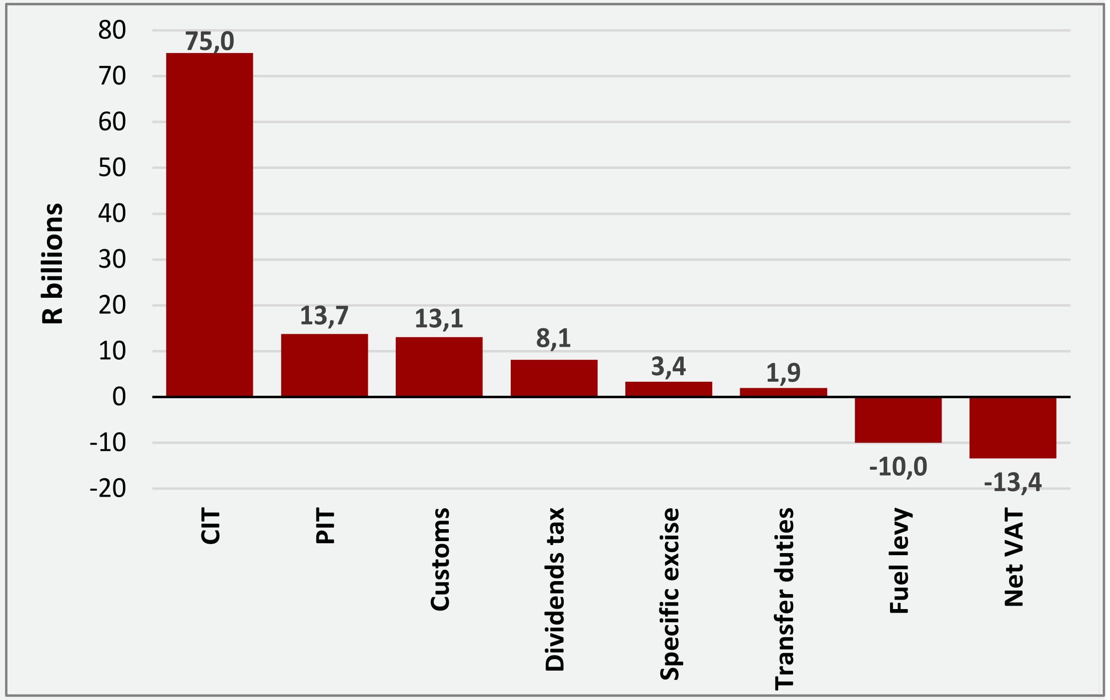
The fiscal strategy also avoids tax rate increases that would overburden households and firms during a slow and uneven economic recovery and makes targeted injections to spending.

- Tax relief of R13 billion is proposed. Tax measures also promote clean energy transition.
- Vulnerable households continue to receive support — 60.2 per cent of consolidated non-interest spending goes to the social wage over the 2023 MTEF period.
- Key baselines for the delivery of services are gradually being restored, without making unaffordable permanent commitments.

IN-YEAR REVENUE OUTLOOK

- A more broad-based corporate tax recovery improves the near-term revenue outlook; despite softening commodity prices, which remain historically high.
- Growth in corporate tax collections has been driven by financial and manufacturing firms.
- Compared to the 2022 Budget, the gross tax revenue estimate for 2022/23 is projected to be R93.7 billion higher.
- Despite intensifying loadshedding and weaker global economic conditions, most major tax bases grew positively, as income and profits proved more resilient than anticipated.
- A portion of the revenue improvement is also due to improved tax compliance and tax administration.

Gross tax revenue estimates compared to the 2022 Budget



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TAX PROPOSALS

Impact of tax proposals on 2023/24 revenue[1]

R million		Effect of tax proposals
Gross tax revenue (before tax proposals)		**1 800 456**
Budget 2023/24 proposals		**-13 000**
Direct taxes		**-9 000**
Personal income tax		
Increasing brackets by inflation	–	
Revenue if no adjustment is made	*15 700*	
Increase in brackets and rebates by inflation	*-15 700*	
Rooftop solar tax incentive for individuals	-4 000	
Corporate income tax		
Expansion of section 12B - renewable energy incentive	-5 000	
Indirect taxes		**-4 000**
Fuel levy		
Not adjusting the general fuel levy	-4 000	
Specific excise duties		
Increasing excise duties on alcohol by inflation	–	
Increasing excise duties on tobacco by inflation	–	
Gross tax revenue (after tax proposals)		**1 787 456**

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

Source: National Treasury

- The 2023 Budget provides tax relief totalling R13 billion
- It support the clean energy transition, and increasing electri city supply
- Cushion the impact of consistently high fuel prices

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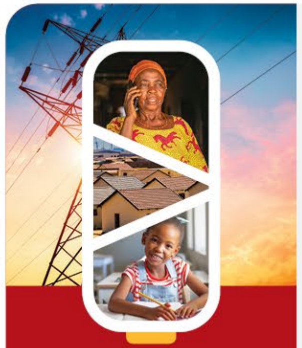

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MEDIUM-TERM REVENUE OUTLOOK

Revised gross tax revenue projections

R billion	2021/22[1]	2022/23	2023/24	2024/25	2025/26
Revised estimate	**1 563,8**	**1 692,2**	**1 787,5**	**1 907,7**	**2 043,5**
Buoyancy	*2,07*	*1,42*	*1,06*	*1,06*	*1,09*
2022 MTBPS	**1 563,8**	**1 681,9**	**1 788,9**	**1 907,3**	**2 036,5**
Buoyancy	*2,07*	*1,30*	*1,03*	*1,00*	*1,06*
2022 Budget	**1 547,1**	**1 598,4**	**1 694,3**	**1 807,6**	
Buoyancy	*1,93*	*1,09*	*1,06*	*1,06*	
Projected improvement against 2022 MTBPS	–	10,3	-1,4	0,4	7,0
Projected improvement against 2022 Budget	16,7	93,7	93,2	100,1	

1. Actual outcome
Source: National Treasury

- A projected revenue surplus for 2022/23 translates into marginally better revenue estimates over the medium term.
- The tax-to-GDP ratio is expected to reach 25.7 per cent by 2025/26 despite a weaker medium-term growth outlook, and tax relief of R13 billion proposed in this Budget.
- Higher revenue collection requires sustained investment and economic growth.

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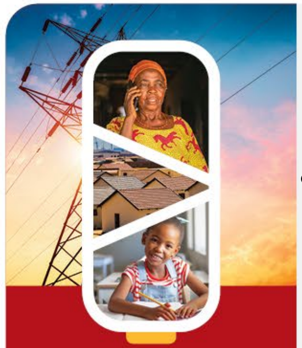

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IN-YEAR EXPENDITURE ADJUSTMENTS SINCE THE 2022 BUDGET

- In-year non-interest expenditure increases by a net R23.4 billion as upward adjustments are partially offset by declared unspent funds, projected underspending, shifting of funds between votes and drawdowns of contingency reserve and provisional allocations not assigned to votes.
- Conditional in-year allocations to Denel, the South African National Roads Agency Limited and Transnet will reduce contingent liabilities and enable these entities to continue supporting economic growth.
- Further proposed in-year allocations of:
  - R1 billion to SAA to assist the business rescue process
  - R2.4 billion to SAPO to implement its turnaround plan will reduce contingent liabilities.
  - R5 billion is allocated as announced in the 2022 Budget towards the Land Bank from funds retained in the contingency reserve for this purpose.

Revisions to 2022/23 non-interest expenditure since 2022 Budget

R million	2022/23
Non-interest expenditure (2022 Budget)	**1 673 450**
Upward expenditure adjustments	**77 419**
2022 MTBPS	54 117
Special appropriation [1]	*30 014*
Other allocations in the AENE [2]	*24 102*
Second adjustments appropriation	23 302
South African Airways	*1 000*
South African Post Office	*2 400*
2022/23 public-service wage increase	*14 602*
Political parties fund	*300*
Land Bank section 6 provision	*5 000*
Downward expenditure adjustments	**-54 039**
Projected underspending	*-19 427*
Other downward adjustments [3]	*-34 613*
Revised non-interest expenditure (2023 Budget)	**1 696 829**
Change in non-interest expenditure from 2022 Budget	**23 379**

1. The entities receiving the allocations are Transnet, SANRAL and Denel

2. 2022 Adjusted Estimates of National Expenditure including self-financing expenditure and expenditure earmarked in the 2022 Budget for future allocation

3. Includes declared unspent funds, shift of funds between votes, and drawdowns to provisional allocations not assigned to votes and contingency reserve

Source: National Treasury

NDP 2030 STAY SAFE VACCINATE TO SAVE SOUTH AFRICA

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CHANGES TO MEDIUM-TERM MAIN BUDGET NON-INTEREST EXPENDITURE SINCE 2022 BUDGET

- The following are proposed revisions to main budget non-interest spending over the MTEF period compared with the 2022 Budget.
  - Additional funding amounting to R227 billion will be provided to address a range of spending pressures.
  - These spending additions are partially funded by existing budget resources of R98.6 billion – mainly the reduction in provisional allocations and drawdown of the 2023/24 unallocated reserve.
  - The remaining R128.4 billion is funded by the projected revenue improvement since the 2022 Budget.

Changes to main budget non-interest expenditure over MTEF period

R million	2023/24	2024/25	2025/26	MTEF total
Non-interest expenditure (2022 Budget)	**1 657 028**	**1 733 044**	**1 820 169**	**5 210 242**
Spending pressures funded in the 2023 Budget	**91 022**	**61 337**	**74 660**	**227 019**
Carry-through of 2022/23 public-service wage increase	14 973	15 198	15 426	45 597
Infrastructure-related spending	11 046	13 830	17 880	42 757
Service delivery[1]	16 095	17 568	20 238	53 902
Security cluster	4 396	4 503	5 474	14 373
COVID-19 social relief of distress grant	36 081	–	–	36 081
Social grants increase with CPI inflation	5 890	9 114	14 572	29 575
Other allocations[2]	2 539	1 124	1 069	4 732
Changes in provisional allocations not assigned to votes[3]	**-29 678**	**-25 686**	**-32 046**	**-87 410**
Change in reserves and other adjustments[4]	**-24 252**	**6 410**	**6 648**	**-11 194**
Revised non-interest expenditure (2023 Budget)	**1 694 120**	**1 775 105**	**1 869 432**	**5 338 656**
Change in non-interest expenditure from 2022 Budge	37 092	42 060	49 263	128 415

1. Health, education and local government free basic services

2. Details are in Table 5.2

3. Includes Infrastructure Fund and SARS provisional allocations, rescheduling of infrastructure projects and other adjustments and removal of Eskom funding provision from expenditure to financing

4. Includes changes in contingency and unallocated reserves, skills development levy and NRF payments adjustments

Source: National Treasury

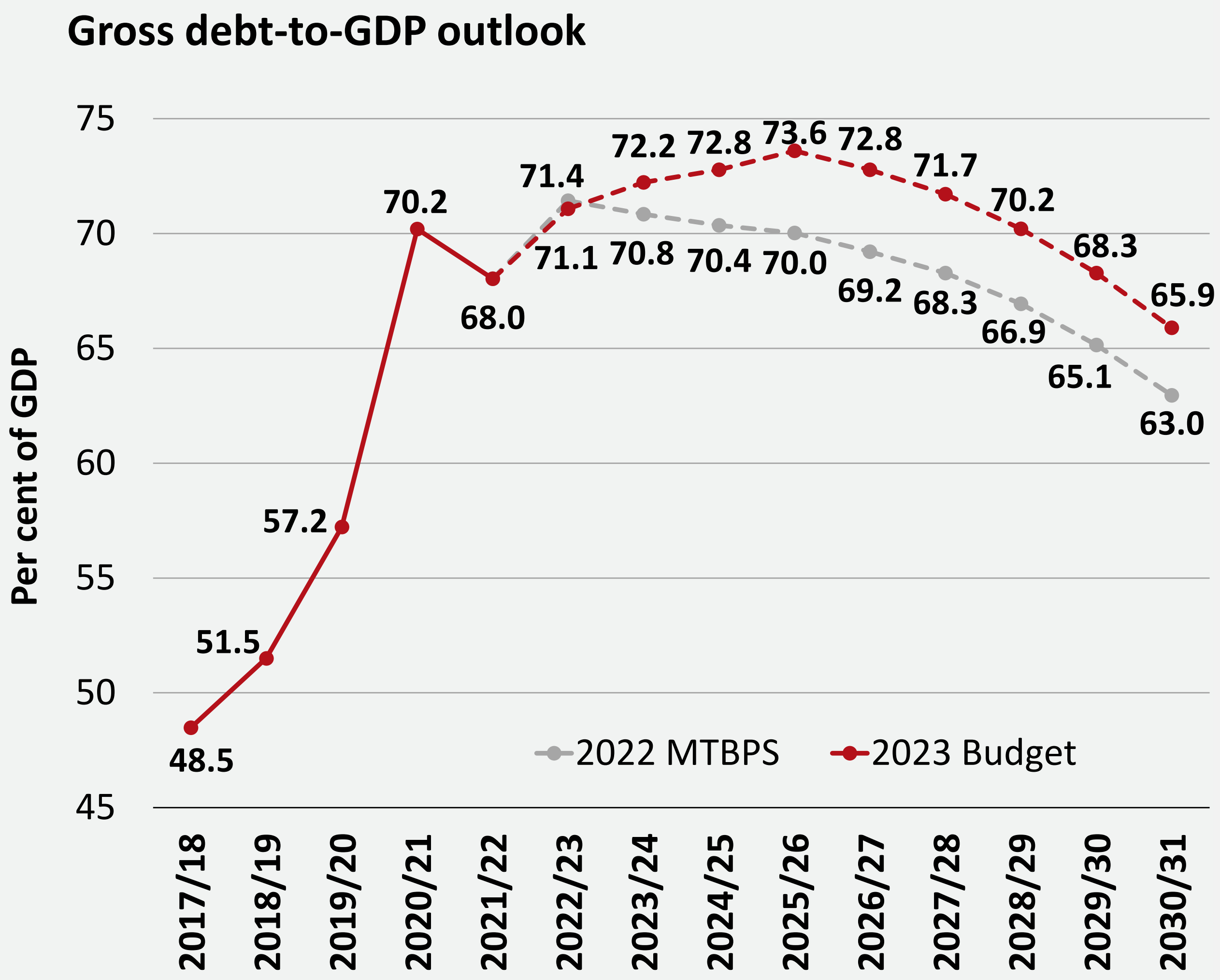
BUDGET
2023

ESKOM DEBT RELIEF ARRANGEMENT

- Major debt relief arrangement of R254 billion (about R168 billion in capital and R86 billion in interest) over the next three years.
- This is a balance sheet transaction. Not a spending appropriation. Therefore, a finance bill – the ESKOM Debt Relief Bill – is tabled to effect the debt relief arrangement. The goal is to strengthen the utility's balance sheet, enabling it to restructure and undertake the investment and maintenance needed to support security of electricity supply. The key features of this arrangement are as follows:
  - Government will provide Eskom with advances of R78 billion in 2023/24, R66 billion in 2024/25 and R40 billion in 2025/26. These advances will cover capital and interest payments as they fall due and may only be used for that purpose.
  - These amounts will be financed through the R66 billion MTEF baseline provision that was in the 2022 MTBPS, and R118 billion in additional borrowing over the MTEF period ahead.
  - Over-and-above this, in 2025/26, government will directly take over up to R70 billion of Eskom's loan portfolio.
- This arrangement, which is subject to strict conditions, will relieve extreme pressure on the utility's balance sheet, enabling it to undertake the necessary maintenance and investment.
- The operating conditions associated with Eskom's debt relief support the broader restructuring of South Africa's electricity industry.
- A review of all plants in Eskom's coal fleet is scheduled to conclude by mid-2023. Eskom is required to implement the operational recommendations emanating from this independent assessment.

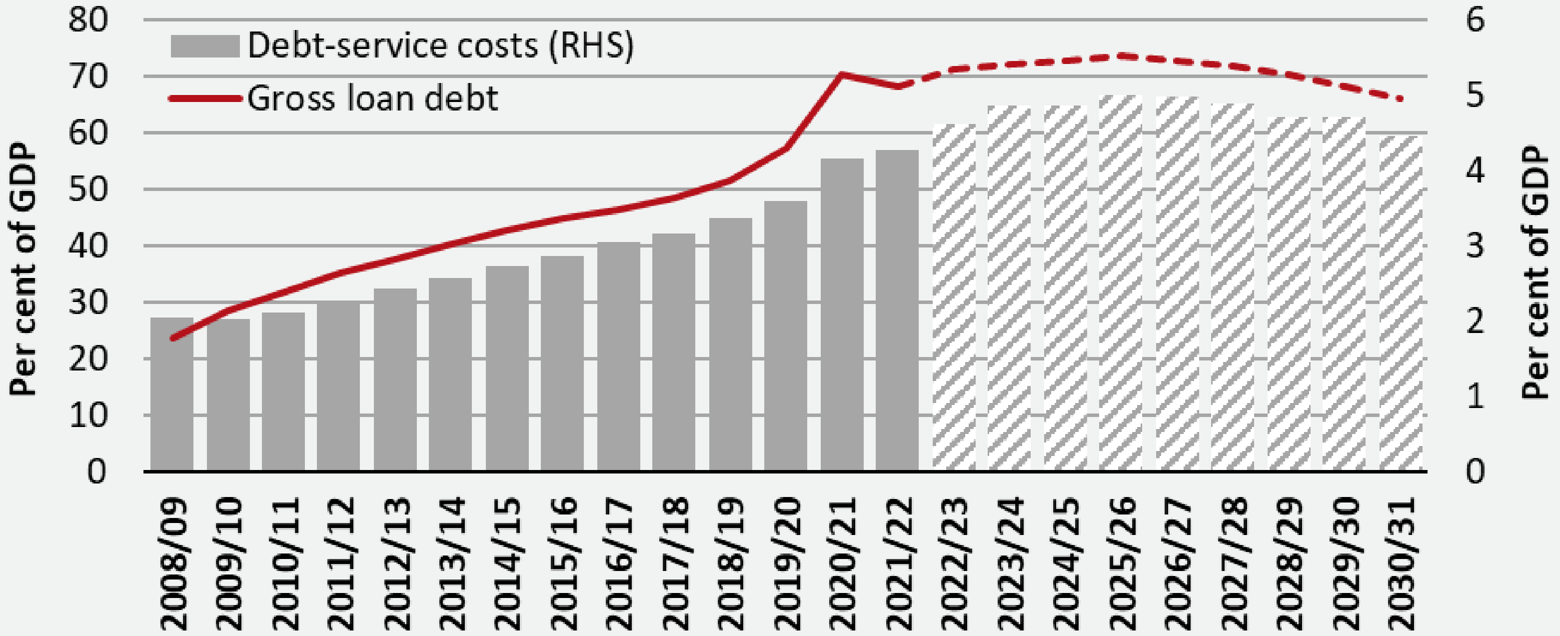
DEBT PATH

- The scale of Eskom debt relief increases government borrowing, resulting in debt stabilising later than projected in the 2022 MTBPS.
- Public debt is now set to stabilise at 73.6 per cent of GDP in 2025/26 – three years later and at a higher level than projected in the 2022 MTBPS.
- South Africa's public debt remains high. Debt-service costs will rise from R307.2 billion in 2022/23 to R397.1 billion in 2025/26.
- The continuing rise in the cost of servicing debt underscores the importance of ensuring that the gap between government spending and revenues does not expand.

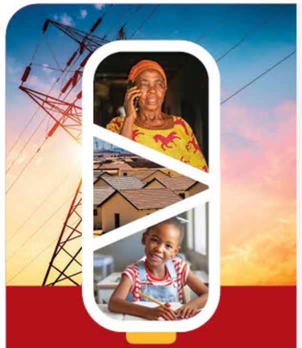


GOVERNMENT DEBT AND CONTINGENT LIABILITIES

Gross loan debt and debt-service costs



- Gross debt stock is projected to increase from R4.73 trillion in 2022/23 to R5.84 trillion in 2025/26.
- Debt is expected to stabilise at 73.6 per cent of GDP in 2025/26. Over time, debt stabilisation will allow government to reduce the crowding-out of essential services imposed by debt-service costs.
- Contingent liabilities are set to decline from R1.07 trillion in 2022/23 to R904.1 billion in 2025/26.



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CONSOLIDATED BUDGET FRAMEWORK

Consolidated fiscal framework

R billion/percentage of GDP	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome			Revised estimate	Medium-term estimates		
Revenue	**1 519,6**	**1 409,2**	**1 750,6**	**1 892,7**	**1 958,9**	**2 077,8**	**2 225,3**
	26,7%	*25,1%*	*27,8%*	*28,5%*	*28,0%*	*27,9%*	*28,0%*
Expenditure	**1 807,1**	**1 964,4**	**2 042,9**	**2 168,8**	**2 242,6**	**2 359,7**	**2 477,4**
	31,7%	*35,0%*	*32,5%*	*32,6%*	*32,0%*	*31,7%*	*31,2%*
Non-interest expenditure	*1 593,1*	*1 723,5*	*1 765,8*	*1 852,8*	*1 893,1*	*1 987,4*	*2 070,4*
	28,0%	*30,7%*	*28,1%*	*27,9%*	*27,0%*	*26,7%*	*26,1%*
Budget balance	**-287,5**	**-555,1**	**-292,3**	**-276,1**	**-283,7**	**-282,0**	**-252,1**
	-5,0%	*-9,9%*	*-4,6%*	*-4,2%*	*-4,0%*	*-3,8%*	*-3,2%*

Source: National Treasury

- Although the stock of government debt will increase, the fiscal balance will nevertheless continue to improve over the medium term.
- Between the 2022 Budget and 2023 Budget, the consolidated budget deficit expected for 2022/23 declined from 6 per cent to 4.2 per cent of GDP.
- The deficit is projected to reach 3.2 per cent of GDP in 2025/26, as the main budget deficit narrows and social security funds, provinces and public entities move into a combined cash surplus in the outer year.
- Over the next three years, consolidated non-interest expenditure will contract at an annual average of 1 per cent in real terms.

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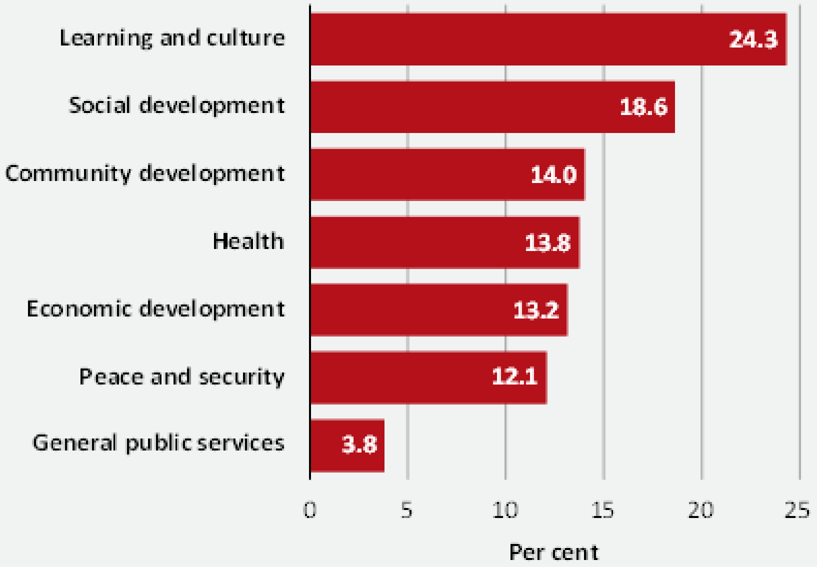
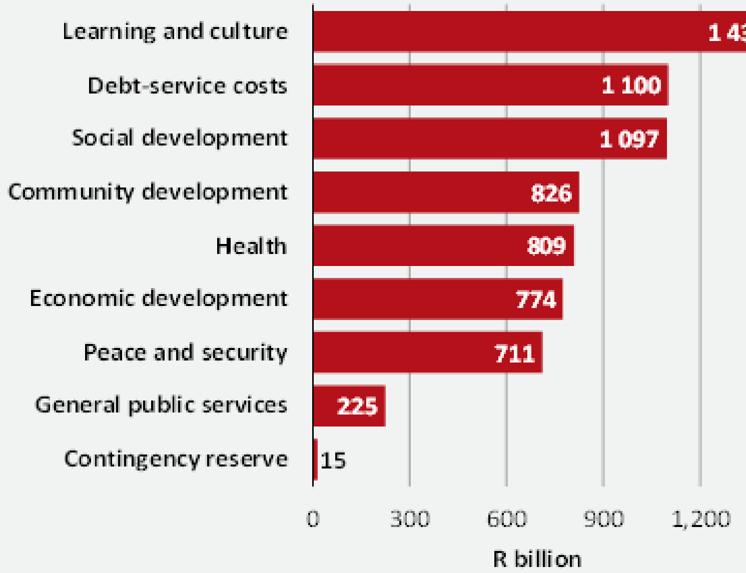
EXPENDITURE PRIORITIES

Percentage of total MTEF allocation by function, 2023/24 ¬– 2025/26



Total consolidated government expenditure, 2023/24¬ – 2025/26



- Over the MTEF period, consolidated government expenditure will total R7.08 trillion
- The social wage will constitute an average of 60.2 per cent of total non-interest spending over the next three years.
- Spending across functions supports the implementation of new and existing policy priorities. The learning and culture function receives 24.3 per cent (R1.43 trillion) of the total function budgets, while general public services receives the smallest share at 3.8 per cent (R224.6 billion).
- Payments for capital assets are the fastest-growing item by economic classification, growing at 14.4 per cent annually, due to the additional funds allocated to improve investment in infrastructure.

BUDGET 2023

GOVERNMENT INFRASTRUCTURE INVESTMENT PLANS

- Public-sector infrastructure spending over the 2023 medium-term expenditure framework (MTEF) period is estimated at R903 billion.
- State-owned companies continue to be the largest contributor to capital investment, spending a projected R302.1 billion over the next three years.
- Provinces are expected to spend R209.8 billion on infrastructure over the same period, while municipalities are forecast to spend R190.3 billion.
- Several reforms are under way to strengthen public investment management, including improving operations of the Infrastructure Fund, enhancing infrastructure monitoring and reporting, improving the public-private partnership regulatory framework, and building a strong project pipeline.

Public-sector infrastructure expenditure and estimates

R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	MTEF
	Outcomes			Revised estimate	Medium-term estimates			Total
Energy	26,2	30,0	35,5	38,7	39,8	51,1	67,0	157,8
Water and sanitation	22,5	29,5	30,6	36,1	40,8	44,9	46,9	132,5
Transport and logistics	70,5	58,6	65,9	90,8	97,5	119,9	133,7	351,1
Other economic services	5,7	6,9	21,8	23,5	22,7	21,2	21,2	65,2
Health	12,2	14,7	16,4	14,2	14,1	14,0	14,6	42,8
Education	17,4	14,2	14,5	21,4	18,0	21,7	20,8	60,6
Human settlements[1]	20,9	13,3	13,4	14,3	14,9	15,1	15,8	45,9
Other social services	4,7	4,1	2,2	3,6	3,2	3,0	3,1	9,3
Administration services[2]	7,4	12,1	12,0	12,5	12,5	12,2	13,1	37,8
Total	**187,4**	**183,4**	**212,3**	**255,2**	**263,6**	**303,2**	**336,3**	**903,0**
National departments	13,8	11,4	12,5	17,4	15,3	20,2	19,0	54,6
Provincial departments	61,0	51,8	57,7	67,1	69,3	69,1	71,4	209,8
Local government	41,2	55,6	62,1	62,8	61,4	63,0	65,9	190,3
Public entities[3]	14,5	8,8	20,2	29,5	31,2	41,7	51,6	124,4
Public-private partnerships	5,6	4,9	6,5	7,1	7,1	7,3	7,5	21,9
State-owned companies[3]	51,2	50,8	53,4	71,3	79,3	101,9	120,9	302,1
Total	**187,4**	**183,4**	**212,3**	**255,2**	**263,6**	**303,2**	**336,3**	**903,0**

1. Human settlements includes public housing and bulk infrastructure amounting to R45.9 billion over the MTEF period
2. Administration services include infrastructure spending by the departments of International Relations and Cooperation, Home Affairs, and Public Works and Infrastructure, and Statistics South Africa and their entities
3. Public entities are financed by capital transfers from the fiscus and state-owned companies are financed from a combination of own revenue and borrowings
Source: National Treasury

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GOVERNMENT PLANS ON FIGHTING CRIME AND CORRUPTION

- Over the medium term, R711 billion will be made available for the peace and security function, including measures to fight corruption and financial crimes, with significant additions compared to the previous budget.
- The police budget is increased by R7.8 billion to appoint 5 000 police trainees per year and absorb them once they complete their training.
- The National Prosecuting Authority is allocated R1.3 billion over the medium term to support implementation of the recommendations of the State Capture Commission and the outcomes of the Financial Action Task Force (FATF) evaluation of SA's framework for combating money laundering and terrorism financing.

Peace and security expenditure

R million	2022/23	2023/24	2024/25	2025/26	Percentage of total MTEF allocation
	Revised estimate	Medium-term estimates			
Defence and state security	52 418	52 726	52 812	54 838	22,6%
Police services	112 512	112 066	119 244	125 358	50,2%
Law courts and prisons	51 472	51 437	53 726	56 081	22,7%
Home affairs	11 398	11 110	10 485	11 129	15,9%
Total	**227 800**	**227 340**	**236 267**	**247 406**	**100,0%**
of which:					
Compensation of employees	*157 049*	*155 379*	*163 820*	*172 169*	*69,1%*
Goods and services	*49 938*	*50 992*	*52 918*	*54 634*	*22,3%*
Transfers and subsidies	*12 806*	*12 877*	*11 986*	*12 120*	*5,2%*
Buildings and other fixed structures	*2 774*	*2 903*	*2 795*	*2 884*	*1,2%*
Machinery and equipment	*4 979*	*4 925*	*4 529*	*5 411*	*2,1%*

Source: National Treasury

- The Special Investigating Unit is allocated R100 million over the next three years to initiate civil litigation in the special tribunal flowing from proclamations linked to the recommendations of the State Capture Commission.
- To enhance security of South Africa's territory and surrounding areas, the Department of Defence is allocated an additional R3.1 billion over the medium term. This allocation will provide for the procurement of equipment and technology to support operations, and repair and maintain defence navy systems.
- The South African Revenue Service is allocated additional funding (total of R4.5 billion) to strengthen tax administration and collection, and combat the illicit economy.

COMBATING FINANCIAL CRIMES AND ILLICIT ACTIVITIES

- The FATF's most recent mutual evaluation of South Africa identified a number of deficiencies in its legislative framework and implementation. Government is working to rectify these shortcomings. The following enactment of legislation in 2022 addresses 15 of the 20 legislative deficiencies identified:
    - the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Act
    - the Protection of Constitutional Democracy Against Terrorist and Related Activities Amendment Act
- The remaining five will be addressed through regulations and practices that do not require legislation.
- Government is committed to addressing flaws in the regulatory framework, strengthening enforcement and applying strong sanctions.

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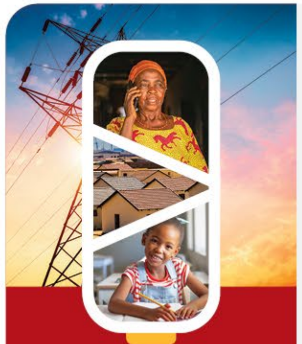

BUDGET 2023

DIVISION OF REVENUE

- Given the weight of the social wage in public expenditure, most budget resources are distributed to provincial and local government.
- Over the next three years, after budgeting for debt-service costs, the contingency and unallocated reserves and provisional allocations, 41.5 per cent of nationally raised revenue is distributed to provinces and 10 per cent is made available to local government.
- There is a notable increase in local government's share of nationally raised revenue, notwithstanding municipalities' considerable revenue-raising powers.

Division of revenue

R billion	2022/23	2023/24	2024/25	2025/26
	Revised	Medium-term estimates		
National allocations	854,4	828,6	835,7	877,9
Provincial allocations	694,6	695,1	720,5	754,7
Equitable share	*570,9*	*567,5*	*587,5*	*614,3*
Conditional grants	*123,7*	*127,5*	*133,0*	*140,4*
Local government allocations	147,8	164,0	174,4	183,3
Provisional allocations not assigned to votes	–	1,5	3,9	4,0
Total allocations	**1 696,8**	**1 689,1**	**1 734,4**	**1 819,9**
Percentage shares				
National	*50,4%*	*49,1%*	*48,3%*	*48,3%*
Provincial	*40,9%*	*41,2%*	*41,6%*	*41,6%*
Local government	*8,7%*	*9,7%*	*10,1%*	*10,1%*

Source: National Treasury

- Allocations to local government increase by R14.3 billion over the medium term. Direct allocations to municipalities grow just above inflation, at an average annual rate of 5.9 per cent, while indirect allocations grow at an annual average rate of 4.3 per cent.

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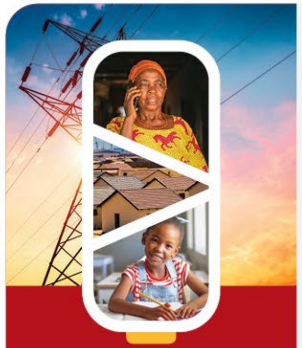

BUDGET 2023

FINANCIAL POSITION OF STATE-OWNED COMPANIES

Combined financial position of public institutions

R billion/net asset value	2019/20[1]	2020/21[1]	2021/22
State-owned companies	352,7	376,7	417,6
Development finance institutions	98,1	127,8	161,5
Social security funds	-156,5	-210,3	-198,8
Other public entities[2]	811,2	834,3	927,5

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

2. State-owned institutions without a commercial mandate and listed in either schedule 1 or 3 of the PFMA

Source: National Treasury

- Several major state-owned companies continue to rely on government bailouts and dominate the guarantee portfolio.
- Government continues to monitor the financial health of public entities and manage associated risks. A new framework for managing bailouts to state-owned companies will support continued reform efforts.

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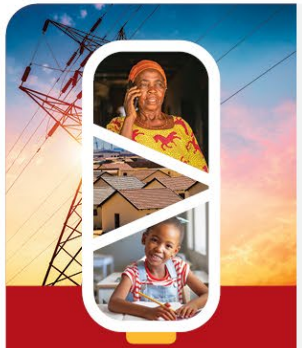

BUDGET
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RISKS TO THE FISCAL OUTLOOK

The fiscal position has improved since 2021/22, largely due to consolidation measures, economic recovery and accelerated GDP inflation. However, significant risks to the fiscal outlook include weaker-than-projected GDP growth and higher interest rates, along with:

- Worsening global financial conditions, increased volatility in capital flows and further exchange rate depreciation, which would affect government’s ability to borrow additional funds and narrow the budget deficit.
- The weak financial condition of several state-owned companies, which rely on government support to operate.
- A public-service wage agreement that exceeds the rate of growth of the compensation budget, which would require steps to contain overall compensation spending through stricter headcount management.
- Additional spending pressures such as new, unfunded social spending programmes or the realisation of contingent liabilities, which would affect the sustainability of the public finances.

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CONCLUSION

- Economic growth is expected to slow in 2023. Higher and sustained growth depends on rapid progress in implementing reforms and a capable state to provide public goods and services. In the near term, government is focused on addressing growth-limiting electricity and transport challenges.
- Government’s fiscal consolidation measures have registered some progress in narrowing the budget deficit. Debt relief for Eskom will increase the debt-to-GDP ratio, but the effect on the fiscal outlook is cushioned by the use of existing allocations to offset the borrowing requirement.
- Revenue collection remained strong in the past year and the medium-term outlook has improved slightly. The 2023 Budget includes several tax proposals designed to support businesses and individuals given the higher cost of living, and to promote private investments in green energy.
- Additional spending allocations are focused on funding key policy priorities and improving growth-enhancing investment. Government continues to reprioritise and review spending to meet policy priorities and improve efficiency.
- The 2023 Budget provides for targeted allocations to provinces and municipalities, with an emphasis on key basic services.
- The major fiscal risks include low or no economic growth, leading to lower tax revenues and simultaneous requests for fiscal support; rising borrowing costs due to inflation and higher interest rates; and unaffordable spending pressures such as the wage bill.

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EMPLOYMENT TAX INCENTIVE RESEARCH

- National Treasury publishes monthly reporting on the revenue foregone - in excess of the reporting requirement per the ETI Act of twice a year, in addition to regular feedback in budget review documents.
- National Treasury published a Descriptive report of claims in 2016, in part to inform the review as data became available slowly
- The reviews in 2016 and 2018 was convened by Nedlac, with an open invitation for evidence.
- Both reviews were informed by all available research: independent academic studies, commissioned research and surveys of claimants. Where final, published papers were available, we referred to them – but work-in-progress was also considered, as there a very long lags in data availability. Both reviews included critiques, arguments for and arguments against each potential finding. This included the following research papers (along with unpublished inputs from constituencies):
- https://ideas.repec.org/a/bla/sajeco/v84y2016i2p199-216.html
- Becoming Youthful? An Evaluation of the South African Employment Tax Incentive (ETI) (unu.edu)
- UNU-WIDER : Working Paper : The effects of the Employment Tax Incentive on South African employment and ebrahim_a28067.pdf (iza.org)
- The Employment Tax Incentive Scheme in South Africa: An Impact Assessment (africaportal.org)
- Deliberations in Nedlac resulted in unanimous recommendations for extensions of the programme in 2016 and 2018. In the latter case, NT initially proposed a 5 year extension, while social partners recommended a 10 year extension (also indicated in the Framework agreement of the Presidential Jobs Summit in 2018), in order to give certainty and to encourage building systems to ease compliance burdens. In both cases, the reports from Nedlac were not only shared with SCOF, but were required before the committee assented to the draft.
- Research findings since the review
- UNU-WIDER : Working Paper : Can a wage subsidy system help reduce 50 per cent youth unemployment?
- UNU-WIDER : Working Paper : Estimating employment responses to South Africa’s Employment Tax Incentive(sound caution about the methodology for future impact assessments)
- Latest research (Nov 2022) Has the Employment Tax Incentive created jobs? | SA-TIED (unu.edu) sounds caution in trying to make simple conclusions about effectiveness, as the data has a lot of limitations and cannot give clear-cut evidence either way.

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